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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

- 3 KRISTIN K. MAYES, Chairman
- 4 GARY PIERCE
- 5 PAUL NEWMAN
- 6 SANDRA D. KENNEDY
- 7 BOB STUMP

2009 AUG 26 P 3: 02
 ARIZONA CORPORATION COMMISSION
 DOCKET CONTROL

6 IN THE MATTER OF THE APPLICATION OF
 7 VALLEY UTILITIES WATER COMPANY,
 8 INC. FOR AN INCREASE IN ITS WATER
 9 RATES FOR CUSTOMERS WITHIN
 10 MARICOPA COUNTY.

DOCKET NO. W-01412A-08-0586

**NOTICE OF FILING
SURREBUTTAL TESTIMONY**

9 The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files the
 10 Surrebuttal Testimony of Staff witnesses Gary T. McMurry, and Marlin Scott, Jr. of the Utilities
 11 Division in the above-referenced matter.

RESPECTFULLY SUBMITTED this 26th day of August, 2009.

Kevin O. Torrey
 Attorney, Legal Division
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85007
 (602) 542-3402

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 22 Arizona Corporation Commission
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 24 Phoenix, Arizona 85007

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26 Patrick J. Black
 27 FENNEMORE CRAIG, P.C.
 28 3003 North Central Avenue, Suite 2600
 Phoenix, Arizona 85012

Arizona Corporation Commission
DOCKETED

AUG 26 2009

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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF)
VALLEY UTILITIES WATER COMPANY INC)
FOR AN INCREASE IN ITS WATER RATES)
FOR CUSTOMERS WITHIN MARICOPA)
COUNTY, ARIZONA)
_____)

DOCKET NO. W-01412A-08-0586

SURREBUTTAL

TESTIMONY

OF

GARY T. MCMURRY

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 26, 2009

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EXECUTIVE SUMMARY
VALLEY UTILITIES WATER COMPANY, INC.
DOCKET NO. W-01412A-08-0586

The surrebuttal testimony of Staff witness Mr. Gary McMurry addresses rate base, operating income, revenue requirement and rate design issues.

Revenue Requirement - Staff recommends revenues of \$1,324,266 (excluding \$200,277 ARSM surcharge revenues), a \$117,222 (9.71 percent) increase over test year revenues, to provide a 10.0 percent operating margin. Staff's adjustments resulted in a negative rate base of \$169,027 for which no meaningful rate of return can be calculated. Staff's recommendation reflects three rate base adjustments and eight operating income adjustments.

Rebuttal testimony of Robert Prince

Replacement Well No. 6

The Company proposes to include in rate base \$258,833 of post-test-year costs for replacement Well No. 6. The Company has now received the required Supplemental Use Permit ("SUP"), the Authority to Construct and Approval of Construction from the Maricopa County Environmental Services Division ("MCESD"). In its direct testimony, Staff removed this post-test year cost because the well was not used and useful at that time. Staff's surrebuttal recommends including the \$265,882, the actual documented cost.

Emergency Interim Surcharge ("EIS")

The Company proposes elimination of the EIS which was established by Commission Decision No. 70138 to provide debt service on a loan to provide funds for replacement Well No. 6 with its inclusion in rate base. Staff concurs that the EIS should be eliminated.

Arsenic Treatment Facilities ("ATF")

The Company anticipates that one of its two ATF sites will be operational by the time of the hearing in this case. The Company is willing to accept Staff's recommendation to exclude the ATF from rate base provided that an Arsenic Remediation Surcharge Mechanism ("ARSM") surcharge sufficient to service its Water Infrastructure and Finance Authority ("WIFA") debt is adopted in Docket Nos. W-01412A-04-0736 and W-01412A-04-0849 and that the surcharge continues through the next rate case. Staff recommends excluding the ATF from rate base as it is not used or useful. In Docket Nos. W-01412A-04-0736 and W-01412A-04-0849, Staff will be recommending adoption of an ARSM surcharge that provides debt service coverage on the ATF related WIFA loan and continuation of the ARSM surcharge through the earlier of the effective date of the rates authorized in a subsequent rate proceeding or August 31, 2013, whichever is first.

Additional ATF Costs

The Company asserts that the ATF cost has increased by \$260,000 from the \$1,926,000 claimed in its initial application to \$2,184,000. Staff recommends excluding these costs from rate base along with the initial ATF amounts.

CAP Water Acquisition

The Company asserts that the CAP installment contract is not a legal debt as per A.R.S. § 40-301. Staff recommends, in an abundance of caution, that the Company file an application before the Commission so the Commission may determine whether the long-term agreement with the CAWCD falls under A.R.S. §§ 40-301 and -302.

Rebuttal testimony of Thomas Bourassa

Operating Margin

The Company states that the operating margin is dependent upon the degree that its recommendations are adopted. Staff agrees that the appropriate operating margin is dependent on factors including cash flow, debt service coverage and income. The ARSM surcharge and EIS impact these factors. Staff's recommended operating margin of 10 percent reflects consideration of these factors.

Land Rights (easement)

The Company's rebuttal removes the \$55,000 easement from rate base as a component of the ATF. Staff's surrebuttal position agrees with the Company's rebuttal position.

Revenue Annualization

The Company rebuttal proposes to increase metered water portion of its downward revenue annualization adjustment from \$24,537 to \$127,503 to reflect the loss of customers subsequent to the end of the test year. Staff recommends recognition of the Company's initial \$24,537 downward revenue annualization adjustment. The Company's incremental adjustment pertains to out-of-test-year customer counts which create a mismatch with test year revenues. Staff continues to recommend elimination of the Company's \$2,660 upward annualization for increases in service charges

Normalization of Repairs and Maintenance Expenses

The Company continues to use the actual recorded expense of the test year. The Company asserts that the use of averages to normalize expenses is subjective. Staff continues to recommend a normalized expense calculation due to the volatility in the repair expense category.

Arsenic Media Depreciation

The Company's rebuttal testimony eliminates the depreciation expense claimed in its initial application for arsenic media. Staff's surrebuttal also eliminates depreciation expense on arsenic media.

Rate Design

The Company recommends the same rate structure (adjusted to reflect its rebuttal revenue requirement) as in its initial application. The Company asserts that Staff's rate design will result in more revenue instability due to increases in commodity rates that exceed the overall increase in revenue. Staff's surrebuttal testimony recommends a 9.71 percent overall increase in revenues, and the percentage increase in commodity rates for the first, second and third tiers (5/8 x 3/4-inch and 3/4-inch residential customers) are 0.0 percent, 1.7 percent and 22.5 percent, respectively. The latter two represent the increase in the first and second tiers for larger meters. Furthermore, Staff will be recommending recovery of 100 percent of the ARSM surcharge as minimum charges to ensure collection for debt service payment and to provide enhanced revenue stability. The larger percentage increase in the third tier sends an appropriate price signal to large water users to use water efficiently.

Staff's rate design would increase the monthly bill for a 5/8 x 3/4-inch residential customer with median use of 5,500 gallons by \$1.36 (6.32 percent) from \$21.52 to \$22.88.

1 **I. INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Gary T. McMurry. My business address is 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5
6 **Q. Are you the same Gary McMurry who previously filed direct testimony on the rate
7 base, operating income, and revenue requirement, rate design and related party
8 transactions in this proceeding?**

9 A. Yes.

10
11 **II. PURPOSE OF TESTIMONY**

12 **Q. What is the purpose of your testimony in this case?**

13 A. My surrebuttal testimony addresses issues raised in Valley Utilities Water Company,
14 Inc.'s ("VUWC" or "Company") rebuttal testimony regarding Staff's recommendations
15 regarding rate base, operating adjustments, and rate design.

16
17 **Q. How is your testimony organized?**

18 A. My testimony is presented in five sections. Section I is the introduction. Section II is this
19 description/purpose of my testimony. Section III presents my responses to the rebuttal
20 testimony provided by Robert Prince. Section IV presents my responses to the rebuttal
21 testimony provided by Thomas Bourassa. Section V presents a discussion of topics
22 pursuant to directives from the Commission to Staff.

23
24 **Q. Have you prepared any schedules to accompany your testimony?**

25 A. Yes. I prepared surrebuttal schedules GTM-1 to GTM-19. The surrebuttal schedules
26 reflect the Company's application as filed, not its rebuttal position.

1 **III. STAFF'S RESPONSE TO THE REBUTTAL TESTIMONY OF ROBERT PRINCE**

2 **Well No. 6**

3 **Q. What is the Company's proposal regarding replacement Well No. 6?**

4 A. The Company asserts that Well No. 6 should be included in rate base as it is now
5 operational and has received the applicable approval to construct and Approval of
6 Construction from the Maricopa County Environmental Services Division ("MCESD").

