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AZ CORP COMMISSION
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7 Attorneys for Vail Water Company

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 **IN THE MATTER OF THE APPLICATION) DOCKET NO. W-01651^B-99-406**
10 **OF VAIL WATER COMPANY FOR AN)**
11 **INCREASE IN ITS WATER RATES FOR) APPLICATION**
12 **CUSTOMERS WITHIN PIMA COUNTY,)**
13 **ARIZONA)**

14 Vail Water Company (hereinafter "Vail" or the "Company"), by and through the
15 undersigned counsel, hereby submits a rate increase application and in support of said

16 Application states as follows:

17 1. The Company is a public service corporation duly organized and existing under the laws of
18 the State of Arizona.

19 2. The Company provided water utility service to 593 customers in Pima County, Arizona as of
20 the end of its test year, December 31, 1998.

21 3. The Company's business office is located at 5780 N. Swan Road, Suite 100, Tucson, Arizona
22 85718. The Company's management contact is Doug Noll, Vice President. The on-site manager
23 and certified operator of the Company is Bill McGuire, P.O. Box 100, Vail, Arizona 85641.

4. The Company's present rates and charges were authorized in Commission Decision No.
61110, dated August 28, 1998 and based upon test year ending December 31, 1996.

5. The revenues as generated from the Company's customers at the existing rates are inadequate
to provide the Company a just and reasonable rate of return on the Company's Fair Value Rate
Base. During the test year, the Company has operated with an operating loss that has not

1 provided a just and reasonable return to the investors. Nor have the authorized rates permitted
2 the Company to make the needed capital improvements with either internally generated funds or
3 by attracting investment capital for those purposes.

4 6. Attached hereto as Exhibit A are a series of schedules contemplated in A.A.C. R-14-2-103.

5 7. Attached hereto as Exhibit B is the direct testimony of Ronald L. Kozoman in support of this
6 Application;

7 8. Attached hereto as Exhibit C and incorporated herein by this reference for all purposes is the
8 Company's proposed form of Tariff based upon the Schedules contained in Exhibit A and as
9 explained in the testimony of Mr. Kozoman, Exhibit B hereto.

10 9. The Schedules set forth in Exhibit A demonstrate the Company had total revenues during the
11 test year ending December 31, 1998 of \$260,719, with total operating expenses of \$403,363 for a
12 net operating loss of \$142,644. The Company's Application requests authority to implement
13 rates that would result in total revenues of \$662,054 with adjusted operating expenses of
14 \$540,520 resulting in a net operating income of \$121,555. This would produce the Company's
15 required rate of return of 11.61% on the Company's adjusted rate base of \$1,046,978.

16 10. Concurrent with the filing of this Application, the Company has filed an Application with the
17 Commission requesting authority to increase the long term debt in its capital structure by
18 refinancing the existing short term debt and by issuing additional long term indebtedness to make
19 critical improvements to the water system needed for the continued service to the Company's
20 existing and future customers. The proforma cost and expense associated with these facilities
21 and loans have been included in the subject rate Application.

22 WHEREFORE, the Company respectfully requests the Commission to (a) issue a
23 Procedural Order setting this matter for hearing and establishing the appropriate timetable for

1 conduct of a hearing (b) following hearing in this matter. establish the Fair Value Rate Base of
2 the Company, (c) authorize revenue levels as requested herein to support the expenses as set
3 forth in the Application, (d) include within those authorized revenues a fair rate of return on the
4 Fair Value Rate Base so established, and thereafter (e) authorize the rates and charges set forth in
5 the Company's proposed form of Tariff appended to this Application, and (f) authorize such
6 other and further relief as may be appropriate according to the applicable law.

7 DATED this 15th day of June, 1999.

8 
9 Richard L. Sallquist, Esq.
10 SALLQUIST & DRUMMOND, P.C.
11 2525 E. Arizona Biltmore Circle
12 Suite 117
13 Phoenix, Arizona 85016
14 Attorneys for Applicant

15 Original and ten copies hand delivered
16 this 15th day of June, 1999, to:

17 Docket Control
18 Arizona Corporation Commission
19 1200 W. Washington
20 Phoenix, Arizona 85007

21 Hearing Division
22 Arizona Corporation Commission
23 1200 W. Washington
Phoenix, Arizona 85007

Legal Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

Utilities Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007



LIST OF EXHIBITS

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23

A. Supporting Schedules per A.A.C. R-14-2-103

B. Direct Testimony of Ronald L. Kozoman

C. Tariff

A.C.C. - DOCKET CONTROL
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DOCUMENTS ARE SUBJECT TO
REVIEW BEFORE ACCEPTANCE
AS A DOCKETED ITEM.

SUPPORTING SCHEDULES

PER A.A.C. R-14-2-103

FOR

VAIL WATER COMPANY

PERMANENT RATE APPLICATION

FILED JUNE 18, 1999

Vail Water Company
Index of Standard Filing Schedules

Page 1

| Sch. No. | |
|-------------|--|
| A-1 | Summary of the increase in revenue requirement and the spread of the revenue increase by customer classification |
| A-2 | Summary of the results of operations for the test year and for the test year and the two fiscal years ended prior to the end of the test year, compared with the projected year. |
| A-3 | Not required for Class C Water Utility |
| A-4 | Construction expenditures and gross utility plant in service for the test year and the two fiscal years ended prior to the end of the test year, compared with the projected year. |
| A-5 | Not required for Class C Water Utility |
| B-1 | Schedule showing the elements of original cost rate bases. |
| B-2 | Schedule listing pro forma adjustments to gross plant in service, accumulated depreciation, and Contributions in Aid of Contributions in Aid of Construction for the original cost rate base |
| B-3 | Omitted - Original Cost Requested for Fair Value |
| B-4 | Omitted - Original Cost Requested for Fair Value |
| B-5 | Schedule showing the computation of working capital allowance. |
| C-1 | Test year income statement, with pro forma adjustments. |
| C-2 | Schedules showing the detail of all pro forma adjustments. |
| C-3 | Schedule showing the incremental taxes and other expenses on gross revenues and the computation of an incremental gross revenue conversion factor. |
| D-1 | Summary of Cost of Capital. |
| D-1 | Company's capitalization with and without proposed debt |
| D-2 | Schedule Showing the detail of long-term debt and short-term at the end of the test year and the projected year and their total cost. |
| D-3 | Schedule showing the detail of preferred stock at the end of the test year and the projected year, and their total cost. |
| D-4 | Schedule summarizing conclusions of the required return on common equity at the end of the test year and the projected year. |
| D-4-DF | Projected Cash Flow at present rates by month |
| D-4-IC/DS | Interest Coverage and Debt Service |
| D-4-V | Test of financial viability of comparison companies to Applicant at Present and Proposed Rates |
| E-1 | Comparative balance sheets for the end of the test year and the two fiscal years ended prior to the end of the test year, actual and restated. |
| E-2 | Comparative income statements for the end of the test year and the two fiscal years ended prior to the end of the test year, actual and restated. |
| E-3 | Not required for Class C Water Utility |
| E-4 | Not required for Class C Water Utility |
| E-5 | Comparative schedule showing by detail account number, utility plant balances at the end of the test year and the end of the prior fiscal year. |
| E-6 | Not required for Class C Water Utility |
| E-7 | Comparative operating statistics on customers, consumption, revenues, and pumping power expense for the test year and the two fiscal years ending prior to the test year |

Vail Water Company
Index of Standard Filing Schedules

Page 2

Sch.
No.

- | | |
|-----|---|
| E-8 | Comparative schedule of all significant taxes charged to operations for the test year and the two fiscal years ended prior to the end of the test year. |
| E-9 | Audited Financial statements and notes to the financial statements. |
| F-1 | Projected income statements for the projected year compared with the test year, at present and proposed rates. |
| F-2 | Not required for Class C Water Utility |
| F-3 | Projected annual construction requirements by property classification, for one year subsequent to the test year, compared with the test year. |
| F-4 | Important assumptions used in preparing forecasts and projections. |
| G | Cost of Service Schedules - Not Filed |
| H-1 | Comparison of revenues by customer classification or other classification of revenue for the test year, at present and proposed rates. |
| H-2 | Comparison of revenues by class of service and by rate schedule for the test year at present and proposed rates |
| H-2 | Gallons sold by month and customer class |
| H-3 | Comparison of present and proposed rates schedules. |
| H-4 | Typical bill analysis. |
| H-5 | Bill counts. |

Vail Water Company
 Test Year Ended December 31, 1998
 Computation of Increase in Gross Revenue Requirements
 As Adjusted

EXHIBIT
 SCHEDULE A-1
 PAGE 1
 WITNESS: Kozoman

| Line No. | Original Cost | | | | | |
|----------|--|------------------|------------------|-----------------------------|---------------|-----------------|
| 1 | \$1,046,978 | | | | | |
| 2 | | | | | | |
| 3 | (\$177,279) | | | | | |
| 4 | | | | | | |
| 5 | -16.93% | | | | | |
| 6 | | | | | | |
| 7 | \$121,555 | | | | | |
| 8 | (Line 1 x Line 9) | | | | | |
| 9 | 11.61% | | | | | |
| 10 | | | | | | |
| 11 | \$298,834 | | | | | |
| 12 | | | | | | |
| 13 | 1 | | | | | |
| 14 | | | | | | |
| 15 | \$318,357 | | | | | |
| 16 | 19,524 | | | | | |
| 17 | | | | | | |
| 18 | | | | | | |
| 19 | | Present | Proposed | Dollar | Percent | % of Total |
| 20 | <u>Customer and/or Meter Classification</u> | <u>Rates</u> | <u>Rates</u> | <u>Change</u> | <u>Change</u> | <u>Increase</u> |
| 21 | From Customers on: | | | | | |
| 22 | 5/8 x 3/4 Inch Meters | 311,752 | 598,931 | 287,179 | 92% | 90.21% |
| 23 | Revenue Annualization 5/8 x 3/4" Meters | 23,344 | 44,848 | 21,504 | 92% | 6.75% |
| 24 | 1 inch Meters | 2,971 | 7,244 | 4,273 | 144% | 1.34% |
| 25 | 2 inch Meters | 1,700 | 4,862 | 3,163 | 186% | 0.99% |
| 26 | 6 inch Meters | 590 | 2,828 | 2,238 | 379% | 0.70% |
| 27 | Standpipe | 0 | 0 | 0 | 0% | 0.00% |
| 28 | Miscellaneous Revenues | 3,341 | 3,341 | | | |
| 29 | Total Revenues | <u>\$343,697</u> | <u>\$662,054</u> | <u>\$318,357</u> | <u>92.63%</u> | <u>100.00%</u> |
| 30 | Rate Increase without revenue annualization of 5/8 x 3/4" meters | | | \$296,852 | | |
| 31 | | | | | | |
| 32 | (a) SUPPORTING SCHEDULE B-1 | | | (c) SUPPORTING SCHEDULE G-2 | | |
| 33 | (b) SUPPORTING SCHEDULE C-1 | | | | | |
| 34 | | | | | | |

Vail Water Company
 Test Year Ended December 31, 1998
 Computation of Increase in Gross Revenue Requirements
 As Adjusted

EXHIBIT
 SCHEDULE A-1
 PAGE 1
 WITNESS: Kozoman

| Line No. | Original Cost | | | | | |
|----------|--|------------------|------------------|-----------------------------|----------------|-------------------|
| 1 | Adjusted Rate Base | \$1,046,978 | | | | |
| 2 | | | | | | |
| 3 | Adjusted Operating Income | (\$177,279) | | | | |
| 4 | | | | | | |
| 5 | Current Rate of Return | -16.93% | | | | |
| 6 | | | | | | |
| 7 | Required Operating income | \$121,555 | | | | |
| 8 | (Line 1 x Line 9) | | | | | |
| 9 | Required Rate of Return | 11.61% | | | | |
| 10 | | | | | | |
| 11 | Operating Income Deficiency | \$298,834 | | | | |
| 12 | | | | | | |
| 13 | Gross Revenue Conversion Factor | 1 | | | | |
| 14 | | | | | | |
| 15 | Increase in Gross Revenue Requirement | | | | | |
| 16 | Which Includes Property Taxes at | \$318,357 | | | | |
| 17 | proposed rates of: | 19,524 | | | | |
| 18 | | | | | | |
| 19 | | | | | | |
| 20 | <u>Customer and/or Meter Classification</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u> | <u>Percent</u> | <u>% of Total</u> |
| 21 | From Customers on: | <u>Rates</u> | <u>Rates</u> | <u>Change</u> | <u>Change</u> | <u>Increase</u> |
| 22 | 5/8 x 3/4 Inch Meters | 311,752 | 598,931 | 287,179 | 92% | 90.21% |
| 23 | Revenue Annualization 5/8 x 3/4" Meters | 23,344 | 44,848 | 21,505 | 92% | 6.75% |
| 24 | 1 Inch Meters | 2,971 | 7,244 | 4,273 | 144% | 1.34% |
| 25 | 2 Inch Meters | 1,700 | 4,862 | 3,163 | 186% | 0.99% |
| 26 | 6 Inch Meters | 590 | 2,828 | 2,238 | 379% | 0.70% |
| 27 | Standpipe | 0 | 0 | 0 | 0% | 0.00% |
| 28 | Miscellaneous Revenues | 3,341 | 3,341 | | | |
| 29 | Total Revenues | <u>\$343,697</u> | <u>\$662,054</u> | <u>\$318,357</u> | <u>92.63%</u> | <u>100.00%</u> |
| 30 | Rate Increase without revenue annualization of 5/8 x 3/4" meters | | | \$296,852 | | |
| 31 | | | | | | |
| 32 | (a) SUPPORTING SCHEDULE B-1 | | | (c) SUPPORTING SCHEDULE G-2 | | |
| 33 | (b) SUPPORTING SCHEDULE C-1 | | | | | |
| 34 | | | | | | |

Vail Water Company
Test Year Ended December 31, 1998
Summary of Results of Operations
With Corrected Depreciation from Schedules E-1 & E-2

EXHIBIT
SCHEDULE A-2
PAGE 1
WITNESS: Kozoman

| Line No. | Description | Prior Year | Prior Year | Test Year | | Projected Year | |
|----------|---|------------|-------------|-----------------|-------------------|----------------|----------------|
| | | 12/31/96 | 12/31/97 | Actual 12/31/98 | Adjusted 12/31/98 | Present Rates | Proposed Rates |
| 1 | Gross Revenues | \$185,008 | \$209,334 | \$260,719 | \$343,697 | \$343,697 | \$662,054 |
| 2 | | | | | | | |
| 3 | Revenue Deductions and | | | | | | |
| 4 | Operating Expenses | \$227,814 | \$305,473 | \$403,363 | \$520,976 | \$520,976 | \$540,500 |
| 5 | | | | | | | |
| 6 | Operating Income | (\$42,806) | (\$96,139) | (\$142,644) | (\$177,279) | (\$177,279) | \$121,555 |
| 7 | | | | | | | |
| 8 | Other Income and | | | | | | |
| 9 | Deductions | 2,929 | \$0 | \$711 | \$711 | \$711 | \$711 |
| 10 | | | | | | | |
| 11 | Interest Expense | 125 | 7340 | 2625.42 | 76,811 | 76,811 | 76,811 |
| 12 | | | | | | | |
| 13 | Net Income | (\$40,002) | (\$103,479) | (\$144,559) | (\$253,379) | (\$253,379) | \$45,455 |
| 14 | | | | | | | |
| 15 | Earned Per Average | | | | | | |
| 16 | Common Share | (\$40.00) | (\$103.48) | (\$2.27) | (\$3.97) | (\$3.97) | \$0.71 |
| 17 | | | | | | | |
| 18 | Dividends Per | | | | | | |
| 19 | Common Share | 0 | 0 | 0 | 0 | 0 | 0 |
| 20 | | | | | | | |
| 21 | Payout Ratio | 0 | 0 | 0 | 0 | 0 | 0 |
| 22 | | | | | | | |
| 23 | Return on Average | | | | | | |
| 24 | Invested Capital | (1) | (1) | -9.43% | -11.72% | -12.79% | 7.92% |
| 25 | | | | | | | |
| 26 | Return on Year End | | | | | | |
| 27 | Capital | -4.61% | -8.57% | -7.49% | -9.31% | -10.74% | 6.23% |
| 28 | | | | | | | |
| 29 | Return on Average | | | | | | |
| 30 | Common Equity | (1) | (1) | -4297.80% | -7533.06% | 332.42% | 62.10% |
| 31 | | | | | | | |
| 32 | Return on Year End | | | | | | |
| 33 | Common Equity | (1) | (1) | -286.44% | -502.07% | 124.87% | 47.39% |
| 34 | | | | | | | |
| 35 | Times Bond Interest Earned | | | | | | |
| 36 | Before Income Taxes | (286.45) | (21.82) | (54.33) | (2.31) | (2.31) | 1.58 |
| 37 | | | | | | | |
| 38 | Times Total Interest and | | | | | | |
| 39 | Preferred Dividends Earned | | | | | | |
| 40 | After Income Taxes | (342.45) | (13.10) | (54.33) | (2.31) | (2.31) | 1.58 |
| 41 | | | | | | | |
| 42 | (1) Not Meaningful due to Negative Equity and/or Negative Net Income | | | | | | |
| 43 | SUPPORTING SCHEDULES | | | | | | |
| 44 | (a) E-2 | | | | | | |
| 45 | (b) C-1 | | | | | | |
| 46 | (c) F-1 | | | | | | |

Vail Water Company
Test Year Ended December 31, 1998
Construction Expenditures
and Gross Utility Plant in Service

EXHIBIT
SCHEDULE A-4
PAGE 1
WITNESS: Kozoman

| <u>Line</u> <u>No.</u> | | <u>Construction</u> <u>Expenditures</u> | <u>Net Plant</u> <u>Placed</u> <u>in</u> <u>Service</u> | <u>Gross</u> <u>Utility</u> <u>Plant</u> <u>in Service</u> |
|---------------------------|-----------------------|--|--|---|
| 1 | Prior Year Ended 1996 | | | 1,231,683 |
| 2 | | | | |
| 3 | Prior Year Ended 1997 | 55,472 | 55,472 | 1,287,155 |
| 4 | | | | |
| 5 | Test Year Ended 1998 | 1,680,233 | 1,680,233 | 2,967,388 |
| 6 | | | | |
| 7 | Projected Year | 15,000 | 15,000 | 2,982,388 |
| 8 | | | | |
| 9 | | | | |
| 10 | | | | |
| 11 | | | | |

Vail Water Company
 Test Year Ended December 31, 1998
 Summary of Original Cost
 Rate Base Elements

EXHIBIT
 SCHEDULE B-1
 PAGE 1
 WITNESS: Kozoman

| Line No. | | Original Cost Rate Base |
|-------------|------------------------------------|----------------------------------|
| 1 | Gross Utility Plant in Service | \$2,967,388 |
| 2 | | |
| 3 | Less: Accumulated Depreciation | <u>506,760</u> |
| 4 | | |
| 5 | Net Utility Plant in Service | \$2,460,628 |
| 6 | | |
| 7 | | |
| 8 | Less: | |
| 9 | Customer Advances for | |
| 10 | Construction | 1,320,085 |
| 11 | Meter Deposits | 37,895 |
| 12 | Contributions in Aid of | |
| 13 | Construction - Net of Amortization | 182,863 |
| 14 | Deferred Income Taxes | |
| 15 | Deferred Investment Tax | |
| 16 | Taxes | |
| 17 | | |
| 18 | Add: | |
| 19 | Prepaid Water Rights | 70,188 |
| 20 | WIFA Reserve Fund | 13,870 |
| 21 | Allowance for Working Capital | <u>43,136</u> |
| 22 | | |
| 23 | Total Rate Base | <u><u>\$1,046,978</u></u> |
| 24 | | |
| 25 | | |
| 26 | | |
| 27 | | |
| 28 | | |
| 29 | | |
| 30 | | |
| 31 | SUPPORTING SCHEDULES: | |
| 32 | (a) B-2 (c) E-1 | |
| 33 | (b) B-3 (d) B-5 | |

RECAP SCHEDULES:
 (e) A-1

Vail Water Company
 Test Year Ended December 31, 1998
 Original Cost Rate Base
 Proforma Adjustments

EXHIBIT
 SCHEDULE B-2
 PAGE 1
 WITNESS: Kozoman

| Line No. | | Actual at end of Test Year (a) | Proforma Adjustments Label | Amount | Adjusted at end of Test Year (b) |
|----------|--|--|-------------------------------|--|--|
| 1 | Gross Utility | | | | |
| 2 | Plant in Service | 2,069,497 | [a] | 78,891 | 2,967,388 |
| 3 | | | | | |
| 4 | Plant from WIFA Loan | | [b] | 819,000 | |
| 5 | Less: | | | | |
| 6 | Accumulated | | | | |
| 7 | Depreciation | 789,095 | [c] | (282,335) | 506,760 |
| 8 | | | | | |
| 9 | Net Utility Plant | | | | |
| 10 | in Service | 1,280,402 | | | 2,460,628 |
| 11 | | | | | |
| 12 | Customer Advances for | | | | |
| 13 | Construction | 1,355,735 | [e] | (35,650) | 1,320,085 |
| 14 | | | | | |
| 15 | Meter Deposits | 37,895 | | | 37,895 |
| 16 | | | | | |
| 17 | Contributions in Aid of | | | | |
| 18 | Construction | | [d] | 359,686 | |
| 19 | Less: Amortization | | | (176,823) | |
| 20 | Net Contributions in Aid of Construction | | | | 182,863 |
| 21 | | | | | |
| 22 | Prepaid Water Rights | 73,882 | [f] | (3,694) | 70,188 |
| 23 | WIFA Required Reserve | | [g] | 13,870 | 13,870 |
| 24 | | | | | |
| 25 | [a] | | | Transfer Construction Work in Progress to Plant in Service. | |
| 26 | [b] | | | Future plant to be financed by WIFA loan. | |
| 27 | [c] | | | Correct Accumulated Depreciation to Reflect Depreciation Rate allowed | |
| 28 | | | | in last rate case, using ACC Staff balance for Accumulated Depreciation. | |
| 29 | [d] | | | Recognize Contributions in Aid of Construction and Amortization thereon. | |
| 30 | [e] | | | Remove Advances in Aid of Construction, not invested in plant at end of test year. | |
| 31 | [f] | | | Recognize Prepaid Water Rights and Amortization thereon | |
| 32 | [g] | | | WIFA Required Reserve Fund | |
| 33 | | | | | |
| 34 | | | | | |
| 35 | | | | | |
| 36 | SUPPORTING SCHEDULES: | | | RECAP SCHEDULES: | |
| 37 | (a) E-1 | | | (b) B-1 | |

Vail Water Company
 Plant Additions, Retirements & Revaluations
 and Accumulated Depreciation
 Test Year Ended December 31, 1996

| Plant Account Number | Description | Depreciation Rate | | Decision #1110 1996 | Additions Retirements 1997 | Balance at 12/31 1997 | Additions Retirements 1998 | Balance at 12/31 1998 |
|----------------------|------------------------------|-------------------|----------------------|---------------------|----------------------------|-----------------------|----------------------------|-----------------------|
| | | 12/1/96 | 9/1/96 | | | | | |
| 301 | Intangible Plant | | | 3,500 | - | 3,500 | - | 3,500 |
| 303 | Land and Land Rights | | | 61,370 | - | 61,370 | - | 61,370 |
| 304 | Structures & Improvements | 5.00% | 0.13% | 41,511 | (859) | 40,652 | 165,084 | 145,296 |
| 307 | Wells & Springs | 5.00% | 0.10% | 129,846 | 89 | 129,935 | 159,717 | 259,392 |
| 311 | Electric Pumping Equipment | 5.00% | 0.25% | - | - | - | - | - |
| 320 | Water Treatment Plant | 5.00% | 0.00% | 118,072 | - | 118,072 | - | 118,072 |
| 330 | Distribution Reservoirs | 5.00% | 0.19% | 877,372 | 36,082 | 913,454 | 482,315 | 1,405,629 |
| 331 | Trans. and Dist. Lines | 5.00% | 1.21% | 15,376 | - | 15,376 | - | 15,376 |
| 333 | Services | 5.00% | 0.04% | 60,242 | 21,169 | 81,410 | 4,350 | 105,685 |
| 334 | Water Meters | 5.00% | 0.16% | 3,149 | - | 3,149 | 196 | 4,039 |
| 340 | Office Furniture and Equip. | 5.00% | 0.02% | 33,907 | (1,007) | 32,900 | 2,328 | 32,900 |
| 341 | Transportation Equipment | 5.00% | 0.34% | (189,395) | - | (189,395) | (6,577) | (149,355) |
| | 1993 ACC Adjustment to Plant | | | 36,593 | - | 36,593 | 1,372 | 36,593 |
| | CHIP from 1996 Rate Case | | | 1,231,683 | - | 1,231,683 | 73,407 | 2,969,497 |
| | Total Plant | | Composite rate 2.61% | 1,231,683 | 62,796 | 1,287,155 | 73,407 | 2,969,497 |

(a) Composite or Weighted Depreciation Rate is computed as the depreciation rate for each asset category divided by total depreciable plant. As Plant is added, Composite or Weighted Depreciation Rate changes.
 Change in plant 55,472 782,342

Depreciation Expense with Half-Year Conventions on Plant Additions

| | | | |
|---|---------|---------|---------|
| Accumulated Depreciation | 370,557 | 62,796 | 73,407 |
| Balance at 12/31/96 per Decision #6110 | | | |
| Annual Depr. Expense | | | |
| Cumulative Accumulated Depreciation Balance | 370,557 | 433,353 | 506,760 |

Vail Water Company
 Test Year Ended December 31, 1998
 Amortization of Contributions in Aid of Construction

Exhibit
 Schedule B-2
 Page 3
 Witness: Kozoman

| Line No. | | Gross CIAC | Net CIAC | Accumulated Amortization |
|----------|---|----------------|----------------|--------------------------|
| 1 | CIAC from 1996 Rate Order, ACC Decision No. 61110 | | | |
| 2 | (Gross CIAC Proposed by | | | |
| 3 | RUCO | 329,686 | | |
| 4 | Less: RUCO Amortization) | <u>146,514</u> | | 146,514 |
| 5 | | | | |
| 6 | Net CIAC at 12/31/96 | 183,172 | 183,172 | |
| 7 | Amortization from 12/31/96 | | | |
| 8 | to 12/31/98 | | | |
| 9 | Amortization from 1997 | 16,484 | 166,688 | 162,998 |
| 10 | Amortization from 1998 at: | | | |
| 11 | 5.00% Rate | 10,990 | 155,698 | 173,988 |
| 12 | 2.58% Rate | 2,835 | 152,863 | 176,823 |
| 13 | Additions to CIAC in 1998 | 30,000 | <u>182,863</u> | |
| 14 | | | | |
| 15 | Gross CIAC in Plant in Service | <u>359,686</u> | <u>182,863</u> | |
| 16 | | | | |
| 17 | Hookup Fee Tariffs (Note 1) | 5,040 | 187,903 | |
| 18 | Annexation (Note 1) | 141,893 | 329,796 | |
| 19 | | | | |
| 20 | Total CIAC | <u>506,619</u> | <u>329,796</u> | |

21
 22 **Note 1:**
 23 Company has not invested in plant for tariffs collected. No
 24 amortization calculated. Plant and CAIC are not included in
 25 Rate Base. Please see Schedule E-1 / Money Market Funds from CIAC.

Vail Water Company
Test Year Ended December 31, 1998
Statement of Revenues and Expense

Exhibit
Schedule C-1
Page 1
Witness: Kozoman

| Line No. | Test Year | Proforma Adjustments Label | Amount | Adjusted Test Year | Proposed Rate Increase | Adjusted with Proposed Rate Increase |
|----------|--------------------------------|----------------------------|-------------|--------------------|------------------------|--------------------------------------|
| 1 | Operating Revenues: | | | | | |
| 2 | From Customers on: | | | | | |
| 3 | \$257,377 | [1] | \$59,635 | \$317,012 | \$296,852 | \$613,864 |
| 4 | 3,341 | | | 3,341 | | 3,341 |
| 5 | Proforma Revenue Annualization | | | | | |
| 6 | | [2] | 23,344 | 23,344 | 21,505 | 44,848 |
| 7 | \$260,719 | | \$82,978 | \$343,697 | \$318,357 | \$662,054 |
| 8 | | | | | | |
| 9 | Operating Expenses: | | | | | |
| 10 | \$69,713 | [5] | \$3,752 | \$73,465 | | \$73,465 |
| 11 | | | | | | |
| 12 | 37,728 | [12c] | 47,160 | 84,888 | | 84,888 |
| 13 | | [12a] | (3,930) | (3,930) | | (3,930) |
| 14 | 39,634 | [3] | 3,674 | 43,307 | | 43,307 |
| 15 | 1,189 | | | 1,189 | | 1,189 |
| 16 | 874 | | | 874 | | 874 |
| 17 | 6,974 | | | 6,974 | | 6,974 |
| 18 | 19,468 | | | 19,468 | | 19,468 |
| 19 | 119,506 | [6] | 3,878 | 123,384 | | 123,384 |
| 20 | 2,605 | [10] | 22,395 | 25,000 | | 25,000 |
| 21 | 6,000 | | | 6,000 | | 6,000 |
| 22 | 3,600 | | | 3,600 | | 3,600 |
| 23 | 14,425 | | | 14,425 | | 14,425 |
| 24 | 5,944 | [7] | 119 | 6,062 | | 6,062 |
| 25 | 7,099 | [9] | 7,209 | 14,308 | | 14,308 |
| 26 | 0 | | | 0 | | 0 |
| 27 | 14,549 | [8] [11] | 12,840 | 27,389 | 19,524 | 46,913 |
| 28 | 54,057 | [4] | 16,822 | 70,878 | | 70,878 |
| 29 | | [12b] | 3,694 | 3,694 | | 3,694 |
| 30 | | | | | | |
| 31 | \$403,363 | | \$117,613 | \$520,976 | \$19,524 | \$540,500 |
| 32 | | | | | | |
| 33 | (\$142,644) | | (\$34,635) | (\$177,279) | \$298,834 | \$121,555 |
| 34 | 2,625 | [13][14] | 74,186 | 76,811 | | 76,811 |
| 35 | 711 | | | 711 | | 711 |
| 36 | (\$144,558) | | (\$108,820) | (\$253,379) | \$298,834 | \$45,455 |

Vail Water Company
 Test Year Ended December 31, 1998
 Adjustment to Revenues and/or Expense

