

ORIGINAL



0000103849

BEFORE THE ARIZONA CORPORATION C

RECEIVED

Arizona Corporation Commission

DOCKETED

OCT 13 2009

2009 OCT 13 P 4:37

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY	<i>[Signature]</i>
-------------	--------------------

1 **COMMISSIONERS**
 2 KRISTIN K. MAYES
 3 GARY PIERCE
 4 PAUL NEWMAN
 5 SANDRA D. KENNEDY
 6 BOB STUMP

DOCKET NO. W-01412A-08-0586

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

STAFF'S POST-HEARING BRIEF

9 On December 2, 2008, Valley Utilities Water Company, Inc. ("Valley" or "Company") filed
 10 before the Arizona Corporation Commission ("Commission") an application for a permanent rate
 11 increase in its water rates for its customers in Maricopa County, Arizona.

12 On January 6, 2009, the Commission's Utilities Division Staff ("Staff") issued a Letter of
 13 Sufficiency indicating that Valley's application had met the sufficiency requirements stated in the
 14 Arizona Administrative Code ("A.A.C.") R14-2-103. Staff classified Valley as a Class B utility.

15 On January 12, 2009, the Commission's Hearing Division issued a Procedural Order setting
 16 forth the procedural schedule for this matter. Pursuant to the Procedural Order, this matter was set
 17 for hearing on September 15, 2009.

18 On September 15, 2009, a public hearing was conducted before the Commission. At the close
 19 of evidence, the Hearing Division directed the parties to prepare closing briefs outlining the issues
 20 raised and their positions thereon.

21 Staff hereby presents its closing brief.

22 Staff was also directed to file final schedules reflecting Staff's final positions and proposals.
 23 Staff's final schedules are included as Attachment A.

I. BACKGROUND.

25 Valley Utilities Water Company, Inc. is an Arizona for-profit Class B public service
 26 corporation providing water service to approximately 1,400 customers in the city of Glendale,
 27
 28

1 Arizona.¹ The Company's present rates were authorized in Decision No. 68309, dated November 14,
2 2005. Thereafter, the Commission authorized an interim emergency surcharge in Decision No.
3 70138, dated January 23, 2008.

4 On December 2, 2008, Valley filed an application before the Commission seeking a
5 permanent rate increase. The application used a test year which ended June 30, 2008. The Company
6 requested an increase in its total operating revenue of \$323,456, or 26.74 percent over its test year
7 revenue of \$1,209,704, for a total operating revenue of \$1,533,160. The Company's proposed
8 revenue would provide an operating income of \$229,974, which is a 15.0 percent operating margin.
9 If granted, the requested operating margin would provide a 13.2 percent rate of return on the
10 Company's proposed Fair Value Rate Base ("FVRB") of \$1,741,355, which is the same as the
11 proposed *Original Cost Rate Base* ("OCRB").

12 For the reasons fully discussed below, Staff disagrees with many of the Company's proposals.

13 **II. THE PROPOSED RATE INCREASE.**

14 **A. Rate Base.**

15 As a general ratemaking principle, utility rates are set in a manner designed to allow utilities
16 the opportunity to earn a reasonable rate of return on the capital investments of their shareholders
17 used to provide service to their customers. The assets providing service constitute the utility's rate
18 base. In the instant matter, Valley proposed a rate base of \$1,741,191. Staff recommends that the
19 proposal be reduced by \$2,021,100, for a total rate base of negative \$279,909.²

20 **1. Fair Value.**

21 Valley has proposed using the Original Cost Rate Base ("OCRB") as the Fair Value Rate
22 Base ("FVRB") in this matter, with no adjustments for the current values of the Company's plant and
23 property. Staff concurs.³

24 **2. Staff's deductions from Valley's proposed rate base.**

25 **a. Adjustment 1 – easement reclassification.**

26

27

¹ McMurry Direct, 3: 15-17.

28 ² McMurry Direct, 7: 24-26.

³ McMurry Direct, 7: 19-20.

1 Staff's first adjustment to the proposed rate base concerned the Company's placement of
2 easement right to the Company's Bethany Hills West Yard in the Water Treatment Equipment
3 account. In Staff's view, the easement constitutes a land right.⁴ The Uniform System of Accounts
4 ("USOA") established by the National Association of Regulatory Utility Commissioners (NARUC")
5 requires that land rights be recorded in a specific "Land and Land Rights" account.⁵ The correct
6 placement of the easement is important because the accounts are treated differently for depreciation
7 purposes- items in the Water Treatment Equipment account are depreciable assets, whereas items in
8 the Land and Land Rights are not.⁶ Staff's adjustment reclassifies the \$55,000 easement right into the
9 Land and Land Rights account.

10 It is important to note that, despite the fact that the cost of the easement is treated differently
11 from the remainder of the costs of arsenic treatment facilities, the individual components are not
12 considered separately from the perspective of inclusion in rate base. Based upon a determination of
13 its used and useful status, the entire facility will either be included in or excluded from rate base. In
14 the instant matter, Staff has determined that the facilities are not yet used and useful in service to
15 Valley's customers. Therefore, the entire cost must be excluded from rate base. As a result, Staff
16 decreased rate base by this same amount.

17 b. Adjustment 2: Well No. 6.

18 The Company drilled its original Well No. 6 in 2002.⁷ Although it was expected to produce
19 approximately 425 gpm, it never did so.⁸ The well experienced various production issues until,
20 finally, a failure in the well casing destroyed the pump and rendered the well inoperable.⁹ The
21 Company applied for an emergency surcharge and Commission approval to undertake financing from
22 the Water Infrastructure Financing Authority ("WIFA") for the purpose of constructing a replacement
23 Well No. 6. The Commission approved both the surcharge and the WIFA financing in Docket No.
24 70138.¹⁰

25 _____
26 ⁴ McMurry Direct, 8: 8.

⁵ *Id.*, 8: 8-9.

⁶ *Id.*, 8: 14-15.

⁷ Prince Direct, 6: 16.

⁸ *Id.*, 6: 18-19.

⁹ *Id.*, 6: 19-22.

¹⁰ *Id.*, 6: 22-24.

1 Replacement Well No. 6 was drilled and placed into production in March, 2009, but was
2 removed from service approximately three weeks later.¹¹ The Company immediately repaired the
3 well, and sought both an Approval to Construct and an Approval of Construction from Maricopa
4 County Environmental Services Division.¹²

5 At the time of hearing, Staff witness Marlin Scott, Jr. testified that he had personally
6 inspected the well site and verified that Well No. 6 was in operation.¹³ It is therefore, Staff's opinion
7 that Well No. 6 is used and useful in the provision of service to Valley's ratepayers¹⁴ and Staff
8 recommends that it be placed into rate base. The updated adjustment to rate base is reflected in the
9 finalized Staff schedule GTM-6.

10 c. Arsenic treatment facilities.