7
8 **Q. Is Staff's surrebuttal position the same as its direct position (i.e., to recommend
9 excluding replacement Well No. 6 from rate base)?**

10 A. No. Staff now recommends including replacement Well No. 6 in rate base.

11
12 **Q. Why is Staff recommending inclusion in rate base of plant that was not operational
13 until thirteen months after the test year?**

14 A. The primary concern regarding rate base recognition of plant placed in service after the
15 test year is the mismatch created between recognized plant and test year revenues and
16 expenses. Another concern with after test year plant additions is that the purpose of such
17 plant may be to serve customer growth. In this instance, replacement Well No. 6 provides
18 replacement capacity for a well that is no longer operational, i.e., it replaces lost test year
19 well capacity and restores the test year capacity, it is providing capacity for test year
20 customers. Furthermore, the Commission has authorized an emergency interim surcharge
21 to provide recovery of the debt service on a loan used to finance the construction of
22 replacement Well No. 6. Thus, the existing authorized tariffs effectively provide cost
23 recovery of replacement Well No. 6. In conclusion, the circumstances pertaining to
24 replacement Well No. 6 are unique and recognizing it in rate base does not create a
25 mismatch that is inconsistent with the test year concept.

1 **Q. What is the value of Well No. 6 Staff is recognizing in rate base?**

2 A. Mr. Prince's rebuttal testimony puts the revised cost of Well No. 6 at \$258,833 (Prince RT
3 at 8). Staff recommends including \$265,882 in rate base for Well No. 6, the actual
4 documented cost.

5

6 **Emergency Interim Surcharge**

7 **Q. Please explain the relationship between replacement Well No. 6 and the Emergency**
8 **Interim Surcharge ("EIS") authorized in Decision No. 70138?**

9 A. The EIS was established by the Commission to provide debt service coverage on a Water
10 Infrastructure Financing Authority of Arizona ("WIFA") loan used to fund replacement
11 Well No. 6. The Company proposes termination of the EIS upon inclusion of replacement
12 Well No. 6 in rate base.

13

14 **Q. What is Staff's recommendation regarding the EIS?**

15 A. Emergency rates should terminate with the establishment of new permanent rates in this
16 proceeding. Accordingly, the EIS should be eliminated regardless of the rate base
17 treatment of replacement Well No. 6.

18

19 **Arsenic Treatment Facilities**

20 **Q. What is Mr. Prince's response to Staff's recommendation to eliminate the arsenic**
21 **treatment facilities ("ATFs") from rate base?**

22 A. The Company anticipates that one of its two ATF sites (Glendale) will be operational by
23 the time of the hearing in this case. However, the Company is willing to accept Staff's
24 recommendation to exclude both ATFs from rate base provided that an Arsenic Remedial
25 Surcharge Mechanism ("ARSM") surcharge sufficient to service its WIFA debt is adopted

1 in Docket Nos. W-01412A-04-0736 and W-01412A-04-0849 and that the surcharge
2 continues through the next rate case.

3
4 **Q. What is Staff's recommendation regarding the inclusion of the ATF in rate base?**

5 A. As noted in the Company's rebuttal testimony (Prince RT at 4), the Bethany Home Site
6 does not have the appropriate Special Use Permit ("SUP") as required by the Maricopa
7 County Planning Department ("MCPD"). Lacking the required approval, the Bethany
8 ATF is not used and useful and should not be included in rate base. At this time, 13
9 months after the test year, the Glendale ATF also is not operational. Accordingly, Staff
10 recommends excluding both ATFs from rate base. A discussion of Staff's
11 recommendation regarding the ARSM surcharge is presented below.

12
13 **Q. Does Mr. Prince's rebuttal testimony provide a revised valuation of the ATF cost
14 from that presented in the Company's initial application?**

15 A. Yes. He asserts that the ATF cost has increased by \$260,000 from \$1,926,000¹ to
16 \$2,184,000.

17
18 **Q. What is Staff's recommendation of the revised cost basis?**

19 A. Staff received supporting documentation for the incremental costs on August 17, 2009,
20 and is currently reviewing that documentation to determine the amount of the additional
21 cost. However, for the reasons previously discussed, the ATF would not be included in
22 rate base in this proceeding.

¹ The Company's schedules reflect the amount as \$1,926,100.

1 **Arsenic Remedial Surcharge**

2 **Q. Why does the Company claim that the ARSM surcharge should continue until the**
3 **next rate case?**

4 A. The Company has indicated that the discontinuation of the ARSM surcharge, along with
5 the removal of all of the Company's post test year plant from rate base would likely result
6 in negative net earnings for VUWC.

7
8 **Q. What is Staff's recommendation regarding the continuation of the ARSM**
9 **surcharge?**

10 A. In Docket Nos. W-01412A-04-0736 and W-01412A-04-0849, Staff will be recommending
11 adoption of an ARSM surcharge that provides debt service coverage on the ATF related
12 WIFA loan and continuation of the ARSM surcharge through the earlier of the effective
13 date of the rates authorized in a subsequent rate proceeding or August 31, 2013. Providing
14 a termination date for the ARSM is appropriate to protect the interests of ratepayers. The
15 recommended termination date provides the Company with sufficient opportunities to
16 select an appropriate test year for its next rate case and the time to prepare its filing.

17
18 **Central Arizona Project Acquisition Agreement**

19 **Q. Please explain the background pertaining to the Company's acquisition of the CAP**
20 **water.**

21 A. On January 12, 2007, the Board of Directors of VUWC approved the purchase of 250 acre
22 feet of CAP water annually. The offered terms of the transaction were to either 1) pay a
23 one-time payment of \$163,000 or 2) make five annual installment payments of \$36,000
24 (total of \$180,000). The Company chose to finance the acquisition over five years at
25 \$36,000 per year, thus, incurring \$17,000 (\$180,000 - \$163,000) in financing charges.

1 **Q. Do the terms of the CAP water purchase agreement suggest that a debt may have**
2 **been incurred?**

3 A. Yes. The terms provide for acquiring an asset over a five-year term that includes an
4 implied 5.2 percent interest rate.

5
6 **Q. Did the Company request Commission approval for the transaction?**

7 A. No. The Company stated that it did not seek approval as it was not asking for it to be
8 included in rate base.

9
10 **Q. Is Commission approval necessary for issuance of evidence of indebtedness?**

11 A. The Company asserts that it does not believe this is a long-term debt because it can stop
12 making payments and may turn the allocation in at any time and receive a full refund.
13 Hence, there is no encumbrance on the Company's assets. Therefore, in an abundance of
14 caution, Staff recommends that VUWC should file an application before the Commission
15 so the Commission may determine whether the long-term agreement with the VUWC falls
16 under A.R.S. §§ 40-301 and -302.

17
18 **Q. What is Staff's recommendation on the CAP water allotment contract?**

19 A. Staff notes that the Company decision to purchase the allotment for \$36,000 over five
20 years, rather than the one time payment of \$163,000, has resulted in a carrying charge of
21 5.2 percent over the cash purchase price. Staff does not dispute the readily marketable
22 nature of the CAP allocation but, if the Company fails to make the annual installment
23 payments, it loses the ability to purchase this water. Accordingly, Staff recommends that
24 the Company file the application referenced above no later than 30 days subsequent to the
25 effective date of the Commission's Order in this docket.

1 **IV. STAFF'S RESPONSE TO THE REBUTTAL TESTIMONY OF THOMAS**
2 **BOURASSA**

3 **Operating Margin**

4 **Q. Does the Company's rebuttal testimony modify its requested revenue from its initial**
5 **application?**

6 A. Yes. The Company has reduced its revenue requirement from \$1,533,160 to \$1,322,302.
7 The Company's reduced revenue requirement reflects multiple changes from its initial
8 application. Notable changes included adoption of Staff's recommendation to exclude the
9 ATFs from rate base, depreciation of the ATFs, lowering the requested operating margin
10 from 15 percent to 10 percent and a \$102,966 change to the revenue annualization
11 adjustment from \$24,537 downward to \$127,503 downward.

12
13 **Q. What is the Company's position with respect to the Operating Margin?**

14 A. Staff's understanding of Company's testimony (Bourassa RT at 4) is that its requested
15 operating margin is dependent upon the degree to which its recommendations are adopted.
16 Net earnings, treatment of the ARSM surcharge and EIS are items specifically mentioned
17 by Mr. Bourassa.

18
19 **Q. Does Staff agree that the appropriate Operating Margin is affected by other factors?**

20 A. Yes. Staff agrees that the appropriate operating margin is dependent on factors including
21 cash flow, debt service coverage and income. The ARSM surcharge and EIS impact these
22 factors. Staff's recommended operating margin of 10 percent reflects consideration of
23 these factors.

1 **Land Rights**

2 **Q. Does the Company agree with Staff's rate base adjustment No. 1 to reclassify \$55,000**
3 **from Water Treatment Equipment to Land Rights?**

4 A. It is Staff's understanding from the Company's rebuttal testimony (Bourassa at 11) that
5 the Company agrees that \$55,000 should be reclassified from Water Treatment Equipment
6 to Land. However, the Company has excluded it from rate base because it is related to the
7 ATF which the Company is excluding from rate base.