EXHIBIT
 SCHEDULE C-2
 PAGE 1
 WITNESS: KOZGMAN

| Line No. | Adjustment Number | | | | | Subtotal | |
|----------|--|------------|------------|------------|------------|------------|-------------|
| | 1 | 2 | 3 | 4 | 5 | | |
| 1 | Revenues | \$53,635 | \$23,344 | | | \$82,978 | |
| 2 | Expenses | | | 3,674 | 16,822 | 3,752 | 24,248 |
| 3 | Operating | | | | | | |
| 4 | Income | 53,635 | 23,344 | (3,674) | (16,822) | (3,752) | 56,731 |
| 5 | Interest | | | | | | |
| 6 | Expense | | | | | | 0 |
| 7 | Other | | | | | | |
| 8 | Income | | | | | | 0 |
| 9 | Net Income | \$53,635 | \$23,344 | (\$3,674) | (\$16,822) | (\$3,752) | \$56,731 |
| 10 | Revenues | | | | | | |
| 11 | Expenses | 3,878 | 119 | 12,840 | 7,209 | 22,395 | 70,589 |
| 12 | Operating | | | | | | |
| 13 | Income | (3,878) | (119) | (12,840) | (7,209) | (22,395) | 12,290 |
| 14 | Interest | | | | | | |
| 15 | Expense | | | | | | 0 |
| 16 | Other | | | | | | |
| 17 | Income | | | | | | 0 |
| 18 | Net Income | (\$3,878) | (\$119) | (\$12,840) | (\$7,209) | (\$22,395) | \$12,290 |
| 19 | Annualize | | | | | | |
| 20 | Management | | | | | | |
| 21 | Fee | | | | | | |
| 22 | Health | | | | | | |
| 23 | Insurance | | | | | | |
| 24 | Increase | | | | | | |
| 25 | Property | | | | | | |
| 26 | Tax at | | | | | | |
| 27 | Present | | | | | | |
| 28 | Rates | | | | | | |
| 29 | Auto | | | | | | |
| 30 | Expense | | | | | | |
| 31 | Telephone | | | | | | |
| 32 | Expense | | | | | | |
| 33 | Amortization | | | | | | |
| 34 | of Rate | | | | | | |
| 35 | Case | | | | | | |
| 36 | Expense | | | | | | |
| 37 | Expense | | | | | | |
| 38 | Totals | | | | | | |
| 39 | Revenues | | | | | | \$92,978 |
| 40 | Expenses | 19,524 | 46,924 | | | | 137,137 |
| 41 | Operating | | | | | | |
| 42 | Income | (19,524) | (46,924) | 0 | 0 | 0 | (\$128,344) |
| 43 | Interest | | | | | | |
| 44 | Expense | | | 27,191 | 46,995 | | 74,186 |
| 45 | Other | | | | | | |
| 46 | Income | | | | | | 0 |
| 47 | Net Income | (\$19,524) | (\$46,924) | (\$27,191) | (\$46,995) | 0 | (\$128,344) |
| 48 | Property | | | | | | |
| 49 | CAP | | | | | | |
| 50 | Interest | | | | | | |
| 51 | Interest | | | | | | |
| 52 | Tax at | | | | | | |
| 53 | Proposed | | | | | | |
| 54 | Rates | | | | | | |
| 55 | Recharge | | | | | | |
| 56 | Costs | | | | | | |
| 57 | Notes | | | | | | |
| 58 | Payable | | | | | | |
| 59 | WIFA | | | | | | |
| 60 | Loan | | | | | | |
| 61 | Increase in Property Tax Expense at Proposed Rates: | | | | | | \$19,524 |
| 62 | Total Proforma Expense adjustments without Property tax | | | | | | |
| 63 | at Proposed Rates (Excluding Interest Expense Adjustments) | | | | | | \$117,613 |

Vail Water Company
Adjustment to Revenues and/or Expense
Test Year Ended December 31, 1998
Adjustment Number 1

EXHIBIT
SCHEDULE C-2
PAGE 2
WITNESS: KOZOMAN

Line
No.

| | | | |
|----|---|-----------------|-----------------|
| 1 | Adjustment to reconcile to Bill Count Present Revenues. | | |
| 2 | | | |
| 3 | Rates from prior rate case not implemented until August 1998. | | |
| 4 | New rates were applied to the entire year. Adjustment of | | \$59,635 |
| 5 | is required to reconcile. | | |
| 6 | | | |
| 7 | Revenues per bill count | \$317,012 | |
| 8 | Revenues per books | <u>257,377</u> | |
| 9 | Increase due to rate increase | <u>\$59,635</u> | |
| 10 | | | |
| 11 | | | |
| 12 | | | |
| 13 | | | |
| 14 | | | |
| 15 | | | |
| 16 | Adjustment to Revenues and/or Expenses | | <u>\$59,635</u> |

Vail Water Company
Adjustment to Revenues and/or Expense
Test Year Ended December 31, 1998
Adjustment Number 2

EXHIBIT
SCHEDULE C-2
PAGE 3
WITNESS: KOZOMAN

Line
No.

| | | |
|----|--|-----------|
| 1 | Adjustment to Annualize Revenues from Customers on 5/8 x 3/4 Inch Meters | |
| 2 | | |
| 3 | Additional Revenues by Using End of Test Year Number of Customers | |
| 4 | Times Average Monthly Revenue per Customer | \$23,344 |
| 5 | | |
| 6 | (Please see Schedule C-2, page 3a for supporting computations | |
| 7 | on Revenue Annualization) | |
| 8 | | |
| 9 | | |
| 10 | Additional Bills | 551 |
| 11 | Additional Gallons | 4,109,124 |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | | |
| 16 | Adjustment to Revenues and/or Expenses | \$23,344 |

Vail Water Company
Test Year Ended December 31, 1998
Adjustment to Revenues and Expenses
Revenue Annualization for Customers on 5/8 x 3/4 Inch Meters

Exhibit
Schedule C-2
Page 3a
Witness: Kozoman

| Line No. | | Jan-98 | Feb. | March | April | May | June |
|----------|--|------------|------------|------------|-----------|-------------|----------|
| | Average Usage | 5,828 | 6,410 | 5,204 | 7,859 | 8,496 | 10,022 |
| 1 | | | | | | | |
| 2 | Year End Number of Customers | 634 | 634 | 634 | 634 | 634 | 634 |
| 3 | Actual No. Customers in Month | 541 | 541 | 548 | 568 | 579 | 580 |
| 4 | Increase or Decrease in Number of | | | | | | |
| 5 | Customers to the end of the test year | 93 | 93 | 86 | 66 | 55 | 54 |
| 6 | | | | | | | |
| 7 | Average Bill at Present Rates | \$36.26 | \$38.44 | \$33.92 | \$43.87 | \$46.26 | \$51.98 |
| 8 | Increase in Revenues, by Month | 3,371.75 | 3,574.81 | 2,916.81 | 2,895.54 | 2,544.23 | 2,807.14 |
| 9 | | | | | | | |
| 10 | Additional Gallons to be produced | 542,013 | 596,163 | 447,577 | 518,704 | 467,263 | 541,210 |
| 11 | | | | | | | |
| 12 | | | | | | | |
| 13 | | July | Aug. | Sept. | Oct. | Nov. | Dec. |
| 14 | Average Usage | 11,998 | 7,968 | 8,346 | 9,089 | 7,379 | 6,284 |
| 15 | | | | | | | |
| 16 | Year End Number of Customers | 634 | 634 | 634 | 634 | 634 | 634 |
| 17 | Actual No. Customers in Month | 580 | 597 | 601 | 610 | 625 | 633 |
| 18 | Increase or Decrease in Number of | | | | | | |
| 19 | Customers to the end of the test year | 37 | 33 | 24 | 9 | 1 | 0 |
| 20 | | | | | | | |
| 21 | Average Bill at Present Rates | \$59.39 | \$44.28 | \$45.70 | \$48.41 | \$42.07 | \$37.96 |
| 22 | Increase in Revenue, by Month | 2,197.57 | 1,461.29 | 1,096.73 | 435.67 | 42.07 | 0.00 |
| 23 | | | | | | | |
| 24 | Additional Gallons to be produced | 443,938 | 262,957 | 200,302 | 81,619 | 7,379 | 0 |
| 25 | | | | | | | |
| 26 | Total Additional Billings | | | | 551 | | |
| 27 | Total Revenue Annualization | | | | \$23,344 | | |
| 28 | | | | | | | |
| 29 | Total Additional Gallons to be Produced, in thousands of Gallons | | | | 4,109,124 | | |
| 30 | | | | | | | |
| 31 | | | | | | | |
| 32 | | Jan-98 | Feb. | March | April | May | June |
| 33 | Average Bill at Proposed Rates | \$69.66 | \$73.85 | \$65.17 | \$84.29 | \$88.87 | \$99.86 |
| 34 | Increase or Decrease in Number of | | | | | | |
| 35 | Customers to the end of the test year | 93 | 93 | 86 | 66 | 55 | 54 |
| 36 | Increase (Decrease) in Revenue, | | | | | | |
| 37 | by Month | 6,478.59 | 6,868.47 | 5,604.75 | 5,562.87 | 4,887.79 | 5,392.51 |
| 38 | | | | | | | |
| 39 | | July | Aug. | Sept. | Oct. | Nov. | Dec. |
| 40 | Average Bill at Proposed Rates | \$114.09 | \$85.07 | \$87.79 | \$93.00 | \$80.83 | \$72.94 |
| 41 | Increase or Decrease in Number of | | | | | | |
| 42 | Customers to the end of the test year | 37 | 33 | 24 | 9 | 1 | 0 |
| 43 | Increase (Decrease) in Revenue, | | | | | | |
| 44 | by Month | \$4,221.25 | \$2,807.39 | \$2,106.97 | \$836.96 | \$80.83 | \$0.00 |
| 45 | | | | | | | |
| 46 | Total Revenue Annualization at Proposed Rates | | | | | \$44,848.39 | |

EXHIBIT
 SCHEDULE C-2
 PAGE 4
 WITNESS: KOZOMAN

Vail Water Company
 Adjustment to Revenues and/or Expense
 Test Year Ended December 31, 1998
 Adjustment Number 3

| Line No. | Description | Total Cost | Estimated Variable Component | Estimated Variable Cost | Variable Cost Per 1,000 Gals | Variable Cost for Additional Gallons |
|----------|---|------------|------------------------------|-------------------------|------------------------------|--------------------------------------|
| 1 | Adjustment to Annualize Expenses based on 5/8 x 3/4 Inch Meters | | | | | |
| 2 | Additions | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |
| 6 | | | | | | |
| 7 | Pumping Power | 39,634 | 95.00% | 37,652 | \$0.661688 | \$2,719 |
| 8 | Repairs and Maintenance | 6,974 | 50.00% | 3,487 | 0.061282 | 252 |
| 9 | Office Supplies | 19,468 | 50.00% | 9,734 | 0.171060 | 703 |
| 10 | Totals | 66,076 | | 50,873 | \$0.89403 | \$3,674 |
| 11 | Gallons Sold in Test Year, in 1,000's | | | 56,903 | | |
| 12 | Estimated Variable Cost per 1,000 gallons | | | \$0.894 | | |
| 13 | | | | | | |
| 14 | Additional Gallons from Revenue Annualization | | | | | |
| 15 | in 1,000's of gallons | | | 4,109.12 | | |
| 16 | | | | | | |
| 17 | Estimated additional variable costs due to | | | | | |
| 18 | revenue annualization | | | \$3,674 | | |
| 19 | | | | | | |
| 20 | | | | | | |
| 21 | | | | | | |
| 22 | Adjustment to Revenues and/or Expenses | | | \$3,674 | | |

Vail Water Company
 Adjustment to Revenues and/or Expense
 Test Year Ended December 31, 1998
 Adjustment Number 4

EXHIBIT
 SCHEDULE C-2
 PAGE 5
 WITNESS: KOZOMAN

| Line No. | Acct. No. | Plant Description | Plant Amount | Depr. Rate | Depr. Expense |
|----------|-----------|---|--------------|------------|---------------|
| 1 | | Depreciation Expense Adjustment | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | 303 | Land and Land Rights | 3,500 | 0.00% | |
| 6 | 304 | Structures & Improvements | 61,770 | 2.80% | 1,730 |
| 7 | 307 | Wells & Springs | 145,736 | 3.20% | 4,664 |
| 8 | 311 | Electric Pumping Equipment | 289,392 | 3.60% | 10,419 |
| 9 | 320 | Water Treatment Plant | 0 | 0.00% | 0 |
| 10 | 330 | Distribution Reservoirs | 118,072 | 2.00% | 2,361 |
| 11 | 331 | Trans. and Distribution Lines | 1,405,829 | 2.00% | 28,117 |
| 12 | 333 | Services | 15,376 | 3.50% | 507 |
| 13 | 334 | Water Meters | 105,685 | 3.60% | 3,805 |
| 14 | 340 | Office Furniture and Equipment | 4,039 | 6.80% | 275 |
| 15 | 341 | Transportation Equipment | 32,900 | 13.30% | 4,376 |
| 16 | | ACC Staff's 1983 Adjustment to Plant | (149,395) | 2.58% | (3,857) |
| | | Construction Work in Progress 1996 | 36,593 | 2.58% | 945 |
| | | Construction Work in Progress 1998 | 78,891 | 2.58% | 2,057 |
| 18 | | | | | |
| 19 | | Proposed plant: | | | |
| 20 | 307 | Wells & Springs | 319,500 | 3.20% | 10,224 |
| 21 | 311 | Electric Pumping Equipment | 260,000 | 3.60% | 9,360 |
| 22 | 320 | Water Treatment Plant | 30,000 | 2.58% | 775 |
| 23 | 331 | Trans. and Distribution Lines | 204,500 | 2.00% | 4,090 |
| 24 | 340 | Office Furniture and Equipment | 5,000 | 6.80% | 340 |
| 25 | | | | | |
| 26 | | Totals | 2,967,318 | | 80,165 |
| 27 | | (a) Composite Depreciation Rate Before Additional Plant is included | | | |
| 28 | | Subtotal of Depreciable Plant | 2,963,819 | | |
| 29 | | | | | |
| 30 | | Less: Contributions in Aid of Construction (a) | 359,686 | -2.58% | (9,286) |
| 31 | | Annualized Depreciation Expense | | | 70,878 |
| 32 | | Net Depreciable Plant | 2,604,202 | | |
| 33 | | | | | |
| 34 | | | | | |
| 35 | | Test Year Depreciation | 54,057 | | 34,387 |
| 36 | | Adjustment to Depreciation Expense | | | 16,822 |
| 37 | | | | | |
| 38 | | Adjustment to Revenues and/or Expenses | | | 16,822 |
| 39 | | (a) CIAC not invested in plant is not being amortized. | | | |

Vail Water Company
Adjustment to Revenues and/or Expense
Test Year Ended December 31, 1998
Adjustment Number 5

EXHIBIT
SCHEDULE C-2
PAGE 6
WITNESS: KOZOMAN

| Line No. | | |
|-------------|--|----------|
| 1 | Adjustment to Payroll for Wage/Salary Increase | |
| 2 | | |
| 3 | | |
| 4 | Test year payroll | \$69,713 |
| 5 | Increase of 5 percent | 3,486 |
| 6 | | |
| 7 | | |
| 8 | Subtotal Increase in Payroll | 33,486 |
| 9 | | |
| 10 | Increase in Payroll Taxes: | |
| 11 | FICA Taxes at 7.65% | \$267 |
| 12 | Increase in Payroll Taxes | \$267 |
| 13 | | |
| 14 | | |
| 15 | | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | Adjustment to Revenues and/or Expenses | \$3,752 |

Vail Water Company
 Adjustment to Revenues and/or Expense
 Test Year Ended December 31, 1998
 Adjustment Number 6

EXHIBIT
 SCHEDULE C-2
 PAGE 7
 WITNESS: KOZOMAN

| Line No. | | Year End Number of Customers | Multi- plied by 12 | Annual Number of Bills |
|----------|--|------------------------------------|--------------------------|------------------------------|
| 1 | Adjustment to Management Fee | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | 5/8 x 3/4 Inch Meter | 634 | 12 | 7,608 |
| 7 | 1 Inch Meter | 4 | 12 | 48 |
| 8 | 2 Inch Meter | 1 | 12 | 12 |
| 9 | 6 Inch Meter | 0 | 12 | 0 |
| 10 | Annualized Number of Bills | | | 7,668 |
| 11 | Management Fee per Month | 0 | | \$7.00 |
| 12 | | | | \$53,676 |
| 13 | Test Year Management Fee | | | 49,798 |
| 14 | Increase in Management Fee | | | \$3,878 |
| 15 | | | | |
| 16 | | | | |
| 17 | | | | |
| 18 | Adjustment to Revenues and/or Expenses | | | \$3,878 |

Vail Water Company
Adjustment to Revenues and/or Expense
Test Year Ended December 31, 1998
Adjustment Number: 7

EXHIBIT
SCHEDULE C-2
PAGE 8
WITNESS: KOZOMAN

| <u>Line</u> <u>No.</u> | | |
|---------------------------|---|--------|
| 1 | Adjustment for health insurance cost increase | |
| 2 | | |
| 3 | | |
| 4 | Test year expense | 55,943 |
| 5 | Increase of 2 percent | 119 |
| 6 | | |
| 7 | | |
| 8 | | |
| 9 | | |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | | |
| 21 | Adjustment to Revenues and/or Expenses | \$119 |
| 22 | | |

Vail Water Company
 Adjustment to Revenues and/or Expense
 Test Year Ended December 31, 1998
 Adjustment Number **8**

EXHIBIT
 SCHEDULE C-2
 PAGE 9
 WITNESS: KOZOMAN

| Line No. | | |
|-------------|--|-----------|
| 1 | Annualized Revenues | \$343,697 |
| 2 | Two Times Revenue | \$687,394 |
| 3 | Gross Plant | 2,967,388 |
| 4 | Less: Accumulated Depreciation | 506,760 |
| 5 | | |
| 6 | Net Plant or Book Value | 2,460,628 |
| 7 | | |
| 8 | Revenue / Net Plant = Utilization Factor | 13.97% |
| 9 | | |
| 10 | Department of Revenue Factor for Plant | 35% |
| 11 | Two Times Revenue without sales tax | \$687,394 |
| 12 | Net Plant Times Utilization Factor, plus materials | |
| 13 | and supplies of: \$0.00 | \$861,220 |
| 14 | Correlated Value, with 50% of plant and 50% of revenue | \$774,307 |
| 15 | CWIP at 35% | |
| 16 | Transportation Equipment Deduction | (\$8,585) |
| 17 | | |
| 18 | Full Cash Value | \$765,722 |
| 19 | | |
| 20 | Times Assessment Ratio at 1999 | 25% |
| 21 | | |
| 22 | Assessed Value | \$191,431 |
| 23 | | |
| 24 | Property Tax Rate | 14.3077% |
| 25 | | |
| 26 | Property Tax Bill at annualized present rates | \$27,999 |
| 27 | | |
| 28 | Test Year Property Tax Bill | 14,549 |
| 29 | | |
| 30 | Adjustment to Property Tax Expense | \$12,840 |
| 31 | | |
| 32 | Adjustment to Revenues and/or Expenses | \$12,840 |

Vail Water Company
Adjustment to Revenues and/or Expense
Test Year Ended December 31, 1998
Adjustment Number 9

EXHIBIT
SCHEDULE C-2
PAGE 10
WITNESS: KOZOMAN

| Line No. | | |
|----------|---|----------------|
| 1 | Adjustment for increases in Miscellaneous Expenses: | |
| 2 | Auto Lease \$500/month | 6,000 |
| 3 | Cell phone \$25/month | 300 |
| 4 | Fax Line \$35/month | 420 |
| 5 | Auto fuel (20% increase) | 489 |
| 6 | | |
| 7 | | |
| 8 | Adjustment to Revenues and/or Expenses | <u>\$7,209</u> |
| 9 | | |

Vail Water Company
 Adjustment to Revenues and/or Expense
 Test Year Ended December 31, 1998
 Adjustment Number **10**

EXHIBIT
 SCHEDULE C-2
 PAGE 11
 WITNESS: KOZOMAN

| Line No. | | | |
|-------------|--------------------------------------|-------|-----------|
| 1 | Prior Rate Case Expense | | \$60,000 |
| 2 | Amortization Period in months | 48 | |
| 3 | Monthly Amortization | 1,250 | |
| 4 | Sept. 1998 to Dec. 1998 amortization | | 5,000 |
| 5 | Unamortized balance | | \$55,000 |
| 6 | New rate case expense | | 45,000 |
| 7 | Total Cost of new and old rate cases | | \$100,000 |
| 8 | Amortization Period in months | 48 | |
| 9 | Monthly Amortization | 2,083 | |
| 10 | Annual Amortization amount | | 25,000 |
| 11 | | | |
| 12 | | | |
| 13 | Test Year expense amount | | \$2,605 |
| 14 | Adjustment to Revenues/Expenses | | \$22,395 |

Vail Water Company
 Adjustment to Revenues and/or Expense
 Test Year Ended December 31, 1998
 Adjustment Number 11

EXHIBIT
 SCHEDULE C-2
 PAGE 12
 WITNESS: KOZOMAN

| Line No. | | At 100% of Proposed Revenues | At 35% of Present Revenues & At 65% of Proposed Revenues |
|----------|--|------------------------------|--|
| 1 | Property Taxes at Proposed Rates | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| 5 | | | |
| 6 | | | |
| 7 | Proposed Revenues | \$662,054 | \$550,629 |
| 8 | Two Times Revenue | \$1,324,109 | \$1,101,258 |
| 9 | Gross Plant | 2,967,368 | 2,967,388 |
| 10 | Less: Accumulated Depreciation | 506,760 | 506,760 |
| 11 | | | |
| 12 | Net Plant or Book Value | 2,460,628 | 2,460,628 |
| 13 | | | |
| 14 | Revenue / Net Plant = Utilization Factor | 26.91% | 22.38% |
| 15 | | | |
| 16 | Department of Revenue Factor for Plant | 60% | 45% |
| 17 | Two Times Revenue without sales tax | \$1,324,109 | \$1,101,258 |
| 18 | Net Plant Times Utilization Factor, plus materials and supplies of: \$0.00 | \$1,476,377 | \$1,107,282 |
| 19 | | | |
| 20 | Correlated Value, with 50% of plant and 50% of revenue | \$1,400,243 | \$1,104,270 |
| 21 | CWIP at 35% | | |
| 22 | Transportation Equipment Deduction | (\$15,025) | (\$12,243) |
| 23 | | | |
| 24 | Full Cash Value | \$1,384,718 | \$1,092,027 |
| 25 | | | |
| 26 | Times Assessment Ratio at 1999 | 25% | 25% |
| 27 | | | |
| 28 | Assessed Value | \$346,179 | \$273,007 |
| 29 | | | |
| 30 | Property Tax Rate | 14.3077% | 14.3077% |
| 31 | | | |
| 32 | Property Tax Bill at annualized proposed rates | \$49,530 | \$39,061 |
| 33 | | | |
| 34 | Adjusted Test Year Property Tax Bill, at present rates | 27,389 | 27,389 |
| 35 | | | |
| 36 | Adjustment to Property Tax Expense | \$22,141 | \$11,672 |
| 37 | Property Tax over next four years | 66,423 | 11,672 |
| 38 | | | |
| 39 | Total Increase over Four Years (Addition columns on Line 37) | | \$78,095 |
| 40 | Average Over Four Years (Line 39 divided by 4) | | \$19,524 |
| 41 | Adjustment to Revenues and/or Expenses | | \$19,524 |

Vail Water Company
Property Tax Computations Based on Annualized
and Proposed Revenues and Plant
Test Year Ended: December 31, 1998
Using Company's Proposed Revenues and Net Plant

Exhibit
 Schedule C-2
 Page 12a
 Witness: Kozoman

| Line No. | | (a) Proposed Revenues |
|-------------|---|-----------------------------|
| 1 | Revenues - Annualized - Proposed Rates | 550,629 |
| 2 | Two Times Revenue | 1,101,258 |
| 3 | Gross Plant | 2,967,388 |
| 4 | Less: Accumulated Depreciation | 506,760 |
| 5 | | |
| 6 | Net Plant or Book Value | 2,460,628 |
| 7 | | |
| 8 | Revenue / Net Plant = Utilization Factor | 22.378% |
| 9 | | |
| 10 | Department of Revenue Factor for Plant | 45% |
| 11 | Two Times Revenue without sales tax | 1,101,258 |
| 12 | Net Plant Times Utilization Factor, plus materials & supplies of: | 1,107,282 |
| 13 | | |
| 14 | Correlated Value, assuming 50% of plant and 50% of revenue CWIP at 35% | 1,104,270 |
| 15 | | |
| 16 | Transportation Equipment Deduction | -12,243 |
| 17 | | |
| 18 | Full Cash Value | 1,092,027 |
| 19 | | |
| 20 | Times Assessment Ratio at 25% | 25.00% |
| 21 | | |
| 22 | Assessed Value | 273,007 |
| 23 | | |
| 24 | Property Tax Rate | <u>14.308%</u> |
| 25 | Property Tax Expense | <u>39,061</u> |
| 26 | (a) Using 65% of Proposed Revenues and 35% of adjusted present revenues | |

Vail Water Company
Computation of Maximum Error from the Use
of 50% of Revenues and 50% of Net Plant
Test Year Ended December 31, 1998
Using Company's Proposed Revenues and Net Plant

| Line No. | 1,101,258 | Percentage of Revenue | 1,107,282 | Plant | Correl-ated Value | Remove Transport Equipment | Full Cash Value | Assessed Value | 25.00% | 14.3077% | Property Tax with 50% of Plant & Revenue | Maximum Error in Property Tax | Maximum Error as A Percentage of Property Tax |
|----------|-----------|-----------------------|-----------|--------------------------|-------------------|----------------------------|-----------------|----------------|----------------------|----------------------|--|-------------------------------|---|
| | | | | Dollar amount of Revenue | | | | Percent | Property Tax Expense | Property Tax Revenue | | | |
| 1 | 100% | 0% | 1,101,258 | 0 | 1,101,258 | (12,210) | 1,089,049 | 272,262 | 38,954 | 39,061 | 107 | 0.01% | 0.27% |
| 2 | 99% | 1% | 1,090,246 | 11,073 | 1,101,319 | (12,211) | 1,089,108 | 272,277 | 38,957 | 39,061 | 104 | 0.01% | 0.27% |
| 3 | 98% | 2% | 1,079,233 | 22,146 | 1,101,379 | (12,211) | 1,089,168 | 272,292 | 38,959 | 39,061 | 102 | 0.01% | 0.26% |
| 4 | 97% | 3% | 1,068,221 | 33,218 | 1,101,439 | (12,212) | 1,089,227 | 272,307 | 38,961 | 39,061 | 100 | 0.01% | 0.26% |
| 5 | 96% | 4% | 1,057,208 | 44,291 | 1,101,499 | (12,213) | 1,089,287 | 272,322 | 38,963 | 39,061 | 98 | 0.01% | 0.25% |
| 6 | 95% | 5% | 1,046,196 | 55,364 | 1,101,560 | (12,213) | 1,089,346 | 272,337 | 38,965 | 39,061 | 96 | 0.01% | 0.25% |
| 7 | 94% | 6% | 1,035,183 | 66,437 | 1,101,620 | (12,214) | 1,089,406 | 272,352 | 38,967 | 39,061 | 94 | 0.01% | 0.24% |
| 8 | 93% | 7% | 1,024,170 | 77,510 | 1,101,680 | (12,215) | 1,089,466 | 272,366 | 38,969 | 39,061 | 92 | 0.01% | 0.23% |
| 9 | 92% | 8% | 1,013,158 | 88,583 | 1,101,740 | (12,215) | 1,089,525 | 272,381 | 38,971 | 39,061 | 89 | 0.01% | 0.23% |
| 10 | 91% | 9% | 1,002,145 | 99,655 | 1,101,801 | (12,216) | 1,089,585 | 272,396 | 38,974 | 39,061 | 87 | 0.01% | 0.22% |
| 11 | 90% | 10% | 991,133 | 110,728 | 1,101,861 | (12,217) | 1,089,644 | 272,411 | 38,976 | 39,061 | 85 | 0.01% | 0.22% |
| 12 | 89% | 11% | 980,120 | 121,801 | 1,101,921 | (12,217) | 1,089,704 | 272,426 | 38,978 | 39,061 | 83 | 0.01% | 0.21% |
| 13 | 88% | 12% | 969,107 | 132,874 | 1,101,981 | (12,218) | 1,089,763 | 272,441 | 38,980 | 39,061 | 81 | 0.01% | 0.21% |
| 14 | 87% | 13% | 958,095 | 143,947 | 1,102,042 | (12,219) | 1,089,823 | 272,456 | 38,982 | 39,061 | 79 | 0.01% | 0.20% |
| 15 | 86% | 14% | 947,082 | 155,020 | 1,102,102 | (12,219) | 1,089,883 | 272,471 | 38,984 | 39,061 | 77 | 0.01% | 0.20% |
| 16 | 85% | 15% | 936,070 | 166,092 | 1,102,162 | (12,220) | 1,089,942 | 272,486 | 38,986 | 39,061 | 75 | 0.01% | 0.19% |
| 17 | 84% | 16% | 925,057 | 177,165 | 1,102,222 | (12,221) | 1,090,002 | 272,500 | 38,988 | 39,061 | 72 | 0.01% | 0.19% |
| 18 | 83% | 17% | 914,045 | 188,238 | 1,102,283 | (12,221) | 1,090,061 | 272,515 | 38,991 | 39,061 | 70 | 0.01% | 0.18% |
| 19 | 82% | 18% | 903,032 | 199,311 | 1,102,343 | (12,222) | 1,090,121 | 272,530 | 38,993 | 39,061 | 68 | 0.01% | 0.17% |
| 20 | 81% | 19% | 892,019 | 210,384 | 1,102,403 | (12,223) | 1,090,180 | 272,545 | 38,995 | 39,061 | 66 | 0.01% | 0.17% |
| 21 | 80% | 20% | 881,007 | 221,456 | 1,102,463 | (12,223) | 1,090,240 | 272,560 | 38,997 | 39,061 | 64 | 0.01% | 0.16% |
| 22 | 79% | 21% | 869,994 | 232,529 | 1,102,524 | (12,224) | 1,090,300 | 272,575 | 38,999 | 39,061 | 62 | 0.01% | 0.16% |
| 23 | 78% | 22% | 858,982 | 243,602 | 1,102,584 | (12,225) | 1,090,359 | 272,590 | 39,001 | 39,061 | 60 | 0.01% | 0.15% |
| 24 | 77% | 23% | 847,969 | 254,675 | 1,102,644 | (12,225) | 1,090,419 | 272,605 | 39,003 | 39,061 | 58 | 0.01% | 0.15% |
| 25 | 76% | 24% | 836,956 | 265,748 | 1,102,704 | (12,226) | 1,090,478 | 272,620 | 39,006 | 39,061 | 55 | 0.01% | 0.14% |
| 26 | 75% | 25% | 825,944 | 276,821 | 1,102,764 | (12,227) | 1,090,538 | 272,634 | 39,008 | 39,061 | 53 | 0.00% | 0.14% |
| 27 | 74% | 26% | 814,931 | 287,893 | 1,102,825 | (12,227) | 1,090,597 | 272,649 | 39,010 | 39,061 | 51 | 0.00% | 0.13% |
| 28 | 73% | 27% | 803,919 | 298,966 | 1,102,885 | (12,228) | 1,090,657 | 272,664 | 39,012 | 39,061 | 49 | 0.00% | 0.13% |
| 29 | 72% | 28% | 792,906 | 310,039 | 1,102,945 | (12,229) | 1,090,717 | 272,679 | 39,014 | 39,061 | 47 | 0.00% | 0.12% |
| 30 | 71% | 29% | 781,894 | 321,112 | 1,103,005 | (12,229) | 1,090,776 | 272,694 | 39,016 | 39,061 | 45 | 0.00% | 0.11% |
| 31 | 70% | 30% | 770,881 | 332,185 | 1,103,066 | (12,230) | 1,090,836 | 272,709 | 39,018 | 39,061 | 43 | 0.00% | 0.11% |
| 32 | 69% | 31% | 759,868 | 343,258 | 1,103,126 | (12,231) | 1,090,895 | 272,724 | 39,020 | 39,061 | 40 | 0.00% | 0.10% |
| 33 | 68% | 32% | 748,856 | 354,330 | 1,103,186 | (12,231) | 1,090,955 | 272,739 | 39,023 | 39,061 | 38 | 0.00% | 0.10% |
| 34 | 67% | 33% | 737,843 | 365,403 | 1,103,246 | (12,232) | 1,091,014 | 272,754 | 39,025 | 39,061 | 36 | 0.00% | 0.09% |
| 35 | 66% | 34% | 726,831 | 376,476 | 1,103,307 | (12,233) | 1,091,074 | 272,769 | 39,027 | 39,061 | 34 | 0.00% | 0.09% |

Vail Water Company

Computation of Maximum Error from the Use
of 50% of Revenues and 50% of Net Plant
Test Year Ended December 31, 1998