11 The U.S. Environmental Protection Agency ("EPA") has reduced the maximum arsenic
12 contamination level from 50 parts per billion ("ppb") to 10 ppb. Valley's wells have arsenic
13 concentrations ranging between 5 and 14 ppb.¹⁵ Valley hired a consultant to conduct a treatment
14 study, which was completed in May, 2004.¹⁶ The consultant recommended using absorption media to
15 treat the issue, at a total system cost of \$1,926,100.¹⁷ In order to properly treat all of the water that
16 needed treatment, Valley needed to construct two separate facilities, one at Bethany Home road, the
17 other at Glendale Avenue.

18 The facilities to be located at Valley's Bethany Home site have not yet been completed,
19 because the Company is still awaiting the issuance of a Special Use Permit ("SUP") from the
20 Maricopa County Planning Department ("MCPD").¹⁸ The Company can not get approval from
21 MCPD to construct the Bethany Facilities until it has first received the SUP.¹⁹

22 Construction of the plant located at Valley's Glendale site is complete. However, as of May,
23 2009, the Glendale facilities had not yet received a final Approval of Construction ("AOC") from
24

25 ¹¹ McMurry Direct, 9: 3-5.

26 ¹² Prince Rebuttal, 7: 8-11.

27 ¹³ Transcript, 95: 5-8.

28 ¹⁴ Id., 95: 8-9.

¹⁵ Prince Rebuttal, 3: 11-12.

¹⁶ Id., 3: 12-15.

¹⁷ Id., 3: 16-17.

¹⁸ Prince Rebuttal, 4: 10-19.

¹⁹ Transcript., 96: 20-23.

1 Maricopa County Environmental Services Division (“MCESD”).²⁰ In order to receive the AOC, the
2 facility must be placed into operation and the water must be tested for a period of three months in
3 order to verify that the facilities are in fact removing the arsenic as designed.²¹ The facilities were
4 placed into operation in March, 2009,²² but to date, Valley has not yet received the AOC.

5 Regarding the Bethany Home facilities, the fact that the facilities are not yet fully constructed
6 makes it clear that they are not yet used or useful in providing service to Valley’s customers. As for
7 the Glendale facilities, until MCESD has reviewed the necessary testing and has verified that the
8 facilities are in fact removing arsenic from Valley’s drinking water, Staff likewise can not take the
9 position that the facilities are used and useful in providing service to Valley’s customers.²³

10 In Docket No. W-01412A-04-0849, Valley filed an application to incur long-term debt for the
11 total amount. Staff witness Dennis Rogers testified that at the time of the loan, Valley’s capital
12 structure consisted of 100 percent negative equity, and that the effect of a WIFA loan in the full
13 amount would further deteriorate Valley’s capital structure.²⁴ However, Rogers further testified that
14 there were no other known options for Valley to finance the purchase/construction of the arsenic
15 facilities.²⁵ For that reason, Staff then calculated the additional cash flow that would be needed to
16 maintain Valley’s pre-loan cash flow if it were to take out the WIFA loan.²⁶ Staff then recommended
17 that the Commission authorize Valley to undertake the WIFA loan so long as it authorized the
18 surcharge mechanism as well.²⁷

19 In Decision No. 68309, the Commission authorized the WIFA loan²⁸ and ordered Valley to
20 file an application for the arsenic removal surcharge.²⁹ Valley did so. The Commission approved the
21 application in Decision No. 71287 on October 7, 2009, at the Commission’s October Open Meeting.
22 The Decision specifically stated that the terms of the Arsenic Cost Recovery Mechanism (“ACRM”)
23

24 ²⁰ *Transcript*, 96: 3-6.

25 ²¹ *Id.*, 96: 6-14.

26 ²² McMurry Direct, 9: 23.

27 ²³ *Transcript*, 97: 20-22.

28 ²⁴ Rogers Direct, Docket Nos. W-01412A-04-0736 & W-01412A-04-0849, 25: 9-12.

²⁵ *Id.*, 26: 10-12.

²⁶ *Id.*, 26: 4-7.

²⁷ *Id.*, 22-26.

²⁸ Decision No. 68309, 26: 1-2.

²⁹ *Id.*, 26: 23-26.

1 were approved in accordance with Exhibit GWB-1, attached to the Decision.³⁰ The Decision further
2 directed that the ACRM would “cease upon the earlier date of the effective date of the rates
3 authorized in a rate proceeding *subsequent to* [Valley’s] pending permanent rate proceeding (Docket
4 No. W-01412A-08-0586) or on August 31, 2013.”³¹ (emphasis added)

5 The language of the Decision makes clear the Commission’s intent that recovery of the cost of
6 the arsenic treatment facilities was to be done through the implementation of the surcharge, as
7 opposed to through the inclusion of those facilities in rate base. The ACRM is intended to run
8 concurrently with, but independent of, any rates authorized in the instant matter, and remain in place
9 until such time as the Commission approves a future request for rate relief or until the August 31,
10 2013 expiration date.

11 It is Staff’s position, therefore, that there are two separate reasons for which the arsenic
12 treatment facilities must be excluded from rate base. Not only are the facilities not yet used and
13 useful, there already exists a mechanism through which Valley is recovering the costs. If the
14 Commission were to include the facilities in rate base in the instant matter, and were to retain the
15 ACRM as well, Valley would be receiving a double recovery of the funds used to build them. Staff
16 has therefore recommended decreasing the Company’s proposed plant in service by \$1,771,100, as
17 illustrated in Staff Exhibit GTM-7.³²

18 **B. Operating Income.**

19 **1. Revenue annualization.**

20 During the course of a test year, a company may experience fluctuations in its revenue stream.
21 If those fluctuations are more than individual anomalies, they must be recognized across the entire
22 year to accurately reflect the changes on a going-forward basis. This is done through
23 “annualization”, which simply recognizes fluctuations as if those events had been present throughout
24 the test year.³³ Annualizations are a widely recognized ratemaking principle.³⁴

26 _____
27 ³⁰ Decision No. 71287, 10: 23-24.

28 ³¹ *Id.*, 10: 25-27.

³² McMurry Direct, 10: 7.

³³ *Id.*, 11: 10-12.

³⁴ *Id.*, 11: 9-10.

1 In its application, Valley proposed to annualize the total number of customers on its system at
2 the end of the test year, as compared to the actual numbers of customers present in each month.³⁵
3 Although the Company's original calculations contained computational errors,³⁶ the Company
4 subsequently corrected these errors,³⁷ providing Bourassa Rebuttal Schedule C-2 to reflect the
5 changes.³⁸ Staff recalculated the test year annualization adjustment using the data in C-2 and verified
6 that the new figures were correct.³⁹ Staff agrees that the revenue annualizations for total customer
7 counts reflected in C-2 are accurate. Staff therefore agrees with Valley that the revenue annualization
8 using the reported year end customers is \$36,553 downward.⁴⁰

9 Valley has further recommended an additional downward adjustment intended to reflect a
10 decline in revenues generated through water sales. The adjustment of \$102,996 is a net adjustment to
11 revenue, which "recognizes the net downward revenue annualization already included in the adjusted
12 test year revenue proposed in the Company direct filing" of \$22,000.⁴¹ Staff does not support the
13 proposed adjustment.