8
9 **Q. Does Staff agree with the Company's exclusion of the reclassified \$55,000 of Land**
10 **Rights from rate base?**

11 A. Yes. The reclassified easement is related to the ATF that the Company and Staff have
12 excluded from rate base.

13
14 **Arsenic Media Cost**

15 **Q. What does the Company propose regarding the \$100,000 capitalized as arsenic**
16 **media cost?**

17 A. The Company proposes excluding the arsenic media cost from rate base. The Company
18 also eliminated related depreciation expense.

19
20 **Q. Does Staff agree with the Company's proposed treatment of the arsenic media cost?**

21 A. Yes. Staff had included \$100,000 of arsenic media cost in plant in its direct testimony and
22 also allowed for depreciation expense. Accordingly, Staff rate base adjustment no. 7 now
23 reflects a \$100,000 removal of the arsenic media cost from plant and operating adjustment
24 No. 6 reflects removal of the related depreciation expense.

1 **Revenue Annualization**

2 **Q. What is the Company's rebuttal position regarding a revenue annualization?**

3 A. The Company's initial application included a \$24,537 downward adjustment to annualize
4 water sales and a \$2,660 upward adjustment to recognize an increase in requested service
5 charges resulting in a net downward adjustment of \$21,877. In its rebuttal testimony
6 (Bourassa at 16), the Company proposes to increase the water sales annualization
7 component by \$102,966 from \$24,537 to \$127,503 and to retain the \$2,660 upward
8 adjustment due to proposed increases in service charges resulting in a net downward
9 adjustment of \$124,843.

10

11 **Q. What is the basis for the Company's revised annualization adjustment?**

12 A. The Company asserts that metered water sales for the period July 2008 through June 2009,
13 the twelve month period subsequent to the test year, were \$127,503 less than in the test
14 year. The Company claims this is a known and measurable adjustment.

15

16 **Q. Does a change in revenues from the test year to the subsequent 12-month period
17 represent a known and measurable change?**

18 A. No. A known and measurable change in revenue is only relevant if it accurately
19 represents a change in operating income. The purpose of such an adjustment is to
20 maintain income at the proposed level based on the test year activity when known changes
21 occur that can be reasonably measured. In other words, the Company's revised portion of
22 the Company's revenue annualization adjustment creates a mismatch by using the revenue
23 from one year and the expenses from another year to calculate the operating income that
24 its proposes for the test year. The purpose of an annualization adjustment is to reflect
25 changes that occur *within* the test year. This provides for measurement of the revenues
26 and expenses at the same point in time as the rate base, i.e., the end of the test year.

1 **Q. Does the explanation provided in the Company's rebuttal testimony satisfy Staff's**
2 **concern that the Company's annualization adjustment contained computational**
3 **errors?**

4 A. Yes. The Company's rebuttal testimony explains that the customer and use data in the
5 Company's Schedule C-2, pages 5.1 through 5.11 is inconsistent with that in Schedule
6 H-1. Staff has now verified that the Company's \$24,537 calculation for the test year water
7 sales annualization is correct. That is, Staff concludes that a \$24,537 downward
8 adjustment for annualizing metered water sales is appropriate. Since the Company's
9 initial application include a \$21,877 pro forma annualization downward adjustment
10 composed of a \$24,537 downward adjustment for water sales and a \$2,660 upward
11 adjustment for increases in service charges and Staff continues to oppose the latter for the
12 reasons presented in its direct testimony, Staff recommends a \$2,660 downward
13 adjustment to the Company's initial application.

14
15 **Depreciation Expense**

16 **Q. Are Staff and the Company in essential agreement with respect to Depreciation**
17 **expense?**

18 A. Yes. Staff is recommending \$191,693, or \$2,919 less than the Company's rebuttal position
19 that proposes \$194,592 for depreciation expense. The difference relates to 1) the
20 valuation of Well No. 6 and 2) the amortization of a Contribution in aid of Construction
21 ("CIAC") rate. Staff is recognizing the actual amount of supported cost for Well No. 6
22 (\$265,882) and the Company used an estimate (\$250,000). Staff's calculation of the
23 CIAC amortization rate (Surrebuttal Schedule GTM-15) excludes non-depreciable
24 accounts and the Company's includes non-depreciable accounts.

1 **Repairs and Maintenance Expense**

2 **Q. Does the Company agree with Staff's recommendation to normalize Repairs and**
3 **Maintenance expense as the average cost per customer over a three-year period**
4 **ending with the test year?**

5 A. No. VUWC proposes its actual recorded amount for the test year of \$14,210 as opposed
6 to Staff's normalized level of \$12,668, a \$1,542 reduction. The Company rejects the
7 recognized ratemaking principle of normalization claiming that it is backward looking,
8 may reflect abnormally high or low levels and has varying outcomes depending upon the
9 periods used for averaging.

10

11 **Q. What is Staff's response to the Company's objections to use of the ratemaking**
12 **principle of normalization?**

13 A. First, normalization is a recognized ratemaking principle, and the Commission has
14 recognized normalization adjustments in other rate cases. Second, the reason for
15 normalization adjustments is to mitigate the consequences of the abnormally high or low
16 levels of expenses in any particular year, and to allow expenses that reflect the on-going
17 average level of those expenses. The Company's reported Repairs and Maintenance
18 expenses for the fiscal years 2006, 2007, and 2008 of \$19,641, \$2,964, and \$14,210,
19 respectively, are representative of the widely varying year-to-year expenses that should be
20 moderated. Finally, Staff's normalized repairs and maintenance expense is based on a
21 three-year period – the same period recognized by Staff and the Company for recovery of
22 rate case expense. If the Company files rate cases every three years and expenses are
23 normalized over a three-year period, it will recover all of its costs for all years.
24 Normalization in this manner provides reduced risk for the Company and an equitable
25 outcome for ratepayers.

1 **Q. What is Staff recommending?**

2 A. Staff continues to recommend normalization of repairs and maintenance expenses as the
3 average cost per customer over a three-year period ending with the test year. Staff
4 recommends removing \$1,542 from repairs and maintenance to reflect a normalized level
5 of repair and maintenance expenses as shown in Surrebuttal Schedule GTM-11.
6

7 **Rate Design**

8 **Q. What criticism does the Company have of Staff's rate design?**

9 A. The Company asserts that Staff's recommended rate design will result in more revenue
10 instability than the Company's because Staff recommends percentage increases in the
11 commodity rates greater than the overall percentage increase in revenue.
12

13 **Q. Please comment on the Company's criticism that Staff did not set break-over points
14 for the 5/8 x 3/4-inch and 3/4-inch meter commercial customers and for all larger
15 meters to reflect the flow capacity multiples for each meter size relative to that of a
16 5/8 x 3/4-inch meter.**

17 A. First, proper setting of break-over points requires consideration of multiple rate design
18 parameters, not only relative flow capacities. Simply establishing break-over points for
19 larger meters at multiples of the break-over point for a 5/8-inch x 3/4-inch meter may have
20 inequitable or undesirable results. For example, a rate structure that recovers 90 percent
21 of water sales revenue from the minimum charges requires different break-over points
22 than a rate structure that recovers 10 percent of water sales revenue from the minimum
23 charges. Similarly, a rate structure with a large difference between tier rates requires
24 different break-over points than a rate structure with a small difference between tier rates.
25 The break-over points for the rate structure should reflect the interdependence of rate
26 design parameters. The Company's proposed rate structure uses relatively low break-over

1 points and a relatively low \$0.22 (8.1 percent) differential between the \$2.73 tier one rate
2 and the \$2.99 tier two rate (Bourassa Rebuttal at 21) compared with Staff's rate structure.

3
4 Second, the Company misstated the percentage increase in Staff's recommended second
5 and third tier rates for 5/8 x 3/4-inch and 3/4-inch residential meters as 19 percent and 38
6 percent, respectively. Similarly, the Company misstated the percentage increase in Staff's
7 recommended first and second tier rates for 5/8 x 3/4-inch and 3/4-inch commercial
8 meters and all larger meters as 19 percent and 38 percent, respectively. The respective
9 correct percentages are 12.5 percent and 22.5 percent.

10
11 Third, the percentage increases in Staff surrebuttal for these tier rates are 1.7 percent and
12 22.5 percent.

13
14 Fourth, the present rate design provides 34.5 percent of the metered revenue from monthly
15 minimum charges, and Staff surrebuttal rate design provides 34.0 percent of the metered
16 revenue from the monthly minimum charges. Thus, Staff's rate design maintains a large
17 degree of revenue stability. Moreover, revenue stability is a measure of all of the
18 Company's revenue sources. Staff is recommending annualized ARSM surcharge
19 revenues in excess of \$200,000. Staff is recommending recovery of 100 percent of the
20 ARSM surcharge via a fixed monthly amount, i.e., the equivalent of a monthly minimum
21 charge. In contrast, the Company has proposed to recover 100 percent of ARSM
22 surcharge via commodity charges. Overall, Staff's rate design provides greater revenue
23 stability than the Company's rate design.