Using Company's Proposed Revenues and Net Plant

Exhibit
Schedule C-2
Page 12a - 2
Witness Kozoman

| Line No. | 1,101,258 | 1,107,282 | Percentage of Revenue Plant | Dollar amount of Revenue Plant | Correl-ated Value | Remove Transport Equipment | Full Cash Value | 25 00% Assessed Value Percent | 14 30/77% Property Tax Expense | Property Tax with 50% of Plant & Revenue | Maximum Error in Property Tax | Maximum Error as A Percentage of Property Tax |
|----------|-----------|-----------|-----------------------------|--------------------------------|-------------------|----------------------------|-----------------|-------------------------------|--------------------------------|--|-------------------------------|---|
| 1 | 65% | 35% | 715,818 | 387,549 | 1,103,367 | (12,233) | 1,091,134 | 272,783 | 39,029 | 39,061 | 32 | 0.00% |
| 2 | 64% | 36% | 704,805 | 398,622 | 1,103,477 | (12,234) | 1,091,193 | 272,798 | 39,031 | 39,061 | 30 | 0.00% |
| 3 | 63% | 37% | 693,793 | 409,694 | 1,103,487 | (12,235) | 1,091,253 | 272,813 | 39,033 | 39,061 | 28 | 0.00% |
| 4 | 62% | 38% | 682,780 | 420,767 | 1,103,548 | (12,235) | 1,091,312 | 272,828 | 39,035 | 39,061 | 26 | 0.00% |
| 5 | 61% | 39% | 671,768 | 431,840 | 1,103,608 | (12,236) | 1,091,372 | 272,843 | 39,037 | 39,061 | 23 | 0.00% |
| 6 | 60% | 40% | 660,755 | 442,913 | 1,103,668 | (12,237) | 1,091,431 | 272,858 | 39,040 | 39,061 | 21 | 0.00% |
| 7 | 59% | 41% | 649,743 | 453,986 | 1,103,728 | (12,237) | 1,091,491 | 272,873 | 39,042 | 39,061 | 19 | 0.00% |
| 8 | 58% | 42% | 638,730 | 465,059 | 1,103,789 | (12,238) | 1,091,551 | 272,888 | 39,044 | 39,061 | 17 | 0.00% |
| 9 | 57% | 43% | 627,717 | 476,131 | 1,103,849 | (12,239) | 1,091,610 | 272,903 | 39,046 | 39,061 | 15 | 0.00% |
| 10 | 56% | 44% | 616,705 | 487,204 | 1,103,909 | (12,239) | 1,091,670 | 272,917 | 39,048 | 39,061 | 13 | 0.00% |
| 11 | 55% | 45% | 605,692 | 498,277 | 1,103,969 | (12,240) | 1,091,729 | 272,932 | 39,050 | 39,061 | 11 | 0.00% |
| 12 | 54% | 46% | 594,680 | 509,350 | 1,104,029 | (12,241) | 1,091,789 | 272,947 | 39,052 | 39,061 | 9 | 0.00% |
| 13 | 53% | 47% | 583,667 | 520,423 | 1,104,090 | (12,241) | 1,091,848 | 272,962 | 39,055 | 39,061 | 6 | 0.00% |
| 14 | 52% | 48% | 572,654 | 531,496 | 1,104,150 | (12,242) | 1,091,908 | 272,977 | 39,057 | 39,061 | 4 | 0.00% |
| 15 | 51% | 49% | 561,642 | 542,568 | 1,104,210 | (12,243) | 1,091,968 | 272,992 | 39,059 | 39,061 | 2 | 0.00% |
| 16 | 50% | 50% | 550,629 | 553,641 | 1,104,270 | (12,244) | 1,092,027 | 273,007 | 39,061 | 39,061 | 0 | 0.00% |
| 17 | 49% | 51% | 539,617 | 564,714 | 1,104,331 | (12,244) | 1,092,087 | 273,022 | 39,063 | 39,061 | (2) | 0.00% |
| 18 | 48% | 52% | 528,604 | 575,787 | 1,104,391 | (12,245) | 1,092,146 | 273,037 | 39,065 | 39,061 | (4) | 0.00% |
| 19 | 47% | 53% | 517,591 | 586,860 | 1,104,451 | (12,245) | 1,092,206 | 273,051 | 39,067 | 39,061 | (6) | 0.00% |
| 20 | 46% | 54% | 506,579 | 597,932 | 1,104,511 | (12,246) | 1,092,265 | 273,066 | 39,069 | 39,061 | (9) | 0.00% |
| 21 | 45% | 55% | 495,566 | 609,005 | 1,104,572 | (12,247) | 1,092,325 | 273,081 | 39,072 | 39,061 | (11) | 0.00% |
| 22 | 44% | 56% | 484,554 | 620,078 | 1,104,632 | (12,247) | 1,092,385 | 273,096 | 39,074 | 39,061 | (13) | 0.00% |
| 23 | 43% | 57% | 473,541 | 631,151 | 1,104,692 | (12,248) | 1,092,444 | 273,111 | 39,076 | 39,061 | (15) | 0.00% |
| 24 | 42% | 58% | 462,529 | 642,224 | 1,104,752 | (12,249) | 1,092,504 | 273,126 | 39,078 | 39,061 | (17) | 0.00% |
| 25 | 41% | 59% | 451,516 | 653,297 | 1,104,813 | (12,249) | 1,092,563 | 273,141 | 39,080 | 39,061 | (19) | 0.00% |
| 26 | 40% | 60% | 440,503 | 664,369 | 1,104,873 | (12,250) | 1,092,623 | 273,156 | 39,082 | 39,061 | (21) | 0.00% |
| 27 | 39% | 61% | 429,491 | 675,442 | 1,104,933 | (12,251) | 1,092,682 | 273,171 | 39,084 | 39,061 | (23) | 0.00% |
| 28 | 38% | 62% | 418,478 | 686,515 | 1,104,993 | (12,251) | 1,092,742 | 273,186 | 39,086 | 39,061 | (26) | 0.00% |
| 29 | 37% | 63% | 407,466 | 697,588 | 1,105,054 | (12,252) | 1,092,802 | 273,200 | 39,089 | 39,061 | (28) | 0.00% |
| 26 | 36% | 64% | 396,453 | 708,661 | 1,105,114 | (12,253) | 1,092,861 | 273,215 | 39,091 | 39,061 | (30) | 0.00% |
| 27 | 35% | 65% | 385,440 | 719,734 | 1,105,174 | (12,253) | 1,092,921 | 273,230 | 39,093 | 39,061 | (32) | 0.00% |
| 28 | 34% | 66% | 374,428 | 730,806 | 1,105,234 | (12,254) | 1,092,980 | 273,245 | 39,095 | 39,061 | (34) | 0.00% |

Vail Water Company
Computation of Maximum Error from the Use
of 50% of Revenues and 50% of Net Plant
Test Year Ended December 31, 1998
Using Company's Proposed Revenues and Net Plant

| Line No | 1,101,258 | Percentage of Plant Revenue | 1,107,282 | Correlated Value | Remove Transport Equipment | Full Cash Value | Assessed Value | 25.00% Assessed Value | Property Tax Expense | Property Tax Revenue | Maximum Error in Property Tax | Maximum Error as a Percentage of Property Tax |
|---------|-----------|-----------------------------|-----------|------------------|----------------------------|-----------------|----------------|-----------------------|----------------------|----------------------|-------------------------------|---|
| 1 | 33% | 363,415 | 741,879 | 1,105,294 | (12,255) | 1,093,040 | 273,260 | 39,097 | 39,061 | (36) | 0.00% | -0.09% |
| 2 | 32% | 352,403 | 752,952 | 1,105,355 | (12,255) | 1,093,099 | 273,275 | 39,099 | 39,061 | (38) | 0.00% | -0.10% |
| 3 | 31% | 341,390 | 764,026 | 1,105,415 | (12,256) | 1,093,159 | 273,290 | 39,101 | 39,061 | (40) | 0.00% | -0.10% |
| 4 | 30% | 330,378 | 775,098 | 1,105,475 | (12,257) | 1,093,219 | 273,305 | 39,104 | 39,061 | (43) | 0.00% | -0.11% |
| 5 | 29% | 319,365 | 786,170 | 1,105,535 | (12,257) | 1,093,278 | 273,320 | 39,106 | 39,061 | (45) | 0.00% | -0.12% |
| 6 | 28% | 308,352 | 797,243 | 1,105,596 | (12,258) | 1,093,338 | 273,334 | 39,108 | 39,061 | (47) | 0.00% | -0.13% |
| 7 | 27% | 297,340 | 808,316 | 1,105,656 | (12,259) | 1,093,397 | 273,349 | 39,110 | 39,061 | (51) | 0.00% | -0.13% |
| 8 | 26% | 286,327 | 819,389 | 1,105,716 | (12,259) | 1,093,457 | 273,364 | 39,112 | 39,061 | (53) | 0.00% | -0.14% |
| 9 | 25% | 275,315 | 830,462 | 1,105,776 | (12,260) | 1,093,516 | 273,379 | 39,114 | 39,061 | (55) | 0.00% | -0.14% |
| 10 | 24% | 264,302 | 841,535 | 1,105,837 | (12,261) | 1,093,576 | 273,394 | 39,116 | 39,061 | (58) | 0.00% | -0.15% |
| 11 | 23% | 253,289 | 852,607 | 1,105,897 | (12,261) | 1,093,636 | 273,409 | 39,118 | 39,061 | (60) | 0.00% | -0.15% |
| 12 | 22% | 242,277 | 863,680 | 1,105,957 | (12,262) | 1,093,695 | 273,424 | 39,121 | 39,061 | (62) | 0.00% | -0.16% |
| 13 | 21% | 231,264 | 874,753 | 1,106,017 | (12,263) | 1,093,755 | 273,439 | 39,123 | 39,061 | (64) | 0.00% | -0.16% |
| 14 | 20% | 220,252 | 885,826 | 1,106,078 | (12,263) | 1,093,814 | 273,454 | 39,125 | 39,061 | (66) | 0.00% | -0.17% |
| 15 | 19% | 209,239 | 896,899 | 1,106,138 | (12,264) | 1,093,874 | 273,468 | 39,127 | 39,061 | (68) | 0.00% | -0.17% |
| 16 | 18% | 198,227 | 907,972 | 1,106,198 | (12,265) | 1,093,933 | 273,483 | 39,129 | 39,061 | (70) | 0.00% | -0.18% |
| 17 | 17% | 187,214 | 919,044 | 1,106,258 | (12,266) | 1,094,053 | 273,513 | 39,133 | 39,061 | (72) | 0.00% | -0.19% |
| 18 | 16% | 176,201 | 930,117 | 1,106,319 | (12,267) | 1,094,112 | 273,528 | 39,135 | 39,061 | (75) | 0.00% | -0.19% |
| 19 | 15% | 165,189 | 941,190 | 1,106,379 | (12,267) | 1,094,172 | 273,543 | 39,138 | 39,061 | (77) | 0.00% | -0.20% |
| 20 | 14% | 154,176 | 952,263 | 1,106,439 | (12,268) | 1,094,231 | 273,558 | 39,140 | 39,061 | (79) | 0.00% | -0.20% |
| 21 | 13% | 143,164 | 963,336 | 1,106,499 | (12,268) | 1,094,291 | 273,573 | 39,142 | 39,061 | (81) | 0.00% | -0.21% |
| 22 | 12% | 132,151 | 974,409 | 1,106,560 | (12,269) | 1,094,350 | 273,588 | 39,144 | 39,061 | (83) | 0.00% | -0.21% |
| 23 | 11% | 121,138 | 985,481 | 1,106,620 | (12,270) | 1,094,410 | 273,603 | 39,146 | 39,061 | (85) | 0.00% | -0.22% |
| 24 | 10% | 110,126 | 996,554 | 1,106,680 | (12,271) | 1,094,470 | 273,617 | 39,148 | 39,061 | (87) | 0.00% | -0.22% |
| 25 | 9% | 99,113 | 1,007,627 | 1,106,740 | (12,271) | 1,094,529 | 273,632 | 39,150 | 39,061 | (89) | 0.00% | -0.23% |
| 26 | 8% | 88,101 | 1,018,700 | 1,106,801 | (12,272) | 1,094,589 | 273,647 | 39,153 | 39,061 | (92) | 0.00% | -0.23% |
| 27 | 7% | 77,088 | 1,029,773 | 1,106,861 | (12,272) | 1,094,648 | 273,662 | 39,155 | 39,061 | (94) | 0.00% | -0.24% |
| 28 | 6% | 66,076 | 1,040,845 | 1,106,921 | (12,273) | 1,094,708 | 273,677 | 39,157 | 39,061 | (96) | 0.00% | -0.25% |
| 29 | 5% | 55,063 | 1,051,918 | 1,106,981 | (12,274) | 1,094,767 | 273,692 | 39,159 | 39,061 | (98) | 0.00% | -0.26% |
| 30 | 4% | 44,050 | 1,062,991 | 1,107,041 | (12,275) | 1,094,827 | 273,707 | 39,163 | 39,061 | (102) | 0.00% | -0.26% |
| 26 | 3% | 33,038 | 1,074,064 | 1,107,102 | (12,275) | 1,094,887 | 273,722 | 39,165 | 39,061 | (104) | 0.00% | -0.27% |
| 27 | 2% | 22,025 | 1,085,137 | 1,107,162 | (12,276) | 1,094,946 | 273,737 | 39,165 | 39,061 | (107) | 0.00% | -0.27% |
| 28 | 1% | 11,013 | 1,096,210 | 1,107,222 | (12,277) | 1,095,006 | 273,751 | 39,167 | 39,061 | (107) | 0.00% | -0.27% |
| 29 | 0% | (0) | 1,107,282 | 1,107,282 | (12,277) | 1,095,006 | 273,751 | 39,167 | 39,061 | (107) | 0.00% | -0.27% |

Vail Water Company
 Adjustment to Revenues and/or Expense
 Test Year Ended December 31, 1993
 Adjustment Number 12

EXHIBIT
 SCHEDULE C-2
 PAGE 13
 WITNESS: KOZOMAN

| Line No. | | |
|-------------|--|-----------|
| 1 | CAP Water Recharge Program and Amortization of Prepaid Water Right: | |
| 2 | | |
| 3 | Vail Water Company Allocation of CAP Water in Acre Feet | 786 |
| 4 | Charge by Herb Kai for Recharge | (\$5.00) |
| 5 | Recharge Expense [12a] | (\$3,930) |
| 6 | | |
| 7 | Amortization of Prepaid Water Rights: | |
| 8 | | |
| 9 | Balance of Prepaid Water Rights | 73,882 |
| 10 | Amortization Period in years | 20 |
| 11 | Annual Amortization [12b] | 3,694 |
| 12 | | |
| 13 | CAP Charges based on Projected costs for the year 2000: | |
| 14 | Vail Water Company Allocation of CAP Water in Acre Feet | 786 |
| 15 | CAP Estimated Charges for Delivered CAP Water per | |
| 16 | Acre Foot | \$108.00 |
| 17 | CAP Charges for Delivered CAP Water | \$84,888 |
| 18 | Less: Test Year CAP Charges | 37,728 |
| 19 | Increase in CAP Charges [12c] | \$47,160 |
| 20 | | |
| 21 | | |
| 22 | Adjustment to Revenues and/or Expenses | 46,924 |

Vail Water Company
 Adjustment to Revenues and/or Expense
 Test Year Ended December 31, 1998
 Adjustment Number **13**

EXHIBIT
 SCHEDULE C-2
 PAGE 14
 WITNESS: KOZOMAN

| | | | | | |
|----------|--|---------------|----------|-----------|-----------|
| Line No. | | | | | |
| 1 | Interest On Notes Payable: | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | Notes Payable | | | |
| 5 | Total Short-Term Notes Payables | | | | |
| 6 | to be converted to Long-Term Debt | \$293,000 | | | |
| 7 | Short-Term Notes Already Issued | | | | |
| 8 | for operating expenses | 150,000 | | | |
| 9 | Short-Term Notes to be Issued | | | | |
| 10 | for operating expenses | 100,000 | | | |
| 11 | Short-Term Notes to be Issued | | | | |
| 12 | for CAP Delivery Charges | 43,000 | | | |
| 13 | | \$293,000 | | | |
| 14 | Repayment Term: | | | | |
| 15 | Years | 20 | | | |
| 16 | Months | 240 | | | |
| 17 | Interest On Notes Payable: | | | | |
| 18 | Annual | 10.2500% | | | |
| 19 | Monthly | 0.85417% | | | |
| 20 | Annuity Factor for Payments | 101.869908 | | | |
| 21 | Monthly Payments | 2,876.22 | | | |
| 22 | | | | | |
| 23 | | | | | |
| 24 | Notes Payable: | | Balance | | |
| 25 | Month | Payment | Interest | Principal | Balance |
| 26 | 1 | 2,876.22 | 2,502.71 | 373.51 | \$293,000 |
| 27 | 2 | 2,876.22 | 2,499.52 | 376.70 | \$292,626 |
| 28 | 3 | 2,876.22 | 2,496.30 | 379.91 | \$291,970 |
| 29 | 4 | 2,876.22 | 2,493.06 | 383.16 | \$291,489 |
| 30 | 5 | 2,876.22 | 2,489.78 | 386.43 | \$291,100 |
| 31 | 6 | 2,876.22 | 2,486.48 | 389.73 | \$290,711 |
| 32 | 7 | 2,876.22 | 2,483.15 | 393.06 | \$290,317 |
| 33 | 8 | 2,876.22 | 2,479.80 | 396.42 | \$289,921 |
| 34 | 9 | 2,876.22 | 2,476.41 | 399.81 | \$289,521 |
| 35 | 10 | 2,876.22 | 2,472.99 | 403.22 | \$289,119 |
| 36 | 11 | 2,876.22 | 2,469.55 | 406.67 | \$288,711 |
| 37 | 12 | 2,876.22 | 2,466.08 | 410.14 | \$288,301 |
| 38 | Totals | 34,515 | 29,816 | 4,699 | |
| 39 | Annual Interest Expense | | | | 29,816 |
| 40 | Test Year Interest Expense related to the above demand notes | | | | 2,625 |
| 41 | Adjustment to Revenues and/or Expenses | | | | 27,191 |

Vail Water Company
 Adjustment to Revenues and/or Expense
 Test Year Ended December 31, 1998
 Adjustment Number **14**

EXHIBIT
 SCHEDULE C-2
 PAGE 15
 WITNESS: KOZOMAN

Line
No.

1 Interest On WIFA Loan:
 2
 3
 4 WIFA
 Loan
 5 WIFA Financing \$819,000
 6 Repayment Term:
 7 Years 20
 8 Months 240
 9 Interest On Notes Payable:
 10 Annual, 75% of Existing Prime of 7.75%: 5.8100%
 11 Monthly 0.48417%
 12 Annuity Factor for Payments 141.740796
 13 Monthly Payments 5,778.15
 14
 15

| Notes Payable: | | | | | Balance |
|----------------|----------|----------|-----------|--|-----------|
| Month | Payment | Interest | Principal | | |
| | | | | | \$819,000 |
| 1 | 5,778.15 | 3,965.33 | 1,812.83 | | \$817,187 |
| 2 | 5,778.15 | 3,956.55 | 1,821.61 | | \$815,366 |
| 3 | 5,778.15 | 3,947.73 | 1,830.42 | | \$813,535 |
| 4 | 5,778.15 | 3,938.87 | 1,839.29 | | \$811,696 |
| 5 | 5,778.15 | 3,929.96 | 1,848.19 | | \$809,848 |
| 6 | 5,778.15 | 3,921.01 | 1,857.14 | | \$807,991 |
| 7 | 5,778.15 | 3,912.02 | 1,866.13 | | \$806,124 |
| 8 | 5,778.15 | 3,902.99 | 1,875.17 | | \$804,249 |
| 9 | 5,778.15 | 3,893.91 | 1,884.25 | | \$802,365 |
| 10 | 5,778.15 | 3,884.78 | 1,893.37 | | \$800,472 |
| 11 | 5,778.15 | 3,875.62 | 1,902.54 | | \$798,569 |
| 12 | 5,778.15 | 3,866.41 | 1,911.75 | | \$796,657 |
| Totals | 69,338 | 46,995 | 22,343 | | |

31
 32
 33 Adjustment to Revenues and/or Expenses 46,995
 34
 35 Total Annual Payments from Pages 13 and 14 103,880
 36 Total Interest Expense from pages 13 and 14 76,834

Vail Water Company
 Test Year Ended December 31, 1998
 Computation of Gross
 Revenue Conversion Factor

EXHIBIT
 SCHEDULE C-3
 PAGE 1
 WITNESS: Kozoman

| Line No. | Description | Percentage of Incremental Gross Revenues |
|----------|--|--|
| 1 | Federal Income Taxes | 0.00% |
| 2 | | |
| 3 | State Income Taxes | 0% |
| 4 | | |
| 5 | Other Taxes and Expenses | _____ |
| 6 | | |
| 7 | | |
| 8 | | |
| 9 | | |
| 10 | Total Tax Percentage | <u>0.00%</u> |
| 11 | | |
| 12 | Operating Income % = 100% - Tax Percentage | 1 |
| 13 | | |
| 14 | | |
| 15 | | |
| 16 | | |
| 17 | <u>1</u> = Gross Revenue Conversion Factor of: | 1 |
| 18 | Operating Income % | |
| 19 | | |
| 20 | | |
| 21 | | |
| 22 | | |
| 23 | | |
| 24 | | |
| 25 | | |
| 26 | | |
| 27 | | |
| 28 | SUPPORTING SCHEDULES: | RECAP SCHEDULES: |
| 29 | | A-1 |
| 30 | | |
| 31 | | |

Vail Water Company
 Test Year Ended December 31, 1998
 Summary of Cost of Capital

EXHIBIT
 SCHEDULE D-1
 PAGE 1
 WITNESS: Kozoman

| Line No. | <u>End of Test Year, Based on Invested Equity</u> | | | | <u>End of Projected Year Based Based Invested Equity Plus Proposed Income</u> | | | | | |
|----------|---|------------------|-------------------------|----------------------|---|------------------|----------------------|----------------------|--------|--|
| | Amount | Percent of Total | (e) Cost Rate | Weighted Cost | Amount | Percent of Total | (e) Cost Rate | Weighted Cost | | |
| 6 | Long-Term Debt (a) | \$293,000 | 12.93% | 10.25% | 1.33% | \$288,301 | 12.62% | 10.25% | 1.29% | |
| 7 | Long-Term Debt (a) | \$819,000 | 36.14% | 5.81% | 2.10% | \$796,657 | 34.87% | 5.81% | 2.03% | |
| 8 | Total Debt | \$1,112,000 | 49.07% | 6.98% | 3.42% | \$1,084,959 | 47.49% | 6.99% | 3.32% | |
| 9 | Preferred Stock (b) | | | | | | | | | |
| 10 | Common Equity (c) | \$1,154,184 | 50.93% | 16.07% | 8.19% | \$1,199,639 | 52.51% | 16.07% | 8.44% | |
| 11 | | \$2,266,184 | 100.00% | | 11.61% | \$2,284,597 | 100.00% | | 11.76% | |
| 12 | | | | | | | | | | |
| 13 | | | | | | | | | | |
| 14 | | | | | | | | | | |
| 15 | | | | | | | | | | |
| 16 | | | | | | | | | | |
| 17 | | | | | | | | | | |
| 18 | <u>Invested Capital</u> | <u>Amount</u> | <u>Percent of Total</u> | <u>(e) Cost Rate</u> | <u>Weighted Cost</u> | <u>Amount</u> | <u>(e) Cost Rate</u> | <u>Weighted Cost</u> | | |
| 19 | Long-Term Debt (a) | \$293,000 | 25.21% | 10.25% | 2.58% | \$288,301 | 24.41% | 10.25% | 2.502% | |
| 20 | Long-Term Debt (a) | \$819,000 | 70.45% | 5.81% | 4.09% | \$796,657 | 67.46% | 5.81% | 3.920% | |
| 21 | Total Debt | \$1,112,000 | 95.66% | 6.98% | 6.65% | \$1,084,959 | 91.88% | 6.99% | 6.422% | |
| 22 | Preferred Stock (b) | | | | | | | | | |
| 23 | Common Equity (c) | \$50,467 | 4.34% | 113.63% | 4.93% | \$95,922 | 8.12% | 113.63% | 9.23% | |
| 24 | | \$1,162,467 | 100.00% | | 11.61% | \$1,180,880 | 100.00% | | 15.65% | |
| 25 | | | | | | | | | | |
| 26 | | | | | | | | | | |
| 27 | Required Overall Return for Interest Coverage and Debt Service (Please See Schedule D-4-IC/DS) | | | | | | | | | |
| 28 | | | | | | | | | | |
| 29 | Required Operating Income | | | | \$121,555 | | | | | |
| 30 | Rate Base | | | | 1,046,978 | | | | | |
| 31 | Required Rate of Return | | | | 11.61% | | | | | |
| 32 | | | | | | | | | | |
| 33 | Required Equity Return for Reasonable Interest Coverage and Debt Service | | | | | | | | | |
| 34 | | | | | | | | | | |
| 35 | | | | | | | | | | |
| 36 | | | | | | | | | | |
| 37 | Return on Rate Base | | | | 11.61% | | | | 11.61% | |
| 38 | Less: Weighted Debt Cost | | | | 6.68% | | | | 3.42% | |
| 39 | Weighted Equity Return | | | | 4.93% | | | | 8.19% | |
| 40 | Weighted Equity Return Divided by | | | | | | | | | |
| 41 | Equity Component | | | | 4.34% | | | | 50.93% | |
| 42 | Required Equity Return | | | | 113.63% | | | | 16.07% | |
| 43 | | | | | | | | | | |
| 44 | SUPPORTING SCHEDULES: | | | | | | | | | |
| 45 | (a) D-2 | (c) D-4 | | | | | | | | |
| 46 | (b) D-3 | (d) E-1 | | | | | | | | |

Vail Water Company
 Test Year Ended December 31, 1998
 Summary of Cost of Capital With and Without Proposed Debt and
 Interest Coverage and Debt Service

EXHIBIT
 SCHEDULE D-1
 PAGE 2
 WITNESS: Kozoman

Line
 No.

End of Test Year, Based on Invested Equity With Proposed Debt

| | Amount | Percent of Total |
|------------------|--------------------|---------------------|
| 5 Long-Term Debt | \$293,000 | 12.93% |
| 6 Long-Term Debt | \$819,000 | 36.14% |
| 7 Total Debt | <u>\$1,112,000</u> | <u>49.07%</u> |
| 8 Common Equity | <u>\$1,154,184</u> | <u>50.93%</u> |
| 9 | <u>\$2,266,184</u> | <u>100.00%</u> |

End of Test Year, Based on Invested Equity Without Proposed Debt
 from Stockholders and/or WIFA

| | Amount | Percent of Total | | Amount | Percent of Total |
|-------------------|--------------------|---------------------|----------------|--------------------|---------------------|
| 17 Long-Term Debt | \$0 | 0.00% | Long-Term Debt | \$0 | 0.00% |
| 18 Long-Term Debt | \$819,000 | 36.14% | Long-Term Debt | \$0 | 0.00% |
| 19 Total Debt | <u>\$819,000</u> | <u>36.14%</u> | Total Debt | <u>\$0</u> | <u>0.00%</u> |
| 20 Common Equity | <u>\$1,447,414</u> | <u>63.86%</u> | Common Equity | <u>\$1,447,414</u> | <u>100.00%</u> |
| 21 | <u>\$2,266,414</u> | <u>100.00%</u> | | <u>\$1,447,414</u> | <u>100.00%</u> |

Debt Service and Interest Coverage at Present and Proposed Rates:

Interest Coverage:

| | Interest Expense | Actual Results | Adjusted Results | Proposed Rates |
|---|---------------------|-------------------|---------------------|-------------------|
| 29 Operating Income | | (\$142,644) | (\$177,279) | \$121,555 |
| 30 No Debt: | 0 | | | |
| 31 WIFA Debt | 46,995 | (3.04) | (3.77) | 2.59 |
| 32 Stockholder Debt | 29,816 | (4.78) | (5.95) | 4.08 |
| 33 WIFA & Stockholder Debt | 76,811 | (1.86) | (2.31) | 1.58 |
| 34 (Operating Income divided by Interest Expense) | | | | |

Debt Service:

| | Amount | Actual Results | Adjusted Results | Proposed Rates |
|---|--------|-------------------|---------------------|-------------------|
| 39 Operating Income | | (\$142,644) | (\$177,279) | \$121,555 |
| 40 Depreciation | | 54,057 | 70,878 | 70,878 |
| 41 Amortization of Prepaid Water Rights | | | | 3,694 |
| 42 Available for Debt Service | | <u>(\$88,588)</u> | <u>(\$106,400)</u> | <u>\$196,127</u> |
| 44 Principal and Interest Payments | | | | |
| 45 No Debt: | | 0 | 0 | 0 |
| 46 WIFA Debt | | | | 69,338 |
| 47 Stockholder Debt | | | | 34,542 |
| 48 WIFA Fund Reserve | | | | 13,870 |
| 49 Meter Deposit Refunds | | 3,790 | 3,790 | 3,790 |
| 50 Payments of Advance in Aid | | 16,883 | 16,883 | 36,655 |
| 51 Total Debt Service | | <u>20,673</u> | <u>20,673</u> | <u>158,194</u> |
| 52 Debt Service | | <u>(4.29)</u> | <u>(5.15)</u> | <u>1.24</u> |

Vail Water Company
 Test Year Ended December 31, 1998
 Cost of Long-term and
 Short-Term Debt

EXHIBIT
 SCHEDULE D-2
 PAGE 1
 WITNESS: Kozoman

| Line No. | Description of Debt | End of Test Year | | | End of Projected Year | | |
|-------------|--------------------------|------------------------------|-------------------------|---------------------------|------------------------------|-------------------------|---------------------------|
| | | Amount <u>Outstanding</u> | Interest <u>Rate</u> | Annual <u>Interest</u> | Amount <u>Outstanding</u> | Interest <u>Rate</u> | Annual <u>Interest</u> |
| 1 | | | | | | | |
| 2 | Long-Term Debt: | | | | | | |
| 3 | | | | | | | |
| 4 | WIFA Loan | \$819,000 | 5.81% | \$47,584 | \$796,657 | 5.81% | \$46,286 |
| 5 | | | | | | | |
| 6 | Notes Payable | <u>293,000</u> | 10.25% | <u>\$30,033</u> | <u>\$288,301</u> | 10.25% | <u>\$29,551</u> |
| 7 | | | | | | | |
| 8 | Long-Term Debt (a) | <u>\$1,112,000</u> | | <u>\$77,616</u> | <u>\$1,084,959</u> | | <u>\$75,837</u> |
| 9 | | | | | | | |
| 10 | Cost Rate (a) | | | <u>6.9799%</u> | | | <u>6.9898%</u> |
| 11 | | | | | | | |
| 12 | | | | | | | |
| 13 | Short-Term Debt: | | | | | | |
| 14 | | | | | | | |
| 15 | | | | | | | |
| 16 | | | | | | | |
| 17 | Short-Term Debt (a) | | | | | | |
| 18 | | | | | | | |
| 19 | Total Debt Cost Rate (a) | <u>\$1,112,000</u> | <u>6.98%</u> | <u>\$77,616</u> | <u>\$1,084,959</u> | <u>6.99%</u> | <u>\$75,837</u> |

(1) Please see Schedule C-2 for interest computations which include principal repayment

SUPPORTING SCHEDULES:

(a) E-1

RECAP SCHEDULES:

(a) D-1

Vall Water Company
Test Year Ended December 31, 1998
Cost of Preferred Stock

EXHIBIT
SCHEDULE D-3
PAGE 1
WITNESS: Kozoman

| <u>Description of Issue</u> | <u>End of Test Year</u> | | | <u>End of Projected Year</u> | | |
|---------------------------------|-------------------------------|---------------|---------------------------------|-------------------------------|---------------|---------------------------------|
| | <u>Shares Outstanding</u> | <u>Amount</u> | <u>Dividend Requirement</u> | <u>Shares Outstanding</u> | <u>Amount</u> | <u>Dividend Requirement</u> |

Not Applicable, no preferred stock issued or outstanding

Total (a)

Cost Rate (a)

SUPPORTING SCHEDULES:
(a) E-1

RECAP SCHEDULES:
(a) D-1

Vail Water Company
Test Year Ended December 31, 1998
Recommended Equity Return

EXHIBIT
SCHEDULE D-4
PAGE 1
WITNESS: Kozoman

Line
No.

| | | |
|----|---|---------------|
| 1 | Equity Return based on Computed Equity Return Method | |
| 2 | (Discounted Cash Flow and Capital Asset Pricing Model | |
| 3 | adjusted for Company specific business and | |
| 3 | and financial risk) | <u>N/A</u> |
| 4 | Rate of Return Schedule in Standard filing Schedules | |
| 5 | applied to Invested Capital | <u>16.07%</u> |
| 6 | Based on Interest Coverage and Debt Service | |
| 7 | | |
| 8 | | |
| 9 | N/A - Not applicable. | |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |

Vail Water Company
 Test Year Ended December 31, 1998
 Interest Coverage and Debt Service Computations
 with Proposed Debt at Proposed Rates

Exhibit
 Schedule D-4-IC/DS
 Page 1
 Witness: Kozoman

| Line No. | | <u>Interest Coverage</u> | <u>Debt Service</u> |
|-------------|--|------------------------------|-------------------------|
| 1 | Available for Interest Coverage: | | |
| 2 | Operating Income | \$121,555 | |
| 3 | Interest Expense | 76,811 | |
| 4 | Interest Coverage | <u>1.58</u> | |
| 5 | | | |
| 6 | | | |
| 7 | Available for Debt Service | | |
| 8 | Operating Income | | \$121,555 |
| 9 | Add: | | |
| 10 | Amortization of Prepaid Water Rights | | 3,694 |
| 11 | Depreciation Expense | | 70,878 |
| 12 | Available for Debt Service | | <u>\$196,127</u> |
| 13 | | | |
| 14 | Debt Service (Interest and Principal Payments) | | 103,852 |
| 15 | Meter and Service Line Refunds | | 3,790 |
| 16 | Repayment of Advances in Aid of Construction | | |
| 17 | 1998 Refunds (based on 1997 revenues) increased in ratio of | | |
| 18 | Proposed Rates / 1997 Revenues = | 16.883 | x |
| 19 | Proposed Revenues / 1997 Revenues | | |
| 20 | (Computation listed below) | 2.171096 | 36,655 |
| 21 | Funding of Reserve Account | | 13,870 |
| 22 | Total Debt Service | | <u>158,167</u> |
| 23 | | | |
| 24 | Debt Service Coverage | | <u>1.24</u> |
| 25 | | | |
| 26 | Ratio of Proposed Revenues to 1997 Revenues | | |
| 27 | Proposed Revenues without | | |
| 28 | Miscellaneous Revenues | \$658,713 | |
| 29 | 1997 Revenues without | ----- | = 2.171096 |
| 30 | Miscellaneous Revenues | \$207,724 | |

Vail Water Company

Test Year Ended December 31, 1998
 Test of Financial Viability

Exhibit
 Schedule D-4-V
 Page 1
 Witness: Kozoman

| Line No. | Ratio Label | American States Water Service 1998 | Calif. Water Service 1998 | Con-necticut Water Service 1998 | Middle-sex Water 1998 | SJW Corp. 1998 | Weighted Ratios of All Companies 1998 | Vail Water Company 1998 | |
|----------|---------------------|------------------------------------|---------------------------|---------------------------------|-----------------------|----------------|---------------------------------------|-------------------------|--|
| 1 | Profitability | 0.40 | 0.18 | 0.27 | 0.22 | 0.24 | 0.21 | -0.35 | |
| 2 | Profitability | Annual Operating Revenues | | | | | | | |
| 3 | Liquidity | 0.62 | 0.51 | 0.70 | 2.10 | 1.81 | 0.71 | 0.87 | |
| 4 | Liquidity | Current Assets | | | | | | | |
| 5 | Liquidity | Current Liabilities | | | | | | | |
| 6 | Leverage | 0.32 | 0.31 | 0.30 | 0.33 | 0.40 | 0.31 | 0.03 | |
| 7 | Leverage | Common Stock Equity | | | | | | | |
| 8 | Leverage | Total Assets | | | | | | | |
| 9 | Profitability | 0.37 | 0.73 | 0.26 | 0.32 | 0.73 | 0.46 | -21.87 | |
| 10 | Profitability | Retained Earnings | | | | | | | |
| 11 | Trend | Common Stock Equity | | | | | | | |
| 12 | Growth & Efficiency | 0.31 | 0.34 | 0.20 | 0.21 | 0.29 | 0.26 | 0.13 | |
| 13 | Growth & Efficiency | Annual Operating Revenues | | | | | | | |
| 14 | Growth & Efficiency | Total Assets | | | | | | | |
| 15 | Growth & Efficiency | Annual Operating Revenues | | | | | | | |
| 16 | Growth & Efficiency | Total Assets | | | | | | | |
| 17 | Efficiency | 1.20 | 1.19 | 1.37 | 1.27 | 1.22 | 1.25 | 0.65 | |
| 18 | Efficiency | Annual Operating Revenues | | | | | | | |
| 19 | Profitability | Annual Operating Expenses | | | | | | | |
| 20 | Profitability | Annual Operating Expenses | | | | | | | |
| 21 | Profitability | 0.10 | 0.10 | 0.18 | 0.14 | 0.15 | 0.13 | -0.55 | |
| 22 | Profitability | Net Income | | | | | | | |
| 23 | Profitability | Annual Operating Revenues | | | | | | | |
| 24 | Profitability | Annual Operating Revenues | | | | | | | |
| 25 | Totals | 3.09 | 3.36 | 3.27 | 3.04 | 4.84 | 3.33 | -21.10 | |

Test of Financial Viability from:
Viability Policies and Assessment Methods for Small Water Utilities,
 The National Regulatory Research Institute

Distress Classification Model
 System classified as:
 Good to excellent
 Weak to marginal
 Distressed

If Distress Score is:
 4.00 or more
 3.00 to 3.99
 3.00 or less

Vail Water Company
Test Year Ended December 31, 1998
Comparative Balance Sheets
With Correct Accumulated Depreciation and
Contributions in Aid of Construction

EXHIBIT
 SCHEDULE E-1
 PAGE 2
 WITNESS: KOZOMAN

| Line No. | Test Year Ended 12/31/98 | Prior Year Ended 12/31/97 | Prior Year Ended 12/31/96 |
|----------|---|---------------------------------|---------------------------------|
| 1 | Current Assets | | |
| 2 | \$63,685 | \$28,270 | \$30,838 |
| 3 | 147,644 | 0 | 0 |
| 4 | 29,171 | 22,253 | 17,046 |
| 5 | 73,882 | 73,882 | 41,885 |
| 6 | 55,539 | 29,457 | 18,718 |
| 7 | <u>\$369,921</u> | <u>\$153,862</u> | <u>\$108,487</u> |
| 8 | | | |
| 9 | Fixed Assets | | |
| 10 | \$2,069,497 | \$1,287,155 | \$1,231,683 |
| 11 | 0 | 0 | 0 |
| 12 | 78,891 | 222,548 | 36,592 |
| 13 | 506,760 | 433,353 | 370,557 |
| 14 | <u>\$1,641,627</u> | <u>\$1,076,350</u> | <u>\$897,718</u> |
| 15 | <u>\$2,011,548</u> | <u>\$1,230,212</u> | <u>\$1,006,205</u> |
| 16 | | | |
| 17 | \$67,560 | \$71,906 | \$50,303 |
| 18 | 0 | 90,000 | 0 |
| 19 | 48,717 | 33,735 | 27,888 |
| 20 | 170 | 7,284 | 0 |
| 21 | 0 | 6,966 | 0 |
| 22 | 159,104 | 0 | 6,937 |
| 23 | <u>\$275,550</u> | <u>\$209,891</u> | <u>\$85,128</u> |
| 24 | | | |
| 25 | 0 | 0 | 0 |
| 26 | | | |
| 27 | <u>0</u> | <u>0</u> | <u>0</u> |
| 28 | | | |
| 29 | Deferred Credits | | |
| 30 | \$1,355,735 | \$842,866 | \$615,870 |
| 31 | 0 | 0 | 0 |
| 32 | 506,619 | 386,565 | 386,565 |
| 33 | 176,823 | 165,370 | 146,019 |
| 34 | 0 | 0 | 0 |
| 35 | <u>\$1,685,531</u> | <u>\$1,064,061</u> | <u>\$856,416</u> |
| 36 | | | |
| 37 | <u>\$1,961,081</u> | <u>\$1,273,952</u> | <u>\$941,544</u> |
| 38 | | | |
| 39 | \$638,099 | \$638,099 | \$638,099 |
| 40 | 516,085 | 426,085 | 426,085 |
| 41 | (1,103,717) | (1,107,924) | (999,523) |
| 42 | <u>\$50,467</u> | <u>(\$43,740)</u> | <u>\$64,661</u> |
| 43 | | | |
| 44 | <u>\$2,011,548</u> | <u>\$1,230,212</u> | <u>\$1,006,205</u> |
| 45 | (a) CIAC funds, which have not been invested in plant at this date. | | |
| 46 | (b) Corrections for Arizona Corporation Commission allowed depreciation | | |
| 47 | rate, contributions in aid of construction, and Prepaid Water Rights made | | |
| 48 | through Retained Earnings. | | |

Vall Water Company
 Test Year Ended December 31, 1998
 Comparative Income Statements
 With Corrected Depreciation Expense

EXHIBIT
 SCHEDULE E-2
 PAGE 2
 WITNESS: KOZOMAN

| Line No. | | Test Year Ended 12/31/98 | Prior Year Ended 12/31/97 | Prior Year Ended 12/31/96 |
|----------|--------------------------|--------------------------------|---------------------------------|---------------------------------|
| 1 | Operating Revenues: | | | |
| 2 | Metered Water Sales | \$257,377 | \$207,724 | \$183,502 |
| 3 | Unmetered Water Sales | 3,341 | 1,610 | 1,506 |
| 4 | Miscellaneous Revenues | 0 | 0 | 0 |
| 5 | | | | |
| 6 | Total Revenues | \$260,719 | \$209,334 | \$185,008 |
| 7 | | | | |
| 8 | Operating Expenses | | | |
| 9 | Salaries & Wages | \$69,713 | \$60,513 | \$55,769 |
| 10 | Purchased Water | 37,728 | 0 | 0 |
| 11 | Purchased Pumping Power | 39,634 | 31,997 | 26,165 |
| 12 | Water Testing | 1,189 | 0 | 0 |
| 13 | Water Treatment | 874 | 5,923 | 1,843 |
| 14 | Repairs and Maintenance | 6,974 | 6,904 | 13,281 |
| 15 | Office Supplies | 19,468 | 6,594 | 3,134 |
| 16 | Outside Services | 119,506 | 78,744 | 30,026 |
| 17 | Rate Case Expense | 2,605 | 20,529 | 0 |
| 18 | Rents | 6,000 | 2,500 | 0 |
| 19 | Transportation Expense | 3,600 | 5,420 | 3,783 |
| 20 | General Insurance | 14,425 | 17,185 | 5,000 |
| 21 | Health & Life Insurance | 5,944 | 5,586 | 517 |
| 22 | Misc. Operating Expenses | 7,099 | 5,670 | 8,594 |
| 23 | Other Taxes | 0 | 0 | 0 |
| 24 | Property Tax | 14,549 | 14,463 | 19,857 |
| 25 | Depreciation | 54,057 | 43,445 | 59,845 |
| 26 | Income Tax | 0 | 0 | 0 |
| 27 | Total Operating Expenses | \$403,363 | \$305,473 | \$227,814 |
| 28 | | | | |
| 29 | Operating Income | (\$142,644) | (\$96,139) | (\$42,806) |
| 30 | Interest Income | 711 | 51 | 110 |
| 31 | Interest Expense | 2,625 | 7,340 | 32 |
| 32 | Net Income | (\$144,559) | (\$103,428) | (\$42,728) |
| 33 | | | | |
| 34 | | | | |
| 35 | | | | |
| 36 | | | | |
| 37 | | | | |
| 38 | | | | |

Vail Water Company
 Test Year Ended December 31, 1998

Exhibit
 Schedule E-5
 Page 1
 Witness: Kozoman

| Line No. | Acct. No. | Plant Description | Plant Balance at <u>12/31/97</u> | Plant Additions, Reclass- ifications or or <u>Retirements</u> | Plant Balance at <u>12/31/98</u> |
|-------------|--------------|---|---|--|---|
| 1 | 301 | Organization Costs | | | |
| 2 | 302 | Franchises | | | |
| 3 | 303 | Land and Land Rights | \$3,500 | | \$3,500 |
| 4 | 304 | Structures & Improvements | 61,770 | | 61,770 |
| 5 | 307 | Wells & Springs | 40,652 | 105,084 | 145,736 |
| 6 | 311 | Electric Pumping Equipment | 129,675 | 159,717 | 289,392 |
| 7 | 320 | Water Treatment Plant | 0 | | 0 |
| 8 | 330 | Reservoirs | 118,072 | | 118,072 |
| 9 | 331 | Trans. and Distribution Lines | 913,454 | 492,375 | 1,405,829 |
| 10 | 333 | Services | 15,376 | | 15,376 |
| 11 | 334 | Water Meters | 81,410 | 24,276 | 105,685 |
| 12 | 335 | Fire Hydrants | | | |
| 13 | 339 | Structures & Improvements | | | |
| 14 | 340 | Office Furniture and Equipment | 3,149 | | 4,039 |
| 15 | 341 | Transportation Equipment | 32,900 | | 32,900 |
| 16 | 343 | Tools and Equipment | | | |
| 17 | 345 | Power Operated Equipment | | | |
| 18 | 347 | Miscellaneous Equipment | | | |
| 19 | | | | | |
| 20 | | Net Staff adjustments to plant | (149,395) | | (149,395) |
| 21 | | (prior rate case, specific plant | | | |
| 22 | | not identified) | | | |
| 23 | | CWIP from 12/31/96 Included in Decision 61110 | | | |
| 24 | | | 36,593 | | 36,593 |
| 25 | | Subtotal | <u>1,287,155</u> | <u>781,452</u> | <u>2,069,497</u> |
| 26 | | | | | |
| 27 | 348 | Construction Work in Progress | 222,548 | (143,658) | 78,890 |
| 28 | | | | | |
| 29 | | Total | <u>\$1,509,703</u> | <u>\$637,794</u> | <u>\$2,148,387</u> |
| 30 | | | | | |
| 31 | | | | | |

Vail Water Company
Test Year Ended December 31, 1998
Operating Statistics

EXHIBIT
SCHEDULE E-7
WITNESS: Kozoman
PAGE 1

| Line No. | | Test Year Ended <u>12/31/98</u> | Prior Year Ended <u>12/31/97</u> | Prior Year Ended <u>12/31/96</u> |
|-------------|---------------------------------------|--|---|---|
| 1 | WATER STATISTICS: | | | |
| 2 | | | | |
| 3 | Revenue from Customers: | \$260,719 | \$207,724 | \$184,805 |
| 4 | | | | |
| 5 | Year End Average Number of Customers: | 593 | 537 | 444 |
| 6 | | | | |
| 7 | Average Annual Revenue: | \$439.54 | \$386.82 | \$416.23 |
| 8 | | | | |
| 9 | | | | |
| 10 | Pumping Cost Per 1,000 Gallons | \$0.663 | \$0.578 | \$0.605 |
| 11 | | | | |

Vail Water Company
Test Year Ended December 31, 1998
Taxes Charged to Operations

EXHIBIT
SCHEDULE E-8
WITNESS: Kozoman
PAGE 1

| <u>Line</u> <u>No.</u> | <u>Description</u> | <u>Test</u> <u>Year</u> <u>Ended</u> <u>12/31/98</u> | <u>Prior</u> <u>Year</u> <u>Ended</u> <u>12/31/97</u> | <u>Prior</u> <u>Year</u> <u>Ended</u> <u>12/31/96</u> |
|---------------------------|--------------------|---|--|--|
| 1 | | | | |
| 2 | Income Taxes | 0 | 0 | 0 |
| 3 | Property Taxes | 14,549 | 14,463 | 19,857 |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | | | | |

VAIL WATER COMPANY
Vail, Arizona

AUDITED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 1998 and 1997

SCHEDULE E-9

VAIL WATER COMPANY
INDEX TO FINANCIAL STATEMENTS
For the Years Ended December 31, 1998 and 1997

| | <u>Page</u> |
|--|-------------|
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| Statements of Assets, Capitalization and Liabilities-Income Tax Basis..... | 4 |
| Statements of Revenue, Expenses and Accumulated Deficit-Income Tax Basis.. | 6 |
| Notes to Financial Statements..... | 7 |

Peachin & Peto CPAs, LTD.

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P.O. Box 12698
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Phone: 520-781-0244
Fax: 520-781-1310

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors and Shareholders
Vail Water Company**

We have audited the accompanying statements of assets, capitalization and liabilities-income tax basis of Vail Water Company (an Arizona corporation) as of December 31, 1998 and 1997, and the related statements of revenue, expenses and accumulated deficit-income tax basis for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the basis of accounting the Company uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, capitalization and liabilities of Vail Water Company as of December 31, 1998 and 1997, and its revenue, expenses and accumulated deficit for the years then ended, on the basis of accounting described in Note 2.

As shown in the financial statements, the Company incurred operating losses of \$141,410 and \$132,422 for the years ended December 31, 1998 and 1997, respectively. At December 31, 1998 and 1997, the accumulated deficit totaled \$1,194,272 and \$1,052,862, respectively. These factors and others are discussed in Note 17.

**Peachin & Peto CPA's, Ltd.
February 10, 1999**

Peachin & Peto CPAs Ltd.

VAIL WATER COMPANY
 STATEMENTS OF ASSETS, CAPITALIZATION AND LIABILITITES -
 INCOME TAX BASIS
 December 31, 1998 and 1997

| ASSETS | 1998 | 1997 |
|---|--------------|--------------|
| Utility plant | | |
| Land | \$ 3,500 | \$ 3,500 |
| Plant and equipment (Note 3) | 2,175,850 | 1,486,052 |
| Construction work in progress (Note 4) | 78,891 | 222,548 |
| | <hr/> | <hr/> |
| Total utility plant | 2,258,241 | 1,712,100 |
| Less accumulated depreciation | (786,718) | (736,794) |
| | <hr/> | <hr/> |
| Net utility plant | 1,471,523 | 975,306 |
| | <hr/> | <hr/> |
| Software, net of accumulated amortization of \$2,377 and \$1,393 | 573 | 1,557 |
| Rate case expense, net of accumulated amortization of \$2,605 | 28,658 | |
| Stock acquisition fee | 3,500 | 3,500 |
| Current assets | | |
| Cash | 62,951 | 28,270 |
| Customer accounts receivable | 29,903 | 22,253 |
| Prepaid expenses (Note 5) | 23,381 | 25,957 |
| | <hr/> | <hr/> |
| Total current assets | 116,235 | 76,480 |
| | <hr/> | <hr/> |
| Noncurrent assets | | |
| Money market funds (Note 6) | 147,644 | |
| | <hr/> | <hr/> |
| Total assets | \$ 1,768,133 | \$ 1,056,843 |
| | <hr/> <hr/> | <hr/> <hr/> |

See the notes to the financial statements.

VAIL WATER COMPANY
 STATEMENTS OF ASSETS, CAPITALIZATION AND LIABILITIES -
 INCOME TAX BASIS (Continued)
 December 31, 1998 and 1997

| | 1998 | 1997 |
|--|---------------------|---------------------|
| CAPITALIZATION AND LIABILITIES | | |
| Capitalization | | |
| Common stock (\$10 par value; 1,000,000 shares authorized; 63,810 shares issued and outstanding) | \$ 638,099 | \$ 638,099 |
| Capital in excess of stated value (Note 13) | 516,085 | 426,085 |
| Accumulated deficit | (1,194,272) | (1,052,862) |
| Total capitalization | (40,088) | 11,322 |
| Current liabilities | | |
| Accounts payable and accrued expenses (Note 15) | 67,730 | 71,954 |
| Interest payable to shareholders (Note 13) | 9,104 | 6,966 |
| Notes payable to shareholders (Note 13) | 150,000 | 90,000 |
| Customer deposits (Note 7) | 14,612 | 10,080 |
| Total current liabilities | 241,446 | 179,000 |
| Customer deposits, long-term (Note 7) | 34,105 | 23,655 |
| Advances for construction | | |
| Line extension agreements (Note 8) | 1,355,737 | 842,866 |
| Hook-up fee tariffs (Note 9) | 5,040 | |
| Sub-station advance (Note 10) | 30,000 | |
| Annexation agreements (Note 11) | 141,893 | |
| Total advances for construction | 1,532,670 | 842,866 |
| Total liabilities | 1,808,221 | 1,045,521 |
| Total liabilities and capitalization | \$ 1,768,133 | \$ 1,056,843 |

See the notes to the financial statements.

VAIL WATER COMPANY
 STATEMENTS OF REVENUE, EXPENSES AND ACCUMULATED DEFICIT -
 INCOME TAX BASIS
 For the Years Ended December 31, 1998 and 1997

| | 1998 | 1997 |
|--|----------------|----------------|
| Operating revenue | \$ 260,718 | \$ 209,385 |
| Operating expenses | | |
| Administrative and general (Note 12) | 122,085 | 100,547 |
| Professional services (Note 15) | 119,506 | 99,077 |
| Depreciation and amortization expenses | 53,512 | 38,220 |
| Purchased water | 37,728 | 35,106 |
| Purchased power | 39,634 | 31,997 |
| Property and other taxes | 14,841 | 13,997 |
| Repairs and maintenance | 6,974 | 7,230 |
| Other | 5,934 | 8,293 |
| Total operating expenses | 400,214 | 334,467 |
| Net operating loss before interest income and (expense) | (139,496) | (125,082) |
| Interest income | 711 | |
| Interest expense | (2,625) | (7,340) |
| Net loss | (141,410) | (132,422) |
| Accumulated deficit, beginning of year | (1,052,862) | (920,440) |
| Accumulated deficit, end of year | \$(1,194,272) | \$(1,052,862) |

See the notes to the financial statements.

**VAIL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997**

Note 1 - Organization and Nature of Operations

Vail Water Company, formerly known as Del Lago Water Company, was formed on June 10, 1959 as a corporation under the laws of the State of Arizona. The Company is engaged in the regulated utility business of public water supply. The Company is regulated by several Arizona agencies, including the Arizona Corporation Commission (ACC), which has jurisdiction with respect to rates, services, accounting procedures and other matters. The Company is operating under a rate order effective September 1, 1998.

The Company provides groundwater to approximately 637 customers in Vail, Arizona. As a consequence of utilizing groundwater, the Company is subject to various water conservation requirements authorized pursuant to Title 45, Chapter 2, Article 9 of the Arizona Revised Statutes and as set forth in the second Management Area. In addition, the Company has a fully executed, judicially validated, municipal subcontract with the Central Arizona Water conservation District and the United States of America for the purchase of up to 786 acre feet per annum of Central Arizona Project water.

No single customer accounted for more than 5% of the Company's sales. The Company owns two wells, both provide water to customers.

Note 2 - Significant Accounting Policies

a) **Basis of Accounting**

The financial statements have been prepared on the basis of accounting that the Company uses to file its income tax return. The basis differs from generally accepted accounting principles (GAAP) in the following ways:

- The tax basis of accounting requires that contributions in aid of construction (whether or not made by the utility's shareholders) received after June 12, 1996 are not taxable when received and have a zero tax basis to the company:
 - 1) if not included in the utility's rate base for rate making purposes,
 - 2) if used to acquire or construct property before the end of the second year following receipt of the contribution, and
 - 3) if certain conditions concerning the keeping of records are met.

**VAIL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997**

Note 2 - Significant Accounting Policies (Continued)

a) Basis of Accounting (Continued)

For GAAP, a regulated entity should capitalize costs if it is probable that future revenue will be provided to recover the costs and record a liability for revenue that provides recovery of expected future costs. Under GAAP, revenue recorded as a liability should be recognized in income as related costs are incurred.

- The tax basis of accounting expenses certain costs when paid under the economic performance rules. GAAP accounting requires the recognition of expenses as incurred.
- The tax basis of accounting uses the direct write-off method for bad debts while GAAP uses the reserve method.

b) Plant and Equipment

Plant and equipment are stated at cost and depreciated using the straight-line and accelerated methods as allowed by the Internal Revenue Code over the various lives of the applicable assets (Note 3).

c) Income Taxes

The stockholders of the Company have elected to have the corporation taxed under the provisions of Subchapter S of the Internal Revenue Code. Accordingly, the net earnings or losses of the corporation will be reported on the income tax returns of the individual stockholders.

Generally, a corporation computes built in gains or losses on the conversion of a C corporation to an S corporation based on the differences between the fair market value and tax basis of the assets held by the corporation. At the time the Company converted to S Corporation status, it had no built-in gains or losses. However, the C corporation had net operating losses amounting to \$891,078 at the time of conversion to S corporation status.

d) Advances and Contributions in Aid of Construction

Outside parties, generally customers and developers, make payments to the Company to fund certain capital expenditures to provide water to new customers. Amounts received are recorded as liabilities, generally as new customers begin to receive service. Most of the amounts are

VAIL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

Note 2 – Significant Accounting Policies (Continued)

d) Advances and Contributions in Aid of Construction (Continued)

refundable for limited periods of times. After the Company has paid all required refunds, the remaining balances are recorded as contributions in aid of construction. Nonrefundable amounts received by the Company are recorded as contributions in aid of construction, as discussed under a) above.

e) Concentration of Credit Risk

In the normal course of business, the Company extends unsecured credit to customers.

f) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

g) Reclassifications

Certain comparative amounts for 1997 have been reclassified from prior presentation for comparative purposes. Such reclassifications have no effect on the statements of assets, capitalization and liabilities or the statements of revenue, expenses and accumulated deficit.

Note 3 - Plant and Equipment

Plant and equipment at December 31, 1998 and 1997 consist of:

| | <u>1998</u> | <u>1997</u> |
|--|---------------------|---------------------|
| | \$ | \$ |
| Transmission and distribution mains | 1,405,830 | 913,454 |
| Wells and springs | 145,736 | 133,197 |
| Pumping equipment | 289,392 | 129,675 |
| Distribution reservoirs and standpipes | 118,072 | 118,072 |
| Structures and improvements | 61,770 | 61,770 |
| Meters | 105,685 | 81,410 |
| Other equipment and furniture | 49,365 | 48,474 |
| | <u>\$ 2,175,850</u> | <u>\$ 1,486,052</u> |

**VAIL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997**

Note 3 - Plant and Equipment (Continued)

Depreciation expense charged to operations was \$49,924 and \$37,237 in 1998 and 1997, respectively.

The useful lives of plant and equipment for purposes of computing depreciation are:

| | |
|------------------------|---------------|
| Utility plant | 20 - 25 years |
| Furniture and fixtures | 7 years |
| Equipment | 5 - 7 years |

Note 4 - Construction Work in Progress

Construction work in progress consists of water meters, transmission and distribution reservoirs. The balance of construction work in progress at December 31, 1998 and 1997 was \$78,891 and \$222,548, respectively. Construction work in progress is funded by advances for construction.

Note 5 - Prepaid Expenses

Prepaid expenses at December 31, 1998 and 1997 consist of:

| | <u>1998</u> | <u>1997</u> |
|---|------------------|------------------|
| Water rights paid to the Central Arizona Project | \$ 18,864 | \$ 18,864 |
| Liability insurance | 4,517 | 6,093 |
| Other | - | 1,000 |
| | <u>\$ 23,381</u> | <u>\$ 25,957</u> |

Note 6 - Cash Held as Noncurrent Asset

The Company plans to improve utility plant facilities (Notes 9 and 11). Cash in the amount of \$ 147,644, which has been set aside for that purpose, has been invested in money market funds.

VAIL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

Note 7 - Customer Deposits

Customers are required to make meter, service line, and guarantee deposits when service is initiated. Meter and service line deposits are subject to the company's 1998 rate order and are refundable at a rate of 10% per year.

Guarantee deposits are refunded after one year of satisfactory water payments. The guarantee deposits bear minimal interest, which is periodically paid to the customers. Customer deposits at December 31, 1998 and 1997 were:

| | <u>1998</u> | <u>1997</u> |
|--------------|------------------|------------------|
| Meter | \$ 22,000 | \$ 12,285 |
| Service line | 15,895 | 13,950 |
| Guarantee | <u>10,822</u> | <u>7,500</u> |
| | \$ <u>48,717</u> | \$ <u>33,735</u> |

The scheduled deposit refunds as of December 31, 1998 for each of the next five years and in the aggregate are as follows:

| <u>At December 31, 1998</u> | <u>Annual Refund</u> |
|-----------------------------|----------------------|
| 1999 | \$ 14,612 |
| 2000 | 3,790 |
| 2001 | 3,790 |
| 2002 | 3,790 |
| 2003 | 3,790 |
| Subsequent years | <u>18,945</u> |
| | \$ <u>48,717</u> |

Note 8 - Line Extension Agreements

Customers have advanced funds to the Company to construct line extensions to the customers' property. The Company agrees to refund the advances to the customers, up to the amount advanced, over 15 to 20 years based upon 15% to 20% of gross annual revenue from water sales to the customers. At the expiration of this period any unrefunded balance remains with the Company. No agreements expired during the years ended December 31, 1998 and 1997.

**VAIL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997**

Note 8 - Line Extension Agreements (Continued)

The Company entered into a line extension agreement on January 9, 1998 totaling \$49,030 with Vail Valley Joint Venture, a partnership controlled by certain shareholders.

Note 9 - Hook-Up Fee Tariffs

On January 14, 1998 The Arizona Corporation Commission approved an off-site facilities hook-up fee tariff applicable to the certified area south of the railroad tracks. Customers have advanced funds to the company for hook-up fees at December 31, 1998 in the amount of \$5,040. The fee is a non-refundable charge assessed to new connections requiring a main extension. The hook-up fee will be included in the company's rate base for rate making purposes.

Note 10 - Substation Advance

On May 22, 1998, The Arizona Corporation approved a Settlement and Water Service Agreement to resolve the dispute between Vail Water Company and M & S Properties, LLC. The agreement stipulates that M & S Properties, LLC contribute \$30,000 toward the cost of the design and construction of a new transmission main and booster station. M & S Properties, LLC owners received the right to request, at no additional cost, the construction of "tap-ins" along the new transmission main to provide water service to their respective properties. The \$30,000 advance will be included in the company's rate base for rate making purposes.

Note 11 - Annexation Participation Agreement

On December 31, 1998 Vail Water Company entered into an agreement with the Vail Water Annexation Group. The Vail Water Annexation Group is a group of property owners seeking the Annexation discussed in Note 16. As a condition precedent for Vail Water Company to apply to the Arizona Corporation Commission (ACC) for the annexation, the Vail Water Annexation Group shall pay a total of \$175,000 to the company for certain facilities improvements. If the annexation is not approved by the ACC, these payments will be refunded to the owners contributing. If the ACC approves the annexation, the payments will become non-refundable advances in aid of construction. As a further condition precedent for Vail Water Company to apply to the ACC for the annexation, the Vail Water Annexation Group will pay the company \$25,000 for estimated legal and consulting costs associated with the annexation application. All application cost contributions will be non-refundable.

At December 31, 1998, annexation participation advances amounted to \$141,893.

VAIL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

Note 12 - Lease

The Company leases office facilities from Vail Valley Joint Venture, a partnership controlled by certain of the company's shareholders. The lease commenced August 1, 1998 and expires August 1, 1999. Rent expense in 1998 and 1997 was \$6,000 and \$2,500, respectively. Annual rental commitments under the lease agreement follows:

| <u>Period</u> | <u>Annual Rental</u> |
|---------------|----------------------|
| 1999 | \$ 3,500 |

Note 13 - Notes Payable to Shareholders

Notes payable to shareholders at December 31, 1998 and 1997 were as follows:

| | <u>1998</u> | <u>1997</u> |
|--|-------------------|------------------|
| Unsecured notes; payable upon demand; if no demand, on April 28, 1999. Interest accrues at an annual rate of 10.25%. | \$ 100,000 | \$ - |
| Unsecured notes; payable upon demand; if no demand, on August 24, 1999. Interest accrues at an annual rate of 10.25%. | 50,000 | - |
| Unsecured notes; payable upon demand; if no demand, on January 20, 1998. Interest accrues at an annual rate of 10.25%. | - | 40,000 |
| Unsecured notes; payable upon demand; if no demand, on May 8, 1998. Interest accrues at an annual rate of 10.25%. | - | 50,000 |
| Total notes payable to shareholders | \$ 150,000 | \$ 90,000 |

On August 28, 1998, the Arizona Corporation Commission denied the Company's request to convert \$90,000 in short-term notes into long-term notes. Accordingly, at December 31, 1998, \$90,000 was reclassified from notes payable to shareholders to capital in excess of stated value and \$6,966 shareholder note interest accrued at December 31, 1997 was reversed.