14 To begin with, it is a ratemaking axiom that test year revenues must be matched to test year
15 expenses. The decline the Company cites falls outside of the test year. If the adjustment were
16 recognized, there would be a mismatch of the revenues and expenses. While Staff agrees that it is
17 possible to make adjustments for occurrences outside the test year, in order to do so, the proposed
18 changes must be known and measurable. In the case of water sales, the decline in sales falls outside
19 the test year, but the effects of the change are not known or measurable.

20 There is no indication whether the levels the Company has cited will continue to decline, will
21 remain at current levels, or will rebound based upon a change in the current economic environment.
22 There is simply nothing in the record to make the changes in water sales known and measurable on a
23 going forward basis. Therefore, there is not enough information in the record to support the
24 Company's propose inclusion of declining sales which fall outside of the test year.

25 _____
26 ³⁵ Bourassa Direct, 12: 24-26.

³⁶ McMurry Direct, 11: 23-25.

³⁷ Bourassa Rebuttal, 14: 10-18.

³⁸ Bourassa Rebuttal, 14: 17-18.

³⁹ McMurry Direct, 12: 15-18.

⁴⁰ McMurry Direct, 12: 18-20.

⁴¹ Bourassa Rebuttal, 16: 14-17.

1 The company's requested annualization should be denied.

2 **2. Repairs and maintenance.**

3 In its application, the Company proposed to use the actual test year expense amount of
4 \$14,210 to represent its Repair and Maintenance ("R&M") needs on a going-forward basis.⁴²
5 However, the Company's reported R&M expenses vary greatly from year to year, totaling \$19,641 in
6 2006, \$2,964 in 2007, and \$14,210 in 2008.⁴³ Therefore, Staff believes that a normalized amount
7 which averages the Company's three most recent years of expenses would provide a more accurate
8 picture of the Company's R&M needs.⁴⁴ Therefore, Staff has proposed removing \$1,542 from the
9 Company's R&M account, as reflected in Staff Schedule GTM-11.⁴⁵

10 In its rebuttal testimony, the Company objects to Staff's methodology, stating that averaging
11 three years of R&M expenses does not represent a known and measurable change to the test year
12 data, labeling the average "a guess".⁴⁶ Staff disagrees. The R&M expenses for these past three years
13 are known with precision, because the Company itself has calculated them with precision. It is
14 perfectly reasonable to rely on them as an accurate barometer of the Company's fluctuating R&M
15 needs. Therefore, a normalization based upon those figures represents much more than a simple
16 guess.

17 The Company also refers to such an approach as "backward-looking", and cites the possibility
18 that historical levels may represent abnormally high or abnormally low levels of expense.⁴⁷ While
19 Staff agrees that past figures are reflective of past necessities, the same general argument has been
20 applied to the entire process of using historical test years by companies unsatisfied that their rates
21 will not reflect their expected growth. The alternative to this solution, however, is the use of a future
22 test year, a process which relies on the projection and extrapolation of current figures to create a
23 future financial model which represents nothing more than a plausible fiction.

24
25

26 ⁴² Bourassa Direct, Schedule C-1, 1: 12.

27 ⁴³ McMurry Direct, 15: 3-5.

28 ⁴⁴ McMurry Direct, 15, 10-11.

⁴⁵ McMurry Direct, 15: 10-12.

⁴⁶ Bourassa Rebuttal, 19: 2-3.

⁴⁷ Bourassa Rebuttal, 19: 6-9.

1 The typical argument against the use of historical amounts centers on inflation. Companies
2 argue that the costs of materials and labor are steadily increasing, and that setting their expenses
3 based upon a known past amount, even a recent one, fails to take inflation into account. The
4 difficulty with this argument arises from the fact that the inflation of cost is not a steadily-increasing
5 amount, and is itself calculated using an average over time. Since inflation itself is not a known and
6 measurable figure, the most reliable approach to setting the Company's R&M expense amount is to
7 rely on what is known and measurable. An average of the Company's three most recent years of
8 R&M expense will provide the most reliable figure on which to base those expenses on a going
9 forward basis. Staff's R&M figure should be adopted.

10 **3. Water testing expense.**

11 Staff applied the same approach in arriving at an appropriate figure for water testing expenses.
12 The Company proposed using its actual test year figure of \$6,247. Staff disagrees. Staff believes
13 that water testing expenses, like R&M expenses, vary over time. They are best calculated by
14 normalizing the amounts over the past three years. Staff therefore recommended that Water Testing
15 expenses be increased to \$8,636⁴⁸ as reflected in Staff Schedule GTM-12.

16 **4. Insurance expense.**

17 When Staff reviewed the Company's application, Staff found that the Company had
18 misclassified \$10,304 of health and life insurance expenses into the General Liability account, as
19 opposed to its proper place in the Insurance – Health and Life account.⁴⁹ Staff's reclassification of
20 the funds is shown reflected in Staff Schedule GTM-13. The reclassification was purely clerical in
21 nature and had no impact on the Company's revenue requirement.⁵⁰

22 **5. Health and life insurance.**

23 During the test year, Valley recorded \$10,364 in payments to non-insurance companies, such
24 as medical offices, pharmacies, stipends paid to individuals, and credit card providers.⁵¹ In response
25 to Staff's data requests, the Company indicated that it did not have an employee benefits manual that
26

27 ⁴⁸ McMurry Direct, 16: 2-3.

⁴⁹ McMurry Direct, 16: 8-9.

28 ⁵⁰ McMurry Direct, 16: 10-11.

⁵¹ McMurry Direct, 16: 15-16.

1 could be used to determine what health costs are covered by the Company.⁵² However, the Company
2 did indicate that it had ceased paying medical benefits during the test year.⁵³ Thus, in Staff's opinion,
3 these costs are non-recurring and Staff recommends removing \$10,364 from the Insurance – Health
4 and Life expense account, as reflected in Staff Schedule GTM-14.⁵⁴

5 **6. Depreciation expense.**

6 The Company's application proposed to include the arsenic treatment facilities and Well No.
7 6 in rate base. For the reasons already discussed above, Staff disagreed. Staff continues to
8 recommend that the arsenic facilities not be placed in rate base. Regarding Well No. 6, however,
9 since the well has now been placed into service, Staff withdraws its objection to the well being
10 included in rate base. As a result, Staff continues to recommend that the depreciation expense related
11 to the arsenic treatment facilities be excluded from the Company's general depreciation expense
12 account. Staff withdraws its objection to the depreciation associated with Well No. 6 being included
13 in depreciation expense. These proposals are reflected in Staff Schedule GTM- 16.

14 **7. Property tax expense.**

15 In its application, Valley calculated Property Tax expense using a method employed by the
16 Arizona Department of Revenue – Centrally Valued Properties.⁵⁵ The method determines full cash
17 value by using twice the average of three years revenue, plus adjustments for Construction Work In
18 Progress and transportation equipment.⁵⁶ The formula calls for twice the average of three years of
19 revenue. The Company used the adjusted test year for its first two years, and for its third year used
20 the revenues produced by its proposed rates.⁵⁷ Using this methodology, the Company arrived at a
21 proposed \$38,647 for property tax expenses. Staff agrees with this methodology, but has
22 recommended a reduction of \$657 from the Company's proposed amount.