1 Finally, the larger percentage increase in the third tier rates for 5/8 x 3/4-inch and 3/4-inch
2 residential meters and in the second tier rates for 5/8 x 3/4-inch and 3/4-inch commercial
3 meters and all larger meters in Staff's rate design sends an appropriate price signal to large
4 water users to use water efficiently.

5
6 **Q. Has Staff made any material changes to the rate structure?**

7 A. No. Staff continues to recommend a rate design that is consistent with that recommended
8 in its direct testimony modified to generate Staff's surrebuttal revenue requirement.

9
10 **Q. What is the impact of Staff's recommended rate design on the typical residential
11 customer's bill?**

12 A. Staff's rate design would increase the monthly bill for a 5/8 x 3/4-inch residential
13 customer with median use of 5,500 gallons by \$1.36 (6.32 percent) from \$21.52 to \$22.88.

14
15 **V. COMMISSION DIRECTIVES TO STAFF**

16 **Q. What did ACC Decision No. 68309 direct Staff to do during the next rate case?**

17 A. Staff was instructed to review the Company's books and bring to the Commission's
18 attention 1) the existence of any non-arm's-length transactions between the Company and
19 its shareholder and 2) any evidence of inappropriate practices that contribute to the
20 deterioration of equity.²

21
22 **Q. What were the results of this review of the books of the Company?**

23 A. Staff found two instances of potentially non-arm's length transactions but no evidence of
24 practices that eroded equity. The results of this review were discussed on pages 21
25 through 24 of Mr. McMurry's Direct Testimony.

² Decision No. 68309, p.27.

1 **Q. What did ACC Decision No. 70956 direct Staff to perform in the context of the next**
2 **rate proceeding?**

3 A. Staff was ordered “to determine the amount of funds collected pursuant to Decision No.
4 62908 that should offset the WIFA Loan #2 and to determine whether the funds
5 comingled in the Set-Aside Account were used for utility purposes.”³

6
7 **Q. What were the results of Staff’s analysis of the Set-Aside Account?**

8 A. In Decision No. 68309, the Commission ordered redirection of the use of funds collected
9 to service WIFA Loan No. 1 to the service of WIFA Loan No. 2⁴ and directed VUWC to
10 file an application for an arsenic removal surcharge tariff if a surcharge was necessary to
11 allow it to meet its principal and interest obligations on WIFA Loan No. 2 and income
12 taxes on the surcharges. On November 13, 2008, pursuant to Decision No. 68309,
13 VUWCO filed a request for approval of an ARSM surcharge.⁵ Staff analysis of the funds
14 collected and their use was conducted in those dockets in order to form Staff’s
15 recommendations pertaining to the Company’s request for an ARSM surcharge. That
16 analysis is also adopted by reference in this case. In summary, Staff concludes that
17 VUWC had gross collections of \$548,620⁶ and total authorized uses of \$481,901 for a net
18 over-collection of \$66,719 at July 31, 2009. Staff calculated that the over-collection
19 balance is sufficient for 4 months of debt service on WIFA Loan No. 2. In other words,
20 assuming the Company makes its debt service payments as scheduled through
21 November 1, 2009, it will have used the collected funds for appropriate purposes.
22 Accordingly, Staff recommends authorization of an ARSM surcharge⁷ for service
23 provided beginning November 1, 2009.

³ Decision No. 70956, p 17.

⁴ Decision No. 68309, p.9.

⁵ Docket Nos. W-01412A-04-0736 and W-01412A-04-0849

⁶ Includes Set-Aside and actual and imputed interest thereon and Arsenic Impact Fee.

⁷ \$5.51 per month per 5/8 x3/4-inch meter equivalent.

1 **Q. Does this conclude your surrebuttal testimony?**

2 A. Yes, it does.

VALLEY UTILITIES WATER COMPANY, INC
Docket No. W-0412A-08-0586
Test Year ended June 30, 2008

SURREBUTTAL TESTIMONY OF Gary T. McMurry

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GTM-15	OPERATING INCOME ADJUSTMENT # 6 - DEPRECIATION EXPENSE
GTM-16	OPERATING INCOME ADJUSTMENT # 7 - PROPERTY TAXES
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GTM-19	TYPICAL BILL ANALYSIS

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY RECONSTRUCTION COST	(C) COMPANY FAIR VALUE	(D) STAFF ORIGINAL COST	(E) STAFF RECONSTRUCTION COST	(F) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 1,741,191	\$ 1,741,191	\$ 1,741,191	\$ (169,027)	\$ (169,027)	\$ (169,027)
2	Adjusted Operating Income (Loss)	\$ 12,012	\$ 12,012	\$ 12,012	\$ 65,661	\$ 65,661	\$ 65,661
3	Current Rate of Return (L2 / L1)	0.69%	0.69%	0.69%	-38.85%	-38.85%	-38.85%
4	Proposed/Recommended Operating Margin	15.00%	15.00%	15.00%	10.00%	10.00%	10.00%
5	Required Rate of Return	13.21%	13.21%	13.21%	NMF	NMF	NMF
6	Required Operating Income (L4 * L1)	\$ 229,974	\$ 229,974	\$ 229,974	\$ 132,427	\$ 132,427	\$ 132,427
7	Operating Income Deficiency (L5 - L2)	\$ 217,962	\$ 217,962	\$ 217,962	\$ 66,765	\$ 66,765	\$ 66,765
8	Gross Revenue Conversion Factor	1.4840	1.4840	1.4840	1.7557	1.7557	1.7557
9	Required Revenue Increase (L7 * L6)	\$ 323,456	\$ 323,456	\$ 323,456	\$ 117,222	\$ 117,222	\$ 117,222
10	Adjusted Test Year Revenue	\$ 1,207,044	\$ 1,207,044	\$ 1,207,044	\$ 1,207,044	\$ 1,207,044	\$ 1,207,044
11	Proposed Annual Revenue (L8 + L9)	\$ 1,530,500	\$ 1,530,500	\$ 1,530,500	\$ 1,324,266	\$ 1,324,266	\$ 1,324,266
12	Required Increase in Revenue (%)	26.80%	26.80%	26.80%	9.71%	9.71%	9.71%
13	Rate of Return on Common Equity (%)	NMF	NMF	NMF	NMF	NMF	NMF

References:

Column (A): Company Schedule B-1
Column (B): Company Schedule B-1
Column (C): Company Schedules A-1, A-2, & D-1
Column (D): Staff Schedule GTM-2, GTM-3 & GTM-8
Column (E): Staff Schedule GTM-2, GTM-3 & GTM-8
Column (F): Staff Schedule GTM-2, GTM-3 & GTM-8

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	43.0437%			
5	Subtotal (L3 - L4)	56.9563%			
6	Revenue Conversion Factor (L1 / L5)	1.755730554			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	42.4612%			
9	One Minus Combined Income Tax Rate (L7 - L8)	57.5388%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 44)	38.1516%			
16	Effective Federal Income Tax Rate (L14 x L15)	0.354932287			
17	Combined Federal and State Income Tax Rate (L13 + L16)	42.4612%			
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	42.4612%			
20	One Minus Combined Income Tax Rate (L18 - L19)	57.5388%			
21	Property Tax Factor (GTM-18, L24)	1.0122%			
22	Effective Property Tax Factor (L21 * L22)	0.5824%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		43.0437%		
24	Required Operating Income (Schedule GTM-1, Line 5)	\$ 132,427			
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-10, Line 40)	\$ 65,661			
26	Required Increase in Operating Income (L24 - L25)		\$ 66,765		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 71,411			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ 22,141			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 49,270		
30	Recommended Revenue Requirement (Schedule GTM-1, Line 10)	\$ 1,324,266			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ -		
35	Property Tax with Recommended Revenue (GTM-18, L19)	\$ 39,273			
36	Property Tax on Test Year Revenue (GTM-18, L16)	\$ 38,087			
37	Increase in Property Tax Due to Increase in Revenue (GTM-18, L22)		\$ 1,187		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		\$ 117,222		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule GTM-10, Col. (C), Line 5 & Sch. GTM-1, Col. (B), Line 10)	\$ 1,207,044		\$ 1,324,266	
40	Operating Expenses Excluding Income Taxes	\$ 1,119,242		\$ 1,120,429	
41	Synchronized Interest (L47)	\$ -		\$ -	
42	Arizona Taxable Income (L36 - L37 - L38)	\$ 87,802		\$ 203,837	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L39 x L40)	\$ 6,118		\$ 14,203	
45	Federal Taxable Income (L33 - L35)	\$ 81,684		\$ 189,634	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 6,250		\$ 6,250	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 2,272		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ 34,957	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ 16,022		\$ 57,207	
52	Combined Federal and State Income Tax (L35 + L42)	\$ 22,141		\$ 71,411	
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				38.15%
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule GTM-3, Col. (C), Line (17))	\$ (169,027)			
55	Weighted Average Cost of Debt (Schedule GTM-1)	5.20%			
56	Synchronized Interest (L45 X L46)	NMF			

