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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

FEB 21 2012

- GARY PIERCE - Chairman
- BOB STUMP
- SANDRA D. KENNEDY
- PAUL NEWMAN
- BRENDA BURNS

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IN THE MATTER OF THE APPLICATION OF GOODMAN WATER COMPANY, AN ARIZONA CORPORATION, FOR (i) A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND (ii) AN INCREASE IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. W-02500A-10-0382

DECISION NO. 72897

OPINION AND ORDER

DATES OF HEARING: July 26, 27 and 28, 2011; and October 31, and November 1, 2011

PLACE OF HEARING: Tucson, Arizona

PUBLIC COMMENT MEETINGS: May 18, 2011, Saddlebrooke, Arizona
 June 14, 2011, Tucson, Arizona

ADMINISTRATIVE LAW JUDGE: Jane L. Rodda

APPEARANCES: Mr. Lawrence V. Robertson, Jr., of counsel, MUNGER CHADWICK, PLC, and Robert J. Metli, MUNGER CHADWICK PLC, on behalf of Goodman Water Company;

Mr. Daniel Pozefsky, Residential Utility Consumer Office;

Mr. James Schoemperlen, pro per;

Mr. Lawrence Wawryzniak, pro per; and

Ms. Ayesha Vohra and Ms. Bridget A. Humphrey, Staff Attorneys, Legal Division, on behalf of the Arizona Corporation Commission Utilities Division.

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1 **BY THE COMMISSION:**

2 **BACKGROUND**

3 At the end of the test year ended December 31, 2009, Goodman Water Company (“Goodman”
4 or “Company”) provided water utility service to approximately 626 customers in the development
5 known as Eagle Crest Ranch located in Pinal County, northwest of Tucson, Arizona. Goodman filed
6 the subject rate case application with the Arizona Corporation Commission (“Commission”) on
7 September 17, 2010. In its application, the Company sought a rate increase of \$291,454, or 50.89
8 percent over test year revenues.

9 The Company’s current rates were authorized in Decision No. 69404 (April 16, 2007). At
10 that time, the Company received a 135 percent rate increase.

11 The current rate application resulted in a strong consumer response in opposition to the
12 increase. The ratepayers were upset about the size of the requested relief coming so soon after the
13 previous request, and in general, believed that the Company was trying to force current ratepayers to
14 pay rates based on utility infrastructure that was installed to serve a much larger customer base which
15 has not materialized because of the economic downturn that affected home sales. The Residential
16 Utility Consumer Office (“RUCO”) and two individual rate payers intervened. The Commission held
17 two separate public comment sessions prior to the hearing, as well as taking public comments at the
18 commencement of the hearing. Numerous written comments opposing the increase were also
19 received.

20 Following three days of hearing beginning July 26, 2011, which primarily focused on the
21 issue of the alleged excess capacity, and to a lesser degree on the value of real property used in
22 providing utility service, the hearing recessed and was scheduled to continue on September 12, 2011.
23 Prior to reconvening, the Company, RUCO and the individual Intervenors reached a settlement, and
24 all parties agreed to continue the hearing to a later date to allow the parties to file testimony in
25 support of, or in opposition to, the proposed Settlement Agreement. The Company, RUCO and the
26 individual Intervenors submitted pre-filed written testimony in support of the Settlement. Staff
27 opposed provisions of the Settlement Agreement, and proposed an alternative recommendation.

28 The hearing reconvened on October 31, 2011, to consider the proposed Settlement

1 Agreement. In contrast to earlier Public Comment sessions, the public comments taken at the
 2 beginning of the reconvened hearing were supportive of the Company, and ratepayers spoke in favor
 3 of the proposed Settlement Agreement.

4 * * * * *

5 Having considered the entire record herein and being fully advised in the premises, the Commission
 6 finds, concludes, and orders that:

7 **FINDINGS OF FACT**

8 1. On September 17, 2010, Goodman filed an application for a rate increase with the
 9 Commission.

10 2. On October 18, 2010, Staff notified the Company that its application was not
 11 sufficient under the guidelines outlined in the Arizona Administrative Code R14-2-103.

12 3. On November 8, 2010, RUCO filed an Application to Intervene.

13 4. On November 8, 2010, Staff docketed a letter that notified the Company that its
 14 application was sufficient, and classified the Company as a Class C utility.

15 5. By Procedural Order dated November 16, 2010, the deadlines for filing testimony
 16 were established and the matter was set for hearing to commence on June 14, 2011. In addition,
 17 RUCO was granted intervention.

18 6. On November 24, 2010, Lawrence Wawryzniak and James Schoemperlen, individual
 19 customers of Goodman, filed an application to intervene, which was granted on December 6, 2010.

20 7. On January 26, 2011, the Company filed: 1) an Affidavit of Publication indicating that
 21 the public notice of the hearing was published in the *Arizona Daily Star* on January 12, 2011; and 2)
 22 an Affidavit of Mailing attesting that a copy of the notice was mailed on January 6, 2011, to each
 23 Goodman customer.

24 8. In an Open Meeting on February 2, 2011, the Commission voted to hold a public
 25 comment meeting in or near the local service area.

26 9. By Procedural Order dated February 15, 2010, a public comment meeting was
 27 scheduled for May 18, 2011, at the DesertView Performing Arts Center, located in the nearby
 28 community of Saddlebrooke.

1 10. On March 18, 2011, Mr. Wawryzniak and Mr. Schoemperlen filed Direct Testimony.¹

2 11. On March 21, 2011, RUCO and Staff filed Direct Testimony.²

3 12. On April 5, 2011, Goodman filed a Motion to revise the schedule for filing testimony
4 on the limited issue of appraisal values in order to respond to an issue contained in Staff's Direct
5 Testimony. By Procedural Order dated April 11, 2011, the dates for filing testimony were revised, but
6 the hearing date remained unchanged.

7 13. On April 15, 2011, the Company filed an Affidavit of Mailing indicating that on
8 March 31, 2011, it mailed a copy of the public notice for the May 18, 2011, public comment meeting
9 to its customers. On May 20, 2011, the Company filed an Affidavit of Publication indicating that
10 notice of the public comment meeting was published in the *Arizona Daily Star* on May 4, 2011 and
11 May 11, 2011.

12 14. On May 2, 2011, the Company filed Rebuttal Testimony, Mr. Schoemperlen filed
13 Direct Testimony, and Mr. Wawryzniak filed Rebuttal Testimony in response to Staff's Direct
14 Testimony.

15 15. On May 18, 2011, the Commission convened a public comment meeting in
16 Saddlebrooke. Thirty-three individuals made public comment at that time.

17 16. On May 26, 2011, Staff requested an extension of time to file Surrebuttal Testimony
18 because the Staff analyst that had been assigned to the matter was no longer with the Commission
19 and Staff's resources did not permit filing its Surrebuttal by May 31, 2011, as called for under the
20 existing schedule.

21 17. On May 26, 2011, Staff, RUCO and Goodman participated in a telephonic discussion
22 with the Administrative Law Judge concerning the need to modify the procedural schedule.³ By
23 Procedural Order dated May 27, 2011, the remaining testimony filing dates were extended and the
24 hearing re-set to commence on July 26, 2011. In addition, it was determined that because the matter
25 had been noticed, the original hearing date would be utilized for additional public comment and for a
26

27 ¹ On August 11, 2011, Mr. Wawryzniak filed Corrections to his Direct Testimony.

28 ² On March 30, 2011, RUCO filed a Notice of Errata.

³ The "Individual Intervenors" were informed about the telephone call and given the opportunity to participate, but did not call in.

1 Procedural Conference to discuss the conduct of the hearing.

2 18. On June 13, 2011, RUCO, Mr. Schoemperlen, Mr. Wawryzniak and Staff filed
3 Surrebuttal Testimony.⁴

4 19. The Commission convened a public comment meeting on June 14, 2011. Many
5 Goodman customers attended, and approximately 23 gave public comment.⁵ Following public
6 comment, the Commission convened a Procedural Conference to discuss conduct of the hearing.

7 20. On July 12, 2011, the Company filed Amendments/Revisions to Previously Filed
8 Testimony and Rejoinder Testimony.⁶

9 21. The hearing convened as scheduled on July 26, 2011, and continued on July 27, and
10 28, 2011. Mr. James Shiner, the Company's President and a shareholder, Mr. Mark Taylor, its
11 consulting engineer, and the appraisers Michael Naifeh and John Ferechak, III, testified for
12 Goodman; Ms. Jodi Jerich, RUCO's Director, testified for RUCO; and Mr. Marlin Scott, Staff's
13 engineer, testified for Staff. The hearing did not conclude in the days originally allotted,⁷ and by
14 Procedural Order dated August 11, 2011, the hearing was set to reconvene on September 11, and 12,
15 2011, at the Commission's Tucson office.

16 22. There was significant community opposition, expressed in a large number of written
17 comments and well-attended public comment meetings, over the Company's initial rate increase
18 request because of the substantial rate increase being requested and the feeling that current rate
19 payers were being asked to pay for plant that could serve a much larger customer base.

20 23. Following the July hearing dates, the Company, RUCO and the Individual Intervenors
21 entered into settlement discussions. All parties participated in a telephonic procedural conference on
22 September 8, 2011, at which time the Company reported that it had reached a settlement with the
23 intervenors, and that they would be presenting the agreement to Staff for review later that day.⁸ All
24

25 ⁴ On June 22, 2011, RUCO and Mr. Schoemperlen filed corrections to Surrebuttal Testimony.

26 ⁵ Some individuals made multiple public comments, and the numbers reflected herein have not been adjusted to reflect
27 duplicates.

28 ⁶ On July 22, 2011, the Company filed Corrections to Mr. Bourassa's Rebuttal Testimony.

⁷ The remaining witnesses included Tom Bourassa for Goodman, Tim Coley and Bill Rigsby for RUCO, Mr. Wawryzniak and Mr. Schoemperlen, and Mr. Gordon Fox for Staff.

⁸ Staff filed a Notice of Settlement Discussions on September 1, 2011, when the Company and intervenors informed Staff they had a proposed settlement agreement to present.

1 parties agreed that under the circumstances, it was reasonable to vacate the September 12, and 13,
2 2011, hearing dates to give Staff time to review the agreement and for all parties to prepare
3 testimony. By Procedural Order dated September 8, 2011, the September 2011, hearing dates were
4 vacated.

5 24. On September 9, 2011, Staff filed Late-filed Exhibits relating to Staff's evaluation of
6 storage tank and system capacity.

7 25. The parties participated in a telephonic Procedural Conference on September 13, 2011,
8 to discuss a new schedule. At that time, the parties informed the Administrative Law Judge that Staff
9 was not going to join the proposed Settlement Agreement. By Procedural Order dated September 13,
10 2011, a new schedule was set, with the hearing to re-convene on October 31, 2011.

11 26. On September 15, 2011, the settling parties filed the Settlement Agreement.

12 27. On October 4, 2011, Goodman, RUCO, Mr. Schoemperlen and Mr. Wawrzyniak filed
13 testimony in support of the Settlement Agreement.

14 28. On October 24, 2011, Staff filed its Supplemental Staff Report which contained its
15 comments on the Settlement Agreement.

16 29. The parties participated in a Procedural Conference on October 25, 2011, to discuss
17 the scheduling of witnesses and other issues affecting the conduct of the hearing.

18 30. The hearing re-convened on October 31, 2011, and continued on November 1, 2011.
19 James Shiner and Thomas Bourassa testified for the Company. Jodi Jerich testified for RUCO. Mr.
20 Schoemperlen and Mr. Wawrzyniak testified for themselves. Gordon Fox testified for Staff. The pre-
21 filed testimony related to pre-settlement positions was admitted on the stipulation of the parties.

22 31. On November 28, 2011, Staff filed as a late-filed exhibit, Schedule GLF-19 to Staff's
23 Supplemental Staff Report, which is a corrected rate schedule.

24 32. On December 2, 2011, the parties filed their Closing Briefs.⁹

25 **Pre-Settlement Positions**

26 33. A summary of the parties' pre-settlement positions follows:
27

28 ⁹ Goodman, RUCO and the individual Intervenors filed a single Joint Closing Brief.

	Goodman ¹⁰	RUCO ¹¹	Intervenors ¹²	Staff ¹³
Fair Value Rate Base ("FVRB")	\$2,298,376	\$1,755,118	\$1,317,239	\$1,974,781 ¹⁴
Adj Op. Income	74,870	131,842		75,614
Required Op Income	227,309	137,790		181,680
Required Rate of Return	9.89% ¹⁵	7.85% ¹⁶	7.17%	9.20% ¹⁷
Op Income Deficiency	\$152,436	\$5,948		\$106,063
Gross Conv. Factor	1.7098	1.4653		1.7049
Increase in Gross Rev	\$260,648	\$8,715	(96,412) ¹⁸	\$180,824
Adjusted TY Revenues	594,459	594,459		594,459
Proposed Revenue Requirement	855,107	603,174	498,047	775,283
% Rev Increase	43.85%	1.47%	-16.2%	30.42%

34. RUCO and the Individual Intervenors alleged that the Goodman system has substantial excess capacity, while the Company and Staff argued that there is no excess capacity. The excess capacity issue is a critical part of this proceeding, and arose because in 2008, the Company put into service its Plant No. 3, which effectively completed the backbone plant necessary to serve the Eagle Crest Ranch development. The Company states that its water system was designed for, and is able to serve, 1,332 Equivalent Dwelling Units ("EDUs"), comprised of 959 single-family homes and 368 EDUs for 72 acres of commercial acreage.¹⁹ At the end of the test year, the Company was serving

¹⁰ Ex A-12 Bourassa Rj, Rj Schedule A-1.

¹¹ Ex RUCO-8 Coley Surr, Schedule TJC-1.

¹² Ex JS-43 Schoemperlen Surr.; Schedule M.

¹³ Ex S-10 Fox Surr, Schedule GLF-1.

¹⁴ Staff later revised its FVRB recommendation in its Supplemental Staff Report to \$2,077,253. Ex S-11 Staff Supplemental Staff Report at 9.

¹⁵ Goodman proposed a cost of equity of 11%.

¹⁶ RUCO recommended a cost of equity of 9.0%.

¹⁷ Staff recommended a cost of equity of 9.1%.

¹⁸ Company Surrebuttal adjusted test year revenue of \$594,459 minus \$498,047, as shown in Schoemperlen Surr. Schedule D.

¹⁹ Transcript of the Hearing that commenced July 26, 2011 ("Tr.") at 423.

1 626 single-family homes and no commercial development.²⁰ Consequently, the intervenors in this
2 proceeding argued that not all of the plant additions made since the last rate case should be included
3 in rate base and their costs borne by current ratepayers.

4 35. The Eagle Crest Ranch development is located on hilly terrain, with elevation
5 differences of 250-300 feet, that encompasses two different elevation zones. The first phases of the
6 development, which began in 2002, were located in the lower J zone, and as additional lots were sold,
7 development started in the higher K zone elevation. The development consists of two K zones, a
8 north and south area, which are separated by a valley of J zone development. Mr. Taylor, the
9 Company's engineer, stated that meeting the water utility needs of the entire development was like
10 designing three separate systems.²¹

11 36. Goodman's water system was constructed in two phases. Phases I, II and III of the
12 development were served by Plant No.1, which was put into service in May 2002, and consists of a
13 well, 400,000 gallon storage tank, and booster pumps.²² The second phase of plant commenced in
14 2007 and included the construction of Plant No. 3, a 600,000 gallon tank situated at the top of the hill,
15 and was put into service in January 2008.²³ The master plan for the system always called for the
16 second phase of system construction to take the utility plant to build-out. According to Mr. Taylor,
17 once the development served more than 485 lots, or moved into the north K zone, the rate of lot sales
18 was not relevant to the pace of plant completion because at that point, Plant No. 3 was necessary to
19 provide adequate pressure and to meet fire flow requirements, and it would not have been cost
20 effective or efficient to construct Plant No. 3 in incremental phases.²⁴

21 37. RUCO believed that in this instance, the traditional engineering analysis utilized by
22 the Company and Staff that looks at a five year "planning horizon," places the risk that customer
23 growth will not occur on the current rate payers rather than on the shareholders, and that in cases
24 where customer growth estimates are greatly overstated, the ratepayers are unfairly burdened.²⁵

25
26 ²⁰ Tr. at 423.

27 ²¹ Tr. at 361-363.

28 ²² Tr. at 367-370, 380.

²³ Tr. at 466.

²⁴ Tr. at 387, 458, and 497-98.

²⁵ Ex RUCO-8, Coley Surr at 10-12.

1 RUCO advocated using a “reserve margin” methodology to determine how much plant should be
 2 allowed in rate base for rate making purposes.²⁶ RUCO’s methodology divides the percentage of
 3 customer growth, adjusted by a 10 percent reserve factor, by the percentage growth in utility plant to
 4 calculate a “used and useful factor.” RUCO then multiplies its used and useful factor (45.67 in this
 5 case) by the plant additions since Goodman’s last rate case to arrive at how much of the plant
 6 additions should be recognized in rate base.²⁷ RUCO argued that its “reserve margin” methodology
 7 balances the risk of anticipated growth among investors and ratepayers, and benefits the utility
 8 because it allows some of the plant that is available for future customers to be included in rate base
 9 now; provides the Company with the ability to address plans for growth without fear of being unable
 10 to precisely estimate the number of customers during the next test year; and eliminates any perceived
 11 disincentive that might encourage under-building plant.²⁸

12 38. The Individual Intervenors objected to Staff’s calculations related to excess capacity
 13 which Mr. Schoemperlen argues relies on an improper statistical method.²⁹ They argue it is
 14 inequitable to charge current customers for system capacity expected to serve the estimated customer
 15 counts in 2014.³⁰ The Intervenors were skeptical that in the reasonable future the Company would see
 16 875 customers that Staff’s five year planning horizon would seem to indicate would exist by 2014.³¹
 17 Mr. Schoemperlen calculated an unused capacity factor of 85%.³² In addition, the Intervenors did not
 18 believe that using a 2,000 GPM fire flow requirement for determining the appropriate plant capacity
 19 was appropriate because there is no current commercial development.³³

20 39. Staff adjusted the Company’s rate base to remove distribution and transmission mains
 21 that Staff believed were not used and useful, but concluded that there was no excess capacity related
 22

23 ²⁶ Ex RUCO-2 Jerich Surr at 13-17.

24 ²⁷ Ex RUCO-8 Coley Surr at 19-22.

25 ²⁸ Ex RUCO-2 Jerich Surr at 14.

26 ²⁹ Ex JS-42 Schoemperlen Reb at 6.

27 ³⁰ *Id.*

28 ³¹ *Id.* at 9.

³² Ex JS-43 Schoemperlen Surr at 10, Schedules M and N.

³³ Tr. at 423, 479 and 489. Fire flow requirements require sufficient capacity to provide two hours of continual flow based on the type of development. Single residential requires 1,000 GPM, or 120,000 gallons of storage, residential greater than 3600 square feet requires 1,500 GPM, or 180,000 gallons of storage, and large commercial requires 2,000 GPM, or 240,000 gallons of storage. See Tr. at 485.

1 to Plant No. 3.³⁴ In Staff's view, excess capacity exists when plant capacity exceeds what is needed to
 2 accommodate reasonable growth.³⁵ Staff distinguishes between "excess capacity" which relates to
 3 storage tanks and wells, and the concept of "used and useful" which relates to the evaluation of
 4 transmission and distribution mains as well as storage and production.³⁶ Staff typically uses peak
 5 demand factors and a five year planning period to analyze capacity, and plant facilities that are
 6 related to growth outside the five-year planning period may be considered excess capacity. In this
 7 case, Staff projected that the Company could have 875 service connections within five years of the
 8 test year, and determined that the Company's two wells and total useable storage capacity of 613,000
 9 gallons could serve 933 connections.³⁷ Staff determined that the useable capacity exceeded the
 10 minimum one-day storage requirement for 875 connections by only 13,340 gallons, or 7 percent,
 11 which Staff believed was not significant.³⁸ Thus, Staff believes that all of Water Plant No. 3 was
 12 prudently constructed and is used and useful.³⁹

13 40. A second contentious issue in this case was the appropriate value to assign four
 14 parcels of land that the Company acquired from its affiliate, EC Development, Inc. for the purpose of
 15 situating utility plant.⁴⁰ The individual Intervenors focused on this issue early⁴¹ and Staff
 16 recommended adjustments that reduced the parcels' value by \$379,837, from \$459,159 to \$114,322.⁴²
 17 Staff argued that the National Association of Regulatory Utility Commissioners ("NARUC")
 18 Guidelines for Cost Allocations and Affiliate Transactions state that the transfer of assets from an
 19 affiliate to the utility should be the lower of the prevailing market price, determined by an appraisal,
 20 or net book value.⁴³ Due to an oversight, the Company did not book the parcels until 2008 despite
 21 their having been placed in service several years earlier. The Company offered a 2011 appraisal of
 22 the parcels that was intended to value the parcels at the times they were put into public service.

23 ³⁴ Ex S-10 Fox Surr at 20; Ex S-3 Scott Surr at 4-7; Tr. at 545, 552.

24 ³⁵ Ex S-3 Scott Surr at 4-5.

25 ³⁶ Tr. at 552.

26 ³⁷ Staff's late-filed exhibit filed September 8, 2011.

27 ³⁸ Ex S-11 Supplemental Staff Report at 3.

28 ³⁹ Ex S-3 Scott Surr at 6.

⁴⁰ EC Development, Inc. is owned by Jim Shiner and Lex Sears, who also own Goodman. Ex S-10 Fox Surr at 9.

⁴¹ The individual Intervenors sent pre-hearing Data Requests to the Company. See Ex S-1. They raised the issue at the June 14, 2011 Pre-hearing conference. See Transcript of the June 14, 2011 Pre-hearing Conference at 23-35.

⁴² Ex S-10 Fox Surr at 9-10 and 18.

⁴³ *Id.* at 11.

1 However, Staff argued that the Company has not provided sufficient information about the net book
 2 carrying value of the parcels on EC Development, Inc.'s books.⁴⁴ Staff recommended that the parcels
 3 be valued for ratemaking purposes based on the 2009 Pinal County Assessor's Full Cash Value, or
 4 \$114,322. The Company argued that the book value of the land on EC Development, Inc.'s books
 5 was irrelevant, and that it was the cost to Goodman, as supported by an appraisal, that is relevant for
 6 rate making purposes.⁴⁵

7 41. Other significant issues dividing the parties prior to settlement, included Rate Case
 8 Expense and the Cost of Capital.

9 **The Settlement Agreement**

10 42. The Settlement Agreement entered into between the Company, RUCO, Mr.
 11 Wawrzyniak and Mr. Schoemperlen provides:

12 a. A revenue increase of \$138,000, or 23.21 percent over test year revenues, for a total
 13 revenue requirement of \$732,459;⁴⁶

14 b. A Fair Value Rate Base of \$1,755,118;⁴⁷

15 c. For ratemaking purposes, the Commission will authorize Goodman to defer \$269,307
 16 of accumulated depreciation through the end of the test year, and to defer the recording of annual
 17 depreciation of \$44,136 related to utility plant currently in service but that is not being included in
 18 rate base;⁴⁸

19 d. No interest recovered on the deferred depreciation expense;

20 e. No conclusion is being made whether or not any "excess" capacity may or may not
 21 exist at this time, and that any determination of "excess" capacity, if raised in a future rate
 22 proceeding, will be determined on the basis of the then existing circumstances.⁴⁹

23 f. A three year phase-in of the new rates, with no compounding between annual
 24 increases, and that the Company waives a right to foregone revenues and any interest thereon (such
 25

26 ⁴⁴ *Id.* at 17.

⁴⁵ Ex A-12 Bourassa Rj at 12.

⁴⁶ Settlement Agreement at ¶ 2.1.

⁴⁷ *Id.* at ¶ 2.2.

⁴⁸ *Id.* at ¶ 2.3.

⁴⁹ *Id.* at ¶ 2.5.

1 that the Year 1 increase would be 11.60 percent, the Year 2 increase would be 5.8 percent, and the
 2 Year 3 increase would be 5.8 percent, for an accumulated increase at the end of the third phase of
 3 23.2 percent);⁵⁰

4 g. The Company agrees not to file for another permanent increase in its water rates until
 5 at least January 1, 2015, using a test year no earlier than the 12 months ended December 31, 2014,
 6 unless there is an emergency;⁵¹

7 h. The parties adopt Staff's proposed rate design in Staff's Surrebuttal testimony.⁵²

8 43. A copy of the Settlement Agreement is attached hereto as Exhibit A.

9 44. Under the rates set forth in the Settlement Agreement, the average 5/8" x 3/4" meter
 10 customer, using 5,520 gallons per month, would experience a monthly increase in the first year of
 11 \$7.57, or 11.3 percent, from \$66.98 to \$74.55; in the second year, the same usage would result in a
 12 monthly bill of \$78.49, or an increase of \$11.51, or 17.2 percent, over current rates; and in the third
 13 year, the same usage would yield a bill of \$82.37, a \$15.39 increase, or 23 percent, over current
 14 rates.⁵³

15 45. The signatories to the Settlement Agreement presented the Agreement to a gathering
 16 of approximately 125 residents of the Eagle Crest Ranch community in a homeowners' association
 17 meeting on October 3, 2011.⁵⁴ The Eagle Crest Ranch newsletter reported overwhelming community
 18 support for the agreement among those attending.⁵⁵

19 **Arguments For and Against the Settlement Agreement**

20 46. The proponents of the Settlement Agreement cite the following benefits to the
 21 Company under the Settlement Agreement:

22 (a) Eliminates litigation risks and costs associated with claims of excess capacity, land
 23 valuation and rate case expense;

24 (b) Phases-in the 23.21 percent revenue increase over three years;

25
 26 ⁵⁰ *Id.* at ¶ 2.6 and ¶ 2.7.

27 ⁵¹ *Id.* at ¶ 2.8.

28 ⁵² *Id.* at ¶ 2.9.

⁵³ *Id.* at Ex A.

⁵⁴ Tr. at 644-645.

⁵⁵ Ex A-22.

1 (c) Provides for the deferral of \$269,407 of accumulated depreciation through the end
2 of the test year and deferral of annual depreciation of \$44,136 on utility plant not included in rate
3 base for the purpose of this proceeding;

4 (d) Although it requires GWC to wait until January 2015 to file another rate case, it
5 includes a provision that would allow an emergency rate case; and

6 (e) Improves relations with the community.⁵⁶

7 47. The proponents of the Settlement Agreement cite the following benefits to consumers
8 under the Settlement Agreement:

9 (a) Establishes a FVRB at \$1,755,118, which is lower than Staff's or the Company's
10 proposed FVRB;

11 (b) The overall revenue increase of \$138,000 is less than either Staff's or Goodman's
12 recommendations;

13 (c) The increase is phased-in over three years;

14 (d) Goodman waives its right to foregone revenues and any interest associated with
15 the phase-in period;

16 (e) Goodman is not entitled to receive accrued interest or carrying charges on the
17 amount of deferred depreciation expense;

18 (f) Goodman may not file for another rate increase for four years;

19 (g) The rate design provides for a small rate decrease in the first year for customers
20 who use less than 3,000 gallons per month;

21 (h) Defers the excess capacity issue to a future rate case with the possibility of having
22 the issue become moot if the developers are able to build-out the community during the next four
23 years; and

24 (i) Resolves this case, and disputed issues including land valuation, excess capacity
25 and rate case expense, thereby reducing the risk of protracted litigation costs.⁵⁷

26 48. Staff recommended that the Commission not adopt the Settlement Agreement because

27 _____
28 ⁵⁶ Joint Parties' Brief at 2.

⁵⁷ *Id.* at 3.

1 it is a “black box” agreement that Staff believes leaves important issues undecided, and because Staff
2 opposes the proposed deferral of both accumulated depreciation and annual depreciation expenses.⁵⁸

3 49. The Settlement Agreement establishes a revenue requirement, but does not determine
4 specific revenue, expenses or rate base adjustments, and defers a resolution of the issue of excess
5 capacity. Initially, Staff argued that without a resolution of the excess capacity issue, there could be
6 no determination of what plant is excluded or the amount of accumulated depreciation balances.⁵⁹
7 Staff believes that these values are necessary as a starting basis for the next rate case. However, in the
8 course of the hearing, the Company’s and RUCO’s witnesses testified that the plant values proposed
9 in the Surrebuttal Testimony of RUCO’s witnesses Coley and Rigsby could be utilized as the basis of
10 the revenue requirement.⁶⁰ In its Brief, Staff agrees that except for the determination of the land
11 value, adopting RUCO’s position on rate base items as set forth in its Surrebuttal testimony, “would
12 resolve most of the problems created by a ‘black box’ agreement and provide sufficient information
13 on which to base a future rate case.”⁶¹

14 50. Staff notes that RUCO appears to use the land’s appraised value, but discounts that
15 value by its “used and useful factor” percentage.⁶² Staff states that it could be argued that RUCO’s
16 figures adopt the Company’s valuation, and for this reason, Staff argues that the Settlement
17 Agreement’s FVRB should not be adopted.⁶³ In the event the Settlement Agreement is adopted, Staff
18 asserts that the Order should clarify that the land valuation on which the Proposed Settlement
19 Agreement is based is not adopted and will be determined in a future rate case.⁶⁴

20 51. Staff’s primary opposition to the Settlement Agreement is based on Staff’s belief that
21 deferring depreciation as proposed in the Settlement Agreement is contrary to accounting and
22 ratemaking principles adopted by the Commission, and is not in the public interest. Staff claims that
23 there is no accepted methodology, in either NARUC’s Uniform System of Accounts (“USoA”) or in
24 Generally Accepted Accounting Principles (“GAAP”), for either voiding or deferring accumulated

25 ⁵⁸ Staff Brief at 2.

26 ⁵⁹ *Id.* at 3.

26 ⁶⁰ *Id.* at 3.

27 ⁶¹ *Id.* at 3.

27 ⁶² Ex RUCO-8 Surrebuttal Schedule TJC-6.

28 ⁶³ Staff Brief at 4.

28 ⁶⁴ *Id.* at 4.

1 depreciation (i.e. depreciation that has already occurred).⁶⁵ Staff asserts that the USoA and GAAP
2 indicate that reversal of accumulated depreciation is improper. The USoA states:

3 All prior period adjustments to retained earnings shall be approved by the
4 Commission....Generally the only type of transactions which will be considered as a
5 prior period adjustment are correction of an error in the financial statements of a prior
6 period, or adjustments that result from realization of income tax benefits of pre-
acquisition loss carry-forwards of purchased subsidiaries.

7 Staff states that in this case, the accumulated depreciation cannot not be considered an error,
8 nor is it among the types of transactions which can be changed. Staff asserts that its position is
9 supported by the recognized authority of *The Regulation of Public Utilities Theory and Practice*, by
10 Charles F. Phillips, Jr., which states: "If therefore, public utilities fail to make adequate charges to
11 cover depreciation costs and do not accumulate the necessary depreciation reserves, they cannot
12 increase their charges at a later time in order to recover deficiencies from customers."⁶⁶ Staff states
13 that "[w]hile not directly addressing the issue in this case, Mr. Phillips' statement is another
14 indication that depreciation and accumulated depreciation amounts should be recorded properly and
15 not manipulated."⁶⁷

16 52. Staff argues that deferring either accumulated depreciation or annual depreciation
17 expense would result in rates that are neither fair nor reasonable. Staff asserts that deferring
18 depreciation in this case will result in an intergenerational transfer of those costs to future ratepayers
19 while current rate payers will have enjoyed use of the plant for some years.⁶⁸

20 53. In addition, Staff also believes that the deferral of accumulated depreciation and
21 depreciation expense raises the specter of retroactive ratemaking, which occurs when future rates
22 permit a utility to recoup past losses or refund excessive past income.⁶⁹

23 54. Staff also argues that Goodman would receive the benefit of accumulated depreciation
24 twice because the Company has already recorded its accumulated depreciation balance at the end of
25 the 2010 test year, and Staff claims those books cannot be re-opened and amended. Staff asserts that

26 ⁶⁵ *Id.* at 4.

27 ⁶⁶ Charles F. Phillips, Jr., *The Regulation of Public Utilities Theory and Practice*, p. 2417.

28 ⁶⁷ Staff Brief at 5; citing Tr. at 961.

⁶⁸ Staff Brief at 6.

⁶⁹ *Id.* at 6.

1 the ratepayers who paid rates in 2010, and before, bore the costs of the storage tank that would be
 2 excluded, and if the Company is permitted to defer that accumulated depreciation until the next rate
 3 case, the accumulated depreciation would be included in rates again and customers would pay for it a
 4 second time.⁷⁰

5 55. Staff asserts that at the end of the 2014 test year, the amount of deferred depreciation
 6 that will be amortized would be \$489,987.⁷¹ The Settlement Agreement does not specify how the
 7 deferral will be amortized in the future. Staff asserts that the USoA provides that if rate recovery of
 8 all or part of the amount in the deferral account is disallowed, the disallowed amount must be charged
 9 to Account 426- Miscellaneous Nonutility Expenses, or Account 434 – Extraordinary Deductions, in
 10 the year of the disallowance. Staff states that given the significant impact of a disallowance, “it is
 11 unlikely that the Commission will not in the future disallow it.”⁷² In addition, Staff is concerned
 12 about the rate impact in the future, when ratepayers will be paying the on-going depreciation expense
 13 of \$44,136, plus the amortized amount of the deferral account, and the potential that the deferred
 14 amount could be included in rate base.⁷³

15 56. Staff is concerned that the Settlement Agreement creates a risk that other utilities will
 16 rely on its methodology in future cases. Staff proposed an alternative to the Settlement Agreement,
 17 which it claims achieves the same rates without relying on accounting practices that Staff considers
 18 questionable.⁷⁴ In its Supplemental Staff Report, Staff proposed a revenue requirement of \$797,063,
 19 an increase of \$202,604, or 34.08 percent, over test year revenue of \$594,459 for a 9.2 percent rate of
 20 return on a Staff-adjusted FVRB of \$2,077,253.⁷⁵ In its Brief, Staff appears to have modified this
 21 proposal, and now accepts the revenue requirement established by the Settlement Agreement, as well
 22 as the three-year phase-in, rate design and stay-out provisions.⁷⁶ Staff continues to recommend its
 23 rate base figures and its position on deferral of depreciation and accumulated depreciation. Staff
 24 argues that its alternative proposal is more appealing to ratepayers in the long term because even

25 ⁷⁰ *Id.* at 7.

26 ⁷¹ *Id.* at 7-8.

27 ⁷² *Id.* at 8, citing USoA 186.3(D).

28 ⁷³ *Id.* at 8.

⁷⁴ *Id.* at 8-9.

⁷⁵ *Id.* at 2; Ex S-11.

⁷⁶ Staff Brief at 9.

1 though they pay a little more up front, they do not pay as much in the long run.⁷⁷

2 57. The Settlement Agreement Proponents argue that the absence of a specified operating
3 income and rate of return is not a fatal flaw. They agree that the Commission in its final order must
4 specify the rate of return, and that there must be support for the rate of return in the record, however,
5 they assert there is no case law in Arizona that states, or even suggests, that a settlement agreement
6 must specify the rate of return or operating income, or that a settlement agreement cannot take a
7 “black box” format. RUCO calculated a rate of 9.68 percent.⁷⁸ The proponents assert there is ample
8 evidence in the record to support that calculation. They argue that unlike a finding for the rate of
9 return, there is no requirement to specify the operating income, as long as there is evidentiary
10 support. The proponents assert that operating income is merely the product of the FVRB and the rate
11 of return.

12 58. The Settlement Agreement Proponents assert that the “black box” approach does not
13 preclude the determination or inference of elements necessary to determine the revenue requirement
14 in the next rate case. They argue that RUCO’s schedules clearly identify the FVRB, the “excess
15 capacity” plant and its associated accumulated depreciation, and the annual depreciation expense
16 amount, and that this information is readily available for the next rate case.⁷⁹

17 59. The Settlement Agreement Proponents assert that the deferral provisions of the
18 Settlement Agreement do not result in retroactive ratemaking as the depreciation that is being
19 deferred has never been recognized in rates, nor will it be, until the Commission approves recovery.⁸⁰
20 They argue that the “retroactive ratemaking” doctrine prohibits the Commission from adjusting
21 current rates to makeup for previous over- or under-collection of costs in prior periods.⁸¹ The Joint
22 Proponents also assert that no party in this case suggested that depreciation rates should be changed,
23 and absent such recommendation, the depreciation rates set in the Commission’s last decision should
24 continue.⁸²

25 ⁷⁷ *Id.* at 8. This argument appears to relate to Staff’s alternative proposal position at the time of the hearing.

26 ⁷⁸ Ex RUCO-12.

27 ⁷⁹ Ex RUCO-8, Schedules TJC-3, TJC-5 and TJC-10.

28 ⁸⁰ Joint Parties’ Brief at 5; Tr. at 767.

⁸¹ *Associated Gas Distributors, Petitioner v. Federal Energy Regulatory Commission, Respondent, and Consolidated Cases, United States Court of Appeals, District of Columbia Circuit*, 898 F.2d 809, March 30, 1990.

⁸² Joint Parties’ Brief at 9-10.

1 60. The Settlement Agreement Proponents state that they are requesting that the
2 Commission defer a decision on plant and its associated depreciation until a future rate case with the
3 hope that as growth occurs, the plant will be considered used and useful and not subject to claims of
4 “excess capacity.”⁸³ The Joint Proponents do not agree on whether there is excess capacity, but assert
5 that they have resolved this issue to each of the settling parties’ satisfaction.

6 61. The Settlement Agreement Proponents argue that contrary to Staff’s claims, the
7 Settlement does not restate accumulated depreciation expense approved in a prior case and that
8 RUCO’s Surrebuttal schedules identify that it is plant that was placed into operation after the last rate
9 case that is being deferred under the Settlement Agreement.⁸⁴

10 62. In response to Staff’s claim that to defer the depreciation for later recovery is an
11 intergenerational transfer to future ratepayers, the Settlement Agreement Proponents argue that
12 because of the claims of excess capacity, it is appropriate that future ratepayers should pay for that
13 plant. They assert that Staff was not concerned with the alleged intergenerational inequities raised by
14 RUCO and the individual Intervenors prior to the Settlement Agreement.⁸⁵

15 63. The Settlement Agreement Proponents argue that Staff’s fear that ratepayers will be
16 paying twice for depreciation as a result of the Settlement Agreement’s deferral provision is
17 misplaced. They argue that since the plant at issue was placed in operation after the last rate case, the
18 current rates do not cover the costs of that plant, including depreciation.⁸⁶

19 64. The Settlement Agreement Proponents argue that it is reasonable for the Settlement
20 Agreement to purposely avoid resolving the highly contentious issue of excess capacity because there
21 is a chance the issue might resolve itself by the time of the next rate case.

22 65. The Settlement Proponents argue that Staff’s alternate proposal should be rejected
23 because it calls for a higher FVRB (\$2,077,253) which the Joint Proponents believe is not in the
24 ratepayers’ best interest as it includes plant that is subject to the excess capacity issues, and would
25 aggravate the poor relationship between the community and the Company. The intervenors argue that

26 _____
27 ⁸³ *Id.* at 5.

⁸⁴ *Id.* at 6-7, Ex RUCO-8 Coley Surr schedule TJC-5; see also Tr. at 759 and 1037.

⁸⁵ *Id.* at 7-8.

⁸⁶ *Id.* at 10.

1 Staff's unwillingness to offer or accept a compromise of the excess capacity issue shifts the risk of
2 growth to the ratepayers.⁸⁷ In addition, the Settlement Agreement Proponents argue that Staff's
3 implied recommended cost of equity is lower than the cost of debt in the record,⁸⁸ which they argue
4 sets a bad precedent and is contrary to the accepted principle that typically equity is more expensive
5 than debt. They assert that a very low cost of equity could increase the likelihood that the Company
6 could over-earn going forward.⁸⁹ Furthermore, they argue that even if it was in the public interest, the
7 Commission could not approve Staff's alternative proposal without the Company's consent, because
8 the Commission cannot require the Company to forgo revenues associated with Staff's proposed
9 phase-in.⁹⁰

10 Analysis and Conclusions

11 66. Staff does not argue that the rates established in the Settlement Agreement, the phase-
12 in, or the stay-out, are not fair and reasonable.⁹¹ Staff opposes several of the provisions of the
13 Settlement Agreement because Staff believes that they are contrary to traditional rate making
14 principles and may set bad precedent.⁹² The facts of this case are unique, however, and the ability of
15 the parties, who were adversaries during the litigation portion of the proceeding, to reach a creative
16 solution that they can all support, and which gives all sides something they wanted at a cost they can
17 agree to, supports adoption of the Settlement Agreement. We find that, under the totality of
18 circumstances, the terms of the Settlement Agreement are fair and reasonable, are supported by the
19 evidence, and should be adopted. We agree with Staff, however, that our approval of the agreement
20 should clarify the effect of certain provisions as discussed below. We also emphasize that our
21 findings concerning the reasonableness of the Settlement Agreement are based on the unique facts of
22 this case, and the particular provisions of this agreement should not be cited as precedential support
23 for any other unrelated settlement or proposal.

24 67. The issue of excess capacity was the crux of the rift between the parties and between

25 ⁸⁷ *Id.* at 13.

26 ⁸⁸ The Company estimates that Staff's proposed cost of equity is 7.2 or 7.25 percent, but Staff does not specify a cost of
equity. Tr. at 1046.

27 ⁸⁹ Joint Parties' Brief at 13.

28 ⁹⁰ Tr. at 990.

⁹¹ Staff appears to adopt all of these provisions. See Staff's Brief at 9.

⁹² Staff's Brief at 8.

1 the Company and the community. The hilly topography of the Eagle Crest development lends to its
2 beauty, but also created an engineering challenge. The Company's engineer testified that once the
3 system served 485 lots, cost effectiveness and efficiency drove the Company's decision to complete
4 the system, and the rate of lot absorption after that was not a factor. RUCO and the individual
5 Intervenor were adamant that the traditional method of determining excess capacity lead to
6 inequitable results, with the 626 test year customers having to pay for a system that was designed for
7 1,300 EDUs. The Commission has departed from traditional methods of determining excess capacity
8 in the recent past, having sided with RUCO's excess capacity position in the Gold Canyon Sewer rate
9 case, when the Commission believed the traditional method of calculating capacity led to inequitable
10 results for ratepayers.⁹³ The Settlement Agreement takes the difficult and divisive excess capacity
11 issue out of the mix, and thus, not only resolves this rate case, but does not create precedent based on
12 unique facts. While it potentially leaves the issue of excess capacity for another rate case, there
13 remains a chance that continued growth will solve the issue, and the Commission will not have to
14 address it in the next rate case. The hope that time may resolve this issue is not totally unrealistic, as
15 since the end of the test year, the Company has added an additional 74 customers, and the developer
16 continues to sell lots, even in the economic downturn.⁹⁴

17 68. Mr. Wawryzniak and Mr. Schoemperlen, ratepayers themselves, stated that not
18 deciding the excess capacity issue is the strongest point of the Settlement Agreement and that to
19 decide the issue of excess capacity, as would be assumed in adopting Staff's recommended rate base,
20 would be a deal breaker for them.⁹⁵ We agree that allowing this community to resolve its issues and
21 move forward is a significant benefit of the Settlement Agreement and should enable the Company
22 and residents to work together to create the kind of vibrant community that will benefit both of their
23 interests.⁹⁶

24 69. The Settlement Agreement FVRB figure of \$1,755,1118, is a reasonable resolution of
25 the capacity issue in this case. It adopts RUCO's recommended rate base as set forth the TJC-5

26
27 ⁹³ See Decision No. 70624 (November 19, 2008), at Findings of Fact No. 18.

⁹⁴ Tr. at 681.

⁹⁵ Tr. at 647 and 650

⁹⁶ Tr. at 649.

1 attached as Exhibit B. Although we find this resolution to be reasonable in this case, and supported
 2 by the evidence, we are not making a finding one way or the other concerning the issue of “excess
 3 capacity.” In the next rate case, all parties are free to present recommendations for a used and useful
 4 rate base figure and are not bound by RUCO’s figures as a starting place. We make no findings that
 5 RUCO’s pre-settlement proposed “reserve margin” methodology for calculating excess capacity is
 6 appropriate. Likewise, we make no finding concerning the appropriate value to assign to the four
 7 parcels of real property that were the subject of debate in this case. The value of these parcels will be
 8 determined in a future rate case.

9 70. Staff is concerned that the deferral provision of the Settlement Agreement may
 10 constitute retroactive ratemaking. Staff cites no court decisions or other authority that would cause
 11 us to conclude that the deferrals called for in the Settlement Agreement would constitute retroactive
 12 ratemaking.⁹⁷ The Commission has the power to change its accounting treatment for specific items,
 13 but to avoid running afoul of retroactive ratemaking, such changes should not affect past losses or
 14 gains.⁹⁸ Deferral of depreciation on utility plant that has never been recognized in rate base or rates,
 15 is not retroactive ratemaking.⁹⁹ The Commission has not heretofore ruled on how depreciation of the
 16 2008 plant additions should be treated. The approval of an accounting order that allows the Company
 17 to track the depreciation of this plant does not change any prior treatment.¹⁰⁰ The Settlement
 18 Agreement’s deferral provision does not adjust for shortfalls in prior rates, but will potentially adjust
 19 future rates so that plant costs do not fall disproportionately on the current generation of ratepayers.

20 _____
 21 ⁹⁷ Staff Brief at 6-7. Staff cites *Montana-Dakota Utility Co. v Public Service Com’n*, 431 N.W. 2d 276 (N.D. 1988). In
 22 that case, however, the commission had originally approved a 20 year amortization period for the utility’s investment tax
 23 credit (“ITC”) balance, but then determined to re-compute the ITC balance to reflect a 26 year amortization period. The
 24 court found that the commission could only adjust the amortization schedule of the remaining unamortized ITC balance.
 25 The facts of that case do not appear to reflect the current situation because the Commission has not adopted a depreciation
 26 schedule for the plant in question.

27 ⁹⁸ Kriegar, Stephan H., *The Ghost of Regulation Past: Current Applications of the Rules Against Retroactive Ratemaking*,
 28 1991 U. Ill L. Rev at 998.

⁹⁹ See e.g. *Public Interest v. Ill Commerce Com’n*, 205 Ill. App. 3d 891, 563 N.E. 2d 877 (1st Dist. 1991).

¹⁰⁰ By approving the Settlement Agreement, we are only approving an accounting order and are not at this time
 determining how much of those deferred depreciation expenses are reasonable. At least one court has found that there is
 no retroactive ratemaking issue with the establishment of deferral accounts for new expenses. See *Public Interest v. Ill
 Commerce Commission*, 205 Ill. App 3d 891, 563 N.E. 2d 877 (1st Dist. 1991) (The court confirmed the Illinois
 Commission’s approval of deferred depreciation costs and accumulated financing costs on a nuclear plant from the time
 that it went into service until the time of a final order putting it in rate base, noting that the order was an “accounting”
 order and not a “ratemaking.” The court found no retroactive ratemaking as the commission had not taken into account
 the expenses on that nuclear plant in past rates, so it could consider the deferred expenses in setting future rates).

1 The effect of the deferral is that ratepayers are paying for depreciation costs over a different time
2 period than if the plant were recognized in rate base immediately.¹⁰¹

3 71. Neither does the deferral of the accumulated depreciation and depreciation expense
4 result in ratepayers paying twice, as these deferrals are related to plant that was not included in the
5 last rate case. We agree with Staff that deferral of accumulated depreciation is an unusual device.
6 However, in this case, we believe it is warranted and supported by the concessions the Company is
7 making with regard to forgoing interest on the phase-in of rates and the provision that forecloses
8 carrying costs on the deferred balances.

9 72. The Settlement Proponents estimate that if \$489,000 of deferred depreciation
10 expense¹⁰² is amortized over thirty years, it would increase the monthly bill between \$1.55 and
11 \$1.88.¹⁰³ We concur with RUCO and the individual Intervenors that the future potential cost for
12 ratepayers is reasonable given the benefits to ratepayers under the Settlement Agreement.

13 73. In approving the deferral provisions of the Settlement Agreement, we make no finding
14 how the Commission will address the recovery of deferred amounts, except that any future recovery
15 must not allow for the double-recovery of deferred depreciation. If and when the plant that is
16 currently in service but being excluded for ratemaking purposes is allowed in rate base, its value at
17 that time must reflect any deferred depreciation so that future ratepayers are not paying twice for the
18 same depreciation (i.e. once on the plant going forward, and once in the recovery of the deferred
19 amounts).

20 74. Staff's other concerns about the "black box" nature of the agreement and the
21 difficulties it creates for the next rate case are not fatal either, and as Staff itself appears to recognize,
22 can be addressed by specific findings in this Order. To the extent adopting the Settlement Agreement
23 might make the next rate case more difficult, those concerns are balanced by the benefits of the
24 Agreement. The stability and certainty that comes from accepting the Settlement Agreement
25 outweighs the potential burden on future rate analysts. Staff is concerned that Goodman's ratepayers

26 ¹⁰¹ See *Town of Norwood v FERC*, 53 F.3d 377 (U.S. App. D.C. 1995)(court finds no retroactive rate making associated
27 with switch in accounting methodology from cash to accrual for postretirement benefits).

¹⁰² The amount expected to have accrued until Goodman's next rate case.

28 ¹⁰³ Tr. at 896-97 and 1049. These figures are for illustrative purposes only and we make no finding herein as to the
amount of the deferral balance to be recovered, or how it might be recovered.

1 understand the rate impact of the deferral provisions of the Settlement Agreement,¹⁰⁴ but the issues
 2 were discussed at length at the hearing on the Settlement Agreement, and the intervenors agree that
 3 the deferral provisions and potential that ratepayers will pay for the deferrals in the future is fair.¹⁰⁵

4 75. We find that the rate of return under the Settlement Agreement of 9.68 percent is
 5 supported by the evidence and is fair and reasonable.¹⁰⁶

6 76. Staff recommended continued application of Staff's typical and customary depreciation
 7 rates that were approved in the Company's last rate case.¹⁰⁷ No party proposed a change in
 8 depreciation rates, and these rates were utilized to calculate the deferred depreciation and
 9 accumulated depreciation discussed in the Settlement Agreement. We find that the depreciation rates
 10 that were utilized in the last rate case, and which are set forth in Mr. Scott's Direct testimony, should
 11 remain in effect until further Order of the Commission.

12 77. The Settlement Agreement does not adopt Service Line and Meter Installation or Services
 13 Charges. There does not appear to be any objection to Staff's recommended charges. Consequently,
 14 in addition to the rates set out in the Settlement Agreement, we adopt Staff's recommended charges
 15 as set forth in Mr. Fox's Surrebuttal Testimony as follows:¹⁰⁸

Service Line and Meter Installation Charges: (Refundable Pursuant to A.A.C R14-2- 405)	Line	Meter	Total
5/8 " Meter	\$385	\$135	\$520
3/4" Meter	\$415	\$205	\$620
1" Meter	\$465	\$265	\$730
1 1/2" Meter	\$520	\$475	\$995
2" Turbine Meter	\$800	\$995	\$1,795
2" Compound Meter	\$800	\$1,840	\$2,640
3" Turbine Meter	\$1,015	\$1,620	\$2,635

26 ¹⁰⁴ Tr. at 661.

27 ¹⁰⁵ Tr. at 742-3 and 924.

28 ¹⁰⁶ Ex RUCO-12.

¹⁰⁷ Ex S-2 Scott Dir at Exhibit MSJ at 9.

¹⁰⁸ Ex S-10 Fox Surr at GTM-19.

1	3" Compound Meter	\$1,135	\$2,495	\$3,630
2	4" Turbine Meter	\$1,430	\$2,570	\$4,000
3	4" Compound Meter	\$1,610	\$3,545	\$5,155
4	6" Turbine Meter	\$2,150	\$4,925	\$7,075
5	6" Compound Meter	\$2,270	\$6,820	\$9,090
6	8" Meter	Cost	Cost	Cost
7	10" Meter	Cost	Cost	Cost
8	12" Meter	Cost	Cost	Cost

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Service Charges:

Establishment	\$50.00
Reconnection (Delinquent)	\$75.00
Meter Test (If Correct)	\$20.00
Deposit (Residential)	(a)
Deposit (Non-Residential)	(a)
Deposit Interest	6.0%
Re-Establishment (within 12 months)	(b)
NSF Check	\$15.00
Meter Re-Read (If Correct)	\$20.00
Late Charge	1.5% / mo.
Deferred Payment	1.5% / mo
Customer Requested Meter Test	\$20.00
Moving Meter at customer request	At Cost
After Hours Service Calls	\$50.00

(a) Residential – two times the average bill. Non-residential – two and one-half the average bill.

(b) Minimum charge times number of months disconnected.

Monthly Service Charge for Fire Sprinkler

All Meter Sizes Greater of \$10 or 2 percent of the general service rate for a similar size meter.

78. In addition to the rates set forth in the Settlement Agreement, we find that it is fair and reasonable to approve a Construction/Standpipe rate of \$10.80 per 1,000 gallons.

79. Goodman is located in the Tucson Active Management Area ("AMA"). According the Arizona Department of Water Resources ("ADWR") Water Provider Compliance Status Report dated

1 December 7, 2010, Goodman is in compliance with ADWR's requirements governing water
2 providers and/ community water systems.¹⁰⁹

3 80. Staff recommended that the Company submit tariffs for five water conservation Best
4 Management Practices ("BMPs") as established by the ADWR.¹¹⁰ In its pre-settlement testimony, the
5 Company accepted Staff's BMP recommendations.¹¹¹ No party addressed these recommendations in
6 their testimony on the Settlement Agreement or in their Briefs, and we conclude that their pre-
7 settlement positions have not changed. Although the ADWR provisions for BMPs are required for
8 large municipal water providers within an AMA, the Commission has previously adopted the BMPs
9 for implementation by Commission-regulated water companies. Staff's recommendation is
10 reasonable and we adopt it.

11 81. The Arizona Department of Environmental Quality ("ADEQ") has determined that the
12 Goodman system has no deficiencies and is currently delivering water than meets water quality
13 standards required by the Arizona Administrative Code, Title 18, Chapter 4.¹¹²

14 82. Goodman has no outstanding compliance issues.

15 CONCLUSIONS OF LAW

16 1. Goodman is a public service corporation pursuant to Article XV of the Arizona
17 Constitution and A.R.S. §§ 40-250 and 40-251.

18 2. The Commission has jurisdiction over Goodman and the subject matter of the
19 application.

20 3. Notice of the proceeding was provided in conformance with law.

21 4. For ratemaking purposes, Goodman's FVRB is deemed to be \$1,755,118.

22 5. A rate of return on Goodman's FVRB of 9.68 percent is reasonable.

23 6. The terms and conditions of the Settlement Agreement attached hereto as Exhibit A,

24 ¹⁰⁹ Ex S-2 Scott Dir at Exhibit MSJ at 8.

25 ¹¹⁰ Ex S-3 Scott Surr at 7-9. Staff recommends that the Company file with Docket Control, as a compliance item in this
26 docket and within 90 days of the effective date of a Decision in this matter, at least five BMPs in the form of tariffs that
27 substantially conform to the templates created by Staff, for the Commission's review and consideration; and further that a
28 maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training"
categories, and that the Company may request recovery of the actual costs associated with the implemented BMPs in its
next rate case.

¹¹¹ Ex A-10 Shiner Rj at 7.

¹¹² Ex S-2 Scott Dir, Exhibit MSJ at 7.

1 including the rates and charges set forth therein, are fair and reasonable and should be approved.

2 7. Staff's recommended Service Line and Installation Charges and Service Charges are
3 fair and reasonable.

4 8. Staff's recommendation concerning the Company's implementation of BMPs as set
5 forth herein, is reasonable and should be adopted.

6 **ORDER**

7 IT IS THEREFORE ORDERED that the Settlement Agreement attached hereto as Exhibit A
8 is approved, and Goodman Water Company shall file by February 29, 2012, a tariff that complies
9 with the rates and charges set forth therein, and the Service Line and Meter Installation Charges and
10 Service Charges discussed herein.

11 IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for
12 all service provided on and after March 1, 2012.

13 IT IS FURTHER ORDERED that within 15 days of the effective date of this Order, Goodman
14 Water Company shall notify its customers of the rates and the effective dates approved herein, in a
15 form and manner acceptable to the Commission's Utilities Division Staff.

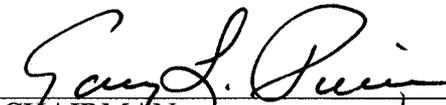
16 IT IS FURTHER ORDERED that Goodman Water Company shall file with Docket Control,
17 as a compliance item in this docket, and within 90 days of the effective date of a Decision in this
18 matter, at least five BMPs in the form of tariffs that substantially conform to the templates created by
19 Staff, for the Commission's review and consideration; and further that a maximum of two BMPs may
20 come from the "Public Awareness/Public Relations" or "Education and Training" categories; and that
21 the Company may request recovery of the actual costs associated with the implemented BMPs in its
22 next rate case.

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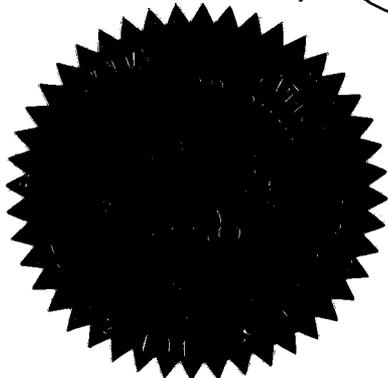
1 IT IS FURTHER ORDERED that Goodman Water Company shall annually file as part of its
2 annual report, an affidavit with the Utilities Division attesting that the Company is current in paying
3 its property taxes in Arizona.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
7 
8 CHAIRMAN  COMMISSIONER

9  COMMISSIONER  COMMISSIONER  COMMISSIONER



11
12 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
13 Executive Director of the Arizona Corporation Commission,
14 have hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this 21ST day of FEBRUARY, 2012.

17 
18 ERNEST G. JOHNSON
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____

1 SERVICE LIST FOR: GOODMAN WATER COMPANY

2 DOCKET NO.: W-02500A-10-0382

3

4 Lawrence V. Robertson, Jr.
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23

24

25

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27

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EXHIBIT A

GOODMAN WATER COMPANY

PROPOSED SETTLEMENT AGREEMENT

DOCKET NO. W-02500A-10-0382

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PURPOSES OF AGREEMENT

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LIST OF SIGNATORY PARTIES

The purpose of this Settlement Agreement ("Agreement") is to settle identified disputed issues related to Docket No. W-02500A-10-0382, Goodman Water Company's ("Goodman" or "Company") application to increase rates. This Agreement is entered into by the following entities:

Goodman Water Company

James Schoemperlen

Lawrence Wawrzyniak

Residential Utility Consumer Office

These entities shall be referred to collectively as "Signatory Parties."

TERMS AND CONDITIONS

The following numbered paragraphs comprise the Signatory Parties' Agreement.

I. RECITALS

- 1.1 Docket No. W-02500A-10-0382 was commenced by the filing of a rate application by Goodman on September 17, 2010. In its initial application, Goodman was requesting an increase in revenues equal to \$291,083, or 50.82 percent, for a total revenue requirement of \$863,834, and a FVRB of \$2,397,419.
- 1.2 On November 8, 2010, the Residential Utility Consumer Office ("RUCO") filed an Application to Intervene. On November 24, 2010, Mr. Lawrence Wawrzyniak and Mr. James Schoemperlen, residents of the Eagle Crest Ranch subdivision ("Eagle Crest") and customers of Goodman, filed an Application to Intervene.
- 1.3 The Commission approved the applications to intervene filed by RUCO, and James Schoemperlen and Lawrence Wawrzyniak, (collectively "Individual Intervenors").
- 1.4 The Commission scheduled an evidentiary hearing on the rate application to commence on June 14, 2011.
- 1.5 In an Open Meeting on February 2, 2011, the Commission voted to hold a public comment meeting in this matter for the residents of Eagle Crest and interested parties in or near the local service area.
- 1.6 On February 15, 2010, the Commission issued a Procedural Order scheduling a public comment meeting for May 18, 2011 at the Desertview Performing Arts Center in Saddlebrooke, Arizona.
- 1.7 Numerous residents and interested parties attended the public comment meeting and voiced their concern and anger towards the Company for the proposed rate increase. According to public comment, given the difficult economic times, a proposed rate increase of over 50% would cause great economic hardship on the residents of Eagle Crest. In addition, the filing of the requested rate increase has caused a significant rift in the Eagle Crest community as residents looked upon the Company and its requested rate increase with great suspicion, skepticism and resentment.
- 1.8 On May 27, 2011, the Commission issued a Procedural Order continuing the evidentiary hearing scheduled for June 14, 2011 to July 26, 2011. Because the hearing in this matter has been publicly noticed to commence on June 14, 2011, the Commission conducted public comment on that date. Again, numerous residents and interested parties attended the public comment meeting and voiced their concerns, skepticism and resentment towards the Company and the proposed rate increase.

- 1.9 The parties' litigation positions for hearing associated with proposed revenue increase and FVRB were as follows:

	Revenue Increase	% Increase	FVRB
Company	\$260,649	43.85%	\$2,298,376
Staff	\$202,604	34.08%	\$2,077,253
RUCO	\$ 8,715	1.47%	\$1,755,118
Intervenors	\$-77,517	-13.04%	\$1,317,239
Settlement	\$138,000	23.21%	\$1,755,118

- 1.10 The hearing in this matter commenced on July 26, 2011 and continued through July 28, 2011, but did not conclude. At the end of the third day of the hearing, all parties agreed that the matter would reconvene on September 12 and 13, 2011, at the Arizona Corporation Commission's Tucson offices.
- 1.11 Shortly after the hearing concluded, representatives of Goodman approached RUCO to inquire as to whether RUCO and the Individual Intervenors would be interested in a possible settlement of the issues contested in the rate case. Given the amount of anger and resentment towards the Company in the Eagle Crest Community resulting from the filing of the rate case, the principals of Goodman decided to reach out to the Intervenors and the community, in an effort to reach an agreement that would be acceptable to all interested parties and begin to heal the rift in the Community.
- 1.12 Given the relative litigation positions of RUCO and the Individual Intervenors (see, paragraph 1.9 above), the Company decided to first explore settlement with those parties before involving the Commission's Staff ("Staff"). It was the Company's rationale that they did not want to waste Staff resources in pursuing settlement if an agreement could not first be reached with RUCO and the Individual Intervenors.
- 1.13 The Signatory Parties agree that the negotiation process undertaken in this matter was open to all Intervenors and provided all Intervenors with an equal opportunity to participate. All Intervenors were notified of the settlement process and encouraged to participate.
- 1.14 On or about August 19, 2011, a settlement conference was scheduled at the offices of RUCO. In attendance were representatives of Goodman, RUCO, Mr. Schoemperlen and Mr. Wawrzyniak. On August 26, 2011, a second settlement meeting was held in the vicinity of Eagle Crest with the same parties in attendance. In addition, both principals of Goodman were present. Staff was not yet a party to the settlement negotiations. Subsequently, the Staff was apprised of the contents of the Settlement Agreement and indicated that it did not intend to become a party to the same.

- 1.15 The points of contention that were discussed were as follows: overall revenue increase; fair value rate base; excess capacity; phase-in of rates; rate design; and stay out provision. The parties present agreed that the settlement would take the form of a "black box" format in which only the specific issues identified herein would be agreed to but that no specific revenue/expense, or rate base adjustments would be specifically delineated.
- 1.16 The purpose of this Agreement is to settle all issues presented by Docket No. W-02500A-10-0382 ("Rate Case") in a manner that will promote the public interest.
- 1.17 The Signatory Parties agree that the terms of this Agreement will serve the public interest by providing a just and reasonable resolution of the issues presented by Goodman's rate case, Docket No. W-02500A-10-0382. The adoption of this Agreement will further serve the public interest by allowing all parties to avoid the expense and delay associated with continued protracted litigation; and, by allowing the residents of the Eagle Crest community and the Company to heal the rift which had developed between them for the benefit of all concerned.

II. REVENUE REQUIREMENT/RATE BASE

- 2.1 For ratemaking purposes and for the purposes of this Agreement, the Signatory Parties agree that GWC will receive a total increase of \$138,000 and a total revenue requirement of 732,459.
- 2.2 For ratemaking purposes and for the purposes of this Agreement, the Signatory Parties agree for purposes of Docket No. W-02500-10-0382 that fair value rate base is \$1,755,118.
- 2.3 For ratemaking purposes and for the purposes of this Agreement, the Signatory Parties agree that as a condition of approval of this Agreement, the Commission will authorize Goodman to defer \$269,307 of accumulated depreciation through the end of the test year and to defer the recording of annual depreciation of \$44,136 on utility plant currently in service, which is not included in rate base for purposes of this rate case, during the "Stay Out" period set forth in paragraph 2.8 below.
- 2.4 For ratemaking purposes and for the purposes of this Agreement, the Company agrees that there will be no interest recovered on the deferred depreciation expense described in paragraph 2.3 above.
- 2.5 For ratemaking purposes and for the purposes of this Agreement, the Signatory Parties reach no conclusion as to whether or not any "excess" capacity may or may not exist at this time on the Company's system. Any determination of "excess" capacity, if raised as

an issue in a future rate proceeding, will be determined on the basis of the then existing circumstances.

- 2.6 For ratemaking purposes and for the purposes of this Agreement, the Signatory Parties agree to the following three (3) year phase-in of the Company's new rates, with (i) no compounding between annual increases, and (ii) the Company waiving its right to foregone revenues and any interest thereon:

Year 1:	11.60%
Year 2:	5.80%
Year 3:	$\frac{5.80\%}{2.3.2}$

- 2.7 For ratemaking purposes and for the purposes of this Agreement, phased-in rates shall adjust as described in paragraph 2.6 above no earlier than 12 months after new rates go into effect. This translates to 50 percent of the revenue increase included in rates in Year 1, an additional 25% of the revenue increase included in rates in Year 2, and 25% of the revenue increase included in rates in Year 3.
- 2.8 For ratemaking purposes and for the purposes of this Agreement, the Company agrees not to file for another permanent increase in its rates for water service until at least January 1, 2015, using a test year no earlier than the twelve (12) months ended December 31, 2014. The Company retains the right to file for interim "emergency" rates, if necessary.
- 2.9 For ratemaking purposes and for the purposes of this Agreement, the Company's new rates shall be based upon the rate design proposed in the Commission Staff's Surrebuttal Testimony.
- 2.10 The rate design schedule and its average monthly impact on customers is attached hereto and made a part hereof as Exhibit A. For a 5/8 x 3/4-inch meter residential customer, consuming 5,520 gallons, the average monthly impact under the settlement will be \$7.57 or 11.3 percent in the first year of the proposed phase-in period. For a 3/4 inch meter residential customer, consuming 6,028 gallons, the average monthly impact under the settlement will be \$8.21 or 9.0 percent in the first year of the proposed phase-in period.

III. COMMISSION EVALUATION OF PROPOSED SETTLEMENT

- 3.1 This Agreement shall serve as a procedural device by which the Signatory Parties will submit their proposed settlement of Goodman's pending rate case, Docket No. W-

02500A-10-0382, to the Commission. This Agreement will not have any binding force or effect until its provisions are adopted as an order of the Commission.

- 3.2 The Signatory Parties recognize that the Commission will independently consider and evaluate the terms of this Agreement.
- 3.3 If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute Commission approval of the Agreement. Thereafter, the Signatory Parties shall abide by the terms as approved by the Commission.
- 3.4 The Signatory Parties agree to defend the Settlement Agreement and agree to waive their rights to appeal a Commission decision approving the same, provided that the Commission approves all material provisions of the Settlement Agreement.
- 3.5 Within sixty days after the Commission issues an order in this matter, the Company shall file compliance tariffs for Staff review and approval. Subject to such review and approval, such compliance tariffs will become effective upon filing for billing cycles on and after that date.
- 3.6 If the Commission fails to issue an order adopting all material terms of this Agreement or adds material terms to this Agreement, any or all of the Signatory Parties may withdraw from this Agreement, and such Signatory Party or Parties may pursue without prejudice their respective remedies at law. For the purposes of this Agreement, whether a term is material shall be left to the discretion of the Signatory Party choosing to withdraw from the Agreement. If a Signatory Party withdraws from the Agreement pursuant to this paragraph and files an application for rehearing, the other Signatory Parties shall support the application for rehearing by filing a document to that effect with the Commission.

IV. MISCELLANEOUS PROVISIONS

- 4.1 Nothing in this Agreement shall be construed as an admission by any of the Signatory Parties that any of the positions taken by any Signatory Party in this proceeding is unreasonable or unlawful. In addition, acceptance of this Agreement by any of the Signatory Parties is without prejudice to any position taken by any party in these proceedings.
- 4.2 This Agreement represents the Signatory Parties' mutual desire to compromise and settle disputed issues in a manner consistent with the public interest. None of the positions taken in this Agreement by any of the Signatory Parties may be referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except in furtherance of this Agreement.
- 4.3 This case presents a unique set of circumstances and has attracted a large number of ratepayers and residents. To achieve consensus for settlement, participants may be

accepting positions that, in any other circumstances, they would be unwilling to accept. They are doing so because the Agreement, as a whole, with its various provisions for settling the unique issues presented by this case, is consistent with their long-term interests and with the broad public interest. The acceptance by any Signatory Party of a specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.

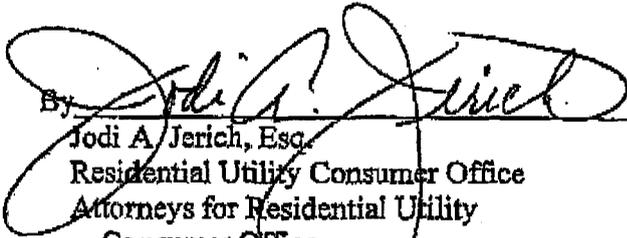
- 4.4 All negotiations relating to this Agreement are privileged and confidential. No Signatory Party is bound by any position asserted in negotiations, except as expressly stated in this Agreement. Evidence of conduct or statements made in the course of negotiating this Agreement shall not be admissible before this Commission, any other regulatory agency, or any court.
- 4.5 This Agreement shall be adopted by the Commission in an order that approves all material terms of the Agreement, including all modifications made by the Commission and approved by the Signatory Parties in such an order.
- 4.6 Each of the terms and conditions of the Agreement is in consideration and support of all other terms. Accordingly, the terms are not severable.
- 4.7 The Signatory Parties shall make reasonable and good faith efforts necessary to obtain a Commission Order approving this Agreement. The Signatory Parties shall support and defend this Agreement before the Commission. If the Commission adopts an order approving all material terms of this Agreement, the Parties will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.
- 4.8 This Agreement may be executed in any number of counterparts and by each individual Signatory Party on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

Executed this 15th day of September, 2011.

GOODMAN WATER COMPANY

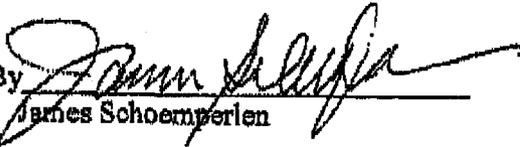

By _____
James A. Shiner
Goodman Water Company
President

RESIDENTIAL UTILITY CONSUMER OFFICE

By 

Jodi A. Jerich, Esq.
Residential Utility Consumer Office
Attorneys for Residential Utility
Consumer Office

INTERVENOR

By  9/15/10
James Schoemperlen

INTERVENOR

By Lawrence Wawrzyniak
Lawrence Wawrzyniak

EXHIBIT B

GOODMAN WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2009
 RESIDENTIAL & COMMERCIAL RATE DESIGN IN YEAR 1 OF SETTLEMENT PHASE-IN

DOCKET NO. W-02500A-10-0382

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	PROPOSED SETTLEMENT AGREEMENT
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:			
2				
3	RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS:			
4	5/8 - INCH	\$42.20	\$52.70	\$40.94
5	3/4 - INCH	88.30	78.30	61.41
6	1 - INCH	106.60	130.00	102.35
7	1 1/2 - INCH	211.00	261.01	204.70
8	2 - INCH	330.60	417.81	327.52
9	3 - INCH	575.20	695.22	614.10
10	4 - INCH	1,035.00	1,305.04	1,023.60
11	6 - INCH	2,113.00	2,810.07	2,047.00
12	8 - INCH	0.00	0.00	4,594.00
13	10 - INCH	0.00	0.00	8,188.00
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS	0	0	0
18				
19	RECOMMENDED COMMODITY RATES BY METER SIZE			
20				
21	5/8 - INCH			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 3,000 GALLONS:	\$ 3.98	\$ 6.28	\$ 4.140
23	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 3,001 TO 5,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 6.410
24	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 5,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 8.481
25				
26	3/4 - INCH			
27	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 3,000 GALLONS:	\$ 3.98	\$ 6.28	\$ 4.140
28	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 3,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 6.410
29	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 6,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 8.481
30				
31	1 - INCH			
32	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 22,500 GALLONS:	\$ 5.91	\$ 11.27	\$ 6.410
33	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 22,500 TO 899,999,999,999,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 8.481
34	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 899,999,999,999,999,000 GALLONS:	\$ -	\$ 13.41	\$ -
35				
36	1 1/2 - INCH			
37	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 34,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 6.410
38	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 34,000 TO 999,999,999,999,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 8.481
39	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
40				
41	2 - INCH			
42	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 45,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 6.410
43	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 45,001 TO 999,999,999,999,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 8.481
44	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
45				
46	3 - INCH			
47	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 60,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 6.410
48	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 60,001 TO 999,999,999,999,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 8.481
49	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
50				
51	4 - INCH			
52	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 80,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 6.410
53	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 80,001 TO 999,999,999,999,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 8.481
54	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
55				
56	6 - INCH			
57	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 135,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 6.410
58	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 135,001 TO 999,999,999,999,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 8.481
59	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
60				
61	8 - INCH			
62	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 0 GALLONS:	\$ 5.91	\$ 10.82	\$ 6.410
63	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 999,999,999,999,000 GALLONS:	\$ 7.11	\$ 13.13	\$ 8.481
64	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
65				
66	10 - INCH			
67	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 0 GALLONS:	\$ 5.91	\$ 10.82	\$ 6.410
68	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 999,999,999,999,000 GALLONS:	\$ 7.11	\$ 13.13	\$ 8.481
69	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -

GOODMAN WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2009
 RESIDENTIAL & COMMERCIAL RATE DEBITION IN YEAR 2 OF SETTLEMENT PHASE-IN

DOCKET NO. W-02500A-10-0382

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	PROPOSED SETTLEMENT AGREEMENT
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:			
2				
3	<u>RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS:</u>			
4	5/8 - INCH	\$42.20	\$52.20	\$45.19
5	3/4 - INCH	83.30	78.30	84.70
6	1 - INCH	105.80	130.80	107.96
7	1 1/2 - INCH	211.50	261.01	218.06
8	2 - INCH	338.88	417.61	345.52
9	3 - INCH	678.20	835.22	647.85
10	4 - INCH	1,056.00	1,305.04	1,078.75
11	6 - INCH	2,110.00	2,610.07	2,159.50
12	8 - INCH	0.00	0.00	4,319.00
13	10 - INCH	0.00	0.00	6,838.00
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS	0	0	0
18				
19	<u>RECOMMENDED COMMODITY RATES BY METER SIZE</u>			
20				
21	<u>3/8 - INCH</u>			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 3,000 GALLONS:	\$ 3.05	\$ 6.28	\$ 4.360
23	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 3,001 TO 9,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 8.830
24	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 9,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 9.993
25				
26	<u>3/4 - INCH</u>			
27	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 3,000 GALLONS:	\$ 3.85	\$ 9.28	\$ 4.850
28	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 3,001 TO 9,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 8.830
29	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 9,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 9.993
30				
31	<u>1 - INCH</u>			
32	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 22,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 8.830
33	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 22,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 9.993
34	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 22,000 GALLONS:	\$ -	\$ 13.41	\$ -
35				
36	<u>1 1/2 - INCH</u>			
37	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 34,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 8.830
38	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 34,000 GALLONS:	\$ 7.11	\$ 13.41	\$ 9.993
39	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 34,000 GALLONS:	\$ -	\$ -	\$ -
40				
41	<u>2 - INCH</u>			
42	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 45,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 8.830
43	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 45,001 TO 99,999,999,999,999,999 GALLONS:	\$ 7.11	\$ 13.41	\$ 9.993
44	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 99,999,999,999,999,999 GALLONS:	\$ -	\$ -	\$ -
45				
46	<u>3 - INCH</u>			
47	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 60,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 8.830
48	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 60,001 TO 99,999,999,999,999,999 GALLONS:	\$ 7.11	\$ 13.41	\$ 9.993
49	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 99,999,999,999,999,999 GALLONS:	\$ -	\$ -	\$ -
50				
51	<u>4 - INCH</u>			
52	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 90,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 8.830
53	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 90,001 TO 99,999,999,999,999,999 GALLONS:	\$ 7.11	\$ 13.41	\$ 9.993
54	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 99,999,999,999,999,999 GALLONS:	\$ -	\$ -	\$ -
55				
56	<u>6 - INCH</u>			
57	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 135,000 GALLONS:	\$ 5.91	\$ 11.27	\$ 8.830
58	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 135,001 TO 99,999,999,999,999,999 GALLONS:	\$ 7.11	\$ 13.41	\$ 9.993
59	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 99,999,999,999,999,999 GALLONS:	\$ -	\$ -	\$ -
60				
61	<u>8 - INCH</u>			
62	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 0 GALLONS:	\$ 5.91	\$ 10.82	\$ 8.830
63	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 0 GALLONS:	\$ 7.11	\$ 13.41	\$ 9.993
64	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 0 GALLONS:	\$ -	\$ -	\$ -
65				
66	<u>10 - INCH</u>			
67	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 0 GALLONS:	\$ 5.91	\$ 10.82	\$ 8.830
68	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 0 GALLONS:	\$ 7.11	\$ 13.41	\$ 9.993
69	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 0 GALLONS:	\$ -	\$ -	\$ -

Goodman Water Company
 Test Year Ended December 31, 2009

Docket No. W-02500A-10-0382

PROPOSED SETTLEMENT AGREEMENT TYPICAL BILL ANALYSIS
 Residential, Commercial and Misc. 5/8 X 3/4 - inch Meter - Year 1 of Phase-in

Average Number of Customers: 531

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,520	\$86.98	\$94.45	\$27.47	41.0%
Median Usage	4,500	\$80.96	\$82.06	\$22.00	36.1%

Proposed Settlement Agreements					
Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,520	\$86.98	\$94.45	\$27.47	41.0%
Median Usage	4,500	\$80.96	\$82.06	\$22.00	36.1%

Present & Proposed Rates (Without Taxes)
 Residential, Commercial and Misc. 5/8 X 3/4 - Inch Meter - Year 1 of Phase-in

Gallons of Consumption	Present Rates	Company Proposed Rates	% Increase	Proposed Settlement Agreement Rates	% Increase
0	\$42.20	\$52.20	23.7%	\$42.20	-3.0%
1,000	46.15	56.48	28.7%	46.15	-2.3%
2,000	50.10	64.78	29.3%	50.10	-1.8%
3,000	54.05	71.04	31.4%	54.05	-1.3%
4,000	58.00	77.32	33.3%	58.00	6.5%
4,500	60.98	82.96	36.1%	60.98	8.2%
5,000	63.91	88.59	38.8%	63.91	9.8%
5,520	86.98	94.45	41.0%	86.98	11.3%
6,000	69.82	98.86	43.0%	69.82	12.6%
7,000	75.73	111.13	46.7%	75.73	14.9%
8,000	81.64	122.40	48.9%	81.64	16.9%
9,000	87.55	133.67	52.7%	87.55	18.6%
10,000	94.66	147.08	55.4%	94.66	19.7%
11,000	101.77	160.49	57.7%	101.77	20.6%
12,000	108.88	173.90	59.7%	108.88	21.6%
13,000	115.99	187.31	61.5%	115.99	22.2%
14,000	123.10	200.72	63.1%	123.10	22.8%
15,000	130.21	214.13	64.4%	130.21	23.4%
16,000	137.32	227.54	65.7%	137.32	23.9%
17,000	144.43	240.95	66.8%	144.43	24.4%
18,000	151.54	254.36	67.9%	151.54	24.8%
19,000	158.65	267.77	68.8%	158.65	25.2%
20,000	165.76	281.18	69.6%	165.76	25.5%
25,000	201.31	348.23	73.0%	201.31	26.9%
30,000	236.86	415.28	75.3%	236.86	27.9%
35,000	272.41	482.33	77.1%	272.41	28.6%
40,000	307.96	549.38	78.4%	307.96	29.2%
45,000	343.51	616.43	79.5%	343.51	29.6%
50,000	379.06	683.48	80.3%	379.06	29.9%
75,000	558.81	1,018.73	83.0%	558.81	31.0%
100,000	734.56	1,353.98	84.3%	734.56	31.6%

Goodman Water Company
 Test Year Ended December 31, 2009

Docket No. W-02500A-10-0382

PROPOSED SETTLEMENT AGREEMENT TYPICAL BILL ANALYSIS
 Residential, Commercial and Misc. 5/8 X 3/4 - Inch Meter - Year 2 of Phase-In

Average Number of Customers: 531

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