23 The difference between the two amounts arises from the differences in the proposed rates of
24 the third year. The Company proposed a 15 percent operating margin.⁵⁸ Staff proposed an operating

25 _____
26 ⁵² McMurry Direct, 16: 21-22.

⁵³ McMurry Direct, 16: 23-24.

⁵⁴ McMurry Direct, 16: 25- 17: 3.

⁵⁵ Bourassa Direct, 10: 20-21.

⁵⁶ Bourassa Direct, 10: 22-24.

⁵⁷ Bourassa Direct, 10: 24 – 11: 1.

⁵⁸ Bourassa Direct, 3: 17-20.

1 margin of 10 percent.⁵⁹ In addition, Staff has proposed several adjustments to the Company's
2 proposed revenue requirement. The differences between the parties regarding operating revenues
3 will in turn generate different property tax assessments.

4 If Staff's margin and revenue requirements are adopted, \$657 must be deducted from the
5 Company's proposed Property tax account, as reflected in Staff Schedule GTM-16.

6 **8. Income tax expense.**

7 In order to calculate income tax expense, it is necessary to first determine taxable income.
8 Synchronized interest is a deduction used for that purpose.⁶⁰ Synchronized interest is determined by
9 multiplying the weighted average cost of debt times the rate base.⁶¹ However, synchronized interest
10 is not meaningful with a negative rate base as recommended by Staff. Accordingly, Staff did not
11 include any interest in the calculation of its income tax expense of \$73,736.

12 In contrast, the Company used its annual projected interest expense for this purpose, which
13 results in an overstatement of operating income for the test year as well as associated interest expense
14 and an understatement of taxable income and Income Tax expense.⁶² As a result, the Company
15 arrived at a proposal of \$123,851.

16 Because the Company used the wrong methodology, the Company's proposal must be
17 reduced by \$13,564 as reflected in Staff Schedules GTM-2 and GTM-17.⁶³

18 a. Gross revenue conversion factor.

19 The purpose of a Gross Revenue Conversion Factor ("GRCF") is "to provide a mechanism for
20 determining the amount of additional revenue needed to increase the test year operating income to the
21 authorized amount."⁶⁴ For taxable entities, "the increase in revenue must exceed the difference
22 between the authorized and test year operating incomes because each increase in revenue results in a
23 corresponding increase in income tax expense."⁶⁵ The Company proposed a GRCF of 1.4840.⁶⁶ Staff
24

25 ⁵⁹ McMurry Direct, 5: 5-6.

26 ⁶⁰ McMurry Direct, 19: 13-14.

27 ⁶¹ McMurry Direct, 19: 14-15.

28 ⁶² McMurry Direct, 19: 19-22.

⁶³ McMurry Direct, 20: 9-10.

⁶⁴ McMurry Direct, 20: 19-21.

⁶⁵ McMurry Direct, 20, 21-23.

⁶⁶ Bourassa Direct, Schedule C-3, 1: 15.

1 disagreed with the Company's methodology, stating that it was "not calculated over the appropriate
2 range of taxable incomes."⁶⁷

3 The Company disagreed with Staff's assertions, stating that the Commission rules "do permit
4 alternative methods for computing the GRCF."⁶⁸ The Company acknowledged that, while the
5 approaches to calculating GRCF were different, both approaches had merit.⁶⁹

6 Therefore, Staff continues to recommend that the Commission adopt its proposed GRCF.

7 **9. Interest on security deposits.**

8 The Company's current tariffs allow for the collection of customer security deposits. When
9 those security deposits are due to be returned to customers, the Company's current tariff mandates
10 that the Company return the deposit along with 6 percent interest. The Company originally proposed
11 changing the interest to 3 percent. Staff disagrees. Staff continues to support the current interest
12 fee.⁷⁰

13 **C. Rate Design.**

14 The Company's present rate design consists of an inverted tier rate structure that includes
15 three tiers for the residential customers and two tiers for all others. The Company proposes to
16 continue this structure.

17 For residential customers, Staff recommends a three-tier inverted block rate structure for 5/8
18 x 3/4 -inch and 3/4 -inch meter customers with break-over points at 3,000 gallons and at 10,000 gallons.
19 Staff recommends a two-tier inverted block rate structure for commercial 5/8 x 3/4 -inch and 3/4 -inch
20 meter customers, and for all residential and commercial customers with 1-inch, 1.5-inch, 2-inch, 3-
21 inch, and 6-inch meters,⁷¹ as reflected in Staff's Final Schedule GTM-20.

22 Using Staff's recommended rate design, the monthly bill at any usage level is higher for a
23 larger meter than for a smaller meter, which will send the appropriate price signal to all customers for
24
25

26 ⁶⁷ McMurry Direct, 20: 25 – 21: 1.

27 ⁶⁸ Bourassa Rebuttal, 18: 11-12.

28 ⁶⁹ Bourassa Rebuttal, 18: 14.

⁷⁰ Transcript, 113: 24-25.

⁷¹ McMurry Direct, 34: 15-19.

1 all consumption.⁷² Staff believes its proposed rate design should be adopted because it recognizes the
2 growing importance of managing water as a finite resource⁷³ and encourages water conservation.

3 **1. Late fees.**

4 Currently, the Company's tariffs allow it to charge a fee of \$10.00 for late bill payments. The
5 Company proposed no change to this arrangement. Staff, however, does not agree. As a general
6 principle, Staff recommends that late bill payments be subject to a 1.5 percent late fee, and has
7 recommended the same in this matter.⁷⁴

8 While the Company has suggested that reducing the penalty for late payment simply
9 encourages customers to pay their bills late, Staff disagrees. In fact, Staff notes that the 1.5 percent
10 late fee is a typical fee industry-wide.⁷⁵ As such, Staff believes that the fee should remain consistent
11 with standard industry practice unless and until the Company demonstrates that there exists a reason
12 to deviate from the industry standard. The Company has not done so in this matter, and Staff
13 continues to support a late fee of 1.5 percent.

14 **D. Compliance With Commission Directives.**

15 In Decision 68308, Valley was ordered to institute operating policies to remove any all
16 transactions between Valley and its owners that were not "arm's length transactions".⁷⁶

17 Staff was directed to "carefully scrutinize" Valley's books in the next rate case to bring to the
18 Commission's attention any instances of transactions between Valley and its shareholders that were
19 not undertaken "at arm's length", including lease arrangements or personal expenses.⁷⁷ During its
20 inspection of the Company's rate application, Staff found two such transactions.⁷⁸

21 **1. Company's purchase of easement rights.**

22 As discussed above, the Company paid \$55,000 to Robert and Barbara Prince for easement
23 rights to the Bethany Hills West Well yard.⁷⁹ Mr. Prince's status as the President of Valley Utilities
24

25 ⁷² McMurry Direct, 34: 21-23.

26 ⁷³ McMurry Direct, 34: 6-7.

27 ⁷⁴ McMurry Rebuttal, Schedule GTM-18, 3; McMurry Final Schedule GTM-20, 3.

28 ⁷⁵ Transcript, 113: 7-8.

⁷⁶ Decision 68309, 27: 8-10.

⁷⁷ Id., 27: 11-16.

⁷⁸ McMurry Direct, 22:14.