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 8,596,870	\$ (1,910,218)	\$ 6,686,652
2	Less: Accumulated Depreciation	2,051,031	-	2,051,031
3	Net Plant in Service	<u>\$ 6,545,839</u>	<u>\$ (1,910,218)</u>	<u>\$ 4,635,621</u>
<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 1,322,934	\$ -	\$ 1,322,934
5	Less: Accumulated Amortization	289,647	-	289,647
6	Net CIAC	<u>\$ 1,033,287</u>	<u>\$ -</u>	<u>\$ 1,033,287</u>
7	Advances in Aid of Construction (AIAC)	3,515,087	-	3,515,087
8	Customer Deposits	224,503	-	224,503
9	Deferred Income Tax Credits	31,772	-	31,772
<u>ADD:</u>				
10	Unamortized Finance Charges	-	-	-
11	Deferred Tax Assets	-	-	-
12	Working Capital	-	-	-
13	Intentionally Left Blank	-	-	-
14	Original Cost Rate Base	<u>\$ 1,741,191</u>	<u>\$ (1,910,218)</u>	<u>\$ (169,027)</u>

References:

Column (A), Company Schedule B-1
Column [B]: Column [C] - Column [A]
Column [C], GTM-4

VALLEY UTILITIES WATER COMPANY, INC
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SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) GTM-5 Access Rights ADJ #1	(C) GTM-6 Well #6 ADJ #2	(D) GTM-7 Treatment Plant ADJ #3	(E) Not Used ADJ #4	(F) Not Used ADJ #5	(J) STAFF ADJUSTED
PLANT IN SERVICE:									
1	301	Organization Cost							
2	302	Franchise Cost	448,196						448,196
3	303	Land and Land Rights	17,167						17,167
4	304	Structures and Improvements							
5	305	Collecting and Impounding Res.							
6	306	Lake River and other Intakes			15,882				1,413,589
7	307	Wells and Springs	1,397,717						
8	308	Infiltration Galleries and Tunnels							
9	309	Supply Mains							
10	310	Power Generation Equipment	448,660						448,660
11	311	Electrical Pumping Equipment	1,848,434	(55,000)		(1,771,100)			22,334
12	320	Water Treatment Equipment	828,116						828,116
13	330	Distribution Reservoirs & Standpipe	2,593,007						2,593,007
14	331	Transmission and Distribution Mains	123,765						123,765
15	333	Services	419,733						419,733
16	334	Meters	147,203						147,203
17	335	Hydrants							
18	336	Backflow Prevention Devices	1,237						1,237
19	339	Other Plant & Miscellaneous Equipment	66,856						66,856
20	340	Office Furniture & Fixtures	88,026						88,026
21	341	Transportation Equipment							
22	342	Stores Equipment	38,585						38,585
23	343	Tools and Work Equipment							
24	344	Laboratory Equipment	5,930						5,930
25	345	Power Operated Equipment							
26	346	Communications Equipment	20,000						20,000
27	347	Miscellaneous Equipment	4,237						4,237
28	348	Other Tangible Plant	100,000			(100,000)			
29	348	Other Tangible Plant Arsenic Media							
30		Rounding Amount	1						1
31		Subtotal Plant in Service	\$ 8,596,870	\$ (55,000)	\$ 15,882	\$ (1,871,100)	\$ -	\$ -	\$ 6,886,652
32									
33		Add:							
34	Other 1	Construction Work in Progress							
35	Other 2	General Office Plant Allocation							
36	Less:								
37	Other 3	Post Test Year Plant							
38	Other 4	General Office Plant Allocation							
39									
40		Total Plant in Service:	\$ 8,596,870	\$ (55,000)	\$ 15,882	\$ (1,871,100)	\$ -	\$ -	\$ 6,886,652
41		Less: Accumulated Depreciation (Company Sch. B-2 Page 4)	2,051,031						2,051,031
42		Intentionally Left Blank							
43		Net Plant in Service (L59 - L 60)	\$ 6,545,839	\$ (55,000)	\$ 15,882	\$ (1,871,100)	\$ -	\$ -	\$ 4,685,621
44									
45		LESS:							
46		Contributions in Aid of Construction (CIAC)	1,322,934						1,322,934
47		Less: Accumulated Amortization	289,647						289,647
48		Net CIAC (L25 - L26)	\$ 1,033,287						1,033,287
49		Advances in Aid of Construction (AIAC)	3,515,087						3,515,087
50		Customer Deposits	224,503						224,503
51		Deferred Income Taxes	31,772						31,772
52									
53		ADD:							
54		Unamortized Finance Charges							
55		Deferred Tax Assets							
56		Working Capital							
57		Regulatory Asset (Liability)							
58		Original Cost Rate Base	\$ 1,741,191	\$ (55,000)	\$ 15,882	\$ (1,871,100)	\$ -	\$ -	\$ (169,027)

References:
 Column [A] Schedule B-2

VALLEY UTILITIES WATER COMPANY, INC
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Surrebuttal Schedule GTM-5

ORIGINAL COST RATE BASE ADJUSTMENT # 1 - EASEMENT RECLASSIFICATION AND DISALLOWANCE

Line No.	Account Number	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	301	Land and Land Rights	\$ 44,196	(a)	\$ 44,196
2	320	Water Treatment Equipment	1,848,434	\$ (55,000)	\$ 1,793,434

(a) Reflects \$55,000 reclassification from Water Treatment Equipment and \$55,000 disallowance as not used and useful ATF.

References:

- Col [A]: Company Schedule B-1
- Col [B]: GTM Testimony
- Col [C]: Col. [A] + Col. [B]
- Col [C]: Col. [A] + Col. [B]

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Surrebuttal Schedule GTM-6

ORIGINAL COST RATE BASE ADJUSTMENT # 2 - WELL No. 6

LINE NO.	Account Number	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	307	Wells and Springs	\$ 1,397,717	\$ 15,882	\$ 1,413,599

Invoice support provided	\$ 265,882
Post Test Year Plant adjustment	\$ 250,000
Excess of supported vs. claimed well # 6 costs	\$ 15,882

References:

- Col [A]: Company Schedule B-1
- Col [B]: GTM Testimony
- Col [C]: Col. [A] + Col. [B]

VALLEY UTILITIES WATER COMPANY, INC
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Surrebuttal Schedule GTM-7

ORIGINAL COST RATE BASE ADJUSTMENT # 3 REMOVE WATER TREATMENT PLANT & ARSENIC MEDIA

<u>LINE NO.</u>	<u>Account Number</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	320	Water Treatment Equipment	\$ 1,848,434		
2		Staff Rate Base Adjustment No 1	<u>(55,000)</u>		
3					
4		Net	\$ 1,793,434	\$ (1,771,100)	\$ 22,334
5	348	Other Tangible Plant Arsenic Media	\$ 100,000	\$ (100,000)	\$ -

References:

Col [A]: Company Schedule B-1
 Col [B]: GTM Testimony
 Col [C]: Col. [A] + Col. [B]

VALLEY UTILITIES WATER COMPANY, INC

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Test Year ended June 30, 2008

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	(A) COMPANY ADJUSTED TEST YEAR AS FILED	(B) STAFF TEST YEAR ADJUSTMENTS	(C) STAFF TEST YEAR AS ADJUSTED	(D) STAFF PROPOSED CHANGES	(E) STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Metered Water Revenues	\$ 1,164,238	\$ (2,660)	\$ 1,161,578	\$ 114,562	\$ 1,276,140
3	Unmetered Water Revenues	45,466	-	45,466	2,660	48,126
4	Other Water Revenues	1,209,704	(2,660)	1,207,044	117,222	1,324,266
5	Total Operating Revenues	\$ 2,419,408	\$ (5,320)	\$ 2,414,088	\$ 224,442	\$ 2,638,530
6						
7	<u>OPERATING EXPENSES:</u>					
8	Salaries and Wages	\$ 355,559	-	\$ 355,559	-	\$ 355,559
9	Employee Pensions & Benefits	5,343	-	5,343	-	5,343
10	Purchased Water	4,357	-	4,357	-	4,357
11	Purchased Power	136,963	-	136,963	-	136,963
12	Chemicals	7,549	-	7,549	-	7,549
13	Repairs and Maintenance	14,210	(1,542)	12,668	-	12,668
14	Office Supplies and Expense	10,006	-	10,006	-	10,006
15	Outside Services	31,734	2,389	34,123	-	34,123
16	Water Testing	-	-	-	-	-
17	Rents	56,601	-	56,601	-	56,601
18	Transportation Expenses	25,266	-	25,266	-	25,266
19	Insurance - General Liability	39,013	(10,304)	28,709	-	28,709
20	Insurance - Health and Life	84,637	(60)	84,577	-	84,577
21	Advertising	-	-	-	-	-
22	Regulatory Comm Expense - Rate Case	40,000	-	40,000	-	40,000
23	Regulatory Comm Expense - Other	15,856	-	15,856	-	15,856
24	Bad Debt Expense	228	-	228	-	228
25	Miscellaneous Expense	42,327	-	42,327	-	42,327
26	Depreciation and Amortization	313,518	(121,845)	191,673	-	191,673
27	Taxes other than Income	29,351	-	29,351	-	29,351
28	Property Taxes	39,304	(1,217)	38,087	1,187	39,273
29	Income Tax	(54,130)	76,271	22,141	49,270	71,411
30	Total Operating Expenses	\$ 1,197,692	(\$ 56,309)	\$ 1,141,383	\$ 50,457	\$ 1,191,839
31	Operating Income	12,012	53,649	65,661	66,765	132,427
32						

