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BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

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DOCUMENT CONTROL



IN THE MATTER OF THE APPLICATION OF
VAIL WATER COMPANY FOR AUTHORITY
TO ISSUE PROMISSORY NOTE(S) AND
OTHER EVIDENCES OF INDEBTEDNESS
PAYABLE AT PERIODS OF MORE THAN
TWELVE MONTHS AFTER THE DATE OF
ISSUANCE

Docket No. W-01651B-99-0351

IN THE MATTER OF THE APPLICATION
OF VAIL WATER COMPANY FOR AN
INCREASE IN ITS WATER RATES FOR
CUSTOMERS WITHIN PIMA COUNTY,
ARIZONA

Docket No. W-01651B-99-0406

NOTICE OF FILING

Staff of the Arizona Corporation Commission hereby files the Surrebuttal Testimony of
Sonn Ahlbrecht, and Linda Jaress, of the Utilities Division, in the above-captioned matter.

RESPECTFULLY SUBMITTED this 27th day of January, 2000.

for Christopher C. Kempley
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Original and ten copies of the foregoing
were filed this 27th day of January,
2000 with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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**SURREBUTTAL
TESTIMONY OF**

**SONN S. AHLBRECHT
AND
LINDA A. JARESS**

**DOCKET NOS. W-01651B-99-0351
W-01651B-99-0406**

JANUARY 27, 2000

BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK

Chairman

JIM IRVIN

Commissioner

WILLIAM A. MUNDELL

Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01651B-99-0351
VAIL WATER COMPANY FOR AUTHORITY)
TO ISSUE PROMISSORY NOTE(S) AND)
OTHER EVIDENCES OF INDEBTEDNESS)
PAYABLE AT PERIODS OF MORE THAN)
TWELVE MONTHS AFTER THE DATE OF)
ISSUANCE)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01651B-99-0406
VAIL WATER COMPANY FOR A RATE)
INCREASE)

SURREBUTTAL

TESTIMONY

OF

SONN S. AHLBRECHT

AUDITOR III

UTILITIES DIVISION

JANUARY 27, 2000

PHOTO REPRODUCED

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REVISED SCHEDULES

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1 **INTRODUCTION**

2 Q. Please state your name and business address.

3 A. My name is Sonn S. Ahlbrecht. My business address is 1200 West Washington, Phoenix,
4 Arizona 85007.

5
6 Q. Are you the same Sonn S. Ahlbrecht who filed Direct Testimony in this case?

7 A. Yes, I am. I filed Direct Testimony and supporting schedules on behalf of the Utilities
8 Division Staff ("Staff") of the Arizona Corporation Commission ("Commission") on
9 December 1, 1999.

10
11 **PURPOSE OF TESTIMONY**

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

13 A. I am presenting Staff's analysis and recommendations concerning the rebuttal testimony
14 of Vail Water Company ("Vail" or "Company") in the Company's rate increase
15 application.

16
17 Q. As a result of your review of the Company's rebuttal testimony, is Staff changing any of
18 its recommendations set forth in its Direct Testimony?

19 A. Yes. Staff has attached revised schedules as a result of the Company's rebuttal
20 testimony.

21
22 **SUMMARY OF COMPANY'S REBUTTAL TESTIMONY**

23 Q. Would you briefly summarize the Company's rebuttal testimony?

24 A. The Company has indicated in its rebuttal testimony that it is in disagreement with Staff
25 on the following issues:

- 26
- 27 1. The amount of plant in service to be included in rate base.
 - 28 2. The inclusion in rate base of the prepaid water charges paid to the Central

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- Arizona Project ("CAP") by Vail for its water allocation.
- 3. The amount of working capital calculated as a result of the allowed expenses.
- 4. The level of revenue needed by the Company.
- 5. The amount of depreciation expense recoverable in rates.
- 6. The amount of expense allowed on the Income Statement relating to CAP purchased water.
- 7. The amount recoverable in rates for property taxes.
- 8. The inclusion of monthly charges for a fax line in expenses.
- 9. Interest expense calculated on the Water Infrastructure Financing Authority of Arizona ("WIFA") loan relating to planned plant installations and improvements.
- 10. Items pertaining to the amount of debt allowed, and the interest on that debt, which will be addressed in the testimony of witness Linda Jaress.
- 11. The rate design recommended by Staff. Vail has proposed a two-phase plan that would increase rates as the Company places plant in service with proceeds from the WIFA loan.
- 12. Accounting for the proceeds from the CAP Hookup Tariff as a Contribution in Aid of Construction ("CIAC") instead of revenue.