⁷⁹ McMurry Direct, 22:21-22.

1 Water Company⁸⁰ results in a need to fully scrutinize the transaction in order to verify that it was fair
2 to the Company. Staff's primary concern regarding the transaction was the appropriateness of the
3 purchase price.⁸¹ While the absence of an independent appraisal of the purchase price causes Staff
4 some concern, no information suggests that the transaction price was unreasonable.⁸²

5 **2. Payment/reimbursement of medical expenses.**

6 As discussed above, Valley paid \$10,304 on behalf of its employees, including Robert and
7 Barbara Prince, for various medically-related expenses, such as office visits, prescriptions, and co-
8 payments. The Company has no written policies in place which establish medical benefits or which
9 inform employees as to what medical benefits may be available.⁸³ The Company does not publish an
10 employee benefits manual.⁸⁴

11 **3. Conclusion.**

12 While Staff is concerned that these transaction were not conducted at arm's length, there is no
13 indication that these transactions were improperly conducted, or that ratepayers were disadvantaged
14 by them. The easement transaction was a necessity, and since there is no information regarding the
15 market price of the easement at the time of the transaction, Staff can not conclude that the transaction
16 was inappropriate.

17 Likewise, the medical expenses do not appear to have been made inappropriately. *It should*
18 *be noted as well that the Company has stated that these payments will no longer be made in the*
19 *future. As such, Staff does not believe that the medical payments should be included in the revenue*
20 *requirement or rates going forward.*

21 **E. Contract with Central Arizona Project.**

22 The Company entered into a contract with the Central Arizona Project ("CAP") to purchase
23 250 acre feet of CAP water annually. In order to secure the CAP water reservation, the Company
24 could either make a one-time payment of \$163,000 or five annual payments of \$36,000,⁸⁵ including a
25

26 ⁸⁰ Prince Direct, 2: 7-8.

27 ⁸¹ McMurry Direct, 23: 2.

28 ⁸² McMurry Direct, 23: 8-11.

⁸³ McMurry Direct, 23: 21-22.

⁸⁴ McMurry Direct, 23: 22-24.

⁸⁵ McMurry Direct, 5: 22-24.

1 5.2 percent interest rate,⁸⁶ for a final cost of \$180,000.⁸⁷ The Company chose to finance the option
2 over five years.

3 Because the contract binds the Company to payments extending longer than one year, the
4 Hearing Division requested that Staff provide its opinion as to whether the contract represents entry
5 into long-term debt, for which the Company would need to seek Commission approval.

6 Staff has reviewed the contract and its terms, and Staff does believe that the agreement has
7 certain aspects which are representative of long-term debt. Staff would note, however, that this same
8 issue came to light within the context of the case of Community Water of Green Valley. In that
9 matter, the Commission Directed the company to file an application, seeking an adjudication as to
10 whether or not such a contract would in fact require the Company to seek Commission approval.
11 That matter has not yet been adjudicated.

12 In the instant matter, Staff recommends that the Hearing Division wait until the Community
13 Water mater has been settled, as it will provide guidance as to how to proceed in this matter. If the
14 Commission concludes in Community Water that Commission approval is required in order to enter
15 into CAP water agreements, then the Hearing Division should order Valley to file such an application
16 at that time.

17 **III. CONCLUSION.**

18 Staff believes that its proposals represent sound public policy and the best interests of Arizona
19 ratepayers and should be adopted as illustrated.

20 RESPECTFULLY SUBMITTED this 13th day of October, 2009.

21
22 
23 Kevin O. Torrey, SBN #022300
24 Attorney, Legal Division
25 Arizona Corporation Commission
26 1200 West Washington Street
27 Phoenix, Arizona 85007
28 (602) 542-3402

⁸⁶ McMurry Direct, 6: 3-4.

⁸⁷ McMurry Direct, 5: 22-24.

1 Original and thirteen (13) copies
2 of the foregoing were filed this
3 13th day of October, 2009 with:

4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 Copy of the foregoing mailed/emailed this
9 13th day of October, 2009 to:

10 Patrick J. Black
11 FENNEMORE CRAIG, P.C.
12 3003 North Central Avenue, Suite 2600
13 Phoenix, Arizona 85012
14 Attorney for Valley Utilities Water Company, Inc.

15
16
17
18
19
20
21
22
23
24
25
26
27
28


ATTACHMENT 1

STAFF'S FINAL SCHEDULES

FINAL TESTIMONY OF Gary T. McMurry

TABLE OF CONTENTS TO SCHEDULES

SCH # TITLE

RATE BASE ADJUSTMENTS

- GTM-5 ORIGINAL COST RATE BASE ADJUSTMENT # 1 - EASEMENT RECLASSIFICATION AND DISALLOWANCE
- GTM-6 ORIGINAL COST RATE BASE ADJUSTMENT # 2 - WELL No. 6
- GTM-7 ORIGINAL COST RATE BASE ADJUSTMENT # 3 REMOVE WATER TREATMENT PLANT & ARSENIC MEDIA

OPERATING INCOME ADJUSTMENTS

- GTM-10 OPERATING INCOME ADJUSTMENT # 1 - REVENUE ANNUALIZATION
- GTM-11 OPERATING INCOME ADJUSTMENT # 2 - PURCHASED POWER ADJUSTMENT
- GTM-12 OPERATING INCOME ADJUSTMENT # 3 - NORMALIZATION OF REPAIRS AND MAINTENANCE
- GTM-13 OPERATING INCOME ADJUSTMENT # 4 - WATER TESTING EXPENSE
- GTM-14 OPERATING INCOME ADJUSTMENT # 5 - RECLASSIFY INSURANCE EXPENSE
- GTM-15 OPERATING INCOME ADJUSTMENT # 6 - NON-RECURRING HEALTH AND LIFE INSURANCE
- GTM-16 OPERATING INCOME ADJUSTMENT # 7 - DEPRECIATION EXPENSE
- GTM-17 OPERATING INCOME ADJUSTMENT # 8 - INTEREST ON SECURITY DEPOSITS
- GTM-18 OPERATING INCOME ADJUSTMENT # 9 - PROPERTY TAXES
- GTM-19 OPERATING INCOME ADJUSTMENT # 10 - INCOME TAXES

Adjustment explanation	Direct	Testimony	
		Surrebuttal	Final
EASEMENT RECLASSIFICATION	GTM-5	removed ¹	
EASEMENT RECLASSIFICATION & DISALLOWANCE		GTM-5	GTM-5
UNSUCCESSFUL, NON-USED & USEFUL WELL	GTM-6	title change ²	
WELL NO. SIX		GTM-6	GTM-6
REMOVE WATER TREATMENT PLANT	GTM-7	no change	no change
REVENUE ANNUALIZATION	GTM-10	no change	no change
PURCHASED POWER ADJUSTMENT		N/A ³	GTM-11
NORMALIZATION OF REPAIRS & MAINTENANCE	GTM-11	no change	GTM-12
WATER TESTING EXPENSE	GTM-12	no change	GTM-13
RECLASSIFY INSURANCE EXPENSE	GTM-13	no change	GTM-14
NON-RECURRING HEALTH & LIFE EXPENSE	GTM-14	no change	GTM-15
DEPRECIATION EXPENSE	GTM-15	no change	GTM-16
INTEREST ON SECURITY DEPOSITS		N/A ³	GTM-17
PROPERTY TAXES	GTM-16	no change	GTM-18
INCOME TAXES	GTM-17	no change	GTM-19