References:

- Column [A]: Company Schedule C-1
- Column [B]: Schedule GTM-11
- Column [C]: Column [A] + Column [B]
- Column [D]: Schedules GTM-1 and GTM-2
- Column [E]: Column [C] + Column [D]

VALLEY UTILITIES WATER COMPANY, INC
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SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) GTM-10 Rev Annualization ADJ.#1	(C) GTM-11 Repair & Maintenance ADJ.#2	(D) GTM-12 Water Testing ADJ.#3	(E) GTM-13 Liability Insurance ADJ.#4	(F) GTM-14 Health & Life ADJ.#5	(G) GTM-15 Depreciation ADJ.#6	(H) GTM-16 Property Taxes ADJ.#7	(I) GTM-17 Income Taxes ADJ.#8	(J) STAFF ADJUSTED
1	<i>Operating Revenues:</i>										
2	Metered Water Revenues	\$ 1,164,238	\$ (2,660)								\$ 1,161,578
3	Unmetered Water Revenues										
4	Other Water Revenues	45,466									45,466
5	Total Operating Revenues	\$ 1,209,704	\$ (2,660)								\$ 1,207,044
6											
7	<i>Operating Expenses:</i>										
8	Salaries and Wages	\$ 355,559									355,559
9	Employee Pensions & Benefits	5,343									5,343
10	Purchased Water	4,357									4,357
11	Purchased Power	136,963									136,963
12	Chemicals	7,549									7,549
13	Repairs and Maintenance	14,210		(1,542)							12,668
14	Office Supplies and Expense	10,006									10,006
15	Outside Services	31,734			2,389						34,123
16	Water Testing										
17	Rents	56,601									56,601
18	Transportation Expenses	25,266									25,266
19	Insurance - General Liability	39,013				(10,304)					28,709
20	Insurance - Health and Life	84,637				10,304					84,577
21	Advertising										
22	Regulatory Comm Expense - Rate Case	40,000									40,000
23	Regulatory Comm Expense - Other	15,856									15,856
24	Bad Debt Expense	228									228
25	Miscellaneous Expense	42,327									42,327
26	Depreciation and Amortization	313,518						(121,845)			191,673
27	Taxes other than Income	29,351									29,351
28	Property Taxes	39,304							(1,217)		38,087
29	Income Tax	(54,130)								76,271	22,141
30	Total Operating Expenses	\$ 1,197,692	\$ (2,660)	\$ (1,542)	\$ 2,389	\$ (10,304)	\$ (10,364)	\$ (121,845)	\$ (1,217)	\$ 76,271	\$ 1,141,363
	Operating Income	\$ 12,012	\$ (2,660)	\$ 1,542	\$ (2,389)	\$ -	\$ 10,364	\$ 121,845	\$ 1,217	\$ (76,271)	\$ 65,651

OPERATING INCOME ADJUSTMENT # 1 - REVENUE ANNUALIZATION

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Revenue Annualization	\$ (21,877)	\$ (2,660)	\$ (24,537)

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References:
 Col [A]: Company Schedule C-1 Page 3
 Col [B]: GTM Testimony
 Col [C]: Col. [A] + Col. [B]

OPERATING INCOME ADJUSTMENT # 2 - NORMALIZATION OF REPAIRS AND MAINTENANCE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Repairs and Maintenance	\$ 14,210	\$ (1,542)	\$ 12,668
2				
3				
4			Number of	Weighted Ave
5	Repairs and Maintenance		Customers	Cost / Customer
6	FY 2006	\$ 19,641	1,401	14.02
7	FY 2007	2,964	1,418	2.09
8	FY 2008	14,210	1,477	9.62
9	Total	\$ 36,815		25.73
10	Number of Years			3
11	Normalized cost per customer			8.58
12				
13	Normalized amount based on cost per customer			
14	(e.g. 8.58 * 1,477 customers)			12,668
15				
16	<u>References:</u>			
17	Col [A]: Company Schedule C-1 Page 3			
18	Col [B]: GTM Testimony			
19	Col [C]: Col. [A] + Col. [B]			

OPERATING INCOME ADJUSTMENT # 3 - WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Water Sampling	\$ 6,247	\$ 2,389	\$ 8,636
2				
3				
4				
5	Outside Services	Test Year		
6	631 Engineering	\$ 1,351		
7	632 Legal & Accounting	\$ 23,436		
8	635 Water Sampling	\$ 6,247		
9	636 Contract Labor	\$ 700		
10	Total	<u>\$ 31,734</u>		

- 11
- 12 References:
- 13 Col [A]: Company Schedule C-1 Page 3
- 14 Col [B]: GTM Testimony
- 15 Col [C]: Col. [A] + Col. [B]

OPERATING INCOME ADJUSTMENT # 4 - RECLASSIFY INSURANCE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Insurance - General Liability	\$ 39,013	\$ (10,304)	\$ 28,709
2	Insurance - Health and Life	84,637	10,304	94,941
3	Total Insurance	<u>\$ 123,650</u>	<u>\$ -</u>	<u>\$ 123,650</u>

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References:
 Col [A]: Company Schedule C-1 Page 3
 Col [B]: GTM Testimony
 Col [C]: Col. [A] + Col. [B]
 Col [C]: Col. [A] + Col. [B]

OPERATING INCOME ADJUSTMENT # 5 - NON-RECURRING HEALTH AND LIFE INSURANCE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Insurance - Health and Life	84,637	(10,364)	74,273
2	Reclassification (Staff Adj. #4)	-	-	10,364
3	Total Insurance	<u>\$ 84,637</u>	<u>\$ (10,364)</u>	<u>84,637</u>
4				
5				
6				
7				
8				
9				
10				
11				
12	<u>References:</u>			
13	Col [A]: Company Schedule C-1 Page 3			
14	Col [B]: GTM Testimony			
15	Col [C]: Col. [A] + Col. [B]			
16	Col [C]: Col. [A] + Col. [B]			

OPERATING INCOME ADJUSTMENT # 6 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Operating Income	\$ 313,518	\$ (121,845)	\$ 191,673

OPERATING INCOME ADJUSTMENT # - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	[A] Company Proposed PLANT IN SERVICE BALANCE	[B] STAFF DEPR. PLANT BALANCE	[C] STAFF RECOMMENDED RATE	[D] STAFF RECOMMENDED EXPENSE
Plant In Service						
2	301	Organization Cost	\$ -	-		
3	302	Franchise Cost	-	-	0.00%	\$ -
4	303	Land and Land Rights	448,196	448,196	0.00%	-
5	304	Structures and Improvements	17,167	17,167	3.33%	572
6	305	Collecting and Impounding Res.	-	-	2.50%	-
7	306	Lake River and other Intakes	-	-	2.50%	-
8	307	Wells and Springs	1,397,717	1,413,599	3.33%	47,073
9	308	Infiltration Galleries and Tunnels	-	-	6.67%	-
10	309	Supply Mains	-	-	2.00%	-
11	310	Power Generation Equipment	-	-	5.00%	-
12	311	Electrical Pumping Equipment	448,660	448,660	12.50%	56,082
13	320.0	Water Treatment Equipment	1,848,434	22,334	3.33%	744
14	330	Distribution Reservoirs & Standpipe	828,116	828,116	2.22%	18,384
15	331	Transmission and Distribution Mains	2,593,007	2,593,007	2.00%	51,860
16	333	Services	123,765	123,765	3.33%	4,121
17	334	Meters	419,733	419,733	8.33%	34,964
18	335	Hydrants	147,203	147,203	2.00%	2,944
19	336	Backflow Prevention Devices	-	-	6.67%	-
20	339	Other Plant & Miscellaneous Equipment	1,237	1,237	6.67%	83
21	340	Office Furniture & Fixtures	66,856	66,856	6.67%	4,459
22	341	Transportation Equipment	88,026	88,026	20.00%	17,605
23	342	Stores Equipment	-	-	4.00%	-
24	343	Tools and Work Equipment	38,585	38,585	5.00%	1,929
25	344	Laboratory Equipment	-	-	10.00%	-
26	345	Power Operated Equipment	5,930	5,930	5.00%	296
27	346	Communications Equipment	-	-	10.00%	-
28	347	Miscellaneous Equipment	20,000	20,000	10.00%	2,000
29	348	Other Tangible Plant	4,237	4,237	3.33%	141
30	348	Other Tangible Plant Arsenic Media	100,000	-	67.00%	-
31						
		Subtotal General	\$ 8,596,869	\$ 6,686,651		\$ 243,258
32		Less: Non- depreciable Account(s)	448,196	448,196		
33		Depreciable Plant (L29-L30)	\$ 8,148,673	\$ 6,238,455		
34		Contributions-in-Aid-of-Construction (CIAC)			\$ 1,322,934	
35		Composite Depreciation/Amortization Rate			3.8993%	
36		Less: Amortization of CIAC (L32 x L33)				\$ 51,586
37		Depreciation Expense - STAFF [Col. (C), L29 - L34]				\$ 191,673