PLANT IN SERVICE ADJUSTMENTS

Q. Did Staff make any adjustments to Plant in Service?

A. Yes. As depicted in Revised Schedule SSA-3, Adjustments A and C reclassify \$78,891 from Pro Forma 1999 Plant in Service to the Transmission and Distribution Mains account. The Company has determined which plant categories to classify plant that was in process at the end of the Test Year subsequent to the filing of Staff's Direct Testimony. In addition, Adjustment B added \$20,247 to Transportation Equipment for a truck placed in service in May of 1999. These adjustments increased Plant in Service to \$2,160,430 from \$2,140,183.

1 Q. Did the Company request any other additions to Plant in Service?

2 A. Yes. Vail requested in its rebuttal testimony to include the anticipated plant that will be
3 installed with the proceeds from the WIFA loan via a two-step phase-in plan tied to rate
4 increases that will be discussed further in the section entitled Rate Design. The Company
5 requested an increase of \$1,139,248 in Plant in Service from \$2,140,183 to \$3,279,431.
6 This is comprised of \$20,247 for the truck discussed above, \$819,000 for the plant to be
7 installed with the WIFA loan, and \$300,001 which is unidentified. Staff believes the
8 Company included \$300,000 for transmission and distribution mains in both Phases I and
9 II, and \$1 is due to rounding.

10
11 Q. Is Staff recommending any of these items be allowed as Plant in Service?

12 A. Yes. Staff will allow \$20,247 in plant for the truck as mentioned above, but recommends
13 disallowing the proposed plant of \$819,000 and the unidentified amount of \$300,001.
14

15 **ORIGINAL COST RATE BASE ADJUSTMENTS**

16 Q. Did Staff make any adjustments to Rate Base?

17 A. Yes, the changes are reflected in Revised Schedule SSA-2. Adjustment A increases Plant
18 in Service by \$20,247 as discussed above.

19
20 Q. What other adjustments did Staff make to Rate Base?

21 A. Staff increased the Allowance for Working Capital by \$856 in Adjustment B, predicated
22 upon adjustments made to expenses, including the recovery of the allowed CAP
23 expenses.
24

25 Q. Did Vail request any other items be included in Rate Base?

26 A. Yes. The Company is requesting a rate of return (rate base treatment) on the unamortized
27 portion of Prepaid Water Rights of \$70,188. The Company indicated that the Prepaid
28 Water Rights should be treated the same way as Prepaid Insurance. That is, the current

1 portion of the expense is reflected in the Income Statement and the unamortized portion
2 of the Prepaid Insurance is added to the Company's rate base.

3
4 Staff is allowing in rates the amortized portion; however, Staff is not recommending
5 recovery of the unamortized portion of prepaid water rights that represent prior years
6 payment for the allocation of 786 acre-feet of CAP water. The Company's analogy to the
7 treatment of Prepaid Insurance is not appropriate. In the case of the Prepaid Insurance,
8 there is a benefit to the ratepayers in the year that the payment is made. In the case of the
9 Prepaid Water Rights, there was no benefit to the ratepayers in the years the expense was
10 incurred. In addition, the Company, in its prior rate case, did not seek recovery of CAP
11 water-related costs. Furthermore, as stated in Staff's Direct Testimony, the Company's
12 CAP water allocation of 786 acre-feet is substantially higher than the current demand,
13 and was, most likely, even higher in prior years when there were less customers than
14 reflected in the instant application.

15
16 Q. Did the Company request inclusion of the WIFA Reserve Fund in Rate Base?

17 A. Yes. The Company included \$6,036 for the WIFA Reserve Fund in rate base. Staff
18 addressed this item in the Direct Testimony of Linda Jaress and Staff's position remains
19 unchanged.

20
21 **INCOME STATEMENT ADJUSTMENTS**

22 Q. Did Staff make any adjustments to the Income Statement?

23 A. Yes. The Company requested increases in five different expense areas, as well as
24 disputing the revenue level recommended by Staff. Staff's adjustments, based on the
25 additional expenses accepted, are reflected in Revised Schedule SSA-5.

26 ...

27 ...

28 ...

1 Q. Please explain the increase in Metered Water Sales.

2 A. Adjustment A increased Metered Water Sales by \$10,137, from \$420,442 to \$430,579.
3 predicated upon the additional expenses accepted by Staff.

4
5 Q. Would you please explain Adjustments B and C?

6 A. Yes. These two adjustments result in a net effect of zero. In Adjustment B, Purchased
7 Cap Water was increased by \$3,930, while Adjustment C decreased CAP Recharge
8 expense by \$3,930. Staff has rejected Vail's request to include the total annual CAP
9 expense, \$84,888, on the Income Statement. Staff recommends allowing \$23,207 in
10 gross expense recoverable in rates, which is offset by an annual reimbursement of \$3,930
11 for recharging CAP water, resulting in net expense of \$19,277. Staff is not
12 recommending recovery of the total CAP costs in rates as revenue, and will discuss this
13 issue further in the section entitled Rate Design.

