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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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AZ CORP COMMISSION
DOCKET CONTROL

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

DOCKET NO. W-01431A-09-0360

IN THE MATTER OF 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

**STAFF'S RESPONSIVE BRIEF AND
NOTICE OF FILING FINAL SCHEDULES**

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files its Post-Hearing Brief ("Brief") in response to the Estate of William F. Randall, dba Valle Verde Water Company's Post Hearing Brief ("Valle Verde" or "Company"). As requested by the ALJ at the conclusion of the hearing, the Brief contains Staff's final schedules, a discussion on the use of depreciation expense to calculate the revenue requirement, the proposed temporary surcharge to repay the City of Nogales, property tax expense, and grant funded projects.

I. Final Schedules

Staff's final schedules are attached as Exhibit A. The bases for changes in Staff's final schedules are explained in footnotes within the schedules.

II. Depreciation

Staff has proposed the same depreciation expense, and method for calculating the depreciation expense, throughout the entire case. It was originally discussed in Mr. Chaves' Direct Testimony, and then repeatedly and extensively during the hearing. See Exhibit S-2, Direct Testimony at 9, Schedule PMC-6; Exhibit S-4, Surrebuttal Schedule PMC-6. Staff originally decreased depreciation expense from Valle Verde's proposed \$166,663, to \$111,500 (now \$112,113 on Final Schedule PMC-6) to reflect lower plant in service due to Staff's removal of Valle Verde's pro forma plant from rate base. Exhibit S-2 at 9. It is appropriate to remove the pro forma plant because it has yet to be built and

1 therefore is not used and useful to the ratepayer. Since the plant has not been built, and it was
2 removed from rate base, it is appropriate to remove any depreciation expense that was associated
3 with it.

4 Valle Verde did not take issue with, or even respond to, Staff's treatment of depreciation
5 expense in its Rebuttal Testimony. It was not until Valle Verde's Rejoinder Testimony that the
6 Company discussed Staff's treatment of depreciation, and then it was to accept Staff's depreciation
7 adjustment pertaining to the removal of the pro forma plant. Exhibit A-4, Rejoinder Testimony of
8 Rowell at 6, Attached Rejoinder Schedule C-2a. The difference between Staff and Company
9 depreciation expense pertains to the amount of the offset for the amortization of contributions in aid
10 of construction ("CIAC").

11 The major issue related to depreciation is whether it was properly used by Staff in Schedule
12 PMC-6 to calculate cash flow and whether Staff's use of the resulting cash flow is a proper basis of
13 determining the revenue requirement. Staff first became aware that the Company had taken issue
14 with the methodology employed on Staff's Schedule PMC-6 on April 12, 2010, ten days prior to
15 hearing, and the extent of the disagreement was unapparent until the hearing.

16 During the hearing, Valle Verde first articulated its reason for disagreeing with Staff's
17 treatment of depreciation expense. Valle Verde asserts that depreciation should only be included in
18 operating expense and not as a factor in calculating debt service. Company's Post-Hearing Brief at p.
19 2:15-3:2. The Company ignores that by definition depreciation expense is a non-cash item, and
20 therefore must be included as an addition in the cash flow analysis. Tr. at 154. Further, Staff
21 contacted the Water Infrastructure Finance Authority ("WIFA"), Valle Verde's lender, and WIFA
22 also includes depreciation expense in the numerator when calculating debt service. Tr. at 162.

23 The Company contends that Staff and the Company agreed that the revenue requirement for
24 Valle Verde should be calculated using an operating margin approach. Further, the Company
25 suggests setting rates by calculating the required revenue to meet: (1) operating expense, including
26 depreciation; and (2) debt obligations. Company's Post Hearing Brief at 3:17-21, 4:2. However, Staff
27 did not use an operating margin approach, it employed a cash flow analysis; additionally Staff's use
28 of operating margin would not agree with this definition. Tr. at 131. Operating margin is a

1 percentage resulting from a fraction using operating income as a numerator and operating revenue as
2 a denominator (Staff Schedule PMC-1). A cash flow analysis nets the sources of cash and the uses of
3 cash to determine a net cash surplus or deficit (Staff Schedule PMC-6).