OPERATING INCOME ADJUSTMENT # 7 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2006	\$ 1,207,044	\$ 1,207,044
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 2,414,088	\$ 2,414,088
4a	Staff Adjusted Test Year Revenues - 2006	1,207,044	1,324,266
4b	Staff Recommended Revenue, Per Schedule GTM-1		\$ 3,738,354
5	Subtotal (Line 4 + Line 5)	\$ 3,621,132	\$ 3,738,354
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 1,207,044	\$ 1,246,118
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 2,414,088	\$ 2,492,236
10	Plus: 10% of CWIP -	110,850	110,850
11	Less: Net Book Value of Licensed Vehicles	16,499	16,499
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 2,508,439	\$ 2,586,587
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	526,772	\$ 543,183
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)	7.2302%	7.2302%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 38,087	
17	Company Proposed Property Tax	39,304	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (1,217)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 39,273
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 38,087
21	Increase/(Decrease) to Property Tax Expense		\$ 1,187
22	Decrease to Property Tax Expense		\$ 1,187
23	Increase in Revenue Requirement		117,222
24	Decrease to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.012228%

References:

Col [A]: Company Schedule C-1 Page 3
Col [B]: GTM Testimony

VALLEY UTILITIES WATER COMPANY, INC
Docket No. W-0412A-08-0586
Test Year ended June 30, 2008

Surrebuttal Schedule GTM-17

OPERATING INCOME ADJUSTMENT # 8 - INCOME TAXES

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Income Tax	<u>\$ (54,130)</u>	<u>\$ 76,271</u>	<u>\$ 22,141</u>
2				
3				
4				
5				
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- 11 References:
- 12 Col [A]: Company Schedule C-1 Page 3
- 13 Col [B]: Column [C] - Column [A]
- 14 Col [C]: Schedule GTM-2

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8" Meter - All Classes	\$ 11.24	\$ 14.34	\$ 12.50
3/4" Meter - All Classes	\$ 16.87	\$ 21.53	\$ 18.75
1" Meter - All Classes	\$ 28.10	\$ 35.86	\$ 31.25
1½" Meter - All Classes	\$ 56.21	\$ 71.72	\$ 62.50
2" Meter - All Classes	\$ 89.24	\$ 114.76	\$ 100.00
3" Meter - All Classes	\$ 179.87	\$ 229.51	\$ 200.00
4" Meter - All Classes	\$ 281.05	\$ 358.62	\$ 312.50
6" Meter - All Classes	\$ 562.10	\$ 717.24	\$ 625.00
3" Construction	\$ 179.87	\$ 229.51	N/A
Construction - All Classes			\$ -
Commodity Rates			
5/8" Meter (Residential)			
From 1 to 3,000 Gallons	\$ 1.50	\$ 1.91	\$ 1.70
From 3,001 to 10,000 Gallons	\$ 2.31	\$ 2.95	\$ 2.60
Over 10,000 Gallons	\$ 2.53	\$ 3.23	\$ 3.10
3/4" Meter (Residential)			
From 1 to 3,000 Gallons	\$ 1.50	\$ 1.91	\$ 1.70
From 3,001 to 10,000 Gallons	\$ 2.31	\$ 2.95	\$ 2.60
Over 10,000 Gallons	\$ 2.53	\$ 3.23	\$ 3.10
1" Meter (Residential)			
From 1 to 50,359 Gallons	\$ 2.31	N/A	N/A
Over 50,359 Gallons	\$ 2.53	N/A	N/A
From 1 to 25,000 Gallons	N/A	\$ 2.95	N/A
Over 25,000 Gallons	N/A	\$ 3.23	N/A
From 1 to 30,000 Gallons	N/A	N/A	\$ 2.60
Over 30,000 Gallons	N/A	N/A	\$ 3.10
5/8" Meter (Commercial)			
From 1 to 18,000 Gallons	\$ 2.31	\$ 2.95	N/A
Over 18,000 Gallons	\$ 2.53	\$ 3.23	N/A
From 1 to 10,000 Gallons	N/A	N/A	\$ 2.60
Over 10,000 Gallons	N/A	N/A	\$ 3.10

3/4" Meter (Commercial)				
From 1 to 18,000 Gallons	\$ 2.31	N/A	N/A	
Over 18,000 Gallons	\$ 2.53	N/A	N/A	
From 1 to 15,000 Gallons	N/A	\$ 2.95	N/A	
Over 15,000 Gallons	N/A	\$ 3.23	N/A	
From 1 to 10,000 Gallons	N/A	N/A	\$ 2.60	
Over 10,000 Gallons	N/A	N/A	\$ 3.10	
1" Meter (Commercial)				
From 1 to 50,359 Gallons	\$ 2.31	N/A	N/A	
Over 50,359 Gallons	\$ 2.53	N/A	N/A	
From 1 to 25,000 Gallons	N/A	\$ 2.95	N/A	
Over 25,000 Gallons	N/A	\$ 3.23	N/A	
From 1 to 30,000 Gallons	N/A	N/A	\$ 2.60	
Over 30,000 Gallons	N/A	N/A	\$ 3.10	
1½" Meter (Res., Comm.)				
From 1 to 126,054 Gallons	\$ 2.31	N/A	N/A	
Over 126,054 Gallons	\$ 2.53	N/A	N/A	
From 1 to 50,000 Gallons	N/A	\$ 2.95	N/A	
Over 50,000 Gallons	N/A	\$ 3.23	N/A	
From 1 to 80,000 Gallons	N/A	N/A	\$ 2.60	
Over 80,000 Gallons	N/A	N/A	\$ 3.10	
2" Meter (Res., Comm.)				
From 1 to 151,256 Gallons	\$ 2.31	N/A	N/A	
Over 151,256 Gallons	\$ 2.53	N/A	N/A	
From 1 to 80,000 Gallons	N/A	\$ 2.95	N/A	
Over 80,000 Gallons	N/A	\$ 3.23	N/A	
From 1 to 140,000 Gallons	N/A	N/A	\$ 2.60	
Over 140,000 Gallons	N/A	N/A	\$ 3.10	
3" Meter (Res., Comm.)				
From 1 to 403,274 Gallons	\$ 2.31	N/A	N/A	
Over 403,274 Gallons	\$ 2.53	N/A	N/A	
From 1 to 160,000 Gallons	N/A	\$ 2.95	N/A	
Over 160,000 Gallons	N/A	\$ 3.23	N/A	
From 1 to 300,000 Gallons	N/A	N/A	\$ 2.60	
Over 300,000 Gallons	N/A	N/A	\$ 3.10	
4" Meter (Res., Comm.)				
From 1 to 453,722 Gallons	\$ 2.31	N/A	N/A	
Over 453,722 Gallons	\$ 2.53	N/A	N/A	
From 1 to 250,000 Gallons	N/A	\$ 2.95	N/A	
Over 250,000 Gallons	N/A	\$ 3.23	N/A	
From 1 to 450,000 Gallons	N/A	N/A	\$ 2.60	
Over 450,000 Gallons	N/A	N/A	\$ 3.10	
6" Meter (Res., Comm.)				
From 1 to 1,260,313 Gallons	\$ 2.31	N/A	N/A	
Over 1,260,313 Gallons	\$ 2.53	N/A	N/A	
From 1 to 500,000 Gallons	N/A	\$ 2.95	N/A	
Over 500,000 Gallons	N/A	\$ 3.23	N/A	
From 1 to 1,000,000 Gallons	N/A	N/A	\$ 2.60	
Over 1,000,000 Gallons	N/A	N/A	\$ 3.10	
3" Construction (Res., Comm.)				
All Gallons	\$ 3.02	3.23	3.15	