**VAIL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997**

Note 13 - Notes Payable to Shareholders (Continued)

Shareholder note interest expense for the years ended December 31, 1998 and 1997 was \$2,139 and \$6,966, respectively. Accrued interest at December 31, 1998 and 1997 was \$9,104 and \$6,966, respectively.

Note 14 - Stock Transfer Restrictions

The shareholders have entered into a Shareholders' Agreement (Agreement) which establishes certain transfer restrictions on the stock of the Company as follows:

- Shareholders may not assign, sell, pledge, encumber, give or otherwise transfer or alienate any shares to another entity if such transfer would disqualify the Company's S corporation election.
- Shareholders may transfer their shares to or for the benefit of an immediate family member subject to certain restrictions of the Agreement.
- Shareholders may transfer all or any number of shares to one or more members of the shareholder group.
- The Agreement provides certain stock transfer restrictions in the event that a shareholder shall die, become permanently disabled or become subject to another event defined as an Involuntary Lifetime Transfer in the Agreement.

During the year ended December 31, 1998, 319,046 shares of stock were transferred among three members of the shareholder group.

Note 15 - Management Agreement

The Company has entered into an agreement for management services with TEM CORP, a corporation controlled by a shareholder of the company. The management agreement expires June 30, 1999 and requires the Company to pay \$7 per customer per month to TEM CORP, (\$5 prior to April 1, 1997) in exchange for certain accounting and administrative functions. Management services paid under the contract for the years ended December 31, 1998 and 1997 were \$49,798 and \$41,582, respectively. Management services are included in professional services. At December 31, 1998 and 1997, \$8,911 and \$3,689, respectively, are included in accounts payable and accrued expenses.

**VAIL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997**

Note 16 - Extension of Certificate of Convenience and Necessity

On January 6, 1999 Vail Water Company submitted an application for an Extension of Certificate of Convenience and Necessity (territory) to the Arizona Corporation Commission. The purpose of the application is to extend the existing territory to include additional property owners who wish to become part of Vail Water Company. The total estimated cost to construct utility facilities to serve customers in the requested area is \$760,000. The utility facilities will be financed by a combination of hook-up fees and line extension agreements. Construction of the utility facilities is estimated to begin July 1, 1999 and to be completed July 1, 2009.

Note 17 - Going Concern

At December 31, 1998 and 1997, the Company incurred net losses of \$141,410 and \$132,422, respectively. At December 31, 1998, the Company's current liabilities exceed its current assets by \$125,211, and total liabilities exceed total assets by \$40,088. At December 31, 1997, the Company's current liabilities exceed its current assets by \$102,520, and total assets exceed total liabilities by \$11,322.

The ability of the Company to continue as a going concern is dependent upon obtaining additional capital or debt financing from the shareholders. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Vail Water Company
 Test Year Ended December 31, 1998
 Projected Statement of Revenues and Expense

Exhibit
 Schedule F-1
 Page 1
 Witness: Kozoman

| Line No. | | Actual Test Year | Projected Year | |
|-------------|--------------------|------------------------|------------------|--------------------|
| | | | Present Rates | Projected Rates |
| 1 | Total Revenues | \$260,719 | \$343,697 | \$662,054 |
| 2 | | | | |
| 3 | Operating Expenses | \$403,363 | \$520,976 | \$540,500 |
| 4 | | | | |
| 5 | Operating Income | (\$142,644) | (\$177,279) | \$121,555 |
| 6 | Interest Expense | 2625 | 76,811 | 76,811 |
| 7 | Interest Income | 711 | 711 | 711 |
| 8 | Net Income | (\$144,558) | (\$253,379) | \$45,455 |

Vail Water Company
Test Year Ended December 31, 1998
Estimated Construction Expenditures

Exhibit
Schedule F-3
Page 1
Witness: Kozoman

Line
No.

| | | |
|---|----------------|----------|
| 1 | New Well Sites | \$15,000 |
| 2 | | |
| 3 | | |
| 4 | | |
| 5 | | |
| 6 | | |
| 7 | | |

Vail Water Company
Test Year Ended December 31, 1998
Assumptions Used in the Preparation of the Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Kozoman

Line
No.

- 1 Customers on 5/8 " Meters were annualized based on ending number customers.
- 2
- 3 Property taxes were computed using the method used by the Arizona
- 4 Department of Revenue.
- 5
- 6 Projected construction expenditures are shown on Schedule A-4 and F-3.
- 7
- 8 Expense adjustments are shown on Schedule C-2, and are explained
- 9 in the testimony.
- 10
- 11 Accumulated Depreciation and Depreciation Expense were computed
- 12 at Arizona Corporation Commission allowed rates in Decision No. 54679,
- 13 and Decision No. 61110.
- 14
- 15

Vail Water Company
 Test Year Ended December 31, 1998
 Summary of Revenues by Meter Size at
 Present and Proposed Rates

Exhibit
 Schedule H-1
 Page 1
 Witness: Kozoman

| Line No. | Meter Size | Percent of Revenues | | | | | |
|----------|--|---------------------------|-------------------|---------------|----------------|---------------|----------------|
| | | Adjusted Present Revenues | Proposed Revenues | Dollar Change | Percent Change | Present Rates | Proposed Rates |
| 1 | 5/8 x 3/4 Inch Meter | \$311,752 | \$598,931 | \$287,179 | 92.12% | 90.7056% | 90.4656% |
| 2 | 1 inch | 2,971 | 7,244 | 4,273 | 143.85% | 0.8643% | 1.0941% |
| 3 | 2 Inch Meter | 1,700 | 4,862 | 3,163 | 186.11% | 0.4945% | 0.7344% |
| 4 | 6 Inch Meter | 590 | 2,828 | 2,238 | 379.25% | 0.1717% | 0.4271% |
| 5 | Standpipe | 0 | 0 | 0 | 0.00% | 0.0000% | 0.0000% |
| 6 | Subtotal Water Revenues | 317,012 | 613,864 | 296,852 | 93.64% | 92.2360% | 92.7212% |
| 7 | Proforma Adjustment / Customer Growth | | | | | | |
| 8 | 5/8 x 3/4 inch meters | 23,344 | 44,848 | 21,505 | 92.12% | 6.7919% | 6.7741% |
| 9 | Miscellaneous Revenues | 3,341 | 3,341 | 0 | | 0.9721% | 0.5046% |
| 10 | Total Water Revenues | \$343,697 | \$662,054 | \$318,357 | 92.63% | 100.00% | 100.00% |
| 11 | | | | | | | |

Vail Water Company
 Test Year Ended December 31, 1998
 Analysis of Revenue by Detailed Class

Exhibit
 Schedule H-2
 Page 1
 Witness: Kozoman

| Line No. | Customers Classification and/or Meter Size | Average Number of Customers as of 12/31/98 | Average Consumption | Revenues | | Proposed Increase | |
|----------|--|--|---------------------|------------------|------------------|-------------------|---------------|
| | | | | Present Rates | Proposed Rates | Dollar Amount | Percent |
| 1 | 5/8 x 3/4 Inch Meter | 588 | | \$311,752 | \$598,931 | \$287,179 | 92.12% |
| 2 | | | | | | | |
| 3 | 1 Inch | 4 | | \$2,971 | \$7,244 | \$4,273 | 143.85% |
| 4 | | | | | | | |
| 5 | 2 Inch Meter - | 1 | | \$1,700 | \$4,862 | \$3,163 | 186.11% |
| 6 | | | | | | | |
| 7 | 6 Inch Meter | 0 | | \$590 | \$2,828 | \$2,238 | 379.25% |
| 8 | Totals | <u>593</u> | | <u>\$317,012</u> | <u>\$613,864</u> | <u>\$296,852</u> | <u>93.64%</u> |
| 9 | | | | | | | |
| 10 | | | | | | | |
| 11 | | | | | | | |
| 12 | | | | | | | |
| 13 | 5/8 x 3/4 Inch Meter | 588 | 7,940 | \$44.18 | \$84.87 | \$40.69 | 92.12% |
| 14 | | | | | | | |
| 15 | 1 Inch | 4 | 11,787 | \$63.20 | \$154.12 | \$90.92 | 143.85% |
| 16 | | | | | | | |
| 17 | 2 Inch Meter - | 1 | 25,500 | \$141.63 | \$405.20 | \$263.58 | 186.11% |
| 18 | | | | | | | |
| 19 | 6 Inch Meter | 0 | 4,000 | \$295.00 | \$1,413.80 | \$1,118.80 | 379.25% |
| 20 | | <u>593</u> | | | | | |

Vail Water Company
Changes in Representative Rate Schedules
Test Year Ended December 31, 1998

Exhibit
Schedule H-3
Page 1
Witness: Kozoman

| Line No. | Customer Classification and Meter Size | Present Rates | Proposed Rates | Percent Change |
|----------|--|-----------------------------------|---------------------------|----------------|
| 1 | Monthly Usage Charge for: | | | |
| 2 | Residential, Commercial, Industrial, Construction, Agricultural, Standpipe | | | |
| 3 | 5/8 x 3/4 Inch | \$14.40 | \$27.70 | 92.36% |
| 4 | 3 / 4 Inch | \$14.40 | \$27.70 | 92.36% |
| 5 | 1 Inch | \$19.00 | \$69.25 | 264.47% |
| 6 | 1 1/2 Inch | \$25.00 | \$138.50 | 454.00% |
| 7 | 2 Inch | \$46.00 | \$221.60 | 381.74% |
| 8 | 3 Inch | \$67.50 | \$443.20 | 556.59% |
| 9 | 4 Inch | \$100.00 | \$692.50 | 592.50% |
| 10 | 6 Inch | \$280.00 | \$1,385.00 | 394.64% |
| 11 | Sprinkler Rate | | (a) | |
| 12 | | | | |
| 13 | | | | |
| 14 | | | | |
| 15 | (a) Higher of \$7.00 per month or 2.00% of monthly minimum. | | | |
| 16 | | | | |
| 17 | | | | |
| 18 | Gallons included in Monthly Usage Charge | | | |
| 19 | 5/8 x 3/4 Inch Meters | 0 | 0 | 0.00% |
| 20 | 3/4 Inch Meters | 0 | 0 | 0.00% |
| 21 | 1 Inch | 0 | 0 | 0.00% |
| 22 | 1 1/2 Inch | 0 | 0 | 0.00% |
| 23 | 2 Inch | 0 | 0 | 0.00% |
| 24 | 3 Inch | 0 | 0 | 0.00% |
| 25 | 4 Inch | 0 | 0 | 0.00% |
| 26 | 6 Inch | 0 | 0 | 0.00% |
| 27 | | | | |
| 28 | | | | |
| 29 | Commodity Rates: | | | |
| 30 | All Customers | | | |
| 31 | Charge per 1,000 Gallons in excess of gallons included in Monthly | | | |
| 32 | Usage Charge | \$3.75 | \$7.20 | 92.00% |
| 33 | | | | |
| 34 | | | | |
| 35 | | | | |
| 36 | Service Line and Meter Installation Charges: | | | |
| 37 | | | | |
| 38 | <u>Meter Size</u> | <u>Present Rates</u> | <u>Proposed Rates (a)</u> | |
| 39 | 5/8 x 3/4 Inch | \$400.00 | \$400.00 | |
| 40 | 3 / 4 Inch | \$440.00 | \$440.00 | |
| 41 | 1 Inch | \$500.00 | \$500.00 | |
| 42 | 1 1/2 Inch | \$675.00 | \$675.00 | |
| 43 | 2 Inch - Compound | \$1,660.00 | \$1,660.00 | |
| 44 | 3 Inch - Compound | \$2,150.00 | \$2,150.00 | |
| 45 | 4 Inch - Compound | \$3,135.00 | \$3,135.00 | |
| 46 | 6 Inch - Compound | \$6,190.00 | \$6,190.00 | |
| 47 | | | | |
| 48 | Main extension tariff | Cost | Cost | |
| 49 | | | | |
| 50 | N/A | Not Applicable, No Current Tariff | | |
| 51 | | | | |

Vail Water Company
 Changes in Representative Rate Schedules
 Test Year Ended December 31, 1998

Exhibit
 Schedule H-3
 Page 2
 Witness: Kozoman

| Line No. | Other Service Charges | Present Rates | Proposed Rates |
|----------|---|-----------------------------------|----------------|
| 1 | Establishment | \$25.00 | \$25.00 |
| 2 | Establishment (After Hours) | \$50.00 | \$50.00 |
| 3 | Reconnection (Delinquent) | \$30.00 | \$30.00 |
| 4 | Reconnection (Delinquent and After Hours) | \$35.00 | \$35.00 |
| 5 | Meter Test | \$30.00 | \$30.00 |
| 6 | Min Deposit Requirement (Residential) | (a) | (a) |
| 7 | Min Deposit Requirement (Non-Residential) | (a) | (a) |
| 8 | Deposit Interest | 6% | 6% |
| 9 | Call Out, for customer out of water caused | | |
| 10 | malfunction on customer side of meter | | |
| 11 | (Company will not repair) | | |
| 12 | Re-Establishment (With-in 12 Months) | (b) | (b) |
| 13 | Re-Establishment (After Hours) | (b) | (b) |
| 14 | NSF Check | \$25.00 | \$25.00 |
| 15 | Deferred Payment, Per Month | 1.5% | 1.5% |
| 16 | Meter Re-Read | \$15.00 | \$15.00 |
| 17 | Charge of Moving Customer Meter - | | |
| 18 | Customer Requested | Cost | Cost |
| 19 | Late Charge per month | 1.5% | 1.5% |
| 20 | Illegal Hook-up to Company's water system | (c) | (d) |
| 21 | Transfer Fee | \$25.00 | \$25.00 |
| 22 | | | |
| 23 | ** PER COMMISSION RULES (R14-2-403.B) | | |
| 24 | (a) <u>Residential</u> - two times the average bill. <u>Non-residential</u> - two and one-half times the average bill. | | |
| 25 | (b) Minimum, less commodity charge times number of full months disconnected. If after houes, plus \$25. | | |
| 26 | (c) 1% of Monthly Minimum for a Comparable Meter Connection, but no less than \$5.00 per month. See tariff. | | |
| 27 | (It appears that the illegal hook-up tariff per Decision 61110 was a typographic en cr. The tariff listed in the Decision | | |
| 28 | is the normal tariff for Sprinkler Service.) | | |
| 29 | (d) Computed billings from time illegal connection was made to date, plus \$100. | | |
| 30 | IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM | | |
| 31 | ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE | | |
| 32 | TAX. PER COMMISSION RULE (14-2-409.D 5). | | |
| 33 | ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, | | |
| 34 | AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES. | | |
| 35 | Cost to include labor, materials and parts, overheads and all applicable taxes. | | |
| 36 | | | |
| 37 | N/A | Not Applicable, No Current Tariff | |

Vail Water Company
BILL COMPARISON - PRESENT AND PROPOSED RATES
 Customers on 5/8 x 3/4 inch Meters
 Test Year Ended December 31, 1998

Exhibit
 Schedule H-4
 Page 1
 Witness Kozoman

| <u>GALLONS</u> <u>BILLED</u> | <u>PRESENT</u> <u>BILL</u> | <u>PROPOSED</u> <u>BILL</u> | <u>DOLLAR</u> <u>INCREASE</u> | <u>PERCENT</u> <u>INCREASE</u> |
|---------------------------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| 0 | \$14.40 | \$27.70 | \$13.30 | 92.36% |
| 1,000 | 18.15 | 34.90 | 16.75 | 92.29% |
| 2,000 | 21.90 | 42.10 | 20.20 | 92.24% |
| 3,000 | 25.65 | 49.30 | 23.65 | 92.20% |
| 4,000 | 29.40 | 56.50 | 27.10 | 92.18% |
| 5,000 | 33.15 | 63.70 | 30.55 | 92.16% |
| 6,000 | 36.90 | 70.90 | 34.00 | 92.14% |
| 7,000 | 40.65 | 78.10 | 37.45 | 92.13% |
| 8,000 | 44.40 | 85.30 | 40.90 | 92.12% |
| 9,000 | 48.15 | 92.50 | 44.35 | 92.11% |
| 10,000 | 51.90 | 99.70 | 47.80 | 92.10% |
| 11,000 | 55.65 | 106.90 | 51.25 | 92.09% |
| 12,000 | 59.40 | 114.10 | 54.70 | 92.09% |
| 13,000 | 63.15 | 121.30 | 58.15 | 92.08% |
| 14,000 | 66.90 | 128.50 | 61.60 | 92.08% |
| 15,000 | 70.65 | 135.70 | 65.05 | 92.07% |
| 16,000 | 74.40 | 142.90 | 68.50 | 92.07% |
| 17,000 | 78.15 | 150.10 | 71.95 | 92.07% |
| 18,000 | 81.90 | 157.30 | 75.40 | 92.06% |
| 19,000 | 85.65 | 164.50 | 78.85 | 92.06% |
| 20,000 | 89.40 | 171.70 | 82.30 | 92.06% |
| 21,000 | 93.15 | 178.90 | 85.75 | 92.06% |
| 22,000 | 96.90 | 186.10 | 89.20 | 92.05% |
| 23,000 | 100.65 | 193.30 | 92.65 | 92.05% |
| 24,000 | 104.40 | 200.50 | 96.10 | 92.05% |
| 25,000 | 108.15 | 207.70 | 99.55 | 92.05% |
| 26,000 | 111.90 | 214.90 | 103.00 | 92.05% |
| 27,000 | 115.65 | 222.10 | 106.45 | 92.04% |
| 28,000 | 119.40 | 229.30 | 109.90 | 92.04% |
| 29,000 | 123.15 | 236.50 | 113.35 | 92.04% |
| 30,000 | 126.90 | 243.70 | 116.80 | 92.04% |
| 31,000 | 130.65 | 250.90 | 120.25 | 92.04% |
| 32,000 | 134.40 | 258.10 | 123.70 | 92.04% |
| 33,000 | 138.15 | 265.30 | 127.15 | 92.04% |
| 34,000 | 141.90 | 272.50 | 130.60 | 92.04% |
| 35,000 | 145.65 | 279.70 | 134.05 | 92.04% |
| 36,000 | 149.40 | 286.90 | 137.50 | 92.03% |
| 37,000 | 153.15 | 294.10 | 140.95 | 92.03% |
| 38,000 | 156.90 | 301.30 | 144.40 | 92.03% |
| 39,000 | 160.65 | 308.50 | 147.85 | 92.03% |
| 40,000 | 164.40 | 315.70 | 151.30 | 92.03% |
| 41,000 | 168.15 | 322.90 | 154.75 | 92.03% |
| 42,000 | 171.90 | 330.10 | 158.20 | 92.03% |
| 43,000 | 175.65 | 337.30 | 161.65 | 92.03% |
| 44,000 | 179.40 | 344.50 | 165.10 | 92.03% |
| 45,000 | 183.15 | 351.70 | 168.55 | 92.03% |
| 46,000 | 186.90 | 358.90 | 172.00 | 92.03% |
| 47,000 | 190.65 | 366.10 | 175.45 | 92.03% |
| 48,000 | 194.40 | 373.30 | 178.90 | 92.03% |
| Median Usage | | | | |
| 6,000 | 36.90 | 70.90 | 34.00 | 92.14% |
| Average Usage | | | | |
| 7,940 | 44.18 | 84.87 | 40.69 | 92.12% |

PRESENT RATES:

| | |
|--------------------------|---------|
| MONTHLY MINIMUM | \$14.40 |
| GALLONS IN MINIMUM | 0 |
| CHARGE PER 1,000 GALLONS | \$3.75 |

PROPOSED RATES:

| | |
|--------------------------|---------|
| MONTHLY MINIMUM | \$27.70 |
| GALLONS IN MINIMUM | 0 |
| CHARGE PER 1,000 GALLONS | \$7.20 |

Vail Water Company
BILL COMPARISON - PRESENT AND PROPOSED RATES
 Customers on 1 Inch Meters
 Test Year Ended December 31, 1998

Exhibit
 Schedule H-4
 Page 2
 Witness: Kozoman

| GALLONS BILLED | PRESENT BILL | PROPOSED BILL | DOLLAR INCREASE | PERCENT INCREASE |
|-------------------|-----------------|------------------|--------------------|---------------------|
| 0 | \$19.00 | 69.25 | \$50.25 | 264.47% |
| 1,000 | 22.75 | 76.45 | 53.70 | 236.04% |
| 2,000 | 26.50 | 83.65 | 57.15 | 215.66% |
| 3,000 | 30.25 | 90.85 | 60.60 | 200.33% |
| 4,000 | 34.00 | 98.05 | 64.05 | 188.38% |
| 5,000 | 37.75 | 105.25 | 67.50 | 178.81% |
| 6,000 | 41.50 | 112.45 | 70.95 | 170.96% |
| 7,000 | 45.25 | 119.65 | 74.40 | 164.42% |
| 8,000 | 49.00 | 126.85 | 77.85 | 158.88% |
| 9,000 | 52.75 | 134.05 | 81.30 | 154.12% |
| 10,000 | 56.50 | 141.25 | 84.75 | 150.00% |
| 11,000 | 60.25 | 148.45 | 88.20 | 146.39% |
| 12,000 | 64.00 | 155.65 | 91.65 | 143.20% |
| 13,000 | 67.75 | 162.85 | 95.10 | 140.37% |
| 14,000 | 71.50 | 170.05 | 98.55 | 137.83% |
| 15,000 | 75.25 | 177.25 | 102.00 | 135.55% |
| 16,000 | 79.00 | 184.45 | 105.45 | 133.48% |
| 17,000 | 82.75 | 191.65 | 108.90 | 131.60% |
| 18,000 | 86.50 | 198.85 | 112.35 | 129.88% |
| 19,000 | 90.25 | 206.05 | 115.80 | 128.31% |
| 20,000 | 94.00 | 213.25 | 119.25 | 126.86% |
| 21,000 | 97.75 | 220.45 | 122.70 | 125.52% |
| 22,000 | 101.50 | 227.65 | 126.15 | 124.29% |
| 23,000 | 105.25 | 234.85 | 129.60 | 123.14% |
| 24,000 | 109.00 | 242.05 | 133.05 | 122.06% |
| 25,000 | 112.75 | 249.25 | 136.50 | 121.06% |
| 26,000 | 116.50 | 256.45 | 139.95 | 120.13% |

PRESENT RATES:

| | |
|--------------------------|---------|
| MONTHLY MINIMUM | \$19.00 |
| GALLONS IN MINIMUM | 0 |
| CHARGE PER 1,000 GALLONS | \$3.75 |

PROPOSED RATES:

| | |
|--------------------------|---------|
| MONTHLY MINIMUM | \$69.25 |
| GALLONS IN MINIMUM | 0 |
| CHARGE PER 1,000 GALLONS | \$7.20 |

| | | | | |
|---------------|-------|--------|-------|---------|
| Median Usage | | | | |
| 11,000 | 60.25 | 148.45 | 88.20 | 146.39% |
| Average Usage | | | | |
| 11,787 | 63.20 | 154.12 | 90.92 | 143.85% |

Vail Water Company
BILL COMPARISON - PRESENT AND PROPOSED RATES
 Customers on 2 Inch Meters
 Bill Count 2 Inch Meter

Exhibit
 Schedule H-4
 Page 3
 Witness: Kozoman

| GALLONS BILLED | PRESENT BILL | PROPOSE BILL | DOLLAR INCREASE | PERCENT INCREASE |
|-------------------|-----------------|-----------------|--------------------|---------------------|
| 0 | \$46.00 | \$221.60 | \$175.60 | 381.74% |
| 1,000 | 49.75 | 228.80 | 179.05 | 359.90% |
| 2,000 | 53.50 | 236.00 | 182.50 | 341.12% |
| 3,000 | 57.25 | 243.20 | 185.95 | 324.80% |
| 4,000 | 61.00 | 250.40 | 189.40 | 310.49% |
| 5,000 | 64.75 | 257.60 | 192.85 | 297.84% |
| 6,000 | 68.50 | 264.80 | 196.30 | 286.57% |
| 7,000 | 72.25 | 272.00 | 199.75 | 276.47% |
| 8,000 | 76.00 | 279.20 | 203.20 | 267.37% |
| 9,000 | 79.75 | 286.40 | 206.65 | 259.12% |
| 10,000 | 83.50 | 293.60 | 210.10 | 251.62% |
| 11,000 | 87.25 | 300.80 | 213.55 | 244.76% |
| 12,000 | 91.00 | 308.00 | 217.00 | 238.46% |
| 13,000 | 94.75 | 315.20 | 220.45 | 232.66% |
| 14,000 | 98.50 | 322.40 | 223.90 | 227.31% |
| 15,000 | 102.25 | 329.60 | 227.35 | 222.35% |
| 16,000 | 106.00 | 336.80 | 230.80 | 217.74% |
| 17,000 | 109.75 | 344.00 | 234.25 | 213.44% |
| 18,000 | 113.50 | 351.20 | 237.70 | 209.43% |
| 19,000 | 117.25 | 358.40 | 241.15 | 205.67% |
| 20,000 | 121.00 | 365.60 | 244.60 | 202.15% |
| 21,000 | 124.75 | 372.80 | 248.05 | 198.84% |
| 22,000 | 128.50 | 380.00 | 251.50 | 195.72% |
| 23,000 | 132.25 | 387.20 | 254.95 | 192.78% |
| 24,000 | 136.00 | 394.40 | 258.40 | 190.00% |
| 25,000 | 139.75 | 401.60 | 261.85 | 187.37% |
| 26,000 | 143.50 | 408.80 | 265.30 | 184.88% |
| 27,000 | 147.25 | 416.00 | 268.75 | 182.51% |
| 28,000 | 151.00 | 423.20 | 272.20 | 180.26% |
| 29,000 | 154.75 | 430.40 | 275.65 | 178.13% |
| 30,000 | 158.50 | 437.60 | 279.10 | 176.09% |
| 31,000 | 162.25 | 444.80 | 282.55 | 174.14% |
| 32,000 | 166.00 | 452.00 | 286.00 | 172.29% |
| 33,000 | 169.75 | 459.20 | 289.45 | 170.52% |
| 34,000 | 173.50 | 466.40 | 292.90 | 168.82% |
| 35,000 | 177.25 | 473.60 | 296.35 | 167.19% |
| 36,000 | 181.00 | 480.80 | 299.80 | 165.64% |
| 37,000 | 184.75 | 488.00 | 303.25 | 164.14% |
| 38,000 | 188.50 | 495.20 | 306.70 | 162.71% |
| 39,000 | 192.25 | 502.40 | 310.15 | 161.33% |
| 40,000 | 196.00 | 509.60 | 313.60 | 160.00% |
| 41,000 | 199.75 | 516.80 | 317.05 | 158.72% |
| 42,000 | 203.50 | 524.00 | 320.50 | 157.49% |
| 43,000 | 207.25 | 531.20 | 323.95 | 156.31% |

PRESENT RATES:

| | |
|--------------------------|---------|
| MONTHLY MINIMUM | \$46.00 |
| GALLONS IN MINIMUM | 0 |
| CHARGE PER 1,000 GALLONS | \$3.75 |

PROPOSED RATES:

| | |
|--------------------------|----------|
| MONTHLY MINIMUM | \$221.60 |
| GALLONS IN MINIMUM | 0 |
| CHARGE PER 1,000 GALLONS | \$7.20 |

| | | | | |
|---------------|--------|--------|--------|---------|
| Median Usage | | | | |
| 27,500 | 149.13 | 419.60 | 270.48 | 181.37% |
| Average Usage | | | | |
| 25,500 | 141.63 | 405.20 | 263.58 | 186.11% |

Vail Water Company
BILL COMPARISON - PRESENT AND PROPOSED RATES
 Customers on 6 Inch Meters
 Test Year Ended December 31, 1998

Exhibit
 Schedule H-4
 Page 4
 Witness: Kozoman

| GALLONS BILLED | PRESENT BILL | PROPOSE BILL | DOLLAR INCREASE | PERCENT INCREASE |
|----------------------|-----------------|-----------------|--------------------|---------------------|
| 0 | \$280.00 | \$1,385.00 | \$1,105.00 | 394.64% |
| 1,000 | 283.75 | 1,392.20 | 1,108.45 | 390.64% |
| 2,000 | 287.50 | 1,399.40 | 1,111.90 | 386.75% |
| 3,000 | 291.25 | 1,406.60 | 1,115.35 | 382.95% |
| Median Usage | | | | |
| 4,500 | 296.88 | 1,417.40 | 1,120.53 | 377.44% |
| Average Usage | | | | |
| 4,000 | 295.00 | 1,413.80 | 1,118.80 | 379.25% |

PRESENT RATES:

Vail Water Company
 Test Year Ended December 31, 1998
 Bill Count 5/8 Inch Meter

Exhibit
 Schedule H-5
 Page 1a
 Witness: Kozoman

| Over | But not Over | Jan-98 | Feb. | March | April | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Totals | Cumulative Number of Billings | Midpoint for Billing |
|-----------------------------|--------------|--------|------|-------|-------|-----|------|------|------|-------|------|------|------|--------|-------------------------------|----------------------|
| 75,000 | 75,000 | | | | | | | 1 | | | | | | 1 | 7,034 | 75,000.0 |
| 77,000 | 77,000 | | | | | | | 1 | | | | | | 1 | 7,035 | 77,000.0 |
| 80,000 | 80,000 | | | | | | | | 1 | | | | | 1 | 7,036 | 80,000.0 |
| 85,000 | 85,000 | | | | | | | | | 1 | | | | 1 | 7,037 | 85,000.0 |
| 87,000 | 87,000 | | | | | | | | | | 1 | | | 1 | 7,038 | 87,000.0 |
| 91,000 | 91,000 | | | | | | | | | 1 | | | | 1 | 7,039 | 91,000.0 |
| 96,000 | 96,000 | | 1 | | | | | | | | | | | 1 | 7,040 | 96,000.0 |
| 96,000 | 96,000 | | | 1 | | | | | | | | | | 1 | 7,041 | 96,000.0 |
| 101,000 | 101,000 | | | | | 1 | | | | | | | | 1 | 7,042 | 101,000.0 |
| 106,000 | 106,000 | | | | 1 | | | | | | | | | 1 | 7,043 | 106,000.0 |
| 109,000 | 109,000 | | | | | | | 1 | | | | | | 1 | 7,044 | 109,000.0 |
| 111,000 | 111,000 | | | | | | | 1 | | | | | | 1 | 7,045 | 111,000.0 |
| 122,000 | 122,000 | | | | | | | | | | | 1 | | 1 | 7,046 | 122,000.0 |
| 123,000 | 123,000 | | | | | | 1 | | | | | | | 1 | 7,047 | 123,000.0 |
| 125,000 | 125,000 | 1 | | | | | | | | | | | | 1 | 7,048 | 125,000.0 |
| 144,000 | 144,000 | | | | | | | | | 1 | | | | 1 | 7,049 | 144,000.0 |
| 151,000 | 151,000 | | | | | | | | | 1 | | | | 1 | 7,050 | 151,000.0 |
| 152,000 | 152,000 | | | | | | | | | | | 1 | 1 | 2 | 7,052 | 152,000.0 |
| 170,000 | 170,000 | | | | | | | 1 | | | | | | 1 | 7,051 | 170,000.0 |
| 171,000 | 171,000 | | | | | | | | | | 1 | | | 1 | 7,052 | 171,000.0 |
| 200,000 | 200,000 | | | | | | | | | | 1 | 1 | 1 | 3 | 7,053 | 200,000.0 |
| | | | | | | | | | | | | | | | | 0.0 |
| Totals | | 541 | 541 | 548 | 568 | 579 | 580 | 597 | 601 | 610 | 625 | 633 | 634 | 7,057 | | |
| Average Number of Customers | | | | | | | | | | | | | | | 588 | |
| Average Usage | | | | | | | | | | | | | | | 7,940 | |
| Median Usage | | | | | | | | | | | | | | | 6,000 | |