¹ Adjustment became Easement Reclassification & Disallowance
² Title was changed to more accurately reflect adjustment
³ Adjustments agreed to as a result of September 15, 2009 hearing

VALLEY UTILITIES WATER COMPANY, INC

Docket No. W-0412A-08-0586

Test Year ended June 30, 2008

FINAL TESTIMONY OF Gary T. McMurry

TABLE OF CONTENTS TO SCHEDULES

<u>SCH #</u>	<u>TITLE</u>
GTM-1	REVENUE REQUIREMENT
GTM-2	GROSS REVENUE CONVERSION FACTOR
GTM-3	RATE BASE - ORIGINAL COST
GTM-4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GTM-5	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - EASEMENT RECLASSIFICATION AND DISALLOWANCE
GTM-6	ORIGINAL COST RATE BASE ADJUSTMENT # 2 - WELL No. 6
GTM-7	ORIGINAL COST RATE BASE ADJUSTMENT # 3 REMOVE WATER TREATMENT PLANT & ARSENIC MEDIA
GTM-8	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED
GTM-9	SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR
GTM-10	OPERATING INCOME ADJUSTMENT # 1 - REVENUE ANNUALIZATION
GTM-11	OPERATING INCOME ADJUSTMENT # 2 - PURCHASED POWER ADJUSTMENT
GTM-12	OPERATING INCOME ADJUSTMENT # 3 - NORMALIZATION OF REPAIRS AND MAINTENANCE
GTM-13	OPERATING INCOME ADJUSTMENT # 4 - WATER TESTING EXPENSE
GTM-14	OPERATING INCOME ADJUSTMENT # 5 - RECLASSIFY INSURANCE EXPENSE
GTM-15	OPERATING INCOME ADJUSTMENT # 6 - NON-RECURRING HEALTH AND LIFE INSURANCE
GTM-16	OPERATING INCOME ADJUSTMENT # 7 - DEPRECIATION EXPENSE
GTM-17	OPERATING INCOME ADJUSTMENT # 8 - INTEREST ON SECURITY DEPOSITS
GTM-18	OPERATING INCOME ADJUSTMENT # 9 - PROPERTY TAXES
GTM-19	OPERATING INCOME ADJUSTMENT # 10 - INCOME TAXES
GTM-20	RATE DESIGN
GTM-21	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	\$ (162,890)	\$ (162,890)	\$ (162,890)
2	Adjusted Operating Income (Loss)	\$ 12,012	\$ 12,012	\$ 12,012	\$ 48,936	\$ 48,936	\$ 48,936
3	Current Rate of Return (L2 / L1)	0.69%	0.69%	0.69%	-30.04%	-30.04%	-30.04%
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	\$ 135,479	\$ 135,479	\$ 135,479
7	Operating Income Deficiency (L5 - L2)	\$ 217,962	\$ 217,962	\$ 217,962	\$ 86,542	\$ 86,542	\$ 86,542
8	Gross Revenue Conversion Factor	1.4840	1.4840	1.4840	1.7072	1.7072	1.7072
9	Required Revenue Increase (L7 * L6)	\$ 323,456	\$ 323,456	\$ 323,456	\$ 147,741	\$ 147,741	\$ 147,741
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	\$ 1,354,785	\$ 1,354,785	\$ 1,354,785
12	Required Increase in Revenue (%)	26.80%	26.80%	26.80%	12.24%	12.24%	12.24%
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)	41.4230%			
5	Subtotal (L3 - L4)	58.5770%			
6	Revenue Conversion Factor (L1 / L5)	1.70715511			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	40.8240%			
9	One Minus Combined Income Tax Rate (L7 - L8)	59.1760%			
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)	36.3918%			
16	Effective Federal Income Tax Rate (L14 x L15)	0.338560187			
17	Combined Federal and State Income Tax Rate (L13 +L16)	40.8240%			
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	40.8240%			
20	One Minus Combined Income Tax Rate (L18 - L19)	59.1760%			
21	Property Tax Factor (GTM-18, L24)	1.0122%			
22	Effective Property Tax Factor (L21 * L22)	0.5980%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		41.4230%		
24	Required Operating Income (Schedule GTM-1, Line 5)	\$ 135,479			
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-10, Line 40)	\$ 48,936			
26	Required Increase in Operating Income (L24 - L25)		\$ 86,542		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 73,736			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ 14,033			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 59,703		
30	Recommended Revenue Requirement (Schedule GTM-1, Line 10)	\$ 1,354,785			
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)	\$ 39,582			
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)		\$ 1,495		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		\$ 147,741		
<u>Calculation of Income Tax:</u>					
		Test Year		STAFF Recommended	
39	Revenue (Schedule GTM-10, Col.(C), Line 5 & Sch. GTM-1, Col. (B), Line 10)	\$ 1,207,044		\$ 1,354,785	
40	Operating Expenses Excluding Income Taxes	\$ 1,144,075		\$ 1,145,570	
41	Synchronized Interest (L47)	\$ -		\$ -	
42	Arizona Taxable Income (L36 - L37- L38)	\$ 62,969		\$ 209,215	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L39 x L40)		\$ 4,388		\$ 14,578
45	Federal Taxable Income (L33 - L35)	\$ 58,581		\$ 194,637	
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%	\$ 2,145		\$ 6,250	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ 38,908	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax		\$ 9,645		\$ 59,158
52	Combined Federal and State Income Tax (L35 + L42)		\$ 14,033		\$ 73,736
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				36.39%
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule GTM-3, Col. (C), Line (17))	\$ (162,890)			
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	\$ (1,904,081)	\$ 6,692,789
2	Less: Accumulated Depreciation	2,051,031	-	2,051,031
3	Net Plant in Service	<u>\$ 6,545,839</u>	<u>\$ (1,904,081)</u>	<u>\$ 4,641,758</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>\$ (1,904,081)</u>	<u>\$ (162,890)</u>

References:

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

VALLEY UTILITIES WATER COMPANY, INC
 Docket No. W-0412A-0B-0586
 Test Year ended June 30, 2008