14
15 Q. What is Staff's position regarding the Company's rebuttal request for fax line expenses of
16 \$420?

17 A. Staff has analyzed and adopted the Company's request for fax line expenses of \$420 by
18 increasing Miscellaneous Expenses from \$5,549 to \$5,969 as reflected in Adjustment D
19 to account for the additional expense.

20
21 Q. What is Staff's response to the Company's request for additional Property Taxes?

22 A. Staff increased Property Taxes in Adjustment E by \$5,985, from \$14,624 to \$20,609, to
23 reflect actual property tax statements received by the Company for 1999.

24
25 Q. Please explain Adjustment F.

26 A. Depreciation expense increased by \$4,232, from \$44,095 to \$48,327, as a result of
27 allowing depreciation on the new truck placed in service in May of 1999, and
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reclassifying \$78,891 to an asset category (Transmission and Distribution Mains) so that depreciation expense can be calculated as well.

Q. Were there any other adjustments made to the Income Statement?

A. Yes. Adjustment G increased Interest Expense by \$4,030 based upon a change in the interest rate charged by WIFA. This increase will be discussed further in the testimony of Linda Jaress.

Q. Are there any other items the Company adjusted that Linda Jaress will address?

A. Yes. The amount of debt allowed was disputed, and will also be addressed in that witness' testimony.

REVISED REVENUE REQUIREMENT AND RATE DESIGN

Q. Did Staff make any adjustments to the revenue requirement and rate design?

A. Yes. As a result of the additional expenses adopted, the revenue requirement from water sales increased by \$10,137, from \$420,442 to \$430,579. Additionally, the rate design had to be modified to allow recovery of these expenses through rates. The updated rate design is reflected in Revised Schedule SSA-6.

Staff does not agree with the Company's two-phase plan to increase rates over a one-year period as plant is added with the proceeds from the WIFA loan. At this time, Staff believes there are too many unknown elements, including the growth rate, to set rates that far into the future. Staff recommends that the Company submit another rate case application after planned plant upgrades are placed in service, if they determine rates are not sufficient at that time.

...
...
...

1 Q. Are there any other areas where Staff and the Company disagree?

2 A. Yes. Vail's position is that proceeds from the CAP Hookup Tariff should be accounted
3 for as revenue instead of as a CIAC. Although Staff agrees that the hookup fees should
4 not be accounted for as a CIAC, we disagree with the Company's proposed treatment as
5 revenues. As mentioned in this witness' Direct Testimony, Staff has designed rates to
6 generate \$19,277 in revenue through rates via the CAP recovery fee, to recoup CAP
7 expenses of the same amount. The balance of the annual expense, \$61,681, is recovered
8 through the CAP Hookup Tariff as new customers are added to the system.

9 Staff is recommending the hookup fees be classified as a Deferred Credit to track the
10 fees. This treatment will alleviate the tax issues discussed by the Company, and also
11 address the issue that CIAC reduce rate base. For purposes of matching revenues and
12 expenses, Staff is not allowing full recovery of CAP expense on the income statement as
13 mentioned earlier in this testimony.

14
15 Q. Did the changes in the revenue requirement and rate design effect the typical bill
16 analysis?

17 A. Yes. The percent increase for average and median usage based on current rates,
18 Company revised rates, and Staff revised rates are depicted in Revised Schedule SSA-7,
19 Pages 1 and 2. Staff included separate analysis for rates requested for both Phase I and
20 Phase II to more accurately depict actual increases.

21
22 Q. Please explain how the revised rates impact customers on a 5/8 by 3/4-inch meter.

23 A. In Phase I, the average customer using 7,498 gallons per month would have an increase
24 of \$10.10, from \$42.52 at present rates, to \$52.62, or 23.8 percent. Staff is
25 recommending an increase of \$9.77 for the average customer, from \$42.52 at present
26 rates, to \$52.29, or 23.0 percent.

27 ...

28 ...

1 In Phase II, the average customer using 7,498 gallons per month would have an increase
2 of \$18.52 (an additional \$8.42 to the Phase I increase), from \$42.52 at present rates, to
3 \$61.04, or 43.6 percent. Staff is not recommending the two-phase plan as the Company
4 is to implement rates, therefore, rates would remain the same as mentioned above.
5 Staff's original rates resulted in a 19.9 percent increase for the average customer,
6 compared to a 23.0 percent increase with the revised rate design. The additional increase
7 was necessary to compensate for the additional expenses accepted by Staff.

8
9 Q. Did Staff make any other changes to Rate Design depicted on Revised Schedule SSA-6?

10 A. Yes. Staff removed the \$100 fee that the Company requested for illegal hook-up to their
11 system. An illegal hook-up would be considered as theft of service and would fall under
12 the category of criminal activity. The Company would need to channel any type of
13 collection of penalties, based on this activity, through the justice system.