Vail Water Company
 Test Year Ended December 31, 1998
 Bill Count 5/8 Inch Meter

Exhibit
 Schedule H-5
 Page 1a
 Witness: Kozoman

| Over | But not Over | Jan-98 | Feb | March | April | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Totals | Cumulative Number of Billings | Midpoint for Billing |
|--------|--------------|--------|-----|-------|-------|-----|------|------|------|-------|------|------|------|--------|-------------------------------|----------------------|
| - | - | 55 | 41 | 35 | 40 | 38 | 40 | 36 | 53 | 39 | 33 | 32 | 28 | 470 | 470 | 0.0 |
| 1,000 | 1,000 | 28 | 25 | 34 | 22 | 29 | 24 | 24 | 20 | 27 | 33 | 33 | 44 | 343 | 813 | 1,000.0 |
| 2,000 | 2,000 | 50 | 31 | 77 | 30 | 25 | 33 | 27 | 41 | 41 | 36 | 44 | 51 | 486 | 1,299 | 2,000.0 |
| 3,000 | 3,000 | 61 | 47 | 87 | 44 | 59 | 41 | 33 | 64 | 52 | 55 | 63 | 73 | 679 | 1,978 | 3,000.0 |
| 4,000 | 4,000 | 59 | 69 | 55 | 58 | 50 | 44 | 40 | 56 | 69 | 56 | 78 | 89 | 723 | 2,701 | 4,000.0 |
| 5,000 | 5,000 | 54 | 68 | 60 | 46 | 39 | 48 | 49 | 57 | 54 | 56 | 59 | 76 | 666 | 3,367 | 5,000.0 |
| 6,000 | 6,000 | 57 | 52 | 60 | 52 | 58 | 39 | 35 | 42 | 43 | 46 | 60 | 76 | 630 | 3,997 | 6,000.0 |
| 7,000 | 7,000 | 38 | 46 | 40 | 39 | 44 | 49 | 37 | 44 | 48 | 42 | 56 | 50 | 533 | 4,530 | 7,000.0 |
| 8,000 | 8,000 | 41 | 47 | 24 | 44 | 34 | 26 | 26 | 29 | 37 | 35 | 41 | 35 | 419 | 4,949 | 8,000.0 |
| 9,000 | 9,000 | 18 | 23 | 18 | 32 | 19 | 28 | 35 | 32 | 32 | 33 | 39 | 31 | 340 | 5,289 | 9,000.0 |
| 10,000 | 10,000 | 10 | 27 | 16 | 26 | 30 | 22 | 32 | 27 | 28 | 30 | 28 | 20 | 296 | 5,585 | 10,000.0 |
| 11,000 | 11,000 | 16 | 11 | 13 | 13 | 28 | 16 | 25 | 20 | 24 | 21 | 18 | 13 | 223 | 5,808 | 11,000.0 |
| 12,000 | 12,000 | 10 | 10 | 2 | 20 | 20 | 16 | 12 | 17 | 15 | 20 | 13 | 13 | 168 | 5,976 | 12,000.0 |
| 13,000 | 13,000 | 11 | 6 | 10 | 13 | 16 | 12 | 14 | 6 | 9 | 21 | 6 | 4 | 128 | 6,104 | 13,000.0 |
| 14,000 | 14,000 | 11 | 10 | 3 | 12 | 10 | 22 | 19 | 9 | 10 | 12 | 16 | 3 | 137 | 6,241 | 14,000.0 |
| 15,000 | 15,000 | 4 | 9 | 1 | 4 | 12 | 16 | 6 | 15 | 15 | 12 | 12 | 1 | 107 | 6,348 | 15,000.0 |
| 16,000 | 16,000 | 3 | 2 | 1 | 9 | 9 | 8 | 12 | 13 | 9 | 10 | 5 | 7 | 88 | 6,436 | 16,000.0 |
| 17,000 | 17,000 | 3 | 4 | | 5 | 5 | 3 | 9 | 7 | 6 | 12 | 4 | 6 | 64 | 6,500 | 17,000.0 |
| 18,000 | 18,000 | 2 | 3 | 1 | 9 | 3 | 8 | 11 | 2 | 10 | 7 | 4 | 2 | 62 | 6,562 | 18,000.0 |
| 19,000 | 19,000 | | | 1 | 5 | 4 | 9 | 12 | 7 | 7 | 3 | 1 | | 49 | 6,611 | 19,000.0 |
| 20,000 | 20,000 | 3 | 1 | 1 | 4 | 6 | 7 | 8 | 5 | 2 | 7 | 2 | 3 | 49 | 6,660 | 20,000.0 |
| 21,000 | 21,000 | 1 | 2 | 1 | 7 | 7 | 8 | 13 | 3 | 2 | 2 | 4 | 1 | 51 | 6,711 | 21,000.0 |
| 22,000 | 22,000 | | | | | 1 | 6 | 6 | 7 | 5 | 6 | | | 32 | 6,743 | 22,000.0 |
| 23,000 | 23,000 | | 1 | 1 | 2 | 5 | 9 | 4 | 5 | 1 | 4 | | | 32 | 6,775 | 23,000.0 |
| 24,000 | 24,000 | | | 3 | 2 | 1 | 6 | 6 | 1 | 2 | 3 | | | 26 | 6,801 | 24,000.0 |
| 25,000 | 25,000 | 1 | 1 | 4 | 1 | 1 | 1 | 3 | 1 | 3 | 1 | 2 | 1 | 19 | 6,820 | 25,000.0 |
| 26,000 | 26,000 | | | 1 | | 3 | 3 | 3 | 1 | 2 | | 2 | | 15 | 6,835 | 26,000.0 |
| 27,000 | 27,000 | 1 | | | | 1 | 3 | 2 | | | 5 | 1 | 1 | 14 | 6,849 | 27,000.0 |
| 28,000 | 28,000 | | | | | 2 | 2 | 4 | 2 | 1 | 5 | 1 | | 17 | 6,866 | 28,000.0 |
| 29,000 | 29,000 | 2 | | | 1 | 2 | 1 | 4 | | 1 | 1 | | | 12 | 6,878 | 29,000.0 |
| 30,000 | 30,000 | | 1 | | | 2 | 7 | 2 | 2 | | 1 | | | 15 | 6,893 | 30,000.0 |
| 31,000 | 31,000 | | | | 2 | 1 | 1 | 4 | 1 | 1 | 2 | | | 12 | 6,905 | 31,000.0 |
| 32,000 | 32,000 | | | | | 1 | 3 | 3 | | 2 | | | 1 | 10 | 6,915 | 32,000.0 |
| 33,000 | 33,000 | | | | 1 | | 1 | 6 | | 1 | 2 | 1 | | 12 | 6,927 | 33,000.0 |
| 34,000 | 34,000 | 1 | | | | 3 | 1 | | 1 | | 1 | 3 | 1 | 11 | 6,938 | 34,000.0 |
| 35,000 | 35,000 | | 1 | | | 2 | | 3 | 2 | 2 | 1 | | | 11 | 6,949 | 35,000.0 |
| 36,000 | 36,000 | | | | | | 1 | 2 | 1 | 1 | 1 | 1 | | 7 | 6,956 | 36,000.0 |
| 37,000 | 37,000 | | | | 1 | | 1 | | 1 | | | | | 3 | 6,959 | 37,000.0 |
| 38,000 | 38,000 | | | | 1 | 1 | 1 | 3 | 1 | | 1 | | | 7 | 6,966 | 38,000.0 |
| 39,000 | 39,000 | | 1 | 1 | | 1 | 1 | 1 | | | 1 | | | 6 | 6,972 | 39,000.0 |
| 40,000 | 40,000 | | | | | 2 | | 1 | | | | | | 3 | 6,975 | 40,000.0 |
| 41,000 | 41,000 | | | | | | 1 | 1 | 1 | 1 | 1 | | | 5 | 6,980 | 41,000.0 |
| 42,000 | 42,000 | | | | | 1 | 1 | 2 | | | | | | 5 | 6,985 | 42,000.0 |
| 43,000 | 43,000 | | | | 1 | 1 | 2 | 3 | | 1 | | | | 8 | 6,993 | 43,000.0 |
| 44,000 | 44,000 | | | | | | | 4 | 1 | | 1 | | | 6 | 6,999 | 44,000.0 |
| 45,000 | 45,000 | | | | 1 | | | | | | | | | 1 | 7,000 | 45,000.0 |
| 46,000 | 46,000 | | | | | | 1 | 1 | 1 | | 1 | | | 4 | 7,004 | 46,000.0 |
| 47,000 | 47,000 | | | | | 1 | | 1 | | | | | | 2 | 7,006 | 47,000.0 |
| 48,000 | 48,000 | | | | | | 1 | 1 | | | | | | 2 | 7,008 | 48,000.0 |
| 49,000 | 49,000 | | | | | | | | | | | 1 | | 1 | 7,009 | 49,000.0 |
| 50,000 | 50,000 | | | | 1 | | 1 | | | | | | | 2 | 7,011 | 50,000.0 |
| 51,000 | 51,000 | | 1 | | | | | | | | | | | 1 | 7,012 | 51,000.0 |
| 51,000 | 51,000 | | | | | | | 1 | | | | | | 1 | 7,013 | 51,000.0 |
| 52,000 | 52,000 | | | | | | 1 | | | | | | | 1 | 7,014 | 52,000.0 |
| 52,000 | 52,000 | | | | | | | | | 1 | | | | 1 | 7,015 | 52,000.0 |
| 53,000 | 53,000 | | 1 | | | | | | | | | | | 1 | 7,016 | 53,000.0 |
| 53,000 | 53,000 | | | | | | | | | | 1 | | | 1 | 7,017 | 53,000.0 |
| 54,000 | 54,000 | | | | | | | | | | | | | 1 | 7,018 | 54,000.0 |
| 57,000 | 57,000 | | | | | 1 | | | | | | | | 1 | 7,019 | 57,000.0 |
| 57,000 | 57,000 | | | | | | | | | | 1 | | | 1 | 7,020 | 57,000.0 |
| 58,000 | 58,000 | | | | 1 | | | | | | | | | 1 | 7,021 | 58,000.0 |
| 58,000 | 58,000 | | | | | 1 | | | | | | | | 1 | 7,022 | 58,000.0 |
| 58,000 | 58,000 | | | | | | 1 | | | | | | | 1 | 7,023 | 58,000.0 |
| 60,000 | 60,000 | | | | | | | | | 1 | | | | 1 | 7,024 | 60,000.0 |
| 61,000 | 61,000 | | | | | | | 1 | | | | | | 1 | 7,025 | 61,000.0 |
| 63,000 | 63,000 | | | | | | | | 1 | | | | | 1 | 7,026 | 63,000.0 |
| 64,000 | 64,000 | | | | | | | | 1 | | | | | 1 | 7,027 | 64,000.0 |
| 65,000 | 65,000 | | | | | | | 1 | | | | | | 1 | 7,028 | 65,000.0 |
| 66,000 | 66,000 | | | | | | | | | 1 | | | | 1 | 7,029 | 66,000.0 |
| 66,000 | 66,000 | | | | | | | | 1 | | | | | 1 | 7,030 | 66,000.0 |
| 66,000 | 66,000 | | | | | | | | | | 1 | | | 1 | 7,031 | 66,000.0 |
| 67,000 | 67,000 | | | | | | | | | | | 1 | | 1 | 7,032 | 67,000.0 |
| 70,000 | 70,000 | | | | | | | | | | | | | 1 | 7,033 | 70,000.0 |

Vail Water Company
 Test Year Ended December 31, 1998
 Bill Count 1 Inch Meter

Exhibit
 Schedule H-5
 Page 2
 Witness: Kozoman

| Over | But not Over | Jan-98 | Feb. | March | April | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Totals | Cumulative Number of Billings | Midpoint for Billing |
|-----------------------------|--------------|--------|------|-------|-------|-----|------|------|------|-------|------|------|------|--------|-------------------------------|----------------------|
| 1,000 | 1,000 | | | | | | | | | | | | | 0 | 0 | 0.0 |
| 2,000 | 2,000 | | 1 | | | | | | | | | | | 0 | 0 | 1,000.0 |
| 3,000 | 3,000 | | | 1 | | | | | | | | | | 1 | 1 | 2,000.0 |
| 4,000 | 4,000 | | | | | 1 | | | | | | | | 0 | 1 | 3,000.0 |
| 5,000 | 5,000 | | | 2 | 1 | | 1 | | | | 1 | 1 | 1 | 1 | 2 | 4,000.0 |
| 6,000 | 6,000 | 1 | | 1 | | | | 1 | | 1 | | | 1 | 7 | 9 | 5,000.0 |
| 7,000 | 7,000 | | 1 | | | | | | 1 | 1 | | | | 5 | 14 | 6,000.0 |
| 8,000 | 8,000 | | | | | | | | | | | | | 1 | 15 | 7,000.0 |
| 9,000 | 9,000 | | | | | | | | 1 | | | | | 0 | 15 | 8,000.0 |
| 10,000 | 10,000 | | | 1 | | | | 1 | | | | 1 | 1 | 2 | 17 | 9,000.0 |
| 11,000 | 11,000 | 2 | 1 | | 1 | | | | | | | | 1 | 3 | 20 | 10,000.0 |
| 12,000 | 12,000 | | | | | | 1 | | 1 | 1 | 1 | 1 | | 4 | 24 | 11,000.0 |
| 13,000 | 13,000 | | | | | | | | 1 | | | | | 5 | 29 | 12,000.0 |
| 14,000 | 14,000 | | | | | 1 | 1 | | | 2 | 1 | | | 1 | 30 | 13,000.0 |
| 15,000 | 15,000 | | | | | 1 | | | | | | | | 5 | 35 | 14,000.0 |
| 16,000 | 16,000 | | | | 1 | | | | | | | | | 1 | 36 | 15,000.0 |
| 17,000 | 17,000 | | | | 1 | | | 1 | | | | | | 1 | 37 | 16,000.0 |
| 18,000 | 18,000 | | 1 | | | | | | | | | | 1 | 3 | 40 | 17,000.0 |
| 19,000 | 19,000 | | | | | | | | | | | 1 | | 2 | 42 | 18,000.0 |
| 20,000 | 20,000 | | | | | | | | | | 1 | | | 0 | 42 | 19,000.0 |
| 21,000 | 21,000 | | | | | | | 1 | | | | | | 1 | 43 | 20,000.0 |
| 22,000 | 22,000 | | | | | | | | | | | | | 1 | 44 | 21,000.0 |
| 23,000 | 23,000 | | | | | | | | | | | | | 0 | 44 | 22,000.0 |
| 24,000 | 24,000 | | | | | | | | | | | | | 0 | 44 | 23,000.0 |
| 25,000 | 25,000 | | | | | | | | | | | | | 0 | 44 | 24,000.0 |
| 26,000 | 26,000 | | | | | | 1 | 1 | | | | | | 0 | 44 | 25,000.0 |
| 27,000 | 27,000 | | | | | | | | | | | | | 2 | 46 | 26,000.0 |
| 28,000 | 28,000 | | | | | | | | | | | | | 0 | 46 | 27,000.0 |
| 29,000 | 29,000 | | | | | | | | | | | | | 0 | 46 | 28,000.0 |
| | | 3 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 47 | 46 | 29,000.0 |
| Average Number of Customers | | | | | | | | | | | | | | 47 | 24 | |
| Average Usage | | | | | | | | | | | | | | 4 | | |
| Median Usage | | | | | | | | | | | | | | 11,787 | | |
| | | | | | | | | | | | | | | 11,000 | | |

Vail Water Company
 Test Year Ended December 31, 1998
 Bill Count 2 Inch Meter

Exhibit
 Schedule H-5
 Page 3
 Witness: Kozoman

| Over | But not Over | Jan-98 | Feb. | March | April | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Totals | Cumulative Number of Billings | Midpoint for Billing | |
|-----------------------------|--------------|--------|------|-------|-------|-----|------|------|------|-------|------|------|------|--------|-------------------------------|----------------------|--|
| 1,000 | 1,000 | | | | | | | | | | | | | 0 | 0 | 1,000.0 | |
| 2,000 | 2,000 | | | | | | | | | | | | | 0 | 0 | 2,000.0 | |
| 3,000 | 3,000 | | | | | | | | | | | | | 0 | 0 | 3,000.0 | |
| 4,000 | 4,000 | | | | | | | | | | | | | 0 | 0 | 4,000.0 | |
| 5,000 | 5,000 | | | | | | | | | | | | | 0 | 0 | 5,000.0 | |
| 6,000 | 6,000 | | | | | | | | | | | | | 0 | 0 | 6,000.0 | |
| 7,000 | 7,000 | | | | | | | | | | | | | 0 | 0 | 7,000.0 | |
| 8,000 | 8,000 | | 1 | | | | | | | | | | | 1 | 1 | 8,000.0 | |
| 9,000 | 9,000 | | | | | | | | | | | | | 0 | 1 | 9,000.0 | |
| 10,000 | 10,000 | 1 | | | | | | | | | | | | 1 | 2 | 10,000.0 | |
| 11,000 | 11,000 | | | | | | | | | | | | | 0 | 2 | 11,000.0 | |
| 12,000 | 12,000 | | | | | | | | | | | | | 0 | 2 | 12,000.0 | |
| 13,000 | 13,000 | | | | | | | | | | | | | 0 | 2 | 13,000.0 | |
| 14,000 | 14,000 | | | 1 | | | | | | | | | | 1 | 3 | 14,000.0 | |
| 15,000 | 15,000 | | | | | | | | | | | | | 0 | 3 | 15,000.0 | |
| 16,000 | 16,000 | | | | | | | | 1 | | | | 1 | 2 | 5 | 16,000.0 | |
| 17,000 | 17,000 | | | | | | | | | | | | | 0 | 5 | 17,000.0 | |
| 18,000 | 18,000 | | | | | | | | | 1 | | | | 1 | 6 | 18,000.0 | |
| 19,000 | 19,000 | | | | | | | | | | | | | 0 | 6 | 19,000.0 | |
| 20,000 | 20,000 | | | | | | | | | | | | | 0 | 6 | 20,000.0 | |
| 21,000 | 21,000 | | | | | | | | | | | | | 0 | 6 | 21,000.0 | |
| 22,000 | 22,000 | | | | | | | | | | | | | 0 | 6 | 22,000.0 | |
| 23,000 | 23,000 | | | | | | | | | | | | | 0 | 6 | 23,000.0 | |
| 24,000 | 24,000 | | | | | | | | | | | | | 0 | 6 | 24,000.0 | |
| 25,000 | 25,000 | | | | | | | | | | | | | 0 | 6 | 25,000.0 | |
| 26,000 | 26,000 | | | | | | | | | | | | | 0 | 6 | 26,000.0 | |
| 27,000 | 27,000 | | | | | | | | | | | | | 0 | 6 | 27,000.0 | |
| 28,000 | 28,000 | | | | | | | 1 | | | | | | 1 | 7 | 28,000.0 | |
| 29,000 | 29,000 | | | | | | | | | | | | | 0 | 7 | 29,000.0 | |
| 30,000 | 30,000 | | | | | 1 | | | | | | | | 1 | 8 | 30,000.0 | |
| 31,000 | 31,000 | | | | | | | | | | | | | 0 | 8 | 31,000.0 | |
| 32,000 | 32,000 | | | | | | | | | | | | | 0 | 8 | 32,000.0 | |
| 33,000 | 33,000 | | | | | | | | | | | | | 0 | 8 | 33,000.0 | |
| 34,000 | 34,000 | | | | | | | | | | | | | 0 | 8 | 34,000.0 | |
| 35,000 | 35,000 | | | | | | | | | | | | | 0 | 8 | 35,000.0 | |
| 36,000 | 36,000 | | | | | | | | | | | | | 0 | 8 | 36,000.0 | |
| 37,000 | 37,000 | | | | | | | | | | | | | 0 | 8 | 37,000.0 | |
| 38,000 | 38,000 | | | | | | | | 1 | | | | | 1 | 9 | 38,000.0 | |
| 39,000 | 39,000 | | | | | | | | | | | | | 0 | 9 | 39,000.0 | |
| 40,000 | 40,000 | | | | | | | | | | | 1 | | 1 | 10 | 40,000.0 | |
| 41,000 | 41,000 | | | | | | | | | | | | | 0 | 10 | 41,000.0 | |
| 42,000 | 42,000 | | | | | | | | | | | | 1 | 1 | 11 | 42,000.0 | |
| 43,000 | 43,000 | | | | | | | | | | | | | 0 | 11 | 43,000.0 | |
| 44,000 | 44,000 | | | | | | | | | | | | | 0 | 11 | 44,000.0 | |
| 45,000 | 45,000 | | | | | | | | | | | | | 0 | 11 | 45,000.0 | |
| 46,000 | 46,000 | | | | | | | | | | | | | 1 | 12 | 46,000.0 | |
| Totals | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 12 | | | |
| Average Number of Customers | | | | | | | | | | | | | | | | 1 | |
| Average Usage | | | | | | | | | | | | | | | | 25,500 | |
| Median Usage | | | | | | | | | | | | | | | | 27,500 | |

Vail Water Company
 Test Year Ended December 31, 1998
 Bill Count 6 Inch Meter

Exhibit
 Schedule H-5
 Page 4
 Witness: Kozoman

| Over | But not Over | Jan-98 | Feb. | March | April | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Totals | Cumulative Number of Billings | Midpoint for Billing |
|-----------------------------|--------------|--------|------|-------|-------|-----|------|------|------|-------|------|------|------|--------|-------------------------------|----------------------|
| - | 1,000 | | | | | | | | | | | | | 0 | 0 | 0.0 |
| 2,000 | 2,000 | | | | 1 | | | | | | | | | 0 | 0 | 500.0 |
| 3,000 | 3,000 | | | | | | | | | | | | | 1 | 1 | 2,000.0 |
| 4,000 | 4,000 | | | | | | | | | | | | | 0 | 1 | 3,000.0 |
| 5,000 | 5,000 | | | | | | | | | | | | | 0 | 1 | 4,000.0 |
| 6,000 | 6,000 | | | | | | | | | 1 | | | | 0 | 1 | 5,000.0 |
| Totals | | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 2 | 2 | 5,000.0 |
| Average Number of Customers | | | | | | | | | | | | | | | 0 | |
| Average Usage | | | | | | | | | | | | | | | 4,000 | |
| Median Usage | | | | | | | | | | | | | | | 4,500 | |

DIRECT TESTIMONY OF

RONALD L. KOZOMAN

FILED ON BEHALF OF

VAIL WATER COMPANY

PERMANENT RATE APPLICATION

DOCKET NO. W-01651A-99-___

FILED JUNE 18, 1999

BACKGROUND
AND
REVENUE REQUIREMENTS TESTIMONY

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. Ronald L. Kozoman, 1605 W. Mulberry Drive, Phoenix, Arizona 85015.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am self employed and provide consulting services to utility companies.

Q. HAVE YOU PREPARED A RESUME OF YOUR PROFESSIONAL
EDUCATIONAL AND WORK EXPERIENCE?

A. Yes. It is attached as Appendix A.

Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR REGULATORY
EXPERIENCE?

A. Yes. I was employed by the Illinois Commerce Commission ("ICC") from 1977
to 1981 in various accounting and management positions. While with the ICC, I
testified as the ICC Staff's expert witness on cost of capital, rate base and

operating income in rate cases involving Commonwealth Edison Company, Illinois Bell Telephone, and other major Illinois utility companies.

I was first retained by the Arizona Corporation Commission ("Commission" or "ACC") in 1981 as a consultant to prepare Commission Staff's cost of capital testimony for the Southwest Gas Corporation and Southern Union Gas Company rate cases. I later became Chief Rate Analyst for the Commission. As Chief Rate Analyst, I was responsible for supervising all the Commission's rate analysts and utility auditors. While with the Commission, I testified on cost of capital concerning Sun City West Utilities, Continental Telephone Company of California, and Mountain Bell Telephone (now U.S. West Communications), among others.

I have testified as an independent consultant, on behalf of utility companies, utility consumers, and regulatory agencies. I am also an instructor in the areas of public utility accounting and general regulatory practices for the National Association of Regulatory Utility Commissioners in its Annual Regulatory Studies Program, held at Michigan State University in East Lansing, Michigan. Currently I am teaching revenue requirements, cost of service study and rate design, and accounting for non-accountants.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Vail Water Company ("Vail", "the Company" or "the Applicant").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will testify in support of the proposed rates for Vail Water Company.

Additionally, the Company will require financing approval convert short-term debt to long-term debt.

Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

A. I will address the financing needs prior to the rate case testimony.

My rate case testimony is presented in four parts. The first addresses the rate base issues. The second part addresses the income statement issues. The third part will address the derivation of the cost of capital and fair value return, based on required debt service and interest coverage methods, which the Applicant must met. The fourth part covers the proposed rates.

Q. HAS THE COMPANY FILED A FINANCING APPLICATION SIMULTANEOUSLY WITH THIS FILING?

A. Yes.

Q. WOULD YOU PLEASE SUMMARIZE THE RATE CASE?

A. Yes. The test year is December 31, 1998. The original cost depreciated rate base is being requested for fair value. A return of 11.61% on original cost rate base is requested. The increase in revenues is approximately \$318,000. This represents

an increase of approximately 93% over the adjusted and annualized test year revenues.

Q. WHY IS VAIL WATER COMPANY FILING FOR A RATE INCREASE?

A. Vail Water Company's last rate case was based on a test year ended December 31, 1996, approximately 2 1/2 years ago. The total cost of operating the water company was not included in that Commission Decision. Revenues gained from customer growth were not able to offset the expenses, and hence the Company continues to operate a loss, or a very modest profit. The Company needed a meaningful rate increase in its last two rate cases, which this Commission did not authorize.

The Company does not have sufficient cash flow to meet its operating expenses, and/or to install essential water plant.

Q. BEFORE YOU BEGIN YOUR TESTIMONY ON THE RATE BASE AND INCOME STATEMENT, WOULD YOU PLEASE DESCRIBE THE SCHEDULES LABELLED AS A, E, AND F?

A. Yes. The A-1 Schedule is a summary of the rate base, adjusted operating income, current rate of return, required rate of return, operating income deficiency, and the increase in gross revenue. Revenues at present and proposed rates and customer classification are also shown on this schedule.

The A-2 Schedule is a summary of results of operations for the test year, prior years, and a projected year at present rates and proposed rates.

Schedule A-4 contains the plant construction, and plant in service for the test year and prior years. The projected plant additions are also shown on this schedule.

The E-1 Schedule contains the Comparative Balance Sheet data for the years ended December 31, 1996, through December 31, 1998. This schedule contains the corrected accumulated depreciation, equity and contributions in aid of construction, and capitalization of the CAP Water charges to a Prepaid Water Rights account.

Schedule E-2 contains the Comparative Income Statements for the years ended December 31, 1996, 1997, 1998. The schedule has been adjusted to account for corrected depreciation expense, amortization of contributions in aid of construction, and capitalization of the CAP Water charges to a Prepaid Water Rights account.

Q. WHY WERE THE CAP WATER CHARGES CAPITALIZED?

A. The customers were never charged the costs of the CAP Water in prior rate cases. In the instant case, the CAP Water will be recharged, which qualifies the Company to include the cost of the CAP Water Charges in rates charged customers. The past CAP Charges were capitalized based on accounting treatment allowed other water utilities in Arizona, which have been allowed to capitalize the CAP Charges until the CAP Water was actually used, or was recharged.

Q. PLEASE CONTINUE WITH YOUR EXPLANATION OF THE STANDARD FILING SCHEDULES.

A. The E-5 Schedule contains the plant in service at the end of the test year, and one year prior to the end of the test year.

The E-7 Schedules contain Operating Statistics for the ended December 31, 1996, 1997, and 1998 as to the number of customers, and revenue per customer, and pumping power cost per 1,000 gallons of water sold.

Schedule E-8 contains the taxes charged to operations. The taxes are taken from the reports to the Commission's Utilities Division.

The accountant's notes to the financial statements are shown on Schedule E-9. These financial statements are based on an audit, completed on a tax basis, for the year ended December 31, 1997.

The F-1 Schedule contains the results of operations at the present rates and at proposed rates.

The F-3 Schedule has the projected construction requirements.

Schedule F-4 contains the assumptions used in developing the adjustments and projections contained in the rate filing.

I. RATE BASE

Q. WOULD YOU PLEASE EXPLAIN THE RATE BASE SCHEDULES WHICH ARE LABELLED AS THE B SCHEDULES?

A. Yes. I will start with Schedule B-5, which is working capital. The Applicant is requesting Working Capital based on the formula method. The working capital is shown on Schedule B-5.

Q. WHY DIDN'T YOU COMPUTE WORKING CAPITAL USING THE LEAD / LAG METHOD

A. While the lead / lag method of computing working capital may be more accurate than the formula method, the cost for doing a lead / lag study, and the time spent in the hearing debating the methodology used in the lead / lag study is prohibitive. It is doubtful that the Company would be allowed to collect the cost of preparing and defending a lead / lag study as rate case expense. A number of factors indicate that the Company is entitled to, and needs working capital. These factors are:

First and foremost, there is no question that the Company requires working capital to function;

The Company will have to repay debt;

The formula method provides a reasonable accurate measurement of needed working capital, and;

There is no Commission rule that states that a utility company must prepare a lead / lag study to support its working capital request. To the contrary, the Commission is listed in the National Association of Regulatory Utility Commissioners annual report as requiring a lead / lag study only for large companies, and accepting the formula method for

smaller companies. Vail Water Company would not be considered to be a large utility.

Finally, a lead / lag study would only show that the Company has not been able to pay its bills and install plant on a timely basis.

Q. WOULD YOU PLEASE CONTINUE WITH YOUR DESCRIPTIONS OF THE RATE BASE SCHEDULES?

A. The B-4 and B-3 Schedules are omitted as, as original cost is being requested as fair value.

Schedule B-2 contains adjustments to show: (1) the inclusion of the construction work in progress at the end of the test year, as rate base, and the inclusion of the plant to be installed with the State Water Infrastructure Authority ("WIFA") which will loop the total water system; (2) the corrected accumulated depreciation, based on the five percent (5.00%) depreciation expense allowed in the 1983 rate case, and the lower depreciation authorized in the 1996 rate case; (3) the advances in aid of construction that are actually included in plant in service; (4) the contributions in aid of construction, from expired line extension agreements and the prior ACC Decisions, (5) the unamortized balance of the Prepaid Water Rights (CAP Charges), and (6) the WIFA Reserve Fund.

Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON SCHEDULE B-1 REFLECT THE LAST COMMISSION RATE ORDER?

- A. Yes. The plant shown on Schedule B-1 started with the Commission determined plant from the last rate case. Plant additions since the last test year have to added to derive the total plant shown on Schedule B-1.

A half year convention was used to compute the annual addition to the accumulated depreciation and the computation of depreciation expense. This convention assumes that while plant is added throughout the year, the plant has been in service an average of six months during the year of addition. The depreciation rates that were used in the computation of depreciation starting in October 1985, (5.00% depreciation rate) until September 1998. September 1988 was the first month that the new rates to customers were charged, and the approved depreciation rates were allowed to be collected. The September 1998 depreciation rates were lower, and resulted in an approximate 2.61% composite depreciation rate, prior the to proforma adjustments for plant, which took the composite depreciation rate to 2.58%. The composite depreciation rate will change each time a new asset is added. The plant additions and depreciation are shown on Schedule B-2, page 2. The contributions in aid of construction are shown on Schedule B-2, page 3.

The Prepaid Water Rights consist of the capitalized payments to Central Arizona Project ("CAP"). The customers have not been required to pay the CAP costs. In the instant case, the CAP water will be recharged. The Prepaid Water Rights are being amortized over life of the CAP contract, and the unamortized balance is included in rate base.

The WIFA Reserve Fund is required by WIFA, as a condition of the loan. The Company will be required to make payments over five years, which will

eventually be used by the Company to make the last payment to WIFA. For all purposes, the WIFA Reserve Fund is prepaid interest.

II. INCOME STATEMENT

Q. WOULD YOU PLEASE TURN YOUR ATTENTION TO YOUR SCHEDULES LABELLED AS C, WHICH CONTAIN THE OPERATING RESULTS FOR THE TEST YEAR. WOULD YOU PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING AS SHOWN ON SCHEDULES C-1 AND C-2?

A. The details of the adjustments are shown on Schedule C-2. The adjustments are then carried forward to the C-1 Schedule.

Adjustment number 1 annualizes the revenue from all customers to reflect the new rates authorized by Commission Decision 61110, effective September 1998.

Adjustment number 2 annualizes the revenues from customers on the 5/8 x 3/4 inch meters. This annualization was based on the number of customers at the end of the test year, compared to the actual number of customers on the 5/8 x 3/4 inch meters each month during the test year. Revenues at present and proposed rates are shown on Schedule C-2, Page 3a. Customers on other meter sizes were not annualized, as there was no customer growth.