4 Valle Verde disagrees with Staff's use of depreciation expense in the cash flow analysis. The
5 Company claims Staff is double counting depreciation by including it to cover operating expenses
6 and then again including the same revenue to service the debt, claiming it leaves the Company with
7 only \$600 in net income. Company's Post Hearing Brief at 2:24. But Valle Verde is not appropriately
8 comparing the parties' positions.

9 Staff's recommended revenues provide for recovery of all operating expenses, including
10 depreciation expense. Staff's Final Schedule PMC-6. An operating income, as opposed to an
11 operating loss, demonstrates that Staff's recommended revenue provides for recovery of depreciation
12 expense as well as all other operating expenses. Unlike an operating income statement, a cash flow
13 analysis simply shows the sources and uses of cash. Thus, non-operating items that are a source or
14 use of cash such as principal and interest payments on debt service are included and non-cash items
15 such as depreciation expense are excluded. Staff's Final Schedule PMC-6 provides a calculation of
16 net cash flows showing that Staff-recommended revenues generate a \$71,709 positive net cash flow.
17 This represents the amount of contingent cash generated annually after all cash obligations have been
18 paid. Thus, Valle Verde's claim that Staff is double counting depreciation (Company's Post Hearing
19 Brief at 2:24) is a misrepresentation. The assertion fails to recognize that depreciation is appropriately
20 included as an operating expense in the income statement and as a reconciling item for calculating
21 cash flow when using operating income as the starting amount.

22 The Company's assertion that it will only have \$600 of net income using Staff's depreciation
23 methodology demonstrates a misunderstanding of the methodology Staff employed. Staff's cash flow
24 analysis demonstrates a resulting positive cash flow, which means that Valle Verde will be able to
25 pay all of its obligations, including debt service, and will have over \$71,000 available for
26 contingencies, as shown on schedule PMC-6. Tr. at 135.

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28 ...

1 **III. Temporary Surcharge**

2 Staff has no objection to a temporary surcharge to repay the City of Nogales (“the City”) for
3 water previously purchased. Staff believes the essential elements of a surcharge are included in the
4 Company’s proposal: pass through treatment, a volumetric charge so customers who used more of the
5 purchased water share a more proportional cost in repaying the City, and a deadline for paying off the
6 debt. Tr. at 146-7, 178-9. Additionally, Staff recommends that the Company be ordered to file notice
7 with the Commission when the debt to the City has been paid and the Company is no longer
8 collecting the surcharge.

9 **IV. Property Tax**

10 Staff used a modification of the Arizona Department of Revenue (ADOR) method to calculate
11 Valle Verde’s property tax expense, which is the methodology typically employed by Staff. Tr. at
12 141:7-11. Staff recommends a test year property tax of \$6,690, but for ratemaking purposes, Staff
13 has increased that to \$9,108 to incorporate the prospective component of Staff’s methodology. Ex. S-
14 2 at 10, Tr. at 141:21-142:8.

15 Even though Staff utilized the method employed by ADOR, the Company takes issue with
16 Staff’s calculation and recommendation because it is different than Valle Verde’s. The Company
17 proposes a property tax expense based on the amount paid during the test year, but that number is
18 inconsistent with, and significantly higher than, Staff’s calculation. This suggests that Valle Verde’s
19 taxes were not appropriately assessed, to the Company’s detriment. However, Staff does not believe
20 it is reasonable for the Company to overpay on its taxes and then be allowed to pass that burden on to
21 the ratepayers. Tr. at 148:16-20. It is the Company’s responsibility, not the ratepayers’ responsibility,
22 to properly manage the Company’s expenses.