14
15 **STAFF RECOMMENDATIONS**

16 Q. Please summarize Staff's recommendation in this proceeding.

17 A. Staff recommends that the Commission approve the rates and charges as depicted on
18 Revised Schedule SSA-6.

19
20 Staff further recommends that the Company be authorized an operating income of
21 \$51,079 based on Staff's adjustments to rate base and operating expenses.

22
23 Staff further recommends a fair value rate of return of 37.9 percent on Staff's proposed
24 Original Cost Rate Base of \$134,716.

25
26 In addition, Staff's lack of response to any issue in this surrebuttal should not be
27 construed as agreement with the Company's rebuttal testimony, rather, where there is no
28 response, Staff relies on its original testimony.

1 Q. Does this conclude your surrebuttal testimony?

2 A. Yes, it does.

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VAIL WATER COMPANY
 Docket No. W-01651B-99-0406
 Test Year Ended December 31, 1998

Revised
 Schedule SSA-1

SUMMARY OF FILING

LINE NO.	DESCRIPTION	PRESENT RATES		PROPOSED RATES		SURREBUTTAL
		COMPANY AS FILED	STAFF ADJUSTED	COMPANY AS FILED	STAFF ADJUSTED	STAFF REVISED
REVENUES:						
1	Metered Sales	\$ 340,356	\$ 340,356	\$ 658,712	\$ 420,442	\$ 430,579
2	Private Fire Protection					
3	Other Operating Revenue	3,341	3,341	3,341	3,341	3,341
4	TOTAL OPERATING REVENUE	\$ 343,697	\$ 343,697	\$ 662,053	\$ 423,783	\$ 433,920
OPERATING EXPENSES:						
5	Operation and Maintenance	\$ 422,708	\$ 375,699	\$ 422,708	\$ 313,485	\$ 313,905
6	Depreciation	70,878	70,878	70,878	44,095	48,327
7	Taxes Other than Income	27,389	14,624	46,913	14,624	20,609
8	Income Tax					
9	TOTAL OPERATING EXPENSES	\$ 520,975	\$ 461,201	\$ 540,499	\$ 372,204	\$ 382,841
10	OPERATING INCOME/(LOSS)	\$ (177,278)	\$ (117,504)	\$ 121,554	\$ 51,579	\$ 51,079

VAIL WATER COMPANY
Docket No. W-01651B-99-0406
Test Year Ended December 31, 1998

Revised
Schedule SSA-2

ORIGINAL COST RATE BASE

LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	REF	STAFF ADJUSTED	REF	STAFF REVISED
1	Gross Utility Plant in Service	\$ 2,967,388	\$ (827,205)	A	\$ 2,140,183	A	\$ 2,160,430
	Less:						
2	Accumulated Depreciation	506,760	(5,773)	B	500,987		500,987
3	Net Utility Plant in Service	\$ 2,460,628	\$ (821,432)		\$ 1,639,196		\$ 1,659,443
	Less:						
4	Contributions in Aid of Construction	\$ 359,686	\$ -		359,686		359,686
	Less:						
5	Amortization of CIAC	(176,823)	\$ 142	C	(176,681)		(176,681)
6	Net CIAC	182,863	142		183,005		183,005
	Plus/(Less):						
7	Advances in Aid of Construction	\$ (1,320,085)	\$ (21,900)	D	\$ (1,341,985)		\$ (1,341,985)
8	Meter Deposits	(37,895)	-		(37,895)		(37,895)
9	Prepaid Water Rights	70,188	(70,188)	E	-		-
10	WIFA Reserve Fund	13,870	(13,870)	F	-		-
11	Allowance for Working Capital	43,136	(5,834)	G	37,302	B	38,158
12	ORIGINAL COST RATE BASE	\$ 1,046,979	\$ (933,366)		\$ 113,613		\$ 134,716

A See Revised Schedule SSA-3

B To increase the Allowance for Working Capital by \$856 predicated upon Staff's adjustments to expenses.

