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BEFORE THE ARIZONA CORPORATION COMMISSION

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2 **COMMISSIONERS**

- 3 KRISTIN K. MAYES - Chairman
- 4 GARY PIERCE
- 5 PAUL NEWMAN
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2010 APR -1 A 10: 56

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

6 IN THE MATTER OF THE APPLICATION OF
7 THE ESTATE OF WILLIAM F. RANDALL
8 DBA VALLE VERDE WATER COMPANY
9 FOR AN INCREASE IN ITS WATER RATES.

DOCKET NO. W-01431A-09-0360

10 IN THE MATTER OF THE APPLICATION OF
11 THE ESTATE OF WILLIAM F. RANDALL
12 DBA VALLE VERDE WATER COMPANY
13 FOR AUTHORITY TO INCUR LONG-TERM
14 DEBT.

DOCKET NO. W-01431A-09-0361

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

12 Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimony
13 of Pedro M. Chaves and Dorothy M. Hains in the above docket.

14 RESPECTFULLY SUBMITTED this 1st day of April, 2010.

16 Charles H. Hains, Attorney
17 Legal Division
18 Arizona Corporation Commission
19 1200 West Washington Street
20 Phoenix, Arizona 85007
21 (602) 542-3402

19 Original and thirteen (15) copies
20 of the foregoing filed this
21 1st day of April, 2010 with:

21 Docket Control
22 Arizona Corporation Commission
23 1200 West Washington Street
24 Phoenix, Arizona 85007

24 Copy of the foregoing mailed this
25 1st day of April, 2010 to:

25 Steve Wene
26 MOYES SELLERS & SIMS LTD.
27 1850 North Central Avenue
28 Suite 1100
Phoenix, Arizona 85004

Arizona Corporation Commission
DOCKETED

APR -1 2010

DOCKETED BY

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) DOCKET NO. W-01431A-09-0360
THE ESTATE OF WILLIAM F. RANDALL)
DBA VALLE VERDE WATER COMPANY FOR)
APPROVAL OF AN INCREASE IN ITS WATER)
RATES AND THE APPLICATION OF THE)
ESTATE OF WILLIAM F. RANDALL DBA)
VALLE VERDE WATER COMPANY FOR)
AUTHORITY TO INCUR LONG-TERM DEBT)
_____) DOCKET NO. W-01431A-09-0361

SURREBUTTAL

TESTIMONY

OF

PEDRO M. CHAVES

PUBLIC UTILITIES ANALYST III

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

APRIL 1, 2010

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**EXECUTIVE SUMMARY
VALLE VERDE WATER COMPANY
DOCKET NOS. W-01431A-09-0360, ET AL**

The Surrebuttal Testimony of Staff witness Pedro M. Chaves addresses the following issues:

Revenue Requirement

Staff recommends a \$285,070 increase in operating revenues, from \$276,656, to \$561,726, as reflected in Surrebuttal Schedule PMC-1, which results in an operating margin of 10.20 percent, or \$57,295.

Rate Base

Staff recommends a negative \$598,836 rate base as presented in Surrebuttal Schedules PMC-2 and PMC-3. Staff continues to recommend the adjustments to rate base presented in its Direct Testimony, and duplicated in Surrebuttal Schedules PMC-4 and PMC-5.

Income Statement

Staff continues to recommend the income statement adjustments presented in its Direct Testimony, and duplicated in Surrebuttal Schedules PMC-6 through PMC-12.

Rate Design

Staff updated its rate design Schedules to correct for an error. Staff continues to recommend the rate structure presented in its Direct Testimony. Staff's rate design is presented in Surrebuttal Schedule PMC-13.

1 **I. INTRODUCTION**

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

3 A. My name is Pedro M. Chaves. I am a Public Utilities Analyst employed by the Arizona
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff").
5 My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Are you the same Pedro M. Chaves that filed Direct Testimony in this case?**

8 A. Yes, I am.
9

10 **Q. What matters are addressed in your Surrebuttal Testimony?**

11 A. This Surrebuttal Testimony addresses comments contained in the Rebuttal Testimony of
12 Valle Verde Water Company's ("Valle Verde") witness Ms. Sonn Rowell. Staff also
13 presents updated Schedules (Surrebuttal Schedules PMC-1 through PMC-15).
14

15 **Q. Please explain how Staff's Surrebuttal Testimony is organized.**

16 A. Staff's Surrebuttal Testimony is presented in six sections. Section I is this introduction.
17 Section II discusses the revenue requirement recommendation. Section III discusses
18 Staff's rate base. Section IV discusses Staff's operating income. Section V discusses
19 updates to the financing application. Lastly, Section VI discusses Staff's rate design.
20

21 **II. REVENUE REQUIREMENT**

22 **Q. Does Staff continue to recommend the same revenue requirement as in its Direct
23 Testimony?**

24 A. Yes. Staff continues to recommend a \$285,070 increase in operating revenues, from
25 \$276,656, to \$561,726, as reflected in Surrebuttal Schedule PMC-1, which results in an
26 operating margin of 10.20 percent, or \$57,295.

1 **III. RATE BASE**

2 **Q. Does Staff continue to recommend the entire rate base adjustments presented in**
3 **Direct Testimony?**

4 A. Yes. Staff continues to recommend the adjustments to rate base presented in its Direct
5 Testimony, and duplicated in Surrebuttal Schedules PMC-4 and PMC-5.

6
7 **Q. Please summarize Staff's rate base recommendation.**

8 A. Staff recommends a negative \$598,836 for rate base, a \$1,115,683 reduction from the
9 Company's proposed \$516,847 rate base, as shown in Surrebuttal Schedules PMC-2 and
10 PMC-3.

11
12 **IV. OPERATING INCOME**

13 **Q. Does Staff continue to recommend all of the operating income adjustments presented**
14 **in its Direct Testimony?**

15 A. Yes. Staff continues to recommend the operating income adjustments presented in its
16 Direct Testimony, and duplicated in Surrebuttal Schedules PMC-8 through PMC-12

17
18 **Q. Does Staff have any comments on Valle Verde's assessment that "Staff's complete**
19 **disallowance of \$187,158 for Purchased Water during the Test Year is**
20 **inappropriate"**¹ ?