23 The ADOR method involves inputs that have the potential to vary from year to year due to
24 valuation changes. Tr. at 151:20-21. However, to speculate regarding those inputs would entail
25 looking into the future, for changes that are not currently known and measurable. Further, the
26 Company’s methodology does not address or remedy why the Company paid significantly more on
27 property tax during the test year than would be expected using ADOR’s method and the same inputs.

1 Staff has traditionally and consistently used the modified ADOR method for calculating property tax
2 in analyzing rate cases. There is no persuasive reason why the actual tax-collecting
3 body's method should be disregarded now.

4 **V. Grant Funded Projects**

5 Valle Verde's Rejoinder Testimony raised some confusion concerning grant-funded projects,
6 and whether monies obtained from grants were utilized to put used and useful plant into service
7 during the test year. Questioning during the hearing did not provide the necessary clarification and
8 the Company was requested to clarify by filing post hearing testimony providing a list of the grant-
9 funded projects. Tr. at 188:2-5.

10 Southwest Utility Management ("SUM"), the company that is currently managing Valle
11 Verde, states in the post hearing testimony that it obtained a grant established by HB 2521 in the
12 amount of \$93,819 and a grant from the Water Quality Assurance Revolving Fund ("WQARF") in
13 the amount of \$405,000. The Company attached exhibits detailing how the funds were utilized. Staff
14 has no reason to dispute the Company's explanation for how grant monies were spent. *See Post*
15 *Hearing Testimony of Bonnie O'Connor.*

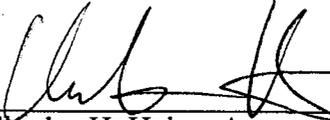
16 The Company asserts that all of the funding from grants should be treated as CIAC because it
17 was all spent during the test year. However, it also states that whether the grant funding was or
18 should have been included in CIAC is irrelevant because, ultimately, the rate base remains negative,
19 even with the inclusion of the additional CIAC. Staff does not disagree with the Company's
20 characterization of the situation.

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1 **VI. Conclusion**

2 For all the above stated reasons and those provided in Staff's closing argument at hearing,
3 Staff's recommendations are reasonable and should be adopted.

4 RESPECTFULLY SUBMITTED this 29th day of June, 2010.

5 
6 _____
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18 29th day of June, 2010 to:

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23 
24 _____

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

FINAL SCHEDULES 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	\$ 517,840	\$ (593,061)
2	Adjusted Operating Income/(Loss)	\$ (301,837)	\$ (225,970)
3	Current Rate of Return (L2 / L1)	-58.29%	Not Meaningful
4	Required Rate of Return	Not Used	Not Meaningful
5	Recommended Operating Margin	20.56%	10.09%
6	Required Operating Income (L5 * L11)	\$ 195,915	\$ 56,687
7	Recommended Increase in Operating Income (L6 - L2)	\$ 497,753	\$ 282,657
8	Gross Revenue Conversion Factor ¹	1.0000	1.0086
9	Recommended Increase in Operating Revenue (L7 * L8)	\$ 497,753	\$ 285,075
10	Adjusted Test Year Operating Revenue	\$ 455,348	\$ 276,656
11	Recommended Annual Operating Revenue (L9 + L10)	\$ 953,101	\$ 561,730
12	Required Increase in Revenue (%) (L9 / L10)	109.31%	103.04%
13	Rate of Return (L7/ L1)	37.83%	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	\$ (1,058,696)	\$ 2,863,390
2	(1,460,213)	-	(1,460,213)
3	<u>\$ 2,461,873</u>	<u>\$ (1,058,696)</u>	<u>\$ 1,403,177</u>
<u>LESS:</u>			
4	\$ 1,518,730	\$ (1,500)	\$ 1,517,230
5	\$ 502,640	\$ 1,500	\$ 504,140
6	Less: Accumulated Amortization (25,132)	-	(25,132)
7	<u>\$ 477,508</u>	<u>\$ 1,500</u>	<u>\$ 479,008</u>
8	\$ -	\$ -	\$ -
9	\$ -	\$ -	\$ -
<u>ADD:</u>			
10	\$ 52,205	\$ (52,205)	\$ -
11	\$ -	\$ -	\$ -
12	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
13	<u>\$ 517,840</u>	<u>\$ (1,110,901)</u>	<u>\$ (593,061)</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 Working Capital ADJ.No.2	(D) Company's Rejoinder Plant Reclassification ADJ.No.3	(E) Company's Rejoinder Rejoinder AIAC to CIAC ADJ.No.4	(F) 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	-	-	3,200	-	503,314
5	Structures and Improvements - Pumping	-	-	-	-	-	-
6	Structures and Improvements - Water Treatment	-	-	-	-	-	-
7	Wells and Springs	557,589	-	-	1,582	-	559,171
8	Power Generation Equipment	-	-	-	-	-	-
9	Pumping Equipment	282,876	-	-	-	-	282,876
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	51,106	-	-	-	-	51,106
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	44,869	-	-	-	-	44,869
26	Power Operated Equipment - Backhoe	-	-	-	-	-	-
27	Communications Equipment	-	-	-	-	-	-
28	Miscellaneous Equipment	-	-	-	-	-	-
29	Other Tangible Plant	139,746	-	-	-	-	139,746
30	Pro Forma Plant	1,063,478	(1,063,478)	-	-	-	-
31	Total Plant in Service	\$ 3,922,066	\$ (1,063,478)	\$ -	\$ 4,782	\$ -	\$ 2,863,390
32	Less: Accumulated Depreciation	(1,460,213)	-	-	-	-	(1,460,213)
33	Less: Accumulated Amortization	\$ (1,460,213)	-	-	-	-	\$ (1,460,213)
34	Total Accumulated Depreciation & Amortization	\$ 2,461,873	\$ (1,063,478)	\$ -	\$ 4,782	\$ -	\$ 1,403,177
35	Net Plant in Service	\$ 1,518,730	\$ -	\$ -	\$ -	\$ (1,500)	\$ 1,517,230
LESS:							
36	Advances in Aid of Construction (AIAC)	502,640	-	-	-	1,500	504,140
37	Contributions in Aid of Construction (CIAC)	(25,132)	-	-	-	-	(25,132)
38	Less: Accumulated Amortization	477,508	-	-	-	-	477,508
39	Net CIAC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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	\$ 517,840	\$ (1,063,478)	\$ -	\$ 4,782	\$ -	\$ (593,061)

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

Final 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: Direct Testimony

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

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

Final 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	\$ 285,075	\$ 555,697
2		-	-	-	-	-
3	Unmetered Water Revenues	-	\$ -	-	-	-
4	Other Water Revenues	8,033	-	8,033	-	8,033
5	Total Revenues	<u>\$ 459,348</u>	<u>\$ (178,692)</u>	<u>\$ 278,656</u>	<u>\$ 285,075</u>	<u>\$ 561,730</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	(54,550) ADJ. No. 4	112,113	-	112,113
21	Taxes Other Than Income	8,503	-	8,503	-	8,503
22	Property Taxes	14,129	(7,438) ADJ. No. 5	6,690	2,418	9,108
23	Income Tax	-	-	-	-	-
24	Total Operating Expense	<u>\$ 757,185</u>	<u>\$ (254,558)</u>	<u>\$ 502,626</u>	<u>\$ 2,418</u>	<u>\$ 505,043</u>
25	Operating Income/(Loss)	<u>\$ (301,837)</u>	<u>\$ 75,867</u>	<u>\$ (225,970)</u>	<u>\$ 282,657</u>	<u>\$ 56,687</u>
Pro forma cash flow with WIFA loan						
26	Plus: Depreciation Expense					112,113
27	Minus: Advance refunds					50
28	Minus: Interest expense on the WIFA loan amortized over a 20-year period at 4.5 % per annum (inclusive of a 175,000-gallon storage tank)					56,695
29	Minus: Repayment of principal on the WIFA loan amortized over a 20-year period at 4.5 % per annum (inclusive of a 175,000-gallon storage tank)					40,346
30	Pro forma cash flow (L25 + L26 - L27 - L28 - L29)					<u>\$ 71,709</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-8
Column (C): Column (A) + Column (B)
Column (E): Column (C) + Column (D)