VAIL WATER COMPANY
Docket No. W-01651B-99-0406
Test Year Ended December 31, 1998

Revised
Schedule SSA-3

PLANT IN SERVICE

LINE NO.	ACCT NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	REF	STAFF ADJUSTED	REF	STAFF REVISED
1	303	Land & Land Rights	\$ 3,500	\$ -		\$ 3,500		\$ 3,500
2	304	Structures & Improvements	61,770	428	A	62,198		62,198
3	307	Wells & Springs	145,736	9,710	B	155,446		155,446
4	311	Electric Pumping Equipment	289,392	6,289	C	295,681		295,681
5	320	Water Treatment Equipment	-	-		-		-
6	330	Distribution Reservoirs	118,072	-		118,072		118,072
7	331	Transmission & Distribution Mains	1,405,829	7,337	D	1,413,166	A	1,492,057
8	333	Services	15,376	-		15,376		15,376
9	334	Meters	105,685	89	E	105,774		105,774
10	339	Other Plant & Misc. Equipment	-	2,701	F	2,701		2,701
11	340	Office Furniture & Equipment	4,039	-		4,039		4,039
12	341	Transportation Equipment	32,900	1,007	G	33,907	B	54,154
13	343	Tools and Work Equipment	-	827	H	827		827
14		1983 ACC Adjustment to Plant	(149,395)	-		(149,395)		(149,395)
15		CWIP from 1996 Rate Case	36,593	(36,593)	I	-		-
16		Pro Forma 1999 Plant in Service	78,891	-		78,891	C	-
17		WIFA Loan Improvements	819,000	(819,000)	J	-		-
18		TOTALS	2,967,388	(827,205)		2,140,183		2,160,430

A and C To reclassify \$78,891 from Pro Forma 1999 Plant in Service to Transmission and Distribution Mains.
B To increase Transportation Equipment by \$20,247 for a truck placed in service in May of 1999

INCOME STATEMENT

LINE NO.	DESCRIPTION	[A] PRESENT RATES			[D] PROPOSED RATES			[G] SURREBUTTAL		
		COMPANY	STAFF	STAFF	COMPANY	STAFF	STAFF	COMPANY	STAFF	STAFF
		AS FILED	ADJS	REF ADJUSTED	AS FILED	ADJS	REF ADJUSTED	REF	ADJUSTED	REF REVISED
OPERATING REVENUES:										
1	Metered Water Sales	\$ 340,356	\$ -	\$ 340,356	\$ 658,712	\$ (238,270)	A	\$ 420,442	A	\$ 430,579
2	Private Fire Protection	-	-	-	-	-		-		-
3	Other Water Revenues	3,341	-	3,341	3,341	-		3,341		3,341
4	Total Operating Revenues	\$ 343,697	\$ -	\$ 343,697	\$ 662,053	\$ (238,270)		\$ 423,783		\$ 433,920
OPERATING EXPENSES:										
5	Salaries	\$ 73,465	\$ -	\$ 73,465	\$ 73,465	\$ 4,536	B	\$ 78,001		\$ 78,001
6	Purchased CAP Water	84,888	-	84,888	84,888	(65,611)	C	19,277	B	23,207
7	CAP Recharge Expense	(3,930)	-	(3,930)	(3,930)	3,930	C	-	C	(3,930)
8	Purchased Pumping Power	43,307	(955)	42,352	43,307	(955)	D	42,352		42,352
9	Water Testing	1,189	-	1,189	1,189	2,473	E	3,662		3,662
10	Water Treatment	874	-	874	874	-		874		874
11	Repairs & Maintenance	6,974	252	7,226	6,974	252	F	7,226		7,226
12	Office Supplies	19,468	703	20,171	19,468	703	G	20,171		20,171
13	Outside Services	123,384	(39,800)	83,584	123,384	(39,800)	H	83,584		83,584
14	Rate Case Expense	25,000	-	25,000	25,000	(5,000)	I	20,000		20,000
15	Rent	6,000	-	6,000	6,000	-		6,000		6,000
16	Transportation Expenses	3,600	-	3,600	3,600	-		3,600		3,600
17	General Insurance	14,425	-	14,425	14,425	(874)	J	13,551		13,551
18	Health & Life Insurance	6,062	-	6,062	6,062	(118)	K	5,944		5,944
19	Miscellaneous Operating Expenses	14,308	(7,209)	7,099	14,308	(8,759)	L	5,549	D	5,969
20	Property Taxes	27,389	(12,765)	14,624	46,913	(32,289)	M	14,624	E	20,609
21	Depreciation	70,878	-	70,878	70,878	(26,783)	N	44,095	F	48,327
22	Amortization of Prepaid Water Rights	3,694	-	3,694	3,694	-		3,694		3,694
23	Income Tax Expense	-	-	-	-	-		-		-
24	Total Operating Expenses:	\$ 520,975	\$ (59,774)	\$ 461,201	\$ 540,499	\$ (168,295)		\$ 372,204		\$ 382,841
25	OPERATING INCOME (LOSS)	\$ (177,278)	\$ 59,774	\$ (117,504)	\$ 121,554	\$ (69,975)		\$ 51,579		\$ 51,079
26	Other Income/Expenses	-	-	-	-	-		-		-
27	Other Income	711	-	711	711	-		711		711
28	Interest Expense	76,811	(29,877)	46,934	76,811	30,215	O	46,596	G	50,626
29	Total Other Income/Expenses	76,100	(29,877)	46,223	76,100	30,215		45,885		49,915
30	NET INCOME	\$ (253,378)	89,651	\$ (163,727)	\$ 45,454	\$ (39,760)		\$ 5,694		\$ 1,164

STAFF ADJUSTMENTS

A -	Metered Water Sales	- Staff Original	\$ 420,442	
		- Staff Revised	<u>430,579</u>	<u>\$ 10,137</u>

To increase Water Sales to based upon Staff's adoption of the Company's additional expenses requested in rebuttal testimony.