21 A. Yes. The Company proposes recovery of the cost of the test year purchased water via a
22 10-year amortization period. As indicated by Staff in its Direct Testimony, Commission
23 Decision No. 70098, dated December 21, 2007, approved an emergency interim surcharge
24 to all customers of \$1.73 per 1,000 gallons for the purpose of recovering the cost of
25 purchased water. Thus, the Company has already recovered the test year cost of

¹ Rebuttal Testimony of Ms. Sonn Rowell, page 3.

1 purchased water from ratepayers. Ratepayers should not be required to pay again for the
2 test year purchased water cost just because the Company has not paid the water supplier.
3 Further, the Company also will continue to recover water hauling costs as long as the
4 surcharge remains authorized. Staff recommends retaining the surcharge until rates are
5 established in this rate case; therefore, the disallowance of \$187,158 for purchase water
6 during the test year is appropriate.
7

8 **V. FINANCING APPLICATION**

9 **Q. Did Valle Verde update its financing application?**

10 A. Yes. Since Staff recommended that the Company construct a 175,000-gallon storage tank,
11 Valle Verde requests to increase the debt authorization to include the cost of the 175,000-
12 gallon storage tank.
13

14 **Q. What is the cost of a 175,000-gallon storage tank?**

15 A. Staff estimates the cost of a 175,000-gallon storage tank at approximately \$214,760.
16 Valle Verde estimates the cost of a 175,000-gallon storage tank at \$250,460.
17

18 **Q. What does Staff recommend after reviewing the Company's rebuttal pertaining to
19 the financing application?**

20 A. Staff recommends that the Commission authorize Valle Verde to incur an 18-to-22-year
21 amortizing loan from WIFA for an amount not to exceed \$1,278,238 (\$1,063,478 +
22 \$214,760) to finance water system improvements specified in its application, including the
23 purchase of a centralized arsenic treatment facility and a 175,000-gallon storage tank.

1 **Q. Did Staff update its pro forma cash flow calculation to reflect the increase in the**
2 **recommended loan amount to allow for the cost of the new storage tank?**

3 A. Yes, Staff updated its pro forma cash flow, in Surrebuttal Schedule PMC-6, to reflect
4 interest expense and repayment of principal inclusive of the new storage tank. The revised
5 cash flow analysis shows that Valle Verde will have adequate cash flow to meet the debt
6 service obligations with Staff's recommended revenue.

7
8 **Q. If the Commission were to approve the Company's \$250,460 loan request for the**
9 **175,000-gallon storage tank, would Valle Verde have adequate cash flow to meet the**
10 **debt service obligations with Staff's recommended revenue?**

11 A. Yes.

12
13 **Q. Does Staff have any other concerns regarding financing matters?**

14 A. Yes. During the discovery process, Staff became aware of an unauthorized debt issuance.
15 Specifically, on February 25, 2008, Valle Verde obtained a \$15,238, 60-month, 7.14
16 percent loan from Citizens Automobile Finance to acquire a truck. The current balance of
17 the loan is approximately \$9,800.

18
19 **Q. Is Valle Verde still required to request authorization of the loan?**

20 A. Yes. A.R.S. § 40-302 states, in relevant part:

21
22 Before a public service corporation issues stocks and stock
23 certificates, bonds, notes and other evidences of indebtedness, it
24 shall first secure from the commission an order authorizing such
25 issue and stating the amount thereof, the purposes to which the issue
26 or proceeds thereof are to be applied, and that, in the opinion of the
27 commission, the issue is reasonably necessary or appropriate for the
28 purposes specified in the order, pursuant to section 40-301....

29

1 Staff concludes that the Company should request Commission authorization pertaining to
2 the truck loan in accordance with A.R.S. §§ 40-301 and 40-302.

3

4 **VI. RATE DESIGN**

5 **Q. Has Staff updated the rate design recommended in its Direct Testimony?**

6 A. Yes. Although Staff's recommended rate structure remains analogous to the one
7 recommended in its Direct Testimony, Staff corrected an error in its work papers that
8 resulted in a rate design that produced less than the recommended revenue. Staff's
9 updated rate design is presented in Surrebuttal Schedule PMC-13.

10

11 **Q. Did Staff update its Typical Bill Analysis Schedules?**

12 A. Yes. Staff's updated the Typical Bill Analyses for both 5/8-inch meters and 3/4-inch
13 meters are presented on Surrebuttal Schedules PMC-14 and PMC-15, respectively.

14

15 **Q. Does this conclude your Surrebuttal Testimony?**

16 A. Yes, it does.

Valle Verde Water Company

Docket No. W-01431A-09-0360, et al

Test Year Ended December 31, 2008

SURREBUTTAL TESTIMONY OF PEDRO M. CHAVES

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REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY ORIGINAL COST</u>	<u>[B] STAFF ORIGINAL COST</u>
1	Fair Value Rate Base	\$ 516,847	\$ (598,836)
2	Adjusted Operating Income/(Loss)	\$ (301,837)	\$ (225,357)
3	Current Rate of Return (L2 / L1)	-58.40%	Not Meaningful
4	Required Rate of Return	Not Used	Not Meaningful
5	Recommended Operating Margin	20.56%	10.20%
6	Required Operating Income (L5 * L11)	\$ 195,915	\$ 57,295
7	Recommended Increase in Operating Income (L6 - L2)	\$ 497,753	\$ 282,652
8	Gross Revenue Conversion Factor ¹	1.0000	1.0086
9	Recommended Increase in Operating Revenue (L7 * L8)	\$ 497,753	\$ 285,070
10	Adjusted Test Year Operating Revenue	\$ 455,348	\$ 276,656
11	Recommended Annual Operating Revenue (L9 + L10)	\$ 953,101	\$ 561,726
12	Required Increase in Revenue (%) (L9 / L10)	109.31%	103.04%
13	Rate of Return (L7/ L1)	37.91%	Not Meaningful

References:

Column [A]: Company Schedules A-1, B-1, C-1

Column [B]: Surrebuttal Schedules PMC-2, PMC-6

¹ Staff GRCF reflects property taxes.