Average revenues for each month of the test year for the 5/8 x 3/4 inch meter size were computed for each month of the test year. The average revenues

were then multiplied by the increase (or decrease) in number of customers for each month of the test year.

Adjustment 3 annualizes the expenses associated with the annualized customer revenue from adjustment number 2. This adjustment considers the variable costs, or costs that would change with changes in number of customers, and quantity of water sold.

Depreciation expense is annualized in adjustment 4 using allowed depreciation rates of all plant, including the water plant which is currently under construction, and which will be completed prior to the hearings in the instant case. The allowed depreciation rate for each component of utility plant is on shown on Schedule C-2, page 4. Depreciation expense on the Contributions in Aid of Construction is removed, as the Contributions are being amortized. The amortization rate used is equal to the composite depreciation rate, which is 2.58%.

Adjustment 5 increases payroll. The payroll increase is based on both a wage/salary increase, and an additional employee. Payroll taxes for FICA taxes are also increased.

Adjustment 6 annualizes the management fee. This management fee is based on customers taking service at December 31, 1998. I have multiplied the number of customers at December 31, 1998 times the monthly management fee which is \$7.00 per customer.

The adjustment labeled as 7 increases the health insurance.

Adjustments 8 and 11 adjusts the property taxes based on end of test year plant at annualized present revenues, and at the proposed rates.

I used the method used by the Arizona Department of Revenue - Centrally Valued Properties ("ADOR" or "the Department"). This method determines the

full cash value based on two times revenues and net plant plus materials and supplies times a "utilization factor / applied factor". The result is the correlated value. To this correlated value, construction work in progress, if any, is added at 35% of its reported value, while transportation equipment, if any, is deducted based on the ratio of original cost to correlated value.

Net plant is divided into revenues and the result is the "utilization factor", which is translated into an "applied factor". The net plant is multiplied by the "applied factor" to assign a value to it under the Department of Revenue's computations. This factor can range from 35% to 300%. The higher the revenues, the higher the value assigned to the plant.

To derive the Department's correlated value, the net plant times the Department's "applied factor" and two times revenue are each then multiplied by a percentage of from 0% to 100%.

The 1998 property tax bill was based on a full cash value which was assessed at 26.00%, which was the assessment ratio for water utility property at September 1998. The assessment ratio will decline an additional 1.00% to the eventual assessment rate of 25.00%. Thus, I used an assessment ratio of 25.00%.

Q. PLEASE CONTINUE WITH YOUR TESTIMONY ON THE PROPERTY TAXES.

A. The assessed value times the property tax rate results in the property tax. In the instant case, I used 50% of two times revenue, and 50% of net plant times the Department of Revenue's factor (plus materials and supplies) to derive the correlated value.

Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH PLANT IN RATE BASE AND PRESENT REVENUES A COMMON COMMISSION PRACTICE, AND IS IT PROPER RATE MAKING?

A. Yes it is. Commission Staff normally proposes the use of the most recent actual property tax bill, which is based on the latest year's plant and revenues reported to the Arizona Department of Revenue, Centrally Valued Properties.

The computation of property taxes has been described by Staff in other rate cases as containing too many variables to compute with any degree of confidence. I agree there are variables as to the percentage of revenues and net plant. However, the computation of income taxes also involves a number of variables. If income taxes can be computed with a any degree of confidence for rate making purposes, then property taxes can also be computed. The income tax computation is based on proposed revenues and proposed expenses. There is no guarantee that the actual revenues and expenses in the first year, or thereafter that the income taxes will match the proposed revenues and expense: used to compute the income taxes.

Disregarding the computation of property taxes at annualized present and proposed rates does not recognize the change in property taxes due to higher revenues or net plant values in the test year, compared to the actual results reported to the Arizona Department of Revenue. It is proper rate making to include all known changes to expense. Using property tax based on data other than test year revenues at present and proposed rates and net plant would be the

similar to using income tax based on something other than test year's present and proposed revenues and expenses. If Staff proposes to use property taxes based on the property tax bill received in September 1999, the revenue annualization adjustment, adjustment number 1, to recognize the higher rates allowed by this Commission on September 1, 1998, adjustment number 2, and the expense annualization, adjustment number 3 should be removed. Otherwise, the result would be annualized revenues, and partially annualized expenses to serve the annualized number of customers. The 1999 September property tax bill will reflect the unadjusted December 1998 test year revenues, not the annualized test year revenues. If the 1999 September property tax bill is used, there is a mismatch of revenues and expenses.

Removal of the annualized revenues from increases in the number of customers would lessen the number of customers over which the proposed revenue requirement must be spread.

Additionally, Commission Staff have used the same method for computing property taxes for a new water utility applying for a Certificate of Convenience and Necessity ("CC&N"). A company applying for a new CC&N, must request and provide a letter from the Arizona Department of Revenue - Centrally Valued Properties stating that the property tax computation is correct.

Q. HAVE YOU ATTEMPTED TO MEASURE THE DEGREE OF ERROR THAT CAN OCCUR DUE TO YOUR USE OF 50% OF REVENUES AND 50% OF NET PLANT IN YOUR COMPUTATION OF PROPERTY TAXES AT PRESENT RATES?

- A. Yes, I have. The computations are shown on Schedule C-2, Pages 12a 1 through 3 show that the margin of error. The error is only \$107 on a tax bill of \$39,061, or 0.27%. The error as a percentage of revenues is only 0.01%.

Additionally, Mr. Steve Francois of the Arizona Department of Revenue, Division of Property Valuation & Equalization, Centrally Valued Properties Unit confirmed via a telephone call that all water utilities are first valued using 50% of revenues and 50% of plant. Then, the water utilities are analyzed for special circumstances, which could result in a valuation using something other than the 50% of revenues and plant.

I will address the possible error that could be result from use of the 50% of revenues and 50% when the I testify on the computation of property taxes at proposed rates.

- Q. PLEASE CONTINUE WITH YOUR EXPLANATION OF THE ADJUSTMENTS TO THE TEST YEAR'S OPERATING RESULTS.

- A. Adjustment number 9 increases the expense for an auto lease, cell phone, fax line, and auto fuel. Adjustment 10 increases rate case expense. The estimated cost for the instant and the unamortized rate case expense from the prior rate case is amortized over a four (4) year period.

The CAP Charges are adjusted in adjustment number 12. The Company will recharge the CAP water, and received groundwater credits, and payment from the entity which will actually do the recharge. The adjustment consists of three

parts. Part 1 is a reduction in the CAP Charges for the recharge program. This equates to \$5.00 per acre foot.

Part 2 is the amortization of the Prepaid Water Rights. The prior payments for CAP water were capitalized. The prior CAP costs were never charged customers. This adjustment reflects the amortization of the prepaid charges.

The delivery charges (based on the charges for the year 2000) make up the third part of this adjustment. The Recharge program will increase expenses which the Company must pay.

The interest expense on the proposed debt financing is computed in adjustments numbered 13 and 14. Adjustment 13 recognizes the interest from owner loans. The total amount loaned to Vail Water Company is \$293,000. The notes carry an interest rate of 10.25%, and were demand notes. I have amortized these notes over a twenty year period.

Q. IN THE LAST RATE CASE, VAIL WATER PROPOSED A SIMILAR ADJUSTMENT. DIDN'T THE COMMISSION REQUIRE THAT THE LOANS BE CONVERTED TO EQUITY? WHY ARE YOU PROPOSING ADDITIONAL LOANS FROM OWNERS IN THE CURRENT CASE?

A The Company did propose Commission approval of loans in the last rate case. And, yes, the Commission ordered these loans be converted to equity in the last case.

The problem is that the rates allowed by the Commission in the last two rate cases did not recovery all the operating expenses incurred. The Company's

common equity was negative prior to the adjustments to accumulated depreciation, CIAC, and capitalization of prepaid water rights. It is difficult to convince owners to keep adding equity, which is wiped out by operating losses, due to inadequate rates. The Company has over \$1,060,000 in invested capital, but only \$50,000 of adjusted total equity, when past losses are considered.

If the Company were profitable, owners would invest additional capital via equity, as they know they will receive a rate of return on their investment. But investing additional equity, which is cancelled by operating losses, is not really an investment, it is basically throwing money away.

A portion of this loan will be used to pay for the recharge of the CAP Water (delivery charges and other costs associated with the CAP Water). By recharging the CAP Water, the Company will qualify for recovery of the CAP costs. The Company must recharge the water, as it cannot afford not to do so.

The Commission can order that the \$293,000 be treated as equity in the instant case, but I cannot advise a client to make a worthless investment. To do so, would via the ethics I have to adhere to, as a certified public accountant.

Q. PLEASE CONTINUE WITH YOUR EXPLANATIONS OF THE EXPENSE ADJUSTMENTS.

A. Adjustment 14 increases interest expense for the WIFA Loan. The repayment term is 20 years, with an interest rate of 5.81%. The loan requires funding of a reserve account. The reserve account should properly be in rate base, but at this date, no funding has occurred.

Q. PLEASE RETURN TO YOUR DISCUSSION ON THE PROPERTY TAXES AT PROPOSED RATES?

A. To compute the property taxes at proposed rates during these estimated four years the proposed rates will be in effect, I used 65% of the proposed revenues for the first year of the new rates, and 35% of the adjusted test year revenues to derive the revenue component of the property taxes. For years two through four, I used 100% of the proposed revenues. I added the resulting property taxes for the four years, and then averaged them to derive a uniform property tax bill which would be collected by the Company.

As I previously testified, the difference in property taxes computed using 50% of plant and 50% of revenues compared to computations using 0% to 100% of either plant or revenues is extremely small in relation to the total revenues and/or property taxes. The computations are shown on Schedule C-2, page 12a through page 12a-3, to show the impact of use of 100% of revenues, and 0% of net plant, and 100% of net plant and 0% of revenues. The maximum error (+ or -) is only \$107. The \$107 represents 0.01% of proposed revenues and 0.27% of the proposed property tax bill.

Q. MR. KOZOMAN, ISN'T THERE A LAG FROM THE TIME THAT NEW RATES CHARGED CUSTOMERS GO INTO EFFECT, AND THE DATE THAT THE PROPERTY TAX IS ACTUALLY PAID?

A. Yes. As an example, if new rates for Vail went into effect on January 1, 2000, the property tax bill based on these new rates (and plant) would first appear on the

property tax bill received in September 2001. However, the Company should be accruing this property taxes, to match the revenues collected. Thus, there is no mismatch on matching revenues and the related expenses.

Q. DOES SCHEDULE C-3 CONTAIN THE INCOME TAX RATES BASED ON THE PROPOSED REVENUES, AND REVENUE CONVERSION FACTOR TO RECOVER INCOME TAXES.

A. No. The Company is a Subchapter S Corporation, and thus does not pay income taxes. However, the owners of the stock are required to pay tax on the net income, regardless of whether the net income is distributed or retained. A distribution of cash to pay income taxes reduces cash available to install plant, and should be considered in the rate of return allowed in the instant case.

Q. DOES THAT CONCLUDE YOUR EXPLANATION OF THE ADJUSTMENTS TO TEST YEAR OPERATING RESULTS?

A. Yes, it does.

III. Rate of Return

Q. WHAT IS THE PURPOSE OF THIS PHASE OF YOUR TESTIMONY?

A. I will testify on the applicable overall rate of return which allow Vail Water Company to provide qualify water to their customers and compensate share owners for their investment. The rate of return on equity will be based on required debt service coverage and interest coverage.

Q. HOW HAVE YOU COMPUTED THE EQUITY AND THE EQUITY RETURN IN THE INSTANT CASE?

A. The equity return is a function of the needed debt service and interest coverage. The equity that the Company has actually invested is being substituted for the adjusted equity.

Q. WHAT IS THE DIFFERENCE IN THE EQUITY INVESTED AND THE ADJUSTED EQUITY?

A. Over the years of operation, the Company's total invested equity has been approximately \$1,150,000. The adjusted equity is approximately \$50,000. The difference of \$1,100,000 has been operating losses over the years the Company has served the public. The Company has attempted in rate cases to earn a rate of return on its investment. However, each rate case has resulted in actual operating expenses which have not been recovered from customers. Thus, the Company has experienced losses of over \$1,100,000 over the years.

The Company has already been penalized by the Commission via rate cases which have resulted in continued operating and net losses. To use the actual equity capital in the instant case would be to further penalize the Company.

Q. WHAT EQUITY RETURN ARE YOU PROPOSING FOR VAIL WATER COMPANY?

A. Using invested capital, the equity return needed to meet debt service and interest coverage is 16.07%. If the equity return is applied to the adjusted equity, then an equity return of approximately 114% is needed.

The 16.07% equity return is not all that high, when the risks faced by Vail Water Company are considered. These risks consist of:

Inability to construct the necessary water treatment plant (lack of internal cash flow to fund plant additions);

Not having expense true-ups. Although the Arizona Corporation Commission will implement an expense adjuster, what will be included in the adjuster is not fully known at this date, and the adjuster cannot represent more than 10% of the bill;

Use of a historic test year vs. forecasted test years;

Increasing regulatory requirements set forth by the Arizona Department of Environmental Quality;

Small size which makes financing much more difficult and expensive;

Small size which make the ever changing regulatory climate much more expensive for a small water utility, and

The fact that any income earned by the water utility is fully taxable to equity holders, as the rate of return is "after tax" for regulatory purposes, but "pre-tax" for tax purposes. Which would require cash distributions, so as to not penalize the share owners.

These risks would have to be accounted for or added to any unadjusted investor expected rate of return on common equity. In the instant case, the equity return requested is needed for debt coverages.

Q. WHAT DEBT SERVICE AND INTEREST COVERAGE RATIOS ARE YOU RECOMMENDING?

A. The debt service that I am recommending is 1.24:1. WIFA requires a minimum debt service of 1.20:1, which includes funding of the reserve account. This debt service may be too low if customers conserve water due to the higher rates.

I am recommending an interest coverage of 1.58. The interest coverage normally has an add back in the equation for income taxes, but in the instant case, the Company does not collect income taxes from its customers.

The debt service and the interest coverage are shown on Schedule D-4-IC/DS. Additionally, I have included Schedule D-4-V. This schedule measures the Company financial viability against six nationally traded water utilities. As

listed on this schedule, the Company has a negative ranking, which would put it below what the National Regulatory Research Institute classifies as "Distressed".

The proposed interest coverage and debt service may be too low if customers conserve water due to the higher rates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY ON RATE OF RETURN?

A. Yes, it does.

IV. PROPOSED RATES

Q. WHAT RATES ARE THE PRESENT RATES?

A. The monthly charges at present rates are listed below.

Present Rates

| <u>Meter Size</u> | <u>Monthly Minimum</u> | <u>Gallons Included in Monthly Minimum</u> |
|-------------------|------------------------|--|
| 5/8 x 3/4 | \$14.40 | 0 |
| 3/4 | 14.40 | 0 |

| | | |
|-------|--------|---|
| 1 | 19.00 | 0 |
| 1 1/2 | 25.00 | 0 |
| 2 | 46.00 | 0 |
| 3 | 67.50 | 0 |
| 4 | 100.00 | 0 |
| 6 | 280.00 | 0 |

Bulk Water 0.00 -0-

Commodity charge per 1,000 gallons over the gallons included in the month

minimum: \$3.75.

Bulk water: \$3.75.

Q. **WHAT ARE THE PROPOSED RATES?**

A. The monthly minimum charge for proposed rates is based on meter size. The larger the meter size, the higher the monthly minimum. The gallons included in the monthly minimum remain unchanged. The proposed rates are listed below.

Proposed Rates

| <u>Meter Size</u> | <u>Monthly Minimum</u> | Gallons Included in Monthly <u>Minimum</u> |
|-------------------|------------------------|--|
|-------------------|------------------------|--|

| | | |
|------------|----------|-----|
| 5/8 x 3/4 | \$27.70 | 0 |
| 3/4 | 27.70 | 0 |
| 1 | 69.25 | 0 |
| 1 1/2 | 138.50 | 0 |
| 2 | 221.60 | 0 |
| 3 | 443.20 | 0 |
| 4 | 692.50 | 0 |
| 6 | 1,385.00 | 0 |
| Bulk Water | 0.00 | -0- |

Commodity charge per 1,000 gallons over the gallons included in the month
minimum: \$7.20.

Q. HOW DID YOU COMPUTE THE MONTHLY MINIMUMS BASED ON
METER SIZES?

A. The monthly minimum charge is based on meter sizes. The result is that
minimums are based on meter flow potential capacity. The charge for a 5/8 x 3/4
inch meter and a 3/4 inch meter are the same.

A 5/8 x 3/4 inch meter can flow 20 gallons per minute, while a 1 inch
meter can flow 50 gallons per minute. Larger meters can flow considerably more
water per minute as follows:

| <u>Meter Size</u> | <u>Gallons Per Minute</u> |
|-------------------|---------------------------|
| 1 inch meter | 50 |

| | |
|------------------|-------|
| 1 1/2 inch meter | 100 |
| 2 inch meter | 160 |
| 3 inch meter | 320 |
| 4 inch meter | 500 |
| 6 inch meter | 1,000 |

I based the meter charge based on the potential flow of the flow potential from a 5/8 x 3/4 inch meter. Although a 3/4 inch meter can flow 30 gallons per minute, to be consistent, I have used the same price proposed for a 5/8 x 3/4 inch meter.

Q. WHAT IS THE IMPACT ON RESIDENTIAL CUSTOMERS USING THE MONTHLY AVERAGE WATER USING AND ON A 5/8 X 3/4 INCH OR 3/4 INCH METER?

A. Residential customers, on 5/8 x 3/4 inch meters who consume the average quantity of water (7,940 gallons per month) will experience a rate increase of \$40.69 per month, or approximately 92%. While the percentage figure appears high, the dollar cost translates to approximately \$1.35 per day.

Q. DID YOU DO A COST OF SERVICE STUDY TO SUPPORT THE PROPOSED RATES?

A. No.

Q. ARE OTHER TARIFF CHANGES ARE BEING REQUESTED?

A. Yes. The changes in the Company's existing and proposed tariffs are shown on Schedule H-3, page 2, and in the separate book of tariffs.

Q. HAS THE COMPANY PROPOSED THE SPECIFIC FORM OF ITS TERMS AND CONDITIONS TO BE INCLUDED IN ITS TARIFFS AS A PART OF THIS PROCEEDING?

A. Yes. As a separate Exhibit to the Application, the Company has included its proposed rates and charges for service, as well as other standard terms and conditions. These are in a form the Commission has recently approved for other water companies. I am of the opinion that specifying terms and conditions in a formal Tariff permits the Company to more effectively and efficiently operate the Company, and also provides a better understanding for customers who are requesting particular services from the Company.

Q. THE PROPOSED RATE INCREASE IS RATHER SUBSTANTIAL. WON'T THE INCREASE CAUSE "RATE SHOCK"?

A. I agree that the rate increase is substantial. However, the rates proposed in the instant case, as to monthly minimums, is not that much higher than what was proposed in the last rate case.

I have heard the term "rate shock" used when a utility requests a large increase in rates. However, to my knowledge, there is no constitutional or legal requirement which limits the size of a rate increase or imposes a ceiling on the increase. The Company has not been recovering all of its costs of service in its rates and charges for service. Its customers have benefited by receiving below-cost utility service at the expense of the utility company owners. If the Company's rates are not increased to a level that will allow recovery of operating expenses and a fair return on rate base, as required by the U. S. Supreme Court and Arizona Supreme Court decision, the Company's property would be effectively confiscated.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

APPENDIX A

RESUME OF
RONALD L. KOZOMAN, CPA

EMPLOYMENT EXPERIENCE

10/1/93 TO
PRESENT

SELF-EMPLOYED

1988 TO 9/30/93

KOZOMAN & KERMODE CPA's, PARTNER

1986-1988

KOZOMAN & KERMODE, CPA'S PC, PRESIDENT

1982-1986

TROUPE KEHOE WHITEAKER & KENT CPA's
PARTNER AND UTILITY CONSULTANT

RESPONSIBLE FOR OVERALL MANAGEMENT OF FIRM'S PHOENIX,
ARIZONA OFFICE

1981-1982

ARIZONA CORPORATION COMMISSION

CHIEF UTILITY RATE
ANALYST

TESTIFIED ON COST OF CAPITAL, RATE BASE AND INCOME
STATEMENTS; FINANCING MATTERS; ANALYSIS OF RATE ORDERS;
SUPERVISION OF AUDITING AND RATE ANALYST SECTIONS.
TESTIFIED IN CASES INVOLVING ENERGY, WATER AND
COMMUNICATION COMPANIES.

1977-1981

ILLINOIS COMMERCE COMMISSION

ACCOUNTANT III, IV,
V, & EXECUTIVE V

AUDITS OF UTILITIES' FINANCIAL STATEMENTS, PREPARATION
OF EXHIBITS AND TESTIMONY, AND CROSS-EXAMINATION OF
UTILITIES' WITNESSES.

TESTIFIED IN CASES INVOLVING ENERGY, WATER AND
COMMUNICATION COMPANIES.

SOUTHERN ILLINOIS UNIVERSITY

ACCOUNTING FACULTY

NORTHERN ILLINOIS UNIVERSITY

ACCOUNTING FACULTY

INDIANA UNIVERSITY

ACCOUNTING FACULTY

MACMURRAY COLLEGE

ACCOUNTING FACULTY

ILLINOIS AND ARIZONA CERTIFIED PUBLIC ACCOUNTANT
CERTIFICATES.

EDUCATION:

BACHELOR OF SCIENCE - NORTHERN ILLINOIS UNIVERSITY
MASTER OF SCIENCE - NORTHERN ILLINOIS UNIVERSITY

FRATERNITY

BETA ALPHA PSI, PROFESSIONAL ACCOUNTING ACADEMIC

YEARS

| FROM-TO | INSTITUTION | MAJOR | DEGREE | DATE |
|---------|--|------------|-----------|------|
| 1959-61 | JOLIET JUNIOR COLLEGE | ACCOUNTING | ASSOCIATE | 6-61 |
| 1961-63 | NORTHERN ILLINOIS UNIVERSITY | ACCOUNTING | B.S. | 6-63 |
| 1963-65 | NORTHERN ILLINOIS UNIVERSITY | BUS. ED. | M.S. | 6-65 |
| 1967 | CERTIFIED PUBLIC ACCOUNTANT, ILLINOIS | | | 9-67 |
| 1980 | LICENSED ACCOUNTANT, ILLINOIS (065-012256) | | | 5-80 |
| 1983 | LICENSED ACCOUNTANT, ARIZONA (3805-R) | | | 2-83 |

REGULATORY AND WORK EXPERIENCE

10/1/93 TO

PRESENT SELF EMPLOYED

FEB. 1988

TO 9/30/93 PARTNER, KOZOMAN AND KERMODE, CPA's

FEB. 1986 -

JAN. 1985 PRESIDENT, KOZOMAN AND KERMODE P.C., CPA's

OCT. 1982

TO JAN. 1986: PHOENIX OFFICE; JOB TITLE: PARTNER

TROUPE KEHOE WHITEAKER & KENT

1981 TO 1982

CHIEF RATE ANALYST, UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

1977 TO 1981

ACCOUNTANT III - NOVEMBER 1977

ACCOUNTANT IV - APRIL 1979

ACCOUNTANT V - AUGUST 1980

EXECUTIVE V - MARCH 1981

ILLINOIS COMMERCE COMMISSION - SPRINGFIELD, ILLINOIS

DUTIES INCLUDED AUDIT OF UTILITIES' BOOKS AND RECORDS IN CONNECTION WITH RATE INCREASES, PREPARATION OF EXHIBITS AND TESTIMONY CONCERNING RATE INCREASES, CROSS-EXAMINATION OF UTILITIES' WITNESSES ON RATE MATTERS, TESTIMONY AS EXPERT WITNESS FOR STAFF'S POSITION ON UTILITY FINANCIAL STATEMENTS AND RATE NEEDS, AND EXAMINATION OF TESTIMONY AND DATA ON SUNDRY MATTERS (SEE ATTACHED SHEET FOR SUMMARY).

1974 TO 1977:

ASSOCIATE PROFESSOR, MACMURRAY COLLEGE

JACKSONVILLE, ILLINOIS

DUTIES INCLUDED TEACHING COURSES IN ELEMENTARY, INTERMEDIATE AND ADVANCED ACCOUNTING, COST ACCOUNTING, INCOME TAXES, AUDITING, AND MANAGERIAL ACCOUNTING.

1969 TO 1974:

INSTRUCTOR, SOUTHERN ILLINOIS UNIVERSITY

CARBONDALE, ILLINOIS

TAUGHT FINANCIAL AND MANAGERIAL ACCOUNTING AND
ACCOUNTING FOR NON-BUSINESS MAJORS.

JAN. 1973 TO
APRIL 1973: ACCOUNTANT (PART-TIME), HORWATH & HORWATH
946 WEST MAIN STREET, CARBONDALE, ILLINOIS

PREPARED TAX RETURNS (STATE AND FEDERAL) FOR
INDIVIDUALS AND BUSINESSES.

1967 TO 1969: ASSISTANT PROFESSOR, INDIANA UNIVERSITY
DIVISION OF GENERAL & TECHNICAL STUDIES
FORT WAYNE, INDIANA

TAUGHT COURSES IN ACCOUNTING AND BUSINESS;
SERVED AS ACTING DEPARTMENT CHAIRMAN.

1965 TO 1967: INSTRUCTOR, SOUTHERN ILLINOIS UNIVERSITY
CARBONDALE, ILLINOIS

TAUGHT FINANCIAL AND MANAGERIAL ACCOUNTING.

PUBLICATIONS

LECTURE GUIDE TO SUPPLEMENT ACCOUNTING FOR CONTROL AND DECISIONS
HOLMES, MEIER & PABST, BUSINESS PUBLICATIONS, INC.
PUBLISHED BY STIPES PUBLISHING CO., 1971.

AN OVERVIEW OF A RATECASE. COPYRIGHT NUMBER 256 639, PRIVATELY PUBLISHED
MANUAL FOR UTILITIES. PRESENTED TO MEDIA THROUGH OUT THE STATE OF ARIZONA,
1986.

SPEECHES

"WORKSHOP ON UTILITY ACCOUNTING, RATE CASES, AD VALOREM TAXES, DATA
REQUESTS, FINANCING, FINANCINGS, HOUSE BILL 2562, NEW STATE INCOME TAXES
RATES," WATER UTILITIES ASSOCIATION OF ARIZONA, SEPTEMBER 1990.

"RATE BASE AND OPERATING EXPENSES," 5TH ANNUAL NEW MEXICO STATE UNIVERSITY
UTILITIES CONFERENCE, ALBUQUERQUE, OCTOBER 1982.

"CHANGES IN INCOME TAXES," PUBLIC UTILITIES ASSOCIATION OF ARIZONA, TUCSON,
OCTOBER 1982.

"REVENUE REQUIREMENTS" 1987 - 1995, "ACCOUNTING FOR NON-ACCOUNTANTS, 1991 -
1995, COST OF SERVICE AND RATE DESIGN, 1995 NATIONAL ASSOCIATION OF
REGULATORY UTILITY COMMISSIONERS (NARUC) ANNUAL STUDIES FACULTY HELD IN
LANSING, MICHIGAN FOR REGULATORY COMMISSION PERSONNEL EMPLOYEES AND
UTILITY PERSONNEL.

INSTRUCTOR FOR THE NEW YORK PUBLIC SERVICE COMMISSION 1995. TOPICS INCLUDED CONSTRUCTION WORK IN PROGRESS VS. ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION, COST OF CAPITAL, AND DEFERRED INCOME TAXES.

A CHRONOLOGICAL SUMMARY OF MY WORK EXPERIENCE WITH THE ILLINOIS COMMERCE COMMISSION IS PROVIDED BELOW.

| <u>COMPANY</u> | <u>DOCKET NO.</u> | <u>FUNCTION</u> |
|---|--------------------------------|--|
| CIPS (ELECTRIC & GAS) | 77-0375 | 1. CROSS-EXAMINED RESPONDENT'S WITNESSES. 2. AUDITED RESPONDENT'S RECORDS. |
| MONARCH GAS | 77-0709 (GAS) | 1. CROSS-EXAMINED RESPONDENT'S WITNESSES. 2. PROPOSED ADJUSTMENTS INVOLVING MATERIALS SUPPLIES AND PENSIONS. 3. AUDITED RESPONDENT'S RECORDS. |
| IOWA- ILLINOIS GAS & ELECTRIC | 78-0075 (ELECTRIC & GAS) | 1. CROSS-EXAMINED RESPONDENT'S WITNESSES. 2. SPONSORED RATE BASE AND INCOME STATEMENT EXHIBITS AND ASSOCIATED ADJUSTMENTS. 3. WROTE REPLY BRIEF. 4. AUDITED RESPONDENT'S RECORDS. |
| INTERSTATE POWER (ELECTRIC & GAS) | 78-0203 & 78-0161 | 1. CROSS-EXAMINED RESPONDENT'S WITNESSES. 2. SPONSORED ADJUSTMENTS TO FUEL INVENTORY 3. AUDITED RESPONDENT'S RECORDS. |
| TOWN GAS CO. | 78-0285 (GAS) | 1. CROSS-EXAMINED RESPONDENT'S WITNESSES. 2. SPONSORED RATE BASE, INCOME STATEMENTS, COST OF CAPITAL AND ASSOCIATED ADJUST- MENTS. 3. ANALYZED IMPACT OF DEFERRED INCOME TAXES ON CONSUMERS' RATES. 4. AUDITED RESPONDENT'S RECORDS. |
| ILLINOIS POWER | 78-0071 | 1. PREPARED CROSS-EXAMINATION QUESTIONS FOR STAFF COUNSEL. 2. SPONSORED ADJUSTMENTS TO FUEL INVENT- ORIES, MAINTENANCE EXPENSE AND COST OF CAPITAL COMPONENTS. 3. AUDITED RESPONDENT'S RECORDS. |
| ILLINOIS BELL | 80-0010 | 1. PREPARED CROSS-EXAMINATION QUESTIONS FOR STAFF COUNSEL. |

TELEPHONE

2. SPONSORED RATE BASE, INCOME STATEMENT, AND COST OF CAPITAL USING DOUBLE LEVERAGE.
3. PROJECT LEADER FOR CASE.
4. SUPERVISED AUDIT OF RESPONDENT'S RECORDS.

COMMONWEALTH 80-0546
EDISON

1. INTERIM AND MAIN CASE, FINANCIAL INTEGRITY, ANALYSIS OF FINANCIAL COVERAGES - ACTUAL AND PROJECTED.
2. PREPARED CROSS-EXAMINATION QUESTIONS FOR ASSISTANT ATTORNEY GENERAL.
3. SPONSORED RATE BASE, INCOME STATEMENT, AND COST OF CAPITAL.
4. PROJECT LEADER FOR CASE.
5. SUPERVISED AUDIT OF RESPONDENT'S RECORDS.

TOWN GAS 81-0113
CO.

1. CROSS-EXAMINED RESPONDENT'S WITNESSES.
2. SUPERVISED AUDIT OF RESPONDENT'S RECORDS.
3. SPONSORED COST OF CAPITAL EXHIBITS AND TESTIMONY.

CONTINENTAL 81-0014
TELEPHONE CO.
OF ILLINOIS

1. COST OF CAPITAL TESTIMONY.

GENERAL 81-0443
TELEPHONE CO.
OF ILLINOIS

1. EXAMINED STATION CONNECTION EXPENSING.

SUNDRY CASES

PURCHASED GAS AND FUEL CLAUSE RECONCILIATIONS FOR:

MONARCH GAS COMPANY

TOWN GAS COMPANY

UNION ELECTRIC COMPANY

GAS UTILITIES, INC.

ADOPTION OF UNIFORM SYSTEM OF ACCOUNTS 78-0579 FOR RADIO COMMON CARRIERS (MOBILE TELEPHONE) - CASE DISMISSED.

GENERAL ORDER 210, UNIFORM FILING REQUIREMENTS FOR LARGER UTILITIES - FORECASTED TEST YEAR - ORDER ENTERED AND ADOPTED.