B -	Purchased CAP Water	- Staff Original	\$ 19,277	
		- Staff Revised	<u>23,207</u>	<u>\$ 3,930</u>

C -	CAP Recharge Expense	- Staff Original	\$ -	
		- Staff Revised	<u>(3,930)</u>	<u>\$ (3,930)</u>

To adjust the two CAP related expense accounts to more accurately depict the situation.

D -	Misc Operating Expenses	- Staff Original	\$ 5,549	
		- Staff Revised	<u>5,969</u>	<u>\$ 420</u>

To increase expense account for fax line charges of \$35 per month.

E -	Property Taxes	- Staff Original	\$ 14,624	
		- Staff Revised	<u>20,609</u>	<u>\$ 5,985</u>

To increase expense to reflect amount of actual property tax billings received for 1999.

F -	Depreciation Expense	- Staff Original	\$ 44,095	
		- Staff Revised	<u>48,327</u>	<u>\$ 4,232</u>

To adjust expense based on Staff's adjustments to plant in service.

STAFF ADJUSTMENTS

G -	Interest Expense	- Staff Original	\$	46,596	
		- Staff Revised		50,626	\$ <u>4,030</u>

To increase interest expense based upon an increase in the interest rate charged by WIFA.

RATE DESIGN

LINE NO	MONTHLY USAGE CHARGE	PRESENT	PROPOSED RATES		STAFF
		RATES	COMPANY	STAFF	REVISED
1	5/8 X 3/4 - Inch Meter	\$ 14.40	\$ 27.20	\$ 11.05	\$ 11.45
2	3/4 - " "	14.40	27.20	20.80	21.00
3	1 - " "	19.00	69.25	40.30	40.50
4	1- 1/2 - " "	25.00	138.50	89.05	89.20
5	2 - " "	46.00	221.60	147.55	147.70
6	3 - " "	67.50	443.20	284.05	284.20
7	4 - " "	100.00	692.50	479.05	479.20
8	6 - " "	280.00	1,385.00	966.55	966.70
9	WFA Surcharge	-	-	8.45	8.45
10	Sprinkler Rate	[a]	[e]	[e]	[e]
11	Gallons included in minimum	0	0	0	0
12	Excess of minimum - per 1,000 gallons	\$ 3.75	\$ 7.20	\$ 3.88	\$ 4.00
13	CAP Recovery Fee - per 1,000 gallons	\$ -	\$ -	\$ 0.32	\$ 0.32
SERVICE LINE AND METER INSTALLATION CHARGE					
14	5/8 X 3/4 - Inch Meter	\$ 400.00	\$ 400.00	\$ 400.00	\$ 400.00
15	3/4 - " "	440.00	440.00	440.00	440.00
16	1 - " "	500.00	500.00	500.00	500.00
17	1- 1/2 - " "	675.00	675.00	675.00	675.00
18	2 - " " Compound	1,660.00	1,660.00	1,660.00	1,660.00
19	3 - " " Compound	2,150.00	2,150.00	2,150.00	2,150.00
20	4 - " " Compound	3,135.00	3,135.00	3,135.00	3,135.00
21	6 - " " Compound	6,190.00	6,190.00	6,190.00	6,190.00
SERVICE CHARGES					
22	Establishment	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
23	Establishment - After Hours	50.00	50.00	50.00	50.00
24	Reconnection (Delinquent)	30.00	30.00	30.00	30.00
25	Reconnection (Delinquent-After Hours)	35.00	35.00	35.00	35.00
26	NSF Check	25.00	25.00	25.00	25.00
27	Meter Re-read (If correct)	15.00	15.00	15.00	15.00
28	Meter Test (If correct)	30.00	30.00	30.00	30.00
29	Deposit	[b]	[b]	[b]	[b]
30	Deposit Interest	[b]	6.00%	[b]	[b]
31	Re-Establishment (Within 12 months)	[c]	[c]	[c]	[c]
32	Re-Establishment (Within 12 months After Hours)	[d]	[d]	[d]	[d]
33	Deferred Payment - Per month	1.50%	1.50%	1.50%	1.50%
34	Late Payment Penalty	1.50%	1.50%	1.50%	1.50%
35	Moving Customer Meter (Customer Request)	Cost	Cost	Cost	Cost
36	Illegal Hook-up	[f]	[g]	[g]	[h]
37	Transfer Fee	25.00	25.00	25.00	25.00

[a] Higher of \$5.00 per month or 1.00 percent of Monthly Minimum
[b] Per Commission rule A.A.C. R14-2-403(B)
[c] Months off the system times monthly minimum per Commission rule A.A.C. R14-2-403(D)
[d] Months off the system times monthly minimum per Commission rule A.A.C. R14-2-403(D) plus \$25.00
[e] Higher of \$7.00 per month or 2.00 percent of Monthly Minimum
[f] 1% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month
The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.
[g] Computed billings from time illegal connection was made to date, plus \$100.00
[h] Estimated billings from time illegal connection was made to date

TYPICAL BILL ANALYSIS
COMPANY PROPOSED PHASE I
 General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 588

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	7,498	\$42.52	\$52.62	\$10.10	23.8%
Median Usage	5,256	\$34.11	\$42.87	\$8.75	25.7%
<u>Staff Proposed</u>					
Average Usage	7,498	\$42.52	\$52.29	\$9.77	23.0%
Median Usage	5,256	\$34.11	\$42.61	\$8.50	24.9%

Present & Proposed Rates (Without Taxes)
 General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$14.40	\$20.00	38.9%	\$19.90	38.2%
1,000	18.15	24.35	34.2%	24.22	33.4%
2,000	21.90	28.70	31.1%	28.54	30.3%
3,000	25.65	33.05	28.8%	32.86	28.1%
4,000	29.40	37.40	27.2%	37.18	26.5%
5,000	33.15	41.75	25.9%	41.50	25.2%
6,000	36.90	46.10	24.9%	45.82	24.2%
7,000	40.65	50.45	24.1%	50.14	23.3%
8,000	44.40	54.80	23.4%	54.46	22.7%
9,000	48.15	59.15	22.8%	58.78	22.1%
10,000	51.90	63.50	22.4%	63.10	21.6%
12,000	59.40	72.20	21.5%	71.74	20.8%
14,000	66.90	80.90	20.9%	80.38	20.1%
16,000	74.40	89.60	20.4%	89.02	19.7%
18,000	81.90	98.30	20.0%	97.66	19.2%
20,000	89.40	107.00	19.7%	106.30	18.9%
25,000	108.15	128.75	19.0%	127.90	18.3%

TYPICAL BILL ANALYSIS
COMPANY PROPOSED PHASE II
 General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 588

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	7,498	\$42.52	\$61.04	\$18.52	43.6%
Median Usage	5,256	\$34.11	\$49.29	\$15.18	44.5%
<u>Staff Proposed</u>					
Average Usage	7,498	\$42.52	\$52.29	\$9.77	23.0%
Median Usage	5,256	\$34.11	\$42.61	\$8.50	24.9%

Present & Proposed Rates (Without Taxes)
 General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$14.40	\$21.75	51.0%	\$19.90	38.2%
1,000	18.15	26.99	48.7%	24.22	33.4%
2,000	21.90	32.23	47.2%	28.54	30.3%
3,000	25.65	37.47	46.1%	32.86	28.1%
4,000	29.40	42.71	45.3%	37.18	26.5%
5,000	33.15	47.95	44.6%	41.50	25.2%
6,000	36.90	53.19	44.1%	45.82	24.2%
7,000	40.65	58.43	43.7%	50.14	23.3%
8,000	44.40	63.67	43.4%	54.46	22.7%
9,000	48.15	68.91	43.1%	58.78	22.1%
10,000	51.90	74.15	42.9%	63.10	21.6%
12,000	59.40	84.63	42.5%	71.74	20.8%
14,000	66.90	95.11	42.2%	80.38	20.1%
16,000	74.40	105.59	41.9%	89.02	19.7%
18,000	81.90	116.07	41.7%	97.66	19.2%
20,000	89.40	126.55	41.6%	106.30	18.9%
25,000	108.15	152.75	41.2%	127.90	18.3%

BEFORE THE ARIZONA CORPORATION COMMISSION

CARE J. KUNASEK

Chairman

JIM IRVIN

Commissioner

WILLIAM A. MUNDELL

Commissioner

IN THE MATTER OF THE APPLICATION OF)
VAIL WATER COMPANY FOR AUTHORITY)
TO ISSUE PROMISSORY NOTE(S) AND)
OTHER EVIDENCES OF INDEBTEDNESS)
PAYABLE AT PERIODS OF MORE THAN)
TWELVE MONTHS AFTER THE DATE OF)
ISSUANCE)

DOCKET NO. W-01651B-99-0351

IN THE MATTER OF THE APPLICATION OF)
VAIL WATER COMPANY FOR A RATE)
INCREASE)

DOCKET NO. W-01651B-99-0406

SURREBUTTAL

TESTIMONY

OF

LINDA A. JARESS

MANAGER, FINANCIAL ANALYSIS

UTILITIES DIVISION

JANUARY 27, 2000

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1 **INTRODUCTION**

2 Q. Are you the same Linda A. Jaress who provided direct testimony on this matter on
3 December 1, 1999?

4 A. Yes, I am.

5
6 Q. Have you reviewed the rebuttal testimony of Ronald L. Kozoman concerning your direct
7 testimony?

8 A. Yes, I have.

9
10 Q. What three concerns expressed by Mr. Kozoman about your direct testimony will you be
11 addressing?

12 A. I will address the issues he raised regarding inclusion of repayments of advances-in-aid
13 of construction in the debt service coverage calculation, "new" information regarding the
14 shareholder loans and the increase in the applicable WIFA interest rate.

15
16 Q. Do you agree that repayments of advances-in-aid of construction should be included in
17 the debt service coverage computation?

18 A. No, I do not. First, Mr. Kozoman has not produced any evidence that WIFA includes
19 repayments of advances-in-aid of construction in their debt service coverage calculation.
20 Second, advance repayments (per Commission Rules) must originate from the customers
21 on the line extensions financed by the advances and not from the general customer
22 population. To force customers not served by the line extension to subsidize repayments
23 of advances for lines that do not serve them would violate the long-held regulatory
24 standard that customers' rates should reflect only their cost of service. Finally, increasing
25 rates to recover 1.2 times the advance repayments would negate the purpose of advances-
26 in-aid of construction as a cost-free source of capital.

27 ...

28 ...

1 Q. Please address the "new" information provided by Mr. Kozoman regarding the
2 shareholder loans.

3 A. In his rebuttal testimony, Mr. Kozoman has brought forth new information regarding the
4 purchase of transportation equipment in May 1999 with \$20,247 of shareholder funds.
5 He is requesting that this amount, along with \$38,093 of engineering expenses that Staff
6 capitalized, be allowed as approved shareholder debt.

7
8 Q. Are you recommending that these amounts be allowed as debt?

9 A. No, I am not. If Staff's rate base recommendation of \$134,716 is adopted and the
10 \$819,000 WIFA debt is approved, the resulting capital structure will be approximately
11 87.0 percent debt. The only reason Staff has recommended approval of such a high
12 proportion of debt in the capital structure of a small water company is to provide the
13 company the opportunity to avail itself of the lower-than-market interest rates provided
14 by WIFA. I do not believe that it would be consistent with sound financial practices (one
15 of the standards required to be met by A.R.S. Section 40-301.C) for Vail to incur even
16 more debt and exceed 87.0 percent debt in its capital structure.

17
18 Q. Please address the change in the WIFA interest rate related to the proposed \$819,000 of
19 debt.

20 A. Vail has provided Staff documentation that WIFA has raised the interest rate that may be
21 applicable when the loan funds are drawn. The previous interest rate that applied was
22 5.81 percent. The current rate, effective until March 14, 2000 when the rate may be reset,
23 is 6.26 percent.

24
25 Q. Are you adopting this new interest rate even though it may change again before the loan
26 funds are drawn?

27 A. Yes, I am. I believe that the most current interest rate should be adopted as the best
28 estimate of what the actual interest rate will be.

1 Q. Has the adoption of the 6.26 percent interest rate caused a change in the revenues
2 required to reach a debt service coverage of 1.20?

3 A. Yes, it has. Schedule LAJ-Sur 1 illustrates the computation of the operating income
4 required to achieve 1.20 debt service coverage. Staff's revenue requirements witness,
5 Ms. Sonn Ahlbrecht, adopted the required operating income of \$51,079. She then
6 calculated the appropriate revenues required to achieve operating income of \$51,079.

7
8 Q. To the extent that you have not addressed every issue raised by Mr. Kozoman, does this
9 indicate agreement?

10 A. No, it does not.

11
12 Q. Does this conclude your surrebuttal testimony?

13 A. Yes, it does.
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**Computation of Required Operating Income to Achieve
1.20 Debt Service Coverage**

$$\text{Debt service coverage} = \frac{\text{op. income} + \text{depreciation} + \text{amort.}}{\text{prin.} + \text{int.} + \text{reserve requirement}}$$

$$\text{Revenues} = \text{expenses} + 1.2 \text{ times (debt service} + \text{reserve requirement)}$$

$$\text{Debt service coverage} = \frac{\text{op. income} + \text{depreciation} + \text{amort.}}{\$ 85,917}$$

$$\$ 85,917 \cdot 1.2 = \$ 103,100$$

$$\begin{array}{rcl} \$ 103,100 & - & \$ 52,021 \\ \text{1.2 coverage} & & \text{depreciation+amort.} \end{array} = \begin{array}{l} \$ 51,079 \\ \text{op. income} \end{array}$$

$$\begin{array}{rcl} \$ 51,079 & / & \$ 134,716 \\ \text{op. Income} & & \text{Rate base} \end{array} = \begin{array}{l} 37.9\% \\ \text{Rate of Return} \\ \text{on Rate Base} \end{array}$$