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	-	-	-	-	-	-	-
3	303	Land and Land Rights	448,196	-	-	-	-	-	448,196
4	304	Structures and Improvements	17,167	-	-	-	-	-	17,167
5	305	Collecting and Impounding Res.	-	-	-	-	-	-	6,137
6	306	Lake River and other Intakes	-	-	-	-	-	-	-
7	307	Wells and Springs	1,397,717	-	15,882	-	-	-	1,413,599
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
19	339	Other Plant & Miscellaneous Equipment	1,237	-	-	-	-	-	66,856
20	340	Office Furniture & Fixtures	66,856	-	-	-	-	-	86,026
21	341	Transportation Equipment	88,026	-	-	-	-	-	-
22	342	Stones Equipment	-	-	-	-	-	-	38,585
23	343	Tools and Work Equipment	38,585	-	-	-	-	-	-
24	344	Laboratory Equipment	-	-	-	-	-	-	5,930
25	345	Power Operated Equipment	5,930	-	-	-	-	-	-
26	346	Communications Equipment	-	-	-	-	-	-	20,000
27	347	Miscellaneous Equipment	20,000	-	-	-	-	-	4,237
28	348	Other Tangible Plant	4,237	-	-	(100,000)	-	-	-
29	348	Other Tangible Plant Arsenic Media	100,000	-	-	-	-	-	-
30		Rounding Amount	1	-	-	-	-	-	1
31		Subtotal Plant in Service	\$ 8,596,870	\$ (55,000)	\$ 15,882	\$ (1,871,100)	\$ -	\$ -	\$ 6,692,789
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)	\$ -	\$ -	\$ 6,692,789
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)	\$ -	\$ -	\$ 4,641,759
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)	\$ -	\$ -	\$ (162,890)

References:
 Column (A) Schedule B-2

VALLEY UTILITIES WATER COMPANY, INC

Docket No. W-0412A-08-0586

Test Year ended June 30, 2008

Final Schedule GTM-5

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

<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	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]

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

Final 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
 Docket No. W-0412A-08-0586
 Test Year ended June 30, 2008

Final Schedule GTM-7

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

LINE NO.	Account Number	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
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]

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	\$ 168,031 ¹	\$ 1,329,609
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	45,466	-	45,466	(20,290) ¹	25,176
5	Total Operating Revenues	\$ 1,209,704	\$ (2,660)	\$ 1,207,044	\$ 147,741	\$ 1,354,785
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	18,524 ²	155,487	-	155,487
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	(121,674)	191,844	-	191,844
27	Interest on Security Deposits	-	6,137 ³	6,137	-	6,137
28	Taxes other than Income	29,351	-	29,351	-	29,351
29	Property Taxes	39,304	(1,217)	38,087	1,495	39,582
30	Income Tax	(54,130)	68,163	14,033	59,703	73,736
31	Total Operating Expenses	\$ 1,197,692	\$ (39,584)	\$ 1,158,108	\$ 61,199	\$ 1,219,307
32						
33	Operating Income	12,012	36,924	48,936	86,542	135,478

¹ Transfers \$22,950 from Other Water Revenues to Metered Water Revenues to recognize Staff's recommendation to modify the Late Fee from \$ 10.00 to 1.5 percent of the unpaid balance, a net change of \$9.00 for each of the 2,550 test year late fee occurrences. (i.e. 22,950 - 2,660 = 20,290).

² To recognize a known and measurable \$18,524 increase in purchased power due to a rate increase by the Company's power supplier APS.

³ To reclassify the \$6,137 of interest expense incurred by the Company on customer security deposits during the test year from a non-operating (below the line) expense to an operating expense.

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
 Docket No. W-0412A-08-0586
 Test Year ended June 30, 2008

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) GTM-10 Revaluation ADJ.#1	(C) GTM-11 Purchased Power ADJ.#2	(D) GTM-12 Repair & Maintenance ADJ.#3	(E) GTM-13 Water Testing ADJ.#4	(F) GTM-14 Liability Insurance ADJ.#5	(G) GTM-15 Health & Life Ins ADJ.#6	(H) GTM-16 Depreciation ADJ.#7	(I) GTM-17 Interest on Deposit ADJ.#8	(J) GTM-18 Property Taxes ADJ.#9	(K) GTM-19 Income Taxes ADJ.#10	(L) STAFF ADJUSTED
1	Operating Revenues:												
2	Metered Water Revenues	\$ 1,164,238	\$ (2,680)										\$ 1,161,558
3	Unmetered Water Revenues	45,466											45,466
4	Other Water Revenues												
5	Total Operating Revenues	\$ 1,209,704	\$ (2,680)										\$ 1,207,024
6	Operating Expenses:												
7	Salaries and Wages	\$ 355,559											355,559
8	Employee Pensions & Benefits	5,343											5,343
9	Purchased Water	4,357											4,357
10	Purchased Power	130,963		18,524									155,487
11	Chemicals	7,249											7,249
12	Repairs and Maintenance	14,210			(1,542)								12,668
13	Office Supplies and Expense	10,006											10,006
14	Outside Services	31,734			2,389								34,123
15	Water Testing												
16	Rents	56,601											56,601
17	Transportation Expenses	25,266											25,266
18	Insurance - General Liability	39,013					(10,304)						28,709
19	Insurance - Health and Life	84,657					10,304						84,577
20	Advertising												
21	Regulatory Comm Expense - Rate Case	40,000											40,000
22	Regulatory Comm Expense - Other	15,656											15,656
23	Bad Debt Expense	228											228
24	Miscellaneous Expense	42,327											42,327
25	Depreciation and Amortization	313,518						(121,674)					191,844
26	Interest on Security Deposits	29,351							6,137				29,351
27	Taxes other than Income	39,304									(1,217)		38,087
28	Property Taxes												
29	Income Tax												
30	Total Operating Expenses	\$ 1,197,892	\$ (2,680)	\$ 18,524	\$ (1,542)	\$ 2,389	\$ (10,364)	\$ (121,674)	\$ 6,137	\$ (1,217)	\$ (6,137)	\$ 68,163	\$ 1,158,108
31	Operating Income	\$ 12,012	\$ (2,680)	\$ (18,524)	\$ 1,542	\$ (2,389)	\$ 10,364	\$ 121,674	\$ (1,217)	\$ 1,217	\$ (6,137)	\$ (68,163)	\$ 48,896

OPERATING INCOME ADJUSTMENT # 1 - REVENUE ANNUALIZATION

LINE NO.	DESCRIPTION	[A] COMPANY <u>PROPOSED</u>	[B] STAFF <u>ADJUSTMENTS</u>	[C] STAFF <u>RECOMMENDED</u>
1	Revenue Annualization	\$ (21,877)	\$ (2,660)	\$ (24,537)
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14	<u>References:</u>			
15	Col [A]: Company Schedule C-1 Page 3			
16	Col [B]: GTM Testimony			
17	Col [C]: Col. [A] + Col. [B]			

VALLEY UTILITIES WATER COMPANY, INC

Final Schedule GTM-11

Docket No. W-0412A-08-0586

Test Year ended June 30, 2008

OPERATING INCOME ADJUSTMENT # 2 - PURCHASED POWER ADJUSTMENT

<u>LINE</u> <u>NO.</u>	<u>Account</u> <u>Number</u>	<u>DESCRIPTION</u>	<u>[A]</u> <u>COMPANY</u> <u>PROPOSED</u>	<u>[B]</u> <u>STAFF</u> <u>ADJUSTMENTS</u>	<u>[C]</u> <u>STAFF</u> <u>RECOMMENDED</u>
1		Purchased Power	<u>\$ 136,963</u>	<u>\$ 18,524</u>	<u>\$ 155,487</u>

References:

Col [A]: Company Schedule B-1

Col [B]: GTM Testimony

Col [C]: Col. [A] + Col. [B]

To recognize a known and measurable \$18,524 increase in purchased power due to a rate increase by the Company's power supplier APS.

OPERATING INCOME ADJUSTMENT # 3 - 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]			

VALLEY UTILITIES WATER COMPANY, INC

Final Schedule GTM-13

Docket No. W-0412A-08-0586

Test Year ended June 30, 2008

OPERATING INCOME ADJUSTMENT # 4 - 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]

VALLEY UTILITIES WATER COMPANY, INC

Final Schedule GTM-14

Docket No. W-0412A-08-0586

Test Year ended June 30, 2008

OPERATING INCOME ADJUSTMENT # 5 - RECLASSIFY INSURANCE EXPENSE

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
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>
4				
5				
6				
7				
8				
9				
10				

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 # 6 - 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 # 7 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Operating Income	\$ 313,518	\$ (121,674)	\$ 191,844

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.	-	6,137	2.50%	153
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	\$ 6,692,788		\$ 243,412
32		Less: Non- depreciable Account(s)	448,196	448,196		
33		Depreciable Plant (L29-L30)	\$ 8,148,673	\$ 6,244,592		
34		Contributions-in-Aid-of-Construction (CIAC)			\$ 1,322,934	
35		Composite Depreciation/Amortization Rate			3.8980%	
36		Less: Amortization of CIAC (L32 x L33)				\$ 51,567
37		Depreciation Expense - STAFF [Col. (C), L29 - L34]				\$ 191,844

VALLEY UTILITIES WATER COMPANY, INC

Final Schedule GTM-17

Docket No. W-0412A-08-0586

Test Year ended June 30, 2008

OPERATING INCOME ADJUSTMENT # 8 - INTEREST ON SECURITY DEPOSITS

<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		Interest on Security Deposits	<u>\$ -</u>	<u>\$ 6,137</u>	<u>\$ 6,137</u>

References:

Col [A]: Company Schedule B-1

Col [B]: Column [C] - Column [A]

Col [C]: Schedule GTM-2

To reclassify the \$6,137 of interest expense incurred by the Company on customer security deposits during the test year from a non-operating (below the line) expense to an operating expense.

OPERATING INCOME ADJUSTMENT # 9 - 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	1,354,785
4b	Staff Recommended Revenue, Per Schedule GTM-1		
5	Subtotal (Line 4 + Line 5)	\$ 3,621,132	\$ 3,768,873
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 1,207,044	\$ 1,256,291
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 2,414,088	\$ 2,512,582
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	\$ 2,606,933
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	526,772	\$ 547,456
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)		\$ 39,582
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 38,087
21	Increase/(Decrease) to Property Tax Expense		\$ 1,495
22	Decrease to Property Tax Expense		\$ 1,495
23	Increase in Revenue Requirement		147,741
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

OPERATING INCOME ADJUSTMENT # 10 - 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>\$ 68,163</u>	<u>\$ 14,033</u>
2				
3				
4				
5				
6				
7				
8				
9				
10				
11	<u>References:</u>			
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	\$ 18.80
1" Meter - All Classes	\$ 28.10	\$ 35.86	\$ 31.00
1½" Meter - All Classes	\$ 56.21	\$ 71.72	\$ 63.00
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	\$ 313.00
6" Meter - All Classes	\$ 562.10	\$ 717.24	\$ 625.00
3" Construction	\$ 179.87	\$ 229.51	N/A
Commodity Rates			
5/8" Meter (Residential)			
From 1 to 3,000 Gallons	\$ 1.50	\$ 1.91	\$ 1.50
From 3,001 to 10,000 Gallons	\$ 2.31	\$ 2.95	\$ 2.50
Over 10,000 Gallons	\$ 2.53	\$ 3.23	\$ 3.20
3/4" Meter (Residential)			
From 1 to 3,000 Gallons	\$ 1.50	\$ 1.91	\$ 1.50
From 3,001 to 10,000 Gallons	\$ 2.31	\$ 2.95	\$ 2.50
Over 10,000 Gallons	\$ 2.53	\$ 3.23	\$ 3.20
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 25,000 Gallons	N/A	N/A	\$ 2.50
Over 25,000 Gallons	N/A	N/A	\$ 3.20
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	\$ 2.50
Over 10,000 Gallons	N/A	N/A	\$ 3.20

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	\$ 2.50
Over 10,000 Gallons			N/A		N/A	\$ 3.20
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 25,000 Gallons			N/A		N/A	\$ 2.50
Over 25,000 Gallons			N/A		N/A	\$ 3.20
1 1/2" 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 60,000 Gallons			N/A		N/A	\$ 2.50
Over 60,000 Gallons			N/A		N/A	\$ 3.20
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 100,000 Gallons			N/A		N/A	\$ 2.50
Over 100,000 Gallons			N/A		N/A	\$ 3.20
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 225,000 Gallons			N/A		N/A	\$ 2.50
Over 225,000 Gallons			N/A		N/A	\$ 3.20
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 365,000 Gallons			N/A		N/A	\$ 2.50
Over 365,000 Gallons			N/A		N/A	\$ 3.20
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 775,000 Gallons			N/A		N/A	\$ 2.50
Over 775,000 Gallons			N/A		N/A	\$ 3.20
3" Construction	(Res., Comm.)					
All Gallons		\$	3.02	\$	3.23	\$ 3.20

Service Line and Meter Installation Charges	Present	Co. Proposed			Staff Recommended		
	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	\$ 27.94	\$ 2.09	8.09%
Median Usage	5,500	21.52	23.25	\$ 1.74	8.06%

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%	19.50	8.03%
5,000	20.36	25.97	27.55%	22.00	8.06%
5,500	21.52	27.45	27.56%	23.25	8.06%
6,000	22.67	28.92	27.57%	24.50	8.07%
7,000	24.98	31.87	27.58%	27.00	8.09%
7,376	25.85	32.98	27.59%	27.94	8.09%
8,000	27.29	34.82	27.59%	29.50	8.10%
9,000	29.60	37.77	27.60%	32.00	8.11%
10,000	31.91	40.72	27.61%	34.50	8.12%
11,000	34.44	43.95	27.61%	37.70	9.47%
12,000	36.97	47.18	27.62%	40.90	10.63%
13,000	39.50	50.41	27.62%	44.10	11.65%
14,000	42.03	53.64	27.62%	47.30	12.54%
15,000	44.56	56.87	27.63%	50.50	13.33%
16,000	47.09	60.10	27.63%	53.70	14.04%
17,000	49.62	63.33	27.63%	56.90	14.67%
18,000	52.15	66.56	27.63%	60.10	15.24%
19,000	54.68	69.79	27.63%	63.30	15.76%
20,000	57.21	73.02	27.64%	66.50	16.24%
25,000	69.86	89.17	27.64%	82.50	18.09%
30,000	82.51	105.32	27.65%	98.50	19.38%
35,000	95.16	121.47	27.65%	114.50	20.32%
40,000	107.81	137.62	27.65%	130.50	21.05%
45,000	120.46	153.77	27.65%	146.50	21.62%
50,000	133.11	169.92	27.65%	162.50	22.08%
75,000	196.36	250.67	27.66%	242.50	23.50%
100,000	259.61	331.42	27.66%	322.50	24.22%