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EXCEPTION RECEIVED

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APR 11 - 7 10 3 57  
 ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission  
**DOCKETED**

APR 07 2000

DOCKETED BY

**BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO. W-01651B-99-0351

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

DOCKET NO. W-01651B-99-0406

**EXCEPTIONS**

Vail Water Company (hereinafter "Vail" or the "Company"), hereby files its Exceptions to the Hearing Officer's Recommended Order, dated March 29, 2000 pursuant to AAC R14-3-110 (B) and respectfully requests the Commission amend the Recommended Order as proposed in Attachment B hereto. There are two main Exceptions to the Recommended Order: Revenue Requirements and the CAP Hook-Up Fee Conditions.

**Revenue Requirements**

The Recommended Order purports to authorize the Water Infrastructure Facilities Authority of Arizona (WIFA) loan as requested by the Company, modified to fund \$175,000 of the proposed improvements with "extension" funds. The Company accepts that level of financing. Unfortunately, the Recommended Order will not permit the closing of the \$644,000, WIFA loan in its present form.

WFOO-1000-13-11

1 The Recommended Order acknowledges that the Company needs a Debt Service  
2 Coverage Ratio ("DSC") of 1.2:1 to meet the WIFA requirements for closing the loan. The  
3 Recommended Order further acknowledges the fact that all parties agree that the construction of  
4 the facilities are needed. The Commission Staff computes DSC without recognizing cash flow  
5 requirements for Line Extension Agreement refunds or Meter Deposit refunds. The Lender,  
6 WIFA, computes the coverage including the cash requirements of those refund obligations. Mr.  
7 Greg Swartz, Director of WIFA, testified that the Line Extension Agreement and Meter Deposit  
8 refunds should be deducted from revenues. From these net revenues, all cash operating expenses  
9 are then deducted to derive the amount available for debt service. As revenues increase the  
10 amounts paid on Line Extension Agreements (Advances in Aid of Construction) also increase.  
11 thus repayments will increase. This is shown on Schedule D-1 in Attachment A. The  
12 Recommended Order attempted to reconcile the difference between the methodologies of  
13 computing the DSC by utilizing the Staff method, but adjusted upward to a 1.4 DSC.  
14 Unfortunately, that adjustment contains an error and does not provide sufficient revenues to meet  
15 the WIFA requirements.

16 Attached hereto as Attachment A, Schedule D-1 is a comparison that demonstrates the  
17 shortfall. The first Column summarizes the Recommended Order proposal, showing \$497,196 in  
18 authorized revenues (Schedule C-1, column a, line 11). The Debt Service Coverage on line 16 of  
19 Schedule D-1 excludes the Line Extension Agreements refunds and Meter Deposit refunds as set  
20 forth on lines 3 and 4. This produces a DSC of .82, or 82% of the Company's cash requirements  
21 at the financing levels contained in the Recommended Order. Obviously, this will not permit the  
22 Company to obtain the WIFA loan. The second column on Attachment A, Schedule D-1  
23 recomputes the revenue requirement using the minimum 1.2 DSC required to obtain the WIFA  
24

1 loan. That requires an additional \$32,365 as set forth on line 10. These adjustments result in a  
 2 \$546,376 revenue requirement (Schedule C-1, column 6, line 11).

3 Schedule C-1 also proposes two revisions to the Recommended Order. Line 8 reinstates  
 4 the CAP Recharge Expense as Revenue, and reduces expenses in like amount. The  
 5 Recommended Order reclassified the Company's CAP Recharge Expense to revenue. This is a  
 6 negative expense and represents funds the Company will receive from the farming operation that  
 7 will actually recharge the CAP water. However, with that reclassification of the CAP Recharge  
 8 Expense to revenue, total expenses were not adjusted. Consequently expenses are understated by  
 9 the \$3,930 negative CAP Expense amount.

10 Line 9 of Schedule C-1, represents the \$12,885 for Property Tax increases that will result  
 11 from the additional authorized revenue and plant balances. This is computed pursuant to the  
 12 Arizona Department of Revenue formula as utilized by this Commission in numerous other rate  
 13 proceedings.