A CHRONOLOGICAL SUMMARY OF MY WORK EXPERIENCE WITH THE ARIZONA CORPORATION COMMISSION IS PROVIDED BELOW.

| COMPANY | DOCKET NO. | FUNCTION |
|---|--------------------|---|
| SOUTHERN UNION GAS | U-1240-81-148 | COST OF CAPITAL TESTIMONY* |
| SOUTHWEST GAS CORP. | U-1551-81-206 | COST OF CAPITAL TESTIMONY* |
| CONTINENTAL TELEPHONE CO. OF THE WEST | U-1541-81-385 | TESTIFIED ON PROPOSED RATES FOR EXPENSING STATION CONNECTIONS. |
| SUN CITY WEST UTILITIES | U-2334-81-008 | COST OF CAPITAL |
| SOUTHWEST GAS CO. | U-1551-82-010 | COST OF CAPITAL |
| CONTINENTAL TELEPHONE CO. OF CALIFORNIA | U-1896-81-391 | COST OF CAPITAL |
| TUCSON ELECTRIC POWER | U-1933-81-033 | RATE INCREASE |
| MOUNTAIN BELL | 9981-E-1051-81-406 | COST OF CAPITAL |
| SOUTHWEST GAS CO. | U-1551-82-034 | COST OF CAPITAL |
| SUN CITY SEWER & WATER | U-2276-81-333 | COST OF CAPITAL |
| SOUTHERN UNION GAS | | COST OF CAPITAL* |
| MOUNTAIN BELL | | ALL ADJUSTMENTS TO RATE BASE AND INCOME STATEMENT. PROPOSED ACCELERATED AMORTIZATION OF INSIDE WIRING.* |

*TESTIFIED AS CONSULTANT.

CHRONOLOGICAL SUMMARY OF MY WORK EXPERIENCE WITH TROUPE KEHOE WHITEAKER & KENT IS PROVIDED BELOW:

| <u>COMPANY/CLIENT</u> | <u>FUNCTION</u> |
|------------------------|--|
| WEST END WATER COMPANY | TESTIFIED FOR APPLICANT ON RATE BASE, INCOME STATEMENT, COST OF CAPITAL AND RATE DESIGN. |

| | |
|---|--|
| SUNRISE WATER COMPANY | TESTIFIED FOR APPLICANT ON RATE BASE, INCOME STATEMENT, COST OF CAPITAL AND RATE DESIGN. |
| BIG PARK WATER COMPANY | TESTIFIED FOR APPLICANT ON RATE BASE, INCOME STATEMENT, COST OF CAPITAL AND RATE DESIGN IN BOTH INTERIM AND MAIN CASES. TESTIFIED FOR APPLICANT ON FINANCING AND PHASED-IN RATE INCREASES. |
| CAREFREE WATER COMPANY | TESTIFIED FOR APPLICANT ON RATE BASE, INCOME STATEMENT, COST OF CAPITAL AND RATE DESIGN. |
| BLACK BILL & DONEY PARK WATER USERS' ASSOCIATION | TESTIFIED FOR APPLICANT ON RATE BASE, INCOME STATEMENT, RATE OF RETURN AND RATE DESIGN IN BOTH INTERIM AND MAIN CASES. TESTIFIED FOR APPLICANT ON SPECIAL ASSESSMENTS, HOOK-UP FEES, CAPITAL CREDITS AND PUMPING POWER ADJUSTER. |
| FLORENCE GARDENS UTILITY CO. | TESTIFIED FOR APPLICANT ON RATE BASE, INCOME STATEMENT RATE OF RETURN AND RATE DESIGN FOR WATER AND SEWER. |
| BOULDER CAREFREE SEWER CORP. | TESTIFIED FOR APPLICANT ON COST OF CAPITAL AND AMORTIZATION OF CONTRIBUTIONS. |
| WEST END WATER COMPANY | TESTIFIED FOR APPLICANT ON COST OF CAPITAL AND AMORTIZATION OF CONTRIBUTIONS. |
| ARIZONA PUBLIC SERVICE CO. | DEVELOPMENT OF PUBLIC RELATIONS MANUAL TO EXPLAIN A RATE CASE TO THE NEWS MEDIA. |
| NEW MEXICO CORP. COMMISSION - GENERAL TELEPHONE COMPANY OF THE SOUTHWEST. | TESTIFIED FOR COMMISSION ON APPLICANT'S PROPOSED RATE BASE AND INCOME STATEMENT. |
| DEPARTMENT OF THE NAVY - PACIFIC GAS & ELECTRIC | EVALUATION OF APPLICANT'S AND CALIFORNIA COMMISSION STAFF'S RATE CASE FILINGS. |
| SUNDRY CLIENTS | TESTIFIED ON VALUATION OF WATER UTILITIES BEFORE THE ARIZONA DEPARTMENT OF REVENUE, CENTRALLY VALUED PROPERTIES. |
| A CHRONOLOGICAL SUMMARY OF MY WORK EXPERIENCE WITH KOZOMAN & KERMODE CPA'S IS PROVIDED BELOW: | |

COMPANY/CLIENT

FUNCTION

| | |
|--|--|
| NEW MEXICO CORP. COMMISSION - CONTINENTAL TELEPHONE CO. OF THE WEST. | TESTIFIED FOR COMMISSION ON APPLICANT'S COST OF CAPITAL. |
| NEW MEXICO CORP. COMMISSION - WESTERN NEW MEXICO TELEPHONE COMPANY. | TESTIFIED FOR COMMISSION ON APPLICANT'S COST OF CAPITAL. |
| BERMUDA WATER COMPANY | TESTIFIED FOR APPLICANT ON RATE CASE AND FINANCING. |
| BELLA VISTA RANCHES (BELLA VISTA WATER CO.) | TESTIFIED FOR APPLICANT ON COST OF CAPITAL, COST OF SERVICE, RATE DESIGN, AND CONSOLIDATION OF THREE COMPANIES. |
| TUCSON SOUTH WATER COMPANY | TESTIFIED FOR APPLICANT ON INTERIM / EMERGENCY RATE INCREASE. |
| CITIZEN'S UTILITIES COMPANY | TESTIFIED FOR APPLICANT ON COST OF CAPITAL FOR ITS TELEPHONE OPERATIONS. |
| PUEBLO DEL SOL WATER COMPANY/ ARIZONA WATER COMPANY TRANSFER | TESTIFIED FOR BELLA VISTA WATER COMPANY, INC. ON BENEFITS TO RATEPAYERS OF PUEBLO DEL SOL WATER COMPANY AND BELLA VISTA WATER COMPANY, INC. IF BELLA VISTA WATER COMPANY, INC. WERE TO PURCHASE PUEBLO DEL SOL WATER COMPANY. |
| METROPOLITAN WATER COMPANY | TESTIFIED ON COST OF CAPITAL AND COST OF SERVICE STUDIES. |
| PONDEROSA UTILITY CORP. | FINANCING OF DEBT AND EQUITY |
| BIG PARK WATER COMPANY | RATE ADJUSTMENT, COST OF CAPITAL COST OF SERVICE, RATE BASE, INCOME STATEMENT, PROPOSED RATES, AND FINANCING |
| METROPOLITAN WATER COMPANY | FINANCING USING DEBT WITH A PAYMENT IN LIEU OF REVENUES CHARGE RATHER THAN TRADITIONAL LINE EXTENSION AGREEMENT |
| VOYAGER WATER COMPANY (FORMERLY TUCSON SOUTH WATER COMPANY) | RATE ADJUSTMENT, COST OF CAPITAL RATE BASE, INCOME STATEMENT AND PROPOSED RATES. FINANCING. |
| NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS | ANNUAL REGULATORY STUDIES PROGRAM 1987 - 1993 INSTRUCTOR REVENUE REQUIREMENTS |
| ARIZONA SIERRA UTILITY COMPANY | RATE ADJUSTMENT, COST OF CAPITAL, COST OF SERVICE, RATE BASE, INCOME STATEMENT, PROPOSED RATES, AND FINANCING FOR WATER |

AND SEWER

| | |
|---|--|
| CAVE CREEK SEWER COMPANY | REQUEST FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY |
| GOODMAN WATER COMPANY | REQUEST FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY |
| AVRA WATER CO-OP, INC. | INTERIM/EMERGENCY RATES AND FINANCING |
| CAVE CREEK SEWER COMPANY | RATE ADJUSTMENT, COST OF CAPITAL, RATE DESIGN |
| GOLD CANYON SEWER COMPANY | REQUEST FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY |
| DESERT HILLS WATER COMPANY | COST OF CAPITAL, RATE DESIGN FOR RATE ADJUSTMENT |
| WILLOW VALLEY WATER COMPANY | COST OF CAPITAL, REBUTTAL TESTIMONY ON ACCUMULATION DEPRECIATION, CONSERVATION AND ELASTICITY, RATE DESIGN. |
| QUAIL CREEK WATER COMPANY | CERTIFICATE OF CONVENIENCE AND NECESSITY |
| AVRA WATER CO-OP, INC. | DEBT SERVICE REQUIREMENTS, PERMANENT RATES, CONSERVATION AND PRICE ELASTICITY |
| RIO VERDE UTILITIES, INC. | COST OF CAPITAL, RATE DESIGN, RATE BASE, INCOME STATEMENT |
| CHAPARRAL CITY WATER COMPANY | COST OF CAPITAL, RATE DESIGN, RATE BASE, INCOME STATEMENT, ADJUSTER MECHANISM FOR PURCHASED CAP WATER AND PURCHASED ELECTRIC POWER |
| RIGBY WATER COMPANY | COST OF CAPITAL, RATE DESIGN, RATE BASE, INCOME STATEMENT |
| BIG PARK WATER COMPANY | COST OF CAPITAL, RATE DESIGN, RATE BASE INCOME STATEMENT |
| CONSOLIDATED WATER UTILITIES | COST OF CAPITAL, DEBT SERVICE, RATE DESIGN, RATE BASE |
| UTILITY MANAGEMENT & OPERATION SERVICES | EMERGENCY RATES |
| RESIDENTIAL SEWAGE WORKS | EMERGENCY RATES |
| UTILITY MANAGEMENT & OPERATION | DEBT SERVICE, RATE BASE, INCOME STATEMENT, AND RATE DESIGN |
| RESIDENTIAL SEWAGE WORKS | DEBT SERVICE, RATE BASE, INCOME STATEMENT, |

| | |
|---|---|
| | AND RATE DESIGN |
| BOULDERS CAREFREE SEWER CO. | REQUIRED RATE OF RETURN |
| BELLA VISTA WATER COMPANY | COST OF CAPITAL, RATE BASE, INCOME STATEMENT |
| RURAL METRO - YUMA AMBULANCE | TESTIFIED AS A CONSULTANT TO ARIZONA DEPARTMENT OF HEALTH ON RATE OF RETURN |
| PARADISE VALLEY WATER COMPANY | RATES FOR GOLF COURSE |
| PUEBLO DEL SOL WATER COMPANY | ORDER TO SHOW CAUSE |
| GOLDEN SHORES WATER COMPANY | RATE BASE, INCOME STATEMENT, COST OF CAPITAL |
| WILLOW VALLEY WATER COMPANY | RATE BASE, INCOME STATEMENT, COST OF CAPITAL |
| A CHRONOLOGICAL SUMMARY OF MY SELF-EMPLOYED WORK EXPERIENCE IS PROVIDED BELOW: | |
| ROOSEVELT LAKE RESORT, INC. | RATE BASE, INCOME STATEMENT, COST OF CAPITAL |
| RIO VERDE UTILITIES, INC. | RATE BASE, INCOME STATEMENT, COST OF CAPITAL FOR WATER AND SEWER |
| DONEY PARK WATER | RATE BASE, INCOME STATEMENT, RATE DESIGN, AND TIER FOR CO-OP CAPITAL |
| PARADISE VALLEY WATER COMPANY | RATE DESIGN AND COST OF SERVICE STUDY |
| BOULDERS CAREFREE SEWER CORP. | RATE BASE, INCOME STATEMENT, COST OF CAPITAL, AND RATE DESIGN FOR SEWER |
| RANCHO VISTOSO WATER COMPANY | RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN, AND PROPOSED ADJUSTMENT MECHANISM TO RECOVER COSTS OF PUMPING POWER, TREATED AND/OR UNTREATED CAP WATER AND/OR RECHARGE WATER |
| PARADISE VALLEY WATER CO. | RATE DESIGN AND COST OF SERVICE STUDY AND COST OF CAPITAL |
| CAMP VERDE WATER SYSTEM | RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN, AND PROPOSED ADJUSTMENT MECHANISM TO RECOVER COSTS OF TREATED WATER |

| | |
|--|--|
| FAR WEST WATER COMPANY | RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN |
| TURNER RANCHES | RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN |
| APPALOOSA WATER | APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY |
| FAR WEST WATER COMPANY | REHEARING ON PROPERTY TAXES |
| NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS | ANNUAL REGULATORY STUDIES PROGRAM 1991 - 1998 INSTRUCTOR ACCOUNTING FOR NON ACCOUNTANTS, REVENUE REQUIREMENTS, COST OF SERVICE, AND ACCOUNTING IN A DE-REGULATED WORLD |
| VAIL WATER COMPANY | RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN |
| SANTA CRUZ WATER PALO VERDE UTILITIES | CERTIFICATE OF CONVENIENCE & NECESSITY |
| GOLDEN SHORES WATER | RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN |
| BELLA VISTA WATER AND NICKSVILLE WATER | RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN, COST OF SERVICE STUDY, CONSOLIDATION OF WATER COMPANIES |

VAIL WATER COMPANY

DOCKET W-01651

TARIFF

Issued _____

Effective _____

ISSUED BY:

Doug Noll, Vice President
Vail Water Company
5780 North Swan Road, Suite S-100
Tucson, Arizona 85360

25002-00000.84

EXHIBIT C

DOCKET W-01651

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ISSUED BY:

Doug Noll, Vice President
 Vail Water Company
 5780 North Swan Road, Suite S-100
 Tucson, Arizona 85360

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ISSUED BY:

Doug Noll, Vice President
Vail Water Company
5780 North Swan Road, Suite S-100
Tucson, Arizona 85360

DOCKET W-01651

Applies to all WATER service areas

PART ONE

**STATEMENT OF CHARGES
WATER SERVICE**

I. RATES

In Opinion and Order No. _____, dated _____, 2000, the Commission approved the following rates and charges to become effective with _____, 2000 usage and _____, 2000 billings:

| <u>Meter Size</u> | <u>Usage Included in Minimum Charge</u> | <u>Minimum Charge</u> |
|---------------------------------------|---|-----------------------|
| Inches | Gallons | Per Month |
| A. General Residential Service | | |
| 5/8" x 3/4" Meter | -0- | \$ 27.20 |
| 3/4" Meter | -0- | 27.20 |
| 1" Meter | -0- | 69.25 |
| 1 1/2" Meter | -0- | 138.50 |
| 2" Meter | -0- | 221.60 |
| 3" Meter | -0- | 443.20 |
| 4" Meter | -0- | 692.50 |
| 6" Meter | -0- | 1,385.00 |

THE RATE FOR USE IN ADDITION TO THE MINIMUM STATED ABOVE SHALL BE THE SAME FOR ALL SIZES OF METERS. ADDITIONAL USAGE SHALL BE AT THE RATE OF \$7.20 PER 1,000 GALLONS.

Issued _____

Effective _____

ISSUED BY:

Doug Noll, Vice President
Vail Water Company
5780 North Swan Road, Suite S-100
Tucson, Arizona 85360

DOCKET W-01651

Applies to all WATER service areas

PART ONE
STATEMENT OF CHARGES
WATER SERVICE

B. Commercial and Industrial Service

| | | |
|-------------------|-----|----------|
| 5/8" x 3/4" Meter | -0- | \$ 27.20 |
| 3/4" Meter | -0- | 27.20 |
| 1" Meter | -0- | 69.25 |
| 1 1/2" Meter | -0- | 138.50 |
| 2" Meter | -0- | 221.60 |
| 3" Meter | -0- | 443.20 |
| 4" Meter | -0- | 692.50 |
| 6" Meter | -0- | 1,385.00 |

THE RATE FOR USE IN ADDITION TO THE MINIMUM STATED ABOVE SHALL BE THE SAME FOR ALL SIZES OF METERS. ADDITIONAL USAGE SHALL BE AT THE RATE OF \$7.20 PER 1,000 GALLONS

C. Agricultural and Irrigation Service

| | | |
|-------------------|-----|----------|
| 5/8" x 3/4" Meter | -0- | \$ 27.20 |
| 3/4" Meter | -0- | 27.50 |
| 1" Meter | -0- | 69.25 |
| 1 1/2" Meter | -0- | 138.50 |
| 2" Meter | -0- | 221.60 |
| 3" Meter | -0- | 443.20 |
| 4" Meter | -0- | 692.50 |
| 6" Meter | -0- | 1,385.00 |

THE RATE FOR USE IN ADDITION TO THE MINIMUM STATED ABOVE SHALL BE THE SAME FOR ALL SIZES OF METERS. ADDITIONAL USAGE SHALL BE AT THE RATE OF \$7.20 PER 1,000 GALLONS.

Issued _____

Effective _____

ISSUED BY:

Doug Noll, Vice President
 Vail Water Company
 5780 North Swan Road, Suite S-100
 Tucson, Arizona 85360

DOCKET W-01651

Applies to all WATER service areas

**PART ONE
STATEMENT OF CHARGES
WATER SERVICE**

D. Standpipe Service¹

| | | |
|-------------------|-----|----------|
| 5/8" x 3/4" Meter | -0- | \$ 27.20 |
| 3/4" Meter | -0- | 27.20 |
| 1" Meter | -0- | 69.25 |
| 1 1/2" Meter | -0- | 138.50 |
| 2" Meter | -0- | 221.60 |
| 3" Meter | -0- | 443.20 |
| 4" Meter | -0- | 692.50 |
| 6" Meter | -0- | 1,385.00 |

THE RATE FOR USE IN ADDITION TO THE MINIMUM STATED ABOVE SHALL BE THE SAME FOR ALL SIZES OF METERS. ALL STANDPIPE SERVICE SHALL BE METERED. IF AN ACCOUNT HAS NOT BEEN ESTABLISHED WITH THE COMPANY BY THE CUSTOMER, PAYMENT FOR STANDPIPE WATER SHALL BE PAID UPON DELIVERY. ALL USAGE SHALL BE AT THE RATE OF \$7.20 PER 1,000 GALLONS

¹ Standpipe water service shall be available only to the extent water is not required by permanent customers within the certificated area. Company will attempt to provide 60 days notice of cessation of standpipe service.

Issued _____

Effective _____

ISSUED BY:

Doug Noll, Vice President
Vail Water Company
5780 North Swan Road, Suite S-100
Tucson, Arizona 85360

DOCKET W-01651

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

E. Construction Water Service

| | | |
|-------------------|-----|----------|
| 5/8" x 3/4" Meter | -0- | \$ 27.20 |
| 3/4" Meter | -0- | 27.20 |
| 1" Meter | -0- | 69.25 |
| 1 1/2" Meter | -0- | 138.50 |
| 2" Meter | -0- | 221.60 |
| 3" Meter | -0- | 443.20 |
| 4" Meter | -0- | 692.50 |
| 6" Meter | -0- | 1,385.00 |

ALL ADDITION USAGE SHALL BE AT THE RATE OF \$7.20 PER 1,000 GALLONS. SERVICE SHALL BE THROUGH A COMPANY APPROVED METER, PROVIDED BY THE CONTRACTOR ATTACHED TO A COMPANY FIRE HYDRANT. IF THE CONTRACTOR DOES NOT PROVIDE THE METER, THE COMPANY MAY REQUIRE A REFUNDABLE ADVANCE FROM THE CONTRACTOR IN THE AMOUNT OF THE COST OF AN APPROPRIATE METER.

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ISSUED BY:

Doug Noll, Vice President
Vail Water Company
5780 North Swan Road, Suite S-100
Tucson, Arizona 85360

DOCKET W-01651

Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

F. Fire Sprinkler Service

All meter sizes.²

II. TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future. per Rule R14-2-409(D)(5).

² The monthly charge shall be the higher of \$7.00, or 2.0% of the Monthly Minimum.

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

III. ADDITIONAL CHARGES

| | |
|---|-----------------------|
| A. Establishment of Service per Rule R14-2-403D (new customer charge, in addition to E, M and N below) | \$ 25.00 |
| 1. If after hours | \$ 50.00 |
| B. Re-establishment of Service per Rule R14-2-403D (same customer, same location within 12 months) | \$ Note ³ |
| 1. If after hours | \$ 50.00 ⁴ |
| C. Reconnection of Service per Rule R14-2-403D | \$ 30.00 |
| 1. If after hours | \$ 35.00 |

³ Monthly Minimum times number of months off system.

⁴ Monthly Minimum, times number of months off system, plus \$25.00.

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

| | | |
|----|---|--|
| D. | Charge for moving meter at customer request per Rule R14-2-405B | Cost ⁵ |
| E. | Minimum Deposit Requirement per Rule R14-2-403B | |
| | 1. Residential customer | (2 times estimated average monthly bill) |
| | 2. Non residential customer | (2-1/2 times estimated maximum monthly bill) |
| | 3. Deposit Interest | 6% |
| F. | Meter test per Rule R14-2-408F | \$ 30.00 |
| G. | Meter Reread per Rule R14-2-408C | \$ 15.00 |
| H. | Charge for NSF Check per Rule R14-2-409F | \$ 25.00 |

⁵ See Sheet No. 10.

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

| | | |
|----|--|---------------------|
| I. | Deferred Payment Finance Charge, per month | 1.5% |
| J. | Late Payment Charge, Per Month | 1.5% ^{6 7} |
| K. | Illegal Hook-up to Company's Water System | Note ⁸ |
| L. | Transfer Fee | \$25.00 |

⁶ This charge shall not apply if the customer has arranged for a Deferred Payment Plan.

⁷ Bills for utility services are due and payable when rendered. Any payment not received within fifteen (15) days from the date the bill was rendered shall be considered delinquent and subject to the termination policy set forth in the Company's rate tariff. All late payment penalties shall be billed on the customer's next regularly scheduled billing. If the customer fails to pay the late payment penalty by the due date on the next billing, the customer will receive a ten (10) day termination notice. If the customer does not pay the late payment penalty by that date the service will be terminated. Service shall be terminated only for that service for which the customer is delinquent or is in violation. All customers whose service is terminated for failure to pay the late payment penalty are subject to the Company's reconnection charges set forth in the Company's tariff.

⁸ Computed billings from time illegal connection was made to date, plus \$100.00.

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

M. Service Line Tariff and Meter Advance Policy,
Refundable per Rule R14-2-405B:

| | |
|-------------------|-----------|
| 5/8" x 3/4" Meter | \$ 400.00 |
| 3/4" Meter | 440.00 |
| 1" Meter | 500.00 |
| 1 1/2" Meter | 675.00 |
| 2" Compound Meter | 1,660.00 |
| 3" Compound Meter | 2,150.00 |
| 4" Compound Meter | 3,135.00 |
| 6" Compound Meter | 6,190.00 |

N. Main Extension Tariff, per Rule R14-2-406B Cost⁹

⁹ See Sheet No. 10.

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

IV. PERMITTED COSTS

- A. Costs shall be verified by invoice.
- B. For services that are provided by the Company at costs, cost shall include labor, materials, other charges incurred, and overhead not to exceed 10%. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.
- C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.
- D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the provision of the service or after the Company's receipt of invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date. However, if the actual cost is more than five percent (5%) greater than the total amount paid, the customer will only be required to pay five percent (5%) more than the total amount paid, unless the Company can demonstrate that the increased costs were beyond its control and could not be foreseen at the time the estimate for the total amount paid was made.
- E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.

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PART ONE
STATEMENT OF CHARGES
WATER SERVICE

F. Permitted costs shall include any State or Federal income taxes that are or may be payable by the Company as a result of any tariff or contract for water facilities under which the Customer advances or contributes funds or facilities to the Company.

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PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

I. CROSS-CONNECTION CONTROL

A. Purpose.

To protect the public water supply in the Company's water supply in the Company's water system from the possibility of contamination caused by backflow through unprotected cross-connections by requiring the installation and periodic testing of backflow-prevention assemblies pursuant to the provisions of the Arizona Administrative Code, Title 14, Chapter 2, Section 405.B.6 as adopted by the Arizona Corporation Commission, and Title 18, Chapter 4, Section 115, as adopted by the Arizona Department of Environmental Quality, as those regulations may be revised from time to time.

B. Inspections.

The customers shall cooperate fully with the Company in its efforts to investigate and determine the degree of potential health hazard to the public water supply which may result from conditions existing on the customer's premises.

C. Requirements.

In compliance with the Rules and Regulations of the Arizona Corporation Commission and the Arizona Department of Environmental Quality, specifically A.A.C. R14-2-405.B.6 and A.A.C. R18-4-115 relating to backflow prevention:

- 1. The Company may require a customer to pay for and have installed, maintain, test and repair a backflow-prevention assembly if A.A.C. R18-4-115.B or C applies.

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PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

2. A backflow-prevention assembly required to be installed by the customer under this tariff shall comply with the requirements set forth in A.A.C. R18-4-115.D and E.

3. The Company shall give any customer who is required to install and/or test a backflow-prevention assembly written notice of said requirement. If A.A.C. R14-2-410.B.1.a. is not applicable, the customer shall be given thirty (30) days in which to comply with this notice. If the customer can show good cause as to why he cannot install the device within thirty (30) days, the Company or the Arizona Corporation Commission Staff may grant additional time for this requirement.

4. Testing shall be in conformance with the requirements of A.A.C. R18-4-115.F. The Company shall not require an unreasonable number of tests.

5. The customer shall provide the Company with records of installation and testing. For each backflow-prevention assembly, these records shall include:

- a. assembly identification number and description;
- b. location;
- c. date(s) of test(s);
- d. description of repairs made by tester; and
- e. tester's name and certificate number.

D. Discontinuance of Service.

In accordance with A.A.C. R14-2-407 and 410 and provisions of this tariff, the Company may terminate service or deny service to a customer who fails to install and/or test a backflow-prevention assembly as required by this tariff.

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PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

1. In the event the backflow-prevention assembly has not been installed or fails any test and A.A.C. R14-2-410.B.1.a. is applicable, the Company may terminate service immediately and without notice. The backflow-prevention assembly shall be installed and repaired by the customer and retested before service is restored.

2. In the event the backflow-prevention assembly has not been installed or fails any test and A.A.C. R14-2-410.B.1.a. is applicable, the backflow-prevention assembly shall be installed and/or repaired by the customer and tested within fourteen (14) days of written notice by the Company. Failure to install or to remedy the deficiency or disfunction of the assembly, or failure to retest shall be grounds for termination of water utility service in accordance with A.A.C. R14-2-410.

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PART TWO

**STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE**

II. FIRE HYDRANT AND INTERIOR FIRE SPRINKLER SERVICE

The Company will provide Fire Protection Service under the following conditions:

A. Facility Specifications

The size, location, number, and technical specifications of facilities used to provide Fire Protection Service shall be prescribed by the Fire Protection Service Customer, developer, or any authorized agency having jurisdiction over those facilities, so long as:

- (1) Those facilities do not adversely affect the Company's ability to provide other service, and
- (2) The maximum diameter of the fire protection service connection is not larger than the diameter of the main to which the service is connected, and
- (3) In the case of a fire hydrant, that the facilities are located in the public right-of-way, and
- (4) In the case of a fire sprinkler system, that the sprinkler system is separate from the other service facilities, unless the Company has specifically approved an integrated system and Company-approved check valves are installed.

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PART TWO

**STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE**

B. Construction Specifications: Ownership of Facilities; Relocation

Fire hydrants, and all valves, pipes, fittings and appurtenances related to the hydrant shall be installed to the Company's construction specifications under non-refundable Contributions in Aid of Construction, paid by the Developer or Fire Protection Service Customer, and shall become the property of the Company.

Fire sprinkler systems up to a mutually-agreed upon point of interconnection shall be installed to the Company's construction specifications under non-refundable Contributions in Aid of Construction, paid by the Developer or Fire Protection Service Customer, and shall become the property of the Company. The installation, maintenance and operation of fire sprinkler systems within the Customer's facility, and beyond the point of interconnection, shall be the responsibility of the Customer.

Relocation costs of any Company-owned fire protection facilities shall be paid by the Customer or the party requesting relocation. Relocation costs include costs incurred due to moving facilities to accommodate reconstruction, widening, realignment, or grade changes to alleys, streets, roads, or highways.

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PART TWO**STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE****III. INTERRUPTIBLE SERVICE; COMPANY'S LIABILITY
LIMITATIONS**

A. The Company will exercise reasonable diligence to provide continuous water service to customers that may be used for fire protection purposes. Fire protection use is conditioned upon the express understanding that THE COMPANY DOES NOT GUARANTEE OR INSURE UNINTERRUPTED OR REGULAR WATER SERVICE, NOR DOES THE COMPANY REPRESENT THE PRESENCE OF ADEQUATE PRESSURE, VOLUME, OR FIRE FLOW AVAILABLE ANYWHERE ON ITS WATER SYSTEM BY OFFERING FIRE PROTECTION SERVICE AS SPECIFIED HEREIN.

B. Fire protection usage is further conditioned on the Customer agreeing TO HOLD HARMLESS AND INDEMNIFY THE COMPANY from and against any and all liability, loss, damage or expense the Company may incur as a result of claims, demands, costs or judgment against the Company including, but not limited to, loss of or damage to property or injury or to death of persons, arising, directly or indirectly, out of the Company's providing of water service, or any activities or operations related thereto, or any breach by the Customer of the terms, covenants or conditions of this Tariff Schedule. The Company shall be entitled to recover its reasonable attorneys' fees should the Customer fail to comply with this provision. This provision applies to, and regardless of, any negligence or alleged negligence on the part of the Company, its employees, servants or agents.

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PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

IV. RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-401 through A.A.C. R14-2-411 will be controlling of Company procedures, unless specific Commission Order(s) provide otherwise.

Issued _____

Effective _____

ISSUED BY:

Doug Noll, Vice President
Vail Water Company
5780 North Swan Road, Suite S-100
Tucson, Arizona 85360



Ronald L. Kozoman
Certified Public Accountant
1605 W. Mulberry Drive
Phoenix, AZ 85015

ORIGINAL

(602) 274-7325

FAX (602) 274-7374

Toll Free 888-293-7503

A.C.C. - DOCKET CONTROL
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JUL 16 1999

July 16, 1999

DOCUMENTS ARE SUBJECT TO
REVIEW BEFORE ACCEPTANCE
AS A DOCKETED ITEM.

Ms. Connie Northrop
Docket Control Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Re: Vail Water Company, Docket Number W-01651A-99-4000
Missing Schedule for Rate Filing

Dear Ms. Northrop:

Enclosed along with this letter is Schedule B-5 for the rate filing of Vail Water Company, Docket Number W-0161A-99-____. Ms. Sonn Ahlbrecht of Utilities Division, has informed me that the above Schedule was not included in the filing.

I apologize for the inconvenience.

Sincerely,

Ronald L. Kozoman, CPA

Enclosures: Original and Docket Cover Sheet and ten (10) copies of Schedule B-5
Copies with enclosures:
Mr. Richard Sallquist, Sallquist and Drummond, Attorney for Vail Water Company
Ms. Sonn Ahlbrecht, Utilities Division
Mr. Kip Volpe, Vail Water Company

Vail Water Company
Test Year Ended December 31, 1998
Computation of Working Capital

EXHIBIT
SCHEDULE B-5
PAGE 1
WITNESS: Kozoman

ORIGINAL

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| Line No. | | |
|-------------|--|------------------|
| 1 | Cash Working Capital (1/8 of Allowance | |
| 2 | Operation and Maintenance Expense) | \$36,814 |
| 3 | Pumping Power (1/24 of Pumping | |
| 4 | Power Expense) | 1,804 |
| 5 | Material and Supplies Inventories | |
| 6 | Prepayments (Liability Insurance) | <u>4,517</u> |
| 7 | | |
| 8 | Total Working Capital Allowance | <u>\$43,136</u> |
| 9 | | |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | SUPPORTING SCHEDULES: | RECAP SCHEDULES: |
| 15 | (a) E-1 | (b) B-1 |