RATE BASE - ORIGINAL COST

LINE NO.	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	\$ 3,922,086	\$ (1,063,478)	\$ 2,858,608
2	(1,461,206)	-	(1,461,206)
3	<u>\$ 2,460,880</u>	<u>\$ (1,063,478)</u>	<u>\$ 1,397,402</u>
<u>LESS:</u>			
4	\$ 1,518,730	\$ -	\$ 1,518,730
5	\$ 502,640	\$ -	\$ 502,640
6	Less: Accumulated Amortization (25,132)	-	(25,132)
7	<u>\$ 477,508</u>	<u>\$ -</u>	<u>\$ 477,508</u>
8	\$ -	\$ -	\$ -
9	\$ -	\$ -	\$ -
<u>ADD:</u>			
10	\$ 52,205	\$ (52,205)	\$ -
11	\$ -	\$ -	\$ -
12	\$ -	\$ -	\$ -
13	<u>\$ 516,847</u>	<u>\$ (1,115,683)</u>	<u>\$ (598,836)</u>

References:

Column [A], Company Schedule B-1, Page 1
Column [B]: Surrebuttal Schedule PMC-3
Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] PMC-4 Pro Forma Plant ADJ.No.1	[C] PMC-5 Accumulated Depreciation ADJ.No.3	[D] PMC-6 Working Capital ADJ.No.2	[E] STAFF ADJUSTED
PLANT IN SERVICE:						
1	Organization Cost	\$ -	\$ -	\$ -	\$ -	\$ -
2	Franchise Cost	125	-	-	-	125
3	Land and Land Rights	86,093	-	-	-	86,093
4	Structures and Improvements	500,114	-	-	-	500,114
5	Structures and Improvements - Pumping	-	-	-	-	-
6	Structures and Improvements - Water Treatment	-	-	-	-	-
7	Wells and Springs	557,589	-	-	-	557,589
8	Power Generation Equipment	-	-	-	-	-
9	Pumping Equipment	292,876	-	-	-	292,876
10	Gas Pumping Equipment	-	-	-	-	-
11	Water Treatment Equipment	11,504	-	-	-	11,504
12	Distribution Reservoirs & Standpipe	366,501	-	-	-	366,501
13	Transmission and Distribution Mains	579,729	-	-	-	579,729
14	Services	51,108	-	-	-	51,108
15	Fire Sprinkler Taps	-	-	-	-	-
16	Meters and Meter Installations	93,702	-	-	-	93,702
17	Hydrants	35,007	-	-	-	35,007
18	Other Plant and Miscellaneous Equipment	-	-	-	-	-
19	Office Furniture and Fixtures	16,552	-	-	-	16,552
20	Computer Equipment	71,364	-	-	-	71,364
21	Transportation Equipment	-	-	-	-	-
22	Stores Equipment	-	-	-	-	-
23	Tools and Work Equipment	11,729	-	-	-	11,729
24	Laboratory Equipment	-	-	-	-	-
25	Power Operated Equipment - Backhoe	44,869	-	-	-	44,869
26	Power Operated Equipment - Backhoe	-	-	-	-	-
27	Communications Equipment	-	-	-	-	-
28	Miscellaneous Equipment	139,746	-	-	-	139,746
29	Other Tangible Plant	-	-	-	-	-
30	Pro Forma Plant	1,063,478	(1,063,478)	-	-	-
31	Total Plant in Service	\$ 3,922,086	\$ (1,063,478)	\$ -	\$ -	\$ 2,858,608
32	Less: Accumulated Depreciation	(1,461,206)	-	-	-	(1,461,206)
33	Less: Accumulated Amortization	-	-	-	-	-
34	Total Accumulated Depreciation & Amortization	\$ (1,461,206)	\$ -	\$ -	\$ -	\$ (1,461,206)
35	Net Plant in Service	\$ 2,460,880	\$ (1,063,478)	\$ -	\$ -	\$ 1,397,402
LESS:						
36	Advances in Aid of Construction (AIAC)	\$ 1,518,730	-	-	-	\$ 1,518,730
37	Contributions in Aid of Construction (CIAC)	502,640	-	-	-	502,640
38	Less: Accumulated Amortization	(25,132)	-	-	-	(25,132)
39	Net CIAC	\$ 477,508	\$ -	\$ -	\$ -	\$ 477,508
40	Deferred Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
41	Customer Deposits	\$ -	\$ -	\$ -	\$ -	\$ -
ADD:						
42	Allowance for Working Capital	\$ 52,205	\$ -	\$ -	\$ (52,205)	\$ -
43	Materials and Supplies	\$ -	\$ -	\$ -	\$ -	\$ -
44	Prepayments	\$ -	\$ -	\$ -	\$ -	\$ -
45	Total Rate Base	\$ 516,547	\$ (1,063,478)	\$ -	\$ (52,205)	\$ (599,136)

Valle Verde Water Company
Docket No. W-01431A-09-0360, et al
Test Year Ended December 31, 2008

Surrebuttal Schedule PMC-4

RATE BASE ADJUSTMENT NO. 1 - REMOVAL OF PRO FORMA PLANT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Pro Forma Plant	\$ 1,063,478	\$ (1,063,478)	\$ -

References:

Column A: Company Schedule B-2
Column B: DirectTestimony
Column C: Column [A] + Column [B]

Valle Verde Water Company
Docket No. W-01431A-09-0360, et al
Test Year Ended December 31, 2008

Surrebuttal Schedule PMC-5

RATE BASE ADJUSTMENT NO. 2 - REMOVAL OF WORKING CAPITAL ALLOWANCE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Working Capital	\$ 52,205	\$ (52,205)	\$ -

References:

Column A: Cooperative Schedule B-5

Column B: Direct Testimony

Column C: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

Line No.	DESCRIPTION	(A) COMPANY TEST YEAR AS FILED	(B) STAFF TEST YEAR ADJUSTMENTS		(C) STAFF TEST YEAR AS ADJUSTED	(D) STAFF RECOMMENDED CHANGES	(E) STAFF RECOMMENDED
REVENUES:							
1	Metered Water Revenues	\$ 449,315	\$ (178,692)	ADJ. No. 1	\$ 270,623	\$ 285,070	\$ 555,693
2		-	-		-	-	-
3	Unmetered Water Revenues	-	\$ -		-	-	-
4	Other Water Revenues	6,033	-		6,033	-	6,033
5	Total Revenues	<u>\$ 455,348</u>	<u>\$ (178,692)</u>		<u>\$ 276,656</u>	<u>\$ 285,070</u>	<u>\$ 561,726</u>
OPERATING EXPENSES:							
6	Salaries and Wages	\$ 71,814	\$ -		\$ 71,814	\$ -	\$ 71,814
7	Purchased Water	187,158	(187,158)	ADJ. No. 2	-	-	-
8	Purchased Power	38,214	-		38,214	-	38,214
9	Chemicals	919	-		919	-	919
10	Repairs and Maintenance	58,561	-		58,561	-	58,561
11	Office Supplies and Expense	18,166	-		18,166	-	18,166
12	Outside Services	152,005	-		152,005	-	152,005
13	Water Testing	10,447	(5,412)	ADJ. No. 3	5,035	-	5,035
14	Rents	-	-		-	-	-
15	Transportation Expenses	10,277	-		10,277	-	10,277
16	Insurance - General Liability	10,940	-		10,940	-	10,940
17	Insurance - Health and Life	-	-		-	-	-
18	Regulatory Commission Expense - Rate Case	8,333	-		8,333	-	8,333
19	Miscellaneous Expense	1,056	-		1,056	-	1,056
20	Depreciation Expense	166,663	(55,163)	ADJ. No. 4	111,500	-	111,500
21	Taxes Other Than Income	8,503	-		8,503	-	8,503
22	Property Taxes	14,129	(7,439)	ADJ. No. 5	6,690	2,418	9,108
23	Income Tax	-	-		-	-	-
24	Total Operating Expense	<u>\$ 757,185</u>	<u>\$ (255,172)</u>		<u>\$ 502,013</u>	<u>\$ 2,418</u>	<u>\$ 504,431</u>
25	Operating Income/(Loss)	<u>\$ (301,837)</u>	<u>\$ 76,480</u>		<u>\$ (225,357)</u>	<u>\$ 282,652</u>	<u>\$ 57,295</u>
Pro forma cash flow with WIFA loan							
26	Plus: Depreciation Expense						111,500
27	Minus: Advance refunds						50
28	Minus: Interest expense on the WIFA loan (inclusive of a 175,000-gallon storage tank)						56,695
29	Minus: Repayment of principal on the WIFA loan (inclusive of a 175,000-gallon storage tank)						40,346
30	Pro forma cash flow (L25 + L26 - L27 - L28 - L29)						<u>\$ 71,704</u>
31	Debt Service Coverage Ratio (L25 + L26) / (L28 + L29)						1.74

References:

- Column (A): Cooperative Schedule C-1, Page 1
- Column (B): Surrebuttal Schedule PMC-B
- Column (C): Column (A) + Column (B)
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Metered Water Revenue ADJ No. 1 Ref. Sch PMC-8	(C) Purchased Water Expense ADJ No. 2 Ref. Sch PMC-9	(D) Water Testing Expense ADJ No. 3 Ref. Sch PMC-10	(E) Depreciation Expense ADJ No. 4 Ref. Sch PMC-11	(F) Property Tax Expense ADJ No. 5 Ref. Sch PMC-12	(G) STAFF ADJUSTED
1	Metered Water Revenues	\$ 449,315	\$ (178,692)					270,623
2	Unmetered Water Revenues	-	-					-
3	Other Water Revenues	6,033	-					-
4	Total Revenues	\$ 455,348	\$ (178,692)					6,033
5								276,656
OPERATING EXPENSES:								
6	Salaries and Wages	\$ 71,814						\$ 71,814
7	Purchased Water	187,158	(187,158)					-
8	Purchased Power	38,214						\$ 38,214
9	Chemicals	919						\$ 919
10	Repairs and Maintenance	58,561						\$ 58,561
11	Office Supplies and Expense	18,166						\$ 18,166
12	Outside Services	152,005						\$ 152,005
13	Water Testing	10,447		(5,412)				\$ 5,035
14	Rents	-						-
15	Transportation Expenses	10,277						\$ 10,277
16	Insurance - General Liability	10,940						\$ 10,940
17	Insurance - Health and Life	-						-
18	Regulatory Commission Expense - Rate Case	8,333						\$ 8,333
19	Miscellaneous Expense	1,056						\$ 1,056
20	Depreciation Expense	166,663				(55,163)		\$ 111,500
21	Taxes Other Than Income	8,503						\$ 8,503
22	Property Taxes	14,129					(7,439)	\$ 6,690
23	Income Tax	-						-
24	Total Operating Expenses	\$ 757,185	\$ (187,158)	\$ (5,412)	\$ (55,163)	\$ (7,439)	\$	\$ 502,013
25	Operating Income/(Loss)	\$ (301,837)	\$ (178,692)	\$ 5,412	\$ 55,163	\$ 7,439	\$	(225,357)

OPERATING INCOME ADJUSTMENT NO. 1 - METERED WATER REVENUE

		[A]	[B]	[C]
Line No.	Description	COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Metered Water Revenue	\$ 449,315	\$ (178,692)	\$ 270,623

To remove non-recurring surcharge revenues.

References:

Column A: Cooperative Schedule C-1, Page 1

Column B: Direct Testimony, Surrebuttal Schedule PMC-8

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - PURCHASED WATER EXPENSE

		[A]	[B]	[C]
Line No.	Description	COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Purchased Water	\$ 187,158	\$ (187,158)	\$ -

To disallow a non-recurring expense.