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

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	REVENUES:							
2	Metered Water Revenues	\$ 449,315	\$ (178,692)	\$ -	\$ -	\$ -	\$ -	\$ 270,623
3	Unmetered Water Revenues	-	-	-	-	-	-	-
4	Other Water Revenues	6,033	-	-	-	-	-	-
5	Total Revenues	\$ 455,348	\$ (178,692)	\$ -	\$ -	\$ -	\$ -	\$ 6,033
	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	-	-	(54,550)	-	-	112,113
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)	\$ (54,550)	\$ (7,439)	\$ 502,626
25	Operating Income/(Loss)	\$ (301,837)	\$ (178,692)	\$ 187,158	\$ 5,412	\$ 54,550	\$ 7,439	\$ (225,970)

OPERATING INCOME ADJUSTMENT NO. 1 - METERED WATER REVENUE

Line No.	Description	[A]	[B]	[C]
		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

Line No.	Description	[A]	[B]	[C]
		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	\$ 186,663	\$ (54,550)	\$ 112,113	

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	3,200 *	503,314	3.33%	16,780
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	1,582 *	559,171	3.33%	18,620
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%	36,810
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%	69
18	320.4	Water Treatment Plant (media) - PCE removal Plant *	-	11,159	11,159	5.00%	558
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 **	-	80,830	80,830	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	139,748	-	139,748	10.00%	13,975
40		Total	\$ 2,858,608	4,782	\$ 2,863,390		\$ 136,978
41		Less: Non-depreciable Accounts			\$ 86,218		
42		Depreciable Plant (L35 - L36)			\$ 2,777,172		
43		Contributions-in-aid-of-Construction (CIAC)			\$ 504,140		
44		Composite CIAC Amortization Rate (Col. D, L35 / Col. B, L37)			4.9323%		
45		Less: Amortization of CIAC					\$ 24,886
46		Staff Recommended Total Depreciation Expense (L 35 - L 40)					\$ 112,113

References:

Column A: Cooperative Schedule C-1, Page 1
Column B: Direct Testimony, PMC
Column C: Column [A] + Column [B]
* Based on the Company's Rejoinder

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		561,730
5	Subtotal (Line 4 + Line 5)	\$ 829,967	\$ 1,115,042
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 276,656	\$ 371,681
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 553,311	\$ 743,361
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	\$ 715,883
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 18)		\$ 6,690
21	Increase/(Decrease) to Property Tax Expense		\$ 2,418
22	Increase to Property Tax Expense		\$ 2,418
23	Increase in Revenue Requirement		\$ 285,075
24	Decrease to Property Tax per Dollar Increase in Revenue (Line19/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 x 3/4" 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
1 1/2" 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	428.00
6" Meter - All Classes	500.00	1,500.00	857.00
Commodity Rates			
5/8 x 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
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 x 3/4" 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
1 1/2" 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 Rates	Company Proposed Rates			Staff 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	1,870	2,715	1,045	1,870	2,715
3" Compound Meter	N/T	1,185	2,545	3,710	1,185	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	1,870	3,645	5,315	1,870	3,645	5,315
6" Turbine Meter	4,655	2,210	3,766	5,976	2,210	3,766	5,976
6" Compound Meter	N/T	2,330	8,920	9,250	2,330	8,920	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%