Present

Co. Proposed

Staff Recommended

Service Line and Meter Installation Charges	Total	Line	Meter	Total	Line	Meter	Total
5/8" Meter	\$ 520	\$ 445	\$ 155	\$ 600	\$ 445	\$ 155	\$ 600
3/4" Meter	600	445	255	700	445	255	700
1" Meter	690	495	315	810	495	315	810
1½" Meter	5,035	550	525	1,075	550	525	1,075
2" Turbine Meter	1,595	830	1,045	1,875	830	1,045	1,875
2" Compound Meter	2,320	830	1,890	2,720	830	1,890	2,720
3" Turbine Meter	2,275	1,045	1,670	2,715	1,045	1,670	2,715
3" Compound Meter	3,110	1,165	2,545	3,710	1,165	2,545	3,710
4" Turbine Meter	3,520	1,490	2,670	4,160	1,490	2,670	4,160
4" Compound Meter	4,475	1,670	3,645	5,315	1,670	3,645	5,315
6" Turbine Meter	6,275	2,210	5,025	7,235	2,210	5,025	7,235
6" Compound Meter	8,050	2,330	6,920	9,250	2,330	6,920	9,250
8"	Cost	Cost	Cost	Cost	Cost	Cost	Cost
10"	Cost	Cost	Cost	Cost	Cost	Cost	Cost
12"	Cost	Cost	Cost	Cost	Cost	Cost	Cost
Service Charges							
Establishment and/or reconnection	\$ 30.00			\$ 40.00			\$ 40.00
Establishment and/or reconnection (After Hours)	45.00			60.00			60.00
Meter Test	30.00			30.00			30.00
Deposit Requirement (Residential)	(a)			(a)			(a)
Deposit Requirement (None Residential Meter)	(a)			(a)			(a)
Deposit Interest	6.00%			3.00%			6.00%
Re-Establishment (With-in 12 Months)	(b)			(b)			(b)
Re-Establishment (After Hours)	(b)			(b)			(b)
NSF Check	25.00			25.00			25.00
Deferred Payment, Per Month	1.5%			1.50%			1.50%
Meter Re-Read	10.00			10.00			10.00
Charge of Moving Customer Meter - Customer Requested per Rule R14-2-405B	Cost			Cost			Cost
After hours service charge, per Rule R14-2-403D	25.00			50.00			
Late Charge per month	10.00			10.00			1.50%
NT = No Tariff							
Monthly Service Charge for Fire Sprinkler							
All Meter Sizes							Greater of \$10 or 2 percent of the general service rate for a similar size meter.
Less than 8"							
Less than 10"							
Less than 12"							

Per Commission Rules (R14-2-403.B)

- (a) Residential - two times the average bill. Non-residential - two and one-half times the average bill.
- (b) Minimum charge times number of months disconnected.
- (c) \$100 Plus \$12.50 times months off system.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D.5).

All advances and/or contributions are to include labor, materials, overheads and all applicable taxes,
Cost to include labor, materials and parts, overheads and all applicable taxes.

Typical Bill Analysis
Residential 5/8 Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,376	\$ 25.85	\$ 32.98	\$ 7.13	27.59%
Median Usage	5,500	21.52	27.45	\$ 5.93	27.56%
Staff Recommended					
Average Usage	7,376	\$ 25.85	\$ 27.28	\$ 1.44	5.55%
Median Usage	5,500	21.52	22.88	\$ 1.36	6.32%

Present & Proposed Rates (Without Taxes)
Residential 5/8 Inch Meter

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 11.24	\$ 14.34	27.58%	\$ 12.50	11.21%
1,000	12.74	16.25	27.55%	14.00	9.89%
2,000	14.24	18.16	27.53%	15.50	8.85%
3,000	15.74	20.07	27.51%	17.00	8.01%
4,000	18.05	23.02	27.53%	19.35	7.20%
5,000	20.36	25.97	27.55%	21.70	6.58%
5,500	21.52	27.45	27.56%	22.88	6.32%
6,000	22.67	28.92	27.57%	24.05	6.09%
7,000	24.98	31.87	27.58%	26.40	5.68%
7,376	25.85	32.98	27.59%	27.28	5.55%
8,000	27.29	34.82	27.59%	28.75	5.35%
9,000	29.60	37.77	27.60%	31.10	5.07%
10,000	31.91	40.72	27.61%	33.45	4.83%
11,000	34.44	43.95	27.61%	36.55	6.13%
12,000	36.97	47.18	27.62%	39.65	7.25%
13,000	39.50	50.41	27.62%	42.75	8.23%
14,000	42.03	53.64	27.62%	45.85	9.09%
15,000	44.56	56.87	27.63%	48.95	9.85%
16,000	47.09	60.10	27.63%	52.05	10.53%
17,000	49.62	63.33	27.63%	55.15	11.14%
18,000	52.15	66.56	27.63%	58.25	11.70%
19,000	54.68	69.79	27.63%	61.35	12.20%
20,000	57.21	73.02	27.64%	64.45	12.66%
25,000	69.86	89.17	27.64%	79.95	14.44%
30,000	82.51	105.32	27.65%	95.45	15.68%
35,000	95.16	121.47	27.65%	110.95	16.59%
40,000	107.81	137.62	27.65%	126.45	17.29%
45,000	120.46	153.77	27.65%	141.95	17.84%
50,000	133.11	169.92	27.65%	157.45	18.29%
75,000	196.36	250.67	27.66%	234.95	19.65%
100,000	259.61	331.42	27.66%	312.45	20.35%

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF)
VALLEY UTILITIES WATER COMPANY, INC.)
FOR AN INCREASE IN ITS WATER RATES)
FOR CUSTOMERS WITHIN MARICOPA)
COUNTY, ARIZONA)
_____)

DOCKET NO. W-01412A-08-0586

SURREBUTTAL

TESTIMONY

OF

MARLIN SCOTT, JR.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 26, 2009

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**SURREBUTTAL SUMMARY
VALLEY UTILITIES WATER COMPANY, INC.
DOCKET NO. W-01412A-08-0586**

CONCLUSIONS

- A. Since new Well #6 has received Maricopa County approval and was placed into operation, this plant item is now used and useful to the Company's provision of service. Rate base treatment will be addressed by Staff witness - McMurry.

- B. I would like to revise the Commission compliance status in my direct testimony by adding the word "engineering" as follows: According to the Utilities Division Compliance database, the Company has no delinquent Arizona Corporation Commission "engineering" compliance items.

1 **INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation
4 Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix,
5 Arizona 85007. My job title is Utilities Engineer.

6
7 **Q. Are you the same Marlin Scott, Jr. who submitted direct testimony on behalf of the**
8 **Utilities Division?**

9 A. Yes.

10
11 **Q. What was the purpose of that testimony?**

12 A. My direct testimony provided the Utilities Division Staff's ("Staff") engineering
13 evaluation of Valley Utilities Water Company, Inc. ("Company") for this proceeding.

14
15 **Q. What is the purpose of your surrebuttal testimony?**

16 A. To provide Staff's response to the Company's rebuttal testimony on post-test year plant
17 item, new Well #6, and to revise a portion of my direct testimony.

18
19 **POST-TEST YEAR PLANT ITEM – NEW WELL #6**

20 **Q. Have you reviewed the rebuttal testimony of Robert Prince regarding the post-test**
21 **year ("PTY") plant item for the new Well #6?**

22 A. Yes.

1 **Q. What was Mr. Prince's testimony regarding this PTY plant item?**

2 A. Mr. Prince stated that PTY plant item new Well #6 has received its Approval to Construct
3 ("ATC"), Approval of Construction ("AOC"), and the New Source Approval from
4 Maricopa County. The ATC and AOC were issued on August 5, 2009, with the well
5 placed into operation that same day. Based on these approvals, the Company is requesting
6 that PTY plant item – new Well #6 be included in rate base.

7

8 **Q. What is Staff's response?**

9 A. On August 20, 2009, Staff conducted a field inspection to confirm the well operation.
10 Since new Well #6 has received Maricopa County approval and was placed into operation,
11 this plant item is now used and useful to the Company's provision of service. Rate base
12 treatment will be addressed by Staff witness - McMurry.

13

14 **OTHER ISSUES**

15 **Q. Is there another issue you would like to address?**

16 A. Yes. I would like to revise the Commission compliance status in my direct testimony by
17 adding the word "engineering" as follows: According to the Utilities Division
18 Compliance database, the Company has no delinquent Arizona Corporation Commission
19 "engineering" compliance items. This compliance status is located on Page i of my
20 Executive Summary (Item E) and Page 5 of my Engineering Report (Item G).

21

22 **Q. Does this conclude your surrebuttal testimony?**

23 A. Yes, it does