14 The Recommended Order correctly states that the Company modified its application to  
 15 include a stepped increase to be implemented at the completion of the construction projects. The  
 16 Company feels strongly that this proposal is in the public interest. Utilizing the additional  
 17 funding as authorized in the Recommended Order, the Company can construct the entire  
 18 \$819,000 project using the \$644,000 in WIFA funds, and \$175,000 as authorized extension  
 19 advances. Construction can be completed by approximately June 30, 2001. At the completion of  
 20 construction, the Company would request the Commission to recognize in its Step II rates, the  
 21 costs associated with these projects, that is, a return on the \$644,000 WIFA investment, plus the  
 22 depreciation and property taxes on the \$819,000 in plant additions.

23  
 24

1 The chart below compares the Recommended Order with the Intended Recommended  
 2 Order and the Company Proposal. The detailed computation of these numbers are set forth in  
 3 Attachment A Schedules.

	(a) Recommended Order	(b) Intended Order (Step I)	(c) Company Proposed (Step II Increase)
4 (1) Revenues	\$497,196	\$546,376	\$552,199
5 (2) DSC	0.82	1.20	1.20
6 (3) Net Operating Income	\$52,674	\$85,039	\$64,189
7 (4) Original Cost Rate Base	\$134,716	\$134,716	\$778,716
8 (5) Return on OC Rate Base	39.10%	63.12%	8.24%
9 (6) % Increase in Revenues	44.88%	58.97%	60.66%
10 (7) Average Bill 5/8 x 3/4	\$53.87	\$59.55	\$60.34
11 (8) % Average Bill over Present	21.95%	34.8%	36.60%

12 The full revenue requirement at the implementation of the Step II increase is \$552,199, a  
 13 mere \$5,823 increase over the revenues needed to fund the \$644,000 WIFA loan. This increase  
 14 will allow the Company to recover the depreciation expense and related property taxes on the  
 15 additional \$819,000 of plant. The impact on the average 5/8 x 3/4 meter customer are set forth in  
 16 the above chart. We believe the Company's proposal is sound rate making, in the public interest,  
 17 beneficial to the Company and its customers. The Step II increase avoids the need for the  
 18 Company to spend \$40,000 on a rate case at the time that new plant goes on line, to receive an  
 19 additional \$5,823 in revenues (\$552,199-\$546,376).

20 We recognize that the Intended Recommended Order revenue levels during Step I result  
 21 in a return on Original Cost Rate Base that is high by traditional Commission's standards. This  
 22 is caused by the DSC "driving" the revenue requirement. Please note that under the Company's  
 23 proposal, at implantation of the Step II rates the return on Original Cost Rate Base, drops to the  
 24 normal range at 8.24%.

1 To insure that the high return during Step I would not continue beyond the transition  
2 period, the Commission should insert a requirement in the Order that in the event the Company  
3 does not complete construction of the projects by December 31, 2001, the Step I increase would  
4 be refundable in its entirety. This is a sound regulatory procedure to ensure the Company's  
5 compliance.

### 6 CAP Hook-Up Fee Conditions

7 At Finding of Fact No. 25, on page 15 of the Recommended Order, the Order adopts the  
8 Staff proposed conditions for implementing the CAP Hook-Up Fee. Due to the numerous issues  
9 at the evidentiary hearing on this matter, the Company did not object to the conditions set forth  
10 in the Staff recommendations and as adopted in the Recommended Order. Upon closer  
11 examination of those conditions, the Company is of the opinion two of those conditions are  
12 unduly burdensome. Condition (f) contemplates the Company utilizing the CAP water within its  
13 service area no later than December 31, 2015. Condition (h) states that "no time extensions will  
14 be allowed for any reason." The Commission is aware of the use of CAP water in Tucson  
15 undergoing transition. There are unknown controlling factors in the Company's utilizing the  
16 CAP water. The City of Tucson is the municipal planning authority and the Company is  
17 certainly hopeful of being able to comply with the conditions set forth in (f) and (g). However,  
18 due to the uncertainty, we believe the hard and fast limitation on any extension of the compliance  
19 date is unreasonable. We are therefore proposing that Condition (g) be modified as set forth in  
20 Attachment B to these exceptions.

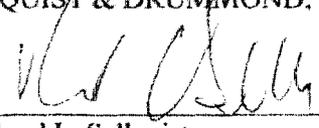
21 The Recommended Order also adopted Staff condition (k), allowing Staff to  
22 automatically impose fines and/or other sanctions if the timetable is not met. With the  
23 uncertainty of the numerous variables to establish that service, we believe that harsh provision is  
24 unwarranted. Further, we believe it is inappropriate the Commission delegate its fine/sanction

1 authority to the Commission Staff. Any failure of the Company to comply with Conditions (f) or  
2 (g) will be of such significant consequence that such failure warrants the Commission's direct  
3 involvement in the resolution of this issue. Therefore, we would recommend that Condition (k)  
4 be stricken from the Recommended Order.

5 For the reasons stated above, they would respectfully request that the Commission adopt  
6 these to the Hearing Officer's Recommend Order set forth in Attachment B.

7 Respectfully submitted this 2<sup>nd</sup> day of April, 2000.

8 SALLQUIST & DRUMMOND, P.C.

9 By 

10 Richard L. Sallquist  
11 2525 East Arizona Biltmore Circle, Suite 117  
12 Phoenix, Arizona 85016  
13 Attorney for Vail Water Company

14 Original and ten copies of the  
15 foregoing filed this 2<sup>nd</sup> day  
16 of April, 2000, with:

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

21 Copies of the foregoing faxed/hand delivered  
22 this 2<sup>nd</sup> day of April, 2000 to:

23 Carl Kunasek  
24 Chairman  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

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**Vail Water Company**  
Test Year Ended December 31, 1998  
**Summary of Original Cost**  
**Rate Base Elements**  
Exceptions to Proposed Rate Order

Schedule B 1

Line No.		Original Cost Rate Base	Step Rate Plant Additions	Step Rate Increase Rate Base
1	Gross Utility Plant in Service	\$2,160,430	819,000	\$2,979,430
2				
3	Less: Accumulated Depreciation	<u>500,987</u>		<u>500,987</u>
4				
5	Net Utility Plant in Service	\$1,659,443		\$2,478,443
6				
7	Less:			
8	Customer Advances for			
9	Construction	1,341,985		1,341,985
10	Meter Deposits	37,895		37,895
11	Contributions in Aid of			
12	Construction - Net of Amortization	183,005		183,005
13	Additional Advances in Aid of Construction		175,000	175,000
14				
15	Add:			
16	Prepaid Water Rights	0		
17	Allowance for Working Capital	<u>38,158</u>		<u>38,158</u>
18				
19	Total Rate Base	<u>\$134,715</u>		<u>\$778,716</u>
20				
21	ACC Proposed Order Operating Income	<u>\$52,674</u>		<u>\$64,189</u>
22				
23	Rate of Return	<u>39.10%</u>		<u>8.24%</u>
24	(Line 21 divided by Line 19)			
25				

**ATTACHMENT A**

**Vail Water Company**  
 Test Year Ended December 31, 1998  
 Revenues Needed Per ACC Proposed Order to Meet Debt Service of 1.20:1  
 and Company Proposed Step Increase

Schedule C-1

Line No.

	(a) ACC Proposed Order Revenues	Order Adjustments Needed	(b) ACC Proposed Order with correct Revenues to Meet Debt Service	Company Proposed Step (c) Increase to Recover Depreciation Expense & Prop. Tax
1	Operating Revenues			
2	Metered Water Sales		\$355,566	\$355,566
3	Miscellaneous Revenues		3,341	3,341
4	CAP Service Charge		19,227	19,227
5	CAP Hookup Tariff		62,000	62,000
6	CAP Recharge Income		3,930	3,930
7	WIFA Surcharge		53,132	53,132
8	Increase for Removal of CAP Recharge Expense	\$3,930	3,930	3,930
9	Property Tax Increase	12,885	12,885	18,458
10	Increase Needed to Meet Debt Service	32,365	32,365	32,615
11	Total Revenues	\$497,196	\$546,376	\$552,199
12	Operating Expenses:			
13	Salaries	\$78,001	\$78,001	\$78,001
14	Purchased CAP Water	84,888	84,888	84,888
15	CAP Recharge Expense	(3,930)	0	0
16	Purchased Pumping Power	42,352	42,352	42,352
17	Water Testing	3,662	3,662	3,662
18	Water Treatment	874	874	874
19	Repairs and Maintenance	7,226	7,226	7,226
20	Office Supplies	20,171	20,171	20,171
21	Outside Services	83,584	83,584	83,584
22	Rate Case Expense	20,000	20,000	20,000
23	Rents	6,000	6,000	6,000
24	Transportation Expense	3,600	3,600	3,600
25	General Insurance	13,551	13,551	13,551
26	Health & Life Insurance	5,944	5,944	5,944
27	Misc. Operating Expenses	5,969	5,969	5,969
28	Property Tax	20,609	12,885	33,494
29	Depreciation	48,327	48,327	69,427
30	Amortization of Prepaid Water Rights	3,694	3,694	3,694
31	Total Operating Expenses	\$444,522	\$461,337	\$488,010
32	Operating Income	52,674	85,039	64,189
33	Interest Expense	43,734	43,734	43,734
34	Other Income	711	711	711
35	Net Income	9,651	42,016	21,166
36	Rate Increase Percent	44.66%	58.97%	60.66%

37 (a) includes CAP Recharge Expense of \$3,930 as both revenue and expense. Negative Expense should  
 38 have been removed from expenses, if it is to be accounted for as revenues.  
 39 (b) Without Company's Proposed Step Increase  
 40 (c) Company Proposed Step Increase to Recover Depreciation and Property Tax

Vail Water Company

Test Year Ended December 31, 1998

Schedule D-1

Debt Service Computed in Compliance with WIFA Requirements  
ACC Proposed Order, Corrected Order, and Company Proposed Step Increase

Line No.

	ACC Proposed Order Revenues	(a) ACC Proposed Order with correct Revenues to Meet Debt Service	Company Proposed Step (c) Increase to Recover Depreciation Expense & Prop. Tax
	\$52,674	\$85,039	64,189
1 Operating income		(43,497)	(43,970)
2 Deduct:	(39,819)	(3,790)	(3,790)
3 Repayment on Line Extensions (b)	(3,790)		
4 Meter Deposit Refunds		48,327	69,427
5 Add:	48,327	3,694	3,694
6 Depreciation	3,694		
7 Amortization of Prepaid Water Rights	\$61,086	\$89,773	\$89,550
8 Total Available for Debt Service			
9		\$6,872	\$6,872
10 Debt Service Payments:	\$6,872	56,509	56,509
11 Shareowner Loan	56,509	11,302	11,302
12 WIFA Loan	11,302	\$74,683	\$74,683
13 WIFA Debt Reserve	\$74,683		
14 Total Debt Service Payments		1.20	1.20
15	0.82		
16 Debt Service			
17 (a) Proposed Revenues with Property Taxes at Proposed Rates			
18 (b) Proposed Revenues			
19 Proposed Revenues without CAP Recharge Revenue, CAP Hook-up Fee, and and Miscellaneous		535,175	540,998
20 Revenues which are subject to Repayment on	489,925		
21 Advances in Aid of Construction			
22			
23 Divided by		\$207,724	\$207,724
24 1997 Revenues without	\$207,724		
25 Miscellaneous Revenues		2.58	2.60
26	2.36		
27 Ratio =		\$16,883	\$16,883
28	\$16,883	2.58	2.60
29 1998 Refunds on Line Extensions	2.36		
30 Ratio of Revenues from Above	\$39,819	\$43,497	\$43,970
31 Refunds at Proposed Rates			
32 (b) Per Testimony of Greg Swanz, Coordinator, WIFA			
33 (c) Company Proposed Step Increase to Recover Depreciation and Property Tax			

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

Schedule H 1  
 Page 1

Line No.	Meter Size	Adjusted Present Revenues	Company's Proposed Step Revenues	Dollar Change	Percent Change
1	5/8 x 3/4 inch Meter	\$311,752	\$426,848	\$114,096	36.60%
2	1 inch	2,971	5,211	2,240	75.41%
3	2 inch Meter	1,700	3,530	1,830	107.70%
4	6 inch Meter	590	2,136	1,546	261.98%
5	Standpipe	0	0	0	0.00%
6	Subtotal Water Revenues	317,012	436,725	119,713	37.76%
7	<b>Proforma Adjustment / Customer Growth</b>				
8	5/8 x 3/4 inch meters	23,344	31,930	8,587	36.78%
9	Miscellaneous Revenues	3,341	3,341	0	
10	Subtotal of Revenues	343,697	471,996	128,299	37.33%
11	WIFA Commodity Revenues				
12	WIFA Surcharge per month per meter of:				
13	\$6.91				
14	CAP Recharge Funds from Kai Farms		3,930	3,930	
15	ACC Staff Assumed Additional Customers at May 1, 2000				
16	178		14,760	14,760	
17	For CAP Hookup Tariff / Estimated Annual Customer Increase				
18	62		62,000	62,000	
19					
20					
21	Total Water Revenues	\$343,697	\$552,686	\$208,989	60.81%
22					
23					
24	ACC Staff Assumed Customers at May 1, 2000		772		
25	Actual Customers at End of Test Year		594		
26	ACC Staff Assumed Additional Customers by May 1, 2000		178	\$6.91	\$14,760

**Vall Water Company**  
**Test Year Ended December 31, 1998**  
**Summary of Revenues by Meter Size at**  
**Hearing Officer's and Company Proposed Step Increase Rates**

Schedule 11.1  
Page 2

Line No.	Hearing Officer's Proposed Revenues	(a) Hearing Officer's Corrected Proposed Revenues	Company Proposed Step Increase Revenues
1	\$355,566	\$404,696	\$468,655
2	3,341	3,341	3,341
3	19,277	19,277	(b)
4	3,930	3,930	3,930
5	62,000	62,000	62,000
6	53,132	53,132	14,760
7	\$497,246	\$546,376	\$552,686
8			
9			
10			
11			
12			
13			
14			
15			

(a) Corrected Revenues to Meet WIFA Debt Service Requirements and Increased Property Taxes.

(b) Included in Metered Water Sales.

Vail Water Company  
 Test Year Ended December 31, 1998  
 Analysis of Revenue by Detailed Class  
 Present Rates to Company's Proposed Step Increase

Schedule H-2  
 Page 1

Line No.	Customers Classification and/or Meter Size	Average Number of Customers as of 12/31/98	Average Consumption	Revenue		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent
1	5/8 x 3/4 Inch Meter	588	7,940	\$44.18	\$60.34	\$16.17	36.60%
2							
3	1 inch	4	11,787	\$63.20	\$110.86	\$47.66	75.41%
4							
5	2 Inch Meter	1	25,500	\$141.63	\$294.16	\$152.54	107.70%
6							
7	6 Inch Meter	1	667	\$282.50	\$1,051.31	\$768.81	272.14%
8		594					

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

Schedule H-3  
Page 1

Line No	Customer Classification and Meter Size	Present Rates	Hearing Officer's Proposed Rates (a)	Company's Proposed Step Rates (a) (b)	Percent Change
1	<b>Monthly Usage Charge for:</b>				
2	Residential, Commercial, Industrial, Construction, Agricultural, Standpipe				
3	5/8 x 3/4 Inch	\$14.40	\$12.66	\$14.05	-2.43%
4	3 / 4 Inch	\$14.40	\$21.00	\$21.08	46.35%
5	1 Inch	\$19.00	\$40.50	\$35.13	84.87%
6	1 1/2 Inch	\$25.00	\$89.20	\$70.25	181.00%
7	2 Inch	\$46.00	\$147.70	\$112.40	144.35%
8	3 Inch	\$67.50	\$284.20	\$224.80	233.04%
9	4 Inch	\$100.00	\$479.20	\$351.25	251.25%
10	6 Inch	\$280.00	\$966.70	\$702.50	150.89%
11	Sprinkler Rate			(c)	
12	(a) Monthly Minimums above <b>PLUS</b> WIFA Surcharge of		\$6.91	\$6.91	
13	(b) Monthly Minimums computed (Ratoad) based on meter flow				
14	(c) Higher of \$7.00 per month or 2.00% of monthly minimum.				
15					
16					
17					
18					
19	<b>Gallons included in Monthly Usage Charge</b>				
20	5/8 x 3/4 Inch Meters	0	0	0	0.00%
21	3/4 Inch Meters	0	0	0	0.00%
22	1 Inch	0	0	0	0.00%
23	1 1/2 Inch	0	0	0	0.00%
24	2 Inch	0	0	0	0.00%
25	3 Inch	0	0	0	0.00%
26	4 Inch	0	0	0	0.00%
27	6 Inch	0	0	0	0.00%
28					
29					
30	<b>Commodity Rates:</b>				
31	All Customers				
32	Charge per 1,000 Gallons in excess of gallons included in Monthly				
33	<b>Usage Charge</b>	\$3.75	\$4.32	\$4.960	32.27%
34					
35					
36					
37	<b>Service Line and Meter Installation Charges:</b>				
38		Present	Proposed		
39	<b>Meter Size</b>	<b>Rates</b>	<b>Rates (a)</b>		
40	5/8 x 3/4 Inch	\$400.00	\$400.00		
41	3 / 4 Inch	\$440.00	\$440.00		
42	1 Inch	\$500.00	\$500.00		
43	1 1/2 Inch	\$675.00	\$675.00		
44	2 Inch Compound	\$1,660.00	\$1,660.00		
45	3 Inch Compound	\$2,150.00	\$2,150.00		
46	4 Inch Compound	\$3,135.00	\$3,135.00		
47	6 Inch Compound	\$6,190.00	\$6,190.00		
48					
49	Main extension tariff	Cost	Cost		
50					
51	N/A	Not Applicable	No Current Tariff		

**Vall Water Water Company**  
**Bill Comparison for Customer on 5/8 Inch Meter with Usage of 7,940 Gallons**

	<b>Present Rates</b>				
Monthly Minimum	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40
Commodity Rate per 1,000 gallons	3.75	29.78	29.78	29.78	29.78
				<u>\$ 44.18</u>	<u>\$ 44.18</u>

**Hearing Officer's Rates Based on Recommended Order**

	<b>Proposed Rates</b>	<b>Monthly Minimum</b>	<b>Commodity Charges</b>	<b>Total Charges</b>	<b>Dollar Increase</b>	<b>(a) Percent Increase</b>
Monthly Minimum	\$ 12.66	\$ 12.66	\$ 31.76	\$ 44.42	\$ 9.70	21.95%
WIFA Surcharge	6.91	6.91	2.54	9.45	\$ 9.70	21.95%
Total Monthly Minimum	\$ 19.57	\$ 19.57	\$ 34.30	\$ 53.87	\$ 9.70	21.95%
Commodity Rate per 1,000 gallons	4.00	4.00	2.54	2.54	\$ 9.70	21.95%
CAP Recovery per 1,000 gallons	0.32	0.32	0.00	0.00	\$ 9.70	21.95%

**Hearing Officer's Intended Order**

	<b>Proposed Rates</b>	<b>Monthly Minimum</b>	<b>Commodity Charges</b>	<b>Total Charges</b>	<b>Dollar Increase</b>	<b>(a) Percent Increase</b>
Monthly Minimum	\$ 14.05	\$ 14.05	\$ 38.59	\$ 52.64	\$ 15.37	34.80%
WIFA Surcharge	6.91	6.91	2.54	9.45	\$ 15.37	34.80%
Total Monthly Minimum	\$ 20.96	\$ 20.96	\$ 41.13	\$ 62.09	\$ 15.37	34.80%
Commodity Rate per 1,000 gallons	4.86	4.86	2.54	2.54	\$ 15.37	34.80%

**Company's Proposed Step Increase**

	<b>Proposed Rates</b>	<b>Monthly Minimum</b>	<b>Commodity Charges</b>	<b>Total Charges</b>	<b>Dollar Increase</b>	<b>(a) Percent Increase</b>
Monthly Minimum	\$ 14.05	\$ 14.05	\$ 39.38	\$ 53.43	\$ 16.17	36.60%
WIFA Surcharge	6.91	6.91	2.54	9.45	\$ 16.17	36.60%
Total Monthly Minimum	\$ 20.96	\$ 20.96	\$ 41.92	\$ 62.88	\$ 16.17	36.60%
Commodity Rate per 1,000 gallons	4.96	4.96	2.54	2.54	\$ 16.17	36.60%

(a) Increase from Present Rates  
 Increase From Hearing Officer's Intended Rates

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## Company Proposed Amendments

Page 7, strike line 27 through page 8 line 13 and insert the following:

"We believe the plant to be funded with the WIFA proceeds and Advances is necessary for the Company's service to its customers. Therefore, we will permit the inclusion of \$644,000 rate base addition and the depreciation and property taxes on those plant additions to become effective with a Step II rate increase, subject to conformation by the Utilities Division Staff that those facilities have been completed, were constructed at the estimated cost, and are in service to the customers.

For the Step I Rate Base, we adopt the Staff position using Prepaid Water Rights for the same reasons Staff advanced. Based upon our approval of operating expenses, as recommended by Staff, we determined the correct level of Working Capital using the formula method to be \$38,158. As a result, we approve an OCRB for Step I of \$134,716. For Step II, and subject to the Staff confirmation as noted above, we approve the OCRB of \$778,716."

Page 8, line 17, strike footnote number 3

Page 11, line 15, after \$48,327, insert the following:

"for Step I purposes."

Page 11, line 15, strike balance of line 15 and line 16 and insert the following:

" the Step II depreciation, including the plant additions, shall be \$69,427."

Page 11, line 21, strike "\$38,541" and the balance of the paragraph, and insert the following:

"based on the Arizona Department of Revenue method of computing such taxes, a method we have previously used to establish property tax expense. We believe that method is appropriate in this case and establish the Step I Property Taxes at \$33,497 and the Step II Property Taxes at \$39,067."

1 Page 12, line 5, strike "We agree...., through line 24 and insert the following:

2 "To facilitate the WIFA financing requirements and allow the needed revenues for a  
3 stepped increase, we calculate Vail's revenue requirement as follows:

<b>OPERATING REVENUES</b>	<b>STEP I</b>	<b>STEP II</b>
4 Metered Water Sales	\$355,566	\$355,566
Miscellaneous Revenues	\$3,341	\$3,341
5 CAP Service Charge	\$19,227	\$19,227
CAP Hook-Up Tariff	\$62,000	\$62,000
6 CAP Recharge Income:	\$3,930	\$3,930
WIFA Surcharge	\$53,132	\$53,132
7 Increase for Removal of CAP Recharge Expense	\$3,930	\$3,930
Property Tax Increase	\$12,885	\$18,458
8 Increase Needed to Meet Debt Service	<u>\$32,365</u>	<u>\$32,615</u>
Total Revenues	<u>\$546,376</u>	<u>\$552,199</u>
9 Deduct:		
Repayment on Line Extensions	(\$43,497)	(\$43,970)
10 Meter Deposit Refunds	(\$3,790)	(\$3,790)
Add:		
11 Depreciation	\$48,327	\$69,427
Amortization of Prepaid Water Rights	<u>\$3,694</u>	<u>\$3,694</u>
12 Total Available for Debt Service	<u>\$89,773</u>	<u>\$89,550</u>
13 Debt Service Payments:		
Shareowner Loan	\$6,872	\$6,872
14 WIFA Loan	\$56,509	\$56,509
WIFA Debt Reserve	<u>\$11,302</u>	<u>\$11,302</u>
15 Total Debt Service Payments	<u>\$74,683</u>	<u>\$74,683</u>
16 Debt Service	<u>1.20</u>	<u>1.20</u>

17 Page 14, line 18 1/2, insert the following:

18 "18. Vail's OCRB upon completion of the WIFA construction project is determined to  
19 be \$788,716."

20 Page 14, strike line 21 through 28 and insert the following:

21 20. Step I Operating Income of \$85,039 is required to yield a DSC of 1.2 under Step I  
22 rates.

23 21. Step II Operating Income of \$64,189 is required to yield a DSC of 1.2 under Step II  
24 rates.

1 22. Operating incomes of \$85,039 and \$64,189 result in a 63.12% and 8.24% rate of  
2 return for Step I and Step II FVRB, respectively.

3 23. Vail's total revenue must increase \$202,679 over adjusted TY revenues to produce a  
4 Step I operating Income of \$85,039.

5 24. Vail's Step II operating income must increase an additional \$5,823 to produce a Step  
6 II income of \$64,189.

7 25. The rates and charges approved herein increase the average monthly residential bill  
8 for Step I by 34.8% over present rates from \$44.18 to \$59.55 and Step II by an additional \$0.79  
9 to \$62.04 or 1.01%.

10 26. Page 15, strike line 20-1/2 and insert the following:

11 "h. No time extensions shall be granted unless Vail establishes that the requirements of  
12 conditions (f) and (g) can not be met due to circumstances beyond the control of Vail;"

13 Page 16, strike line 1 and line 1-1/2

14 Page 17 Line 20, strike \$12.66 and insert \$14.05.  
15 Line 20-1/2, strike \$21.00 and insert \$21.08.  
16 Line 21, strike \$40.50 and insert \$35.13.  
17 Line 21-1/2, strike \$89.20 and insert \$70.25.  
18 Line 22, strike \$147.70 and insert \$112.40.  
19 Line 22-1/2, strike \$284.20 and insert \$224.80.  
20 Line 23, strike \$479.20 and insert \$351.25.  
21 Line 23-1/2, strike \$966.70 and insert \$702.50.  
22 Line 25 1/2, strike \$4.00 and insert \$4.96.

23 Page 17, strike line 26  
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