References:

- Column A: Cooperative Schedule C-1, Page 1
- Column B: Direct Testimony, Surrebuttal Schedule PMC-8
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - WATER TESTING EXPENSE

		[A]	[B]	[C]
Line No.	Description	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Water Testing Expense	\$ 10,447	\$ (5,412)	\$ 5,035

References:

- Column A: Cooperative Schedule C-1, Page 1
- Column B: Direct Testimony, Schedule PMC-8
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - DEPRECIATION EXPENSE

Line No.	Description	[A]	[B]	[C]	[D]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED	
1	Depreciation Expense	\$ 166,663	\$ (55,163)	\$ 111,500	

Depreciation Expense

Line No.	Acct. No.	Description	Company Original Cost 12/31/2008	Staff Adjustment	Staff Adjusted Original Cost	Proposed Rate	Depreciation Expense
1	301	Organization	\$ -	-	\$ -	0.00%	\$ -
2	302	Franchises	125	-	125	0.00%	-
3	303	Land & Land Rights	86,093	-	86,093	0.00%	-
4	304	Structures & Improvements	500,114	-	500,114	3.33%	16,654
5	304.1	Structures & Improvements - Pumping	-	-	-	3.33%	-
6	304.2	Structures & Improvements - Water Treatment	-	-	-	3.33%	-
7	305	Collecting & Impounding Reservoirs	-	-	-	2.50%	-
8	306	Lake, River, Canal Intakes	-	-	-	2.50%	-
9	307	Wells & Springs	557,589	-	557,589	3.33%	18,568
10	308	Infiltration Galleries	-	-	-	6.67%	-
11	309	Raw Water Supply Mains	-	-	-	2.00%	-
12	310	Power Generation Equipment	-	-	-	5.00%	-
13	311	Electric Pumping Equipment	292,876	-	292,876	12.50%	36,610
14	311.1	Gas Pumping Equipment	-	-	-	12.50%	-
15	320	Water Treatment Equipment	11,504	(11,504)	-	-	-
16	320.1	Water Treatment Plant	-	-	-	3.33%	-
17	320.2	Solution Chemical Feeders *	-	345	345	20.00%	-
18	320.4	Water Treatment Plant (media) - PCE removal Plant *	-	11,159	11,159	5.00%	-
19	330	Distribution Reservoirs & Standpipes	366,501	(366,501)	-	-	-
20	330.1	Storage Tanks **	-	285,871	285,871	2.22%	6,346
21	330.2	Pressure Tanks **	-	80,630	80,630	5.00%	4,032
22	331	Transmission & Distrib. Mains	579,729	-	579,729	2.00%	11,595
23	333	Services	51,108	-	51,108	3.33%	1,702
24	333.1	Fire Sprinkler Taps	-	-	-	3.33%	-
25	334	Meters & Meter Installations	93,702	-	93,702	8.33%	7,805
26	335	Hydrants	35,007	-	35,007	2.00%	700
27	336	Backflow Prevention Devices	-	-	-	6.67%	-
28	339	Other Plant & Misc. Equipment	-	-	-	6.67%	-
29	340	Office Furniture & Equipment	16,552	-	16,552	6.67%	1,104
30	340.1	Computers & Software	-	-	-	20.00%	-
31	341	Transportation Equipment	71,364	-	71,364	20.00%	14,273
32	342	Stores Equipment	-	-	-	4.00%	-
33	343	Tools, Shop & Garage Equip.	11,729	-	11,729	5.00%	586
34	344	Laboratory Equipment	-	-	-	10.00%	-
35	345	Power Operated Equipment	44,869	-	44,869	5.00%	2,243
36	345.1	Power Operated Equipment - Backhoe	-	-	-	5.00%	-
37	346	Communication Equipment	-	-	-	10.00%	-
38	347	Miscellaneous Equipment	-	-	-	10.00%	-
39	348	Other Tangible Plant	139,746	-	139,746	10.00%	13,975
40		Total	\$ 2,858,608	0	\$ 2,858,608		\$ 136,192
41		Less: Non-depreciable Accounts			\$ 86,218		
42		Depreciable Plant (L35 - L36)			\$ 2,772,390		
43		Contributions-in-aid-of-Construction (CIAC)			\$ 502,640		
44		Composite CIAC Amortization Rate (Col. D, L35 / Col. B, L37)			4.9124%		
45		Less: Amortization of CIAC					\$ 24,692
46		Staff Recommended Total Depreciation Expense (L 35 - L 40)					\$ 111,500

References:

- Column A: Cooperative Schedule C-1, Page 1
- Column B: Direct Testimony, PMC
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 276,656	\$ 276,656
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 553,311	\$ 553,311
4a	Staff Adjusted Test Year Revenues - 2008	276,656	
4b	Staff Recommended Revenue, Per Schedule PMC-1		561,726
5	Subtotal (Line 4 + Line 5)	\$ 829,967	\$ 1,115,037
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 276,656	\$ 371,679
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 553,311	\$ 743,358
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	27,478	27,478
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 525,833	\$ 715,880
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	\$ 110,425	\$ 150,335
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)	6.0583%	6.0583%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 6,690	
17	Company Proposed Property Tax	\$ 14,129	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (7,439)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 9,108
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 6,690
21	Increase/(Decrease) to Property Tax Expense		\$ 2,418
22	Increase to Property Tax Expense		\$ 2,418
23	Increase in Revenue Requirement		\$ 285,070
24	Decrease to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		0.8482%
25	GRCF = (1 / (1-TR)) = 1 / (1-.015471)		1.0086

References:

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

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8 x3/4" Meter - All Classes	\$ 11.75	\$ 30.00	\$ 18.00
3/4" Meter - All Classes	11.90	45.00	18.00
1" Meter - All Classes	20.00	75.00	43.00
1½" Meter - All Classes	31.00	150.00	86.00
2" Meter - All Classes	59.65	240.00	138.00
3" Meter - All Classes	120.00	480.00	275.00
4" Meter - All Classes	250.00	750.00	429.00
6" Meter - All Classes	500.00	1,500.00	857.00
Commodity Rates			
5/8 x3/4" Meter (Residential)			
From 0 to 8,000 Gallons	\$ 1.30	N/A	N/A
Over 8,000 Gallons	\$ 1.47	N/A	N/A
From 0 to 3,000 Gallons	N/A	\$ 3.00	\$ 1.30
From 3,001 to 10,000 Gallons	N/A	\$ 4.50	\$ 2.90
Over 10,000 Gallons	N/A	\$ 5.65	\$ 4.25
3/4" Meter (Residential)			
From 0 to 8,000 Gallons	\$ 1.30	N/A	N/A
Over 8,000 Gallons	\$ 1.47	N/A	N/A
From 0 to 3,000 Gallons	N/A	\$ 3.00	\$ 1.30
From 3,001 to 10,000 Gallons	N/A	\$ 4.50	\$ 2.90
Over 10,000 Gallons	N/A	\$ 5.65	\$ 4.25
5/8 x3/4" Meter (Commercial)			
From 0 to 8,000 Gallons	\$ 1.30	N/A	N/A
Over 8,000 Gallons	\$ 1.47	N/A	N/A
From 0 to 3,000 Gallons	N/A	\$ 3.00	N/A
From 3,001 to 10,000 Gallons	N/A	\$ 4.50	N/A
Over 10,000 Gallons	N/A	\$ 5.65	N/A
From 0 to 10,000 Gallons	N/A	N/A	\$ 2.90
Over 10,000 Gallons	N/A	N/A	\$ 4.25
3/4" Meter (Commercial)			
From 0 to 8,000 Gallons	\$ 1.30		
Over 8,000 Gallons	\$ 1.47		
From 0 to 3,000 Gallons	N/A	\$ 3.00	N/A
From 3,001 to 10,000 Gallons	N/A	\$ 4.50	N/A
Over 10,000 Gallons	N/A	\$ 5.65	N/A
From 0 to 10,000 Gallons	N/A	N/A	\$ 2.90
Over 10,000 Gallons	N/A	N/A	\$ 4.25
1" Meter (Residential, Commercial)			
From 0 to 8,000 Gallons	\$ 1.30	N/A	N/A
Over 8,000 Gallons	\$ 1.47	N/A	N/A
From 0 to 15,000 Gallons	N/A	\$ 4.50	\$ 2.90
Over 15,000 Gallons	N/A	\$ 5.65	\$ 4.25
1½" Meter (Res., Comm.)			
From 0 to 8,000 Gallons	\$ 1.30	N/A	N/A
Over 8,000 Gallons	\$ 1.47	N/A	N/A
From 0 to 20,000 Gallons	N/A	\$ 4.50	\$ 2.90
Over 20,000 Gallons	N/A	\$ 5.65	\$ 4.25
2" Meter (Res., Comm., & Res/Comm)			
From 0 to 8,000 Gallons	\$ 1.30	N/A	N/A
Over 8,000 Gallons	\$ 1.47	N/A	N/A
From 0 to 25,000 Gallons	N/A	\$ 4.50	\$ 2.90
Over 25,000 Gallons	N/A	\$ 5.65	\$ 4.25

RATE DESIGN

Monthly Usage Charge	Present	Company			Staff		
	Rates	Proposed Rates			Recommended Rates		
3" Meter (Res., Comm.)							
From 0 to 8,000 Gallons	\$ 1.30			N/A			N/A
Over 8,000 Gallons	\$ 1.47			N/A			N/A
From 0 to 70,000 Gallons	N/A			\$ 4.50			\$ 2.90
Over 70,000 Gallons	N/A			\$ 5.65			\$ 4.25
4" Meter (Res., Comm.)							
From 0 to 8,000 Gallons	\$ 1.30			N/A			N/A
Over 8,000 Gallons	\$ 1.47			N/A			N/A
From 0 to 150,000 Gallons	N/A			\$ 4.50			\$ 2.90
Over 150,000 Gallons	N/A			\$ 5.65			\$ 4.25
6" Meter (Res., Comm.)							
From 0 to 8,000 Gallons	\$ 1.30			N/A			N/A
Over 8,000 Gallons	\$ 1.47			N/A			N/A
From 0 to 500,000 Gallons	N/A			\$ 4.50			\$ 2.90
Over 500,000 Gallons	N/A			\$ 5.65			\$ 4.25
Service Line and Meter Installation Charges	Total	Line	Meter	Total	Line	Meter	Total
5/8" x 3/4" Meter	\$ 320	\$ 445	\$ 155	\$ 600	\$ 445	\$ 155	\$ 600
3/4" Meter	360	445	255	700	445	255	700
1" Meter	420	495	315	810	495	315	810
1 1/2" Meter	635	550	525	1,075	550	525	1,075
2" Turbine Meter	1,090	830	1,045	1,875	830	1,045	1,875
2" Compound Meter	N/T	830	1,890	2,720	830	1,890	2,720
3" Turbine Meter	1,505	1,045	1,670	2,715	1,045	1,670	2,715
3" Compound Meter	N/T	1,165	2,545	3,710	1,165	2,545	3,710
4" Turbine Meter	2,380	1,490	1,737	3,227	1,490	1,737	3,227
4" Compound Meter	N/T	1,670	3,645	5,315	1,670	3,645	5,315
6" Turbine Meter	4,655	2,210	3,786	5,976	2,210	3,786	5,976
6" Compound Meter	N/T	2,330	6,920	9,250	2,330	6,920	9,250
Over 6"	N/T	N/T	N/T	N/T	Cost	Cost	Cost
Service Charges							
Establishment	\$ 10.00			\$ 30.00			\$ 30.00
Establishment (After Hours)	20.00			40.00			40.00
Reconnection (Delinquent)	20.00			40.00			40.00
Reconnection (Delinquent and After Hours)	N/T			50.00			50.00
Meter Test (If Correct)	35.00			35.00			35.00
Deposit	(a)			(a)			(a)
Deposit Interest	(a)			(a)			(a)
Re-Establishment (With-in 12 Months)	(b)			(b)			(b)
NSF Check	\$ 15.00			\$ 30.00			\$ 25.00
Late Charge per month	1.50%			1.50%			1.50%
Deferred Payment, Per Month	1.50%			1.50%			1.50%
Meter Re-Read (If Correct)	10.00			20.00			20.00
Monthly Service Charge for Fire Sprinkler	(c)			(c)			(d)

NT = No Tariff

(a) Per Commission Rule A.A.C. R14-2-403(B)

(b) Number of months off system times the monthly minimum, per Commission Rule A.A.C. R14-2-403(D).

(c) 1% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

(d) 2% of monthly minimum for a comparable sized meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Typical Bill Analysis
5/8" Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,550	\$ 21.57	\$ 59.48	\$ 37.91	175.79%
Median Usage	5,658	19.11	50.96	\$ 31.86	166.74%
Staff Recommended					
Average Usage	7,550	\$ 21.57	\$ 35.10	\$ 13.53	62.74%
Median Usage	5,658	19.11	29.61	\$ 10.50	54.97%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 11.75	\$ 30.00	155.32%	\$ 18.00	53.19%
1,000	13.05	33.00	152.87%	19.30	47.89%
2,000	14.35	36.00	150.87%	20.60	43.55%
3,000	15.65	39.00	149.20%	21.90	39.94%
4,000	16.95	43.50	156.64%	24.80	46.31%
5,000	18.25	48.00	163.01%	27.70	51.78%
5,658	19.11	50.96	166.74%	29.61	54.97%
6,000	19.55	52.50	168.54%	30.60	56.52%
7,000	20.85	57.00	173.38%	33.50	60.67%
7,550	21.57	59.48	175.79%	35.10	62.74%
8,000	22.15	61.50	177.65%	36.40	64.33%
9,000	23.62	66.00	179.42%	39.30	66.38%
4,898	18.12	47.54	162.41%	27.40	51.26%
10,000	25.09	70.50	180.99%	42.20	68.19%
11,000	26.56	76.15	186.71%	46.45	74.89%
12,000	28.03	81.80	191.83%	50.70	80.88%
13,000	29.50	87.45	196.44%	54.95	86.27%
14,000	30.97	93.10	200.61%	59.20	91.15%
15,000	32.44	98.75	204.41%	63.45	95.59%
16,000	33.91	104.40	207.87%	67.70	99.65%
17,000	35.38	110.05	211.05%	71.95	103.36%
18,000	36.85	115.70	213.98%	76.20	106.78%
19,000	38.32	121.35	216.68%	80.45	109.94%
20,000	39.79	127.00	219.18%	84.70	112.87%
25,000	47.14	155.25	229.34%	105.95	124.76%
30,000	54.49	183.50	236.76%	127.20	133.44%
35,000	61.84	211.75	242.42%	148.45	140.05%
40,000	69.19	240.00	246.87%	169.70	145.27%
45,000	76.54	268.25	250.47%	190.95	149.48%
50,000	83.89	296.50	253.44%	212.20	152.95%
75,000	120.64	437.75	262.86%	318.45	163.97%
100,000	157.39	579.00	267.88%	424.70	169.84%

Typical Bill Analysis
3/4" Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,433	\$ 21.56	\$ 73.95	\$ 52.39	242.94%
Median Usage	5,480	19.02	65.16	\$ 46.14	242.51%
Staff Recommended					
Average Usage	7,433	\$ 21.56	\$ 34.75	\$ 13.19	61.17%
Median Usage	5,480	19.02	29.09	\$ 10.07	52.91%

Present & Proposed Rates (Without Taxes)
3/4" Residential

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 11.90	\$ 45.00	278.15%	\$ 18.00	51.24%
1,000	13.20	48.00	263.64%	19.30	46.19%
2,000	14.50	51.00	251.72%	20.60	42.05%
3,000	15.80	54.00	241.77%	21.90	38.59%
4,000	17.10	58.50	242.11%	24.80	45.01%
5,000	18.40	63.00	242.39%	27.70	50.53%
5,480	19.02	65.16	242.51%	29.09	52.91%
6,000	19.70	67.50	242.64%	30.60	55.32%
7,000	21.00	72.00	242.86%	33.50	59.51%
7,433	21.56	73.95	242.94%	34.75	61.17%
8,000	22.30	76.50	243.05%	36.40	63.22%
9,000	23.77	81.00	240.77%	39.30	65.32%
10,000	25.24	85.50	238.75%	42.20	67.19%
11,000	26.71	91.15	241.26%	46.45	73.90%
12,000	28.18	96.80	243.51%	50.70	79.91%
13,000	29.65	102.45	245.53%	54.95	85.32%
14,000	31.12	108.10	247.37%	59.20	90.22%
15,000	32.59	113.75	249.03%	63.45	94.68%
16,000	34.06	119.40	250.56%	67.70	98.76%
17,000	35.53	125.05	251.96%	71.95	102.50%
18,000	37.00	130.70	253.24%	76.20	105.94%
19,000	38.47	136.35	254.43%	80.45	109.12%
20,000	39.94	142.00	255.53%	84.70	112.06%
25,000	47.29	170.25	260.01%	105.95	124.04%
30,000	54.64	198.50	263.29%	127.20	132.79%
35,000	61.99	226.75	265.78%	148.45	139.47%
40,000	69.34	255.00	267.75%	169.70	144.73%
45,000	76.69	283.25	269.34%	190.95	148.99%
50,000	84.04	311.50	270.66%	212.20	152.50%
75,000	120.79	452.75	274.82%	318.45	163.64%
100,000	157.54	594.00	277.05%	424.70	169.58%

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)
THE ESTATE OF WILLIAM F. RANDALL)
DBA VALLE VERDE WATER COMPANY FOR)
APPROVAL OF AN INCREASE IN ITS WATER)
RATES AND THE APPLICATION OF THE)
ESTATE OF WILLIAM F. RANDALL DBA)
VALLE VERDE WATER COMPANY FOR)
AUTHORITY TO INCUR LONG-TERM DEBT)
_____)

DOCKET NO. W-01431A-09-0360

DOCKET NO. W-01431A-09-0361

SURREBUTTAL

TESTIMONY

OF

DOROTHY M. HAINS

UTILITIES ENGINEER

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

APRIL 01, 2010

1 **I. INTRODUCTION**

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

3 A. My name is Dorothy Hains. My business address is 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5
6 **Q. Are you the same Dorothy Hains who has previously filed testimony in this Valle
7 Verde Water Company ("Company") rate and financing proceeding?**

8 A. Yes.

9
10 **Q. What is the purpose of your surrebuttal testimony?**

11 A. In my Direct Testimony I recommended that the Company add a minimum of 175,000
12 gallons of additional storage capacity to the Valle Verde water system (Public Water
13 System ID No. 12-009). In the Company's Rebuttal Testimony, the Company's witness
14 stated that the 175,000 gallon storage tank installation cost would be around \$275,000.
15 The Company revised its cost estimate to \$250,460 in a March 26, 2010 e-mail (attached)
16 to Staff. In this Surrebuttal Testimony Staff provides its recommendations regarding the
17 Company's latest cost estimate of \$250,460.

18
19 **II. THE ESTIMATED COST OF INSTALLATION OF A 175,000 GALLON
20 STORATGE TANK**

21 **Q. Have you had an opportunity to review the Company's latest cost estimate of
22 \$250,460?**

23 A. Yes.

24
25 **Q. What are Staff's conclusions and recommendations regarding this estimate?**

26 A. The Company listed eleven plant items that it had included which totaled to the \$250,460
27 estimate. Staff concludes that four of the eleven plant items which are not directly related

1 to the needed storage capacity addition should be excluded. The four plant items that
2 Staff is recommending be disallowed include: 1) the 5,000 gallon pressure tank; 2)
3 related pressure tank foundation; 3) related pressure tank controls; and, 4) the chlorination
4 system. The Company already has multiple pressure tanks installed that appear to be in
5 good working order. At this time the Company has provided no justification to support its
6 proposal to add additional system pressure capacity and related plant items nor has it
7 provided any justification for the chlorination system. The Company's wells are already
8 equipped with disinfection units, Staff therefore concludes that the additional disinfection
9 unit is not needed.

10
11 A general description and breakdown of the funding required is as follows:
12

Item No.	Item Description	Quantity (unit)	Estimated Cost (\$)	Staff Adjustment (\$)	Recommended Cost (\$)
1	175,000 gallon storage tank (44'-Di)	1	175,000	0	175,000
2	Tank Ring (estimated 240')	1	2,200	0	2,200
3	Tank probes	1	560	0	560
4	Valves & meters	1	11,000	0	11,000
5	Booster pumps (7½-HP, 4,100\$/unit)	2	8,200	0	8,200
6	5,000 gallon pressure tank	1	28,000	(28,000)	0
7	Pressure tank foundation	1	2,000	(2,000)	0
8	Pressure tank control	1	2,300	(2,300)	0
9	Air compressor/air induction	1	3,000	0	3,000
10	Discharge manifold	1	2,700	0	2,700
11	Chlorination (disinfection unit)	1	3,400	(3,400)	0
12	Electric/ control panel	1	12,100	0	12,100
	Total		250,460	(35,700)	214,760

1 Staff finds that \$214,760 is a reasonable amount to add 175,000 gallons of additional
2 storage capacity to the Company's water system.

3

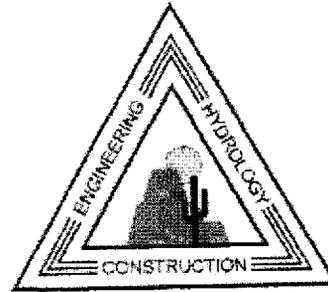
4 **Q. Does this conclude your surrebuttal testimony?**

5 A. Yes, it does.

6

March 26, 2010

Steve Wene
Moyes Sellers & Sims
1850 N. Central Ave. Ste. 1100
Phoenix, AZ 85004
(602) 604-2189
Re: Valle Verde (09-0360 & 09-0361)



GREG CARLSON ENGINEERING, L.L.C.
1521 E. Broadway Boulevard, Tucson, AZ. 85719
(520) 824-0070 fax (520) 824-4197
e-mail: gceng@gceng.biz

Dear Steve:

Greg Carlson Engineering, LLC has prepared an Engineer's Estimate of Cost for installing a 175,000 gallon storage facility on the Valle Verde system as follows:

Preliminary Cost Estimate

Water Storage Site
Valle Verde Water System

<u>Description</u>	<u>Units</u>	<u>Quantity</u>	<u>Cost/Unit</u>	<u>Cost</u>
Storage Tank	gallons	175000	\$1.00	\$175,000.00
Tank Ring	Is	1	\$2,200.00	\$2,200.00
Tank probes	Is	1	\$560.00	\$560.00
valving & meters	Is	1	\$11,000.00	\$11,000.00
Booster Pumps	each	2	\$4,100.00	\$8,200.00
5000 gallon pressure tank	gallons	1	\$28,000.00	\$28,000.00
Pressure Tank foundation	Is	1	\$2,000.00	\$2,000.00
Pressure Tank controls	Is	1	\$2,300.00	\$2,300.00
Air compressor/Air induction system	Is	1	\$3,000.00	\$3,000.00
Discharge manifold system	Is	1	\$2,700.00	\$2,700.00
Chlorination system	Is	1	\$3,400.00	\$3,400.00
Electric / Control Panel	Is	1	\$12,100.00	\$12,100.00
TOTAL COST				\$250,460.00

Assumptions:

1. Tank diameter = 44 ft
2. Storage Site = 60 ft x 60 ft
3. Booster Pumps - 7.5 hp
4. Electric meter/line available at site
5. Site is level and cleared
6. Site fencing not included

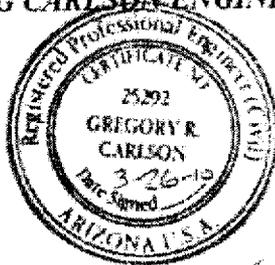
Preliminary Cost Estimate
Valle Verde Water System
GCE Job No. 10-023
March 26, 2010
Page 2 of 2

This is *cost estimate*, not a *bid* and should be used for estimating purposes only. This estimate assumes that the proposed site is accessible to construction equipment and does not require a well head connection. This cost estimate may vary significantly based upon site conditions and system requirements. This cost estimate does not include engineering costs, construction management, and taxes. Costs may increase by 50% or more depending upon pumping rate requirements, pipe distribution system connection location, site improvement requirements, land purchases, etc..

If you have any questions regarding the content of this letter, or the derivation of these costs, please contact me at (520) 624-0070.

Sincerely,

GREG CARLSON ENGINEERING, LLC



Handwritten signature of Gregory R. Carlson in black ink.

Greg Carlson, P.E.

Exp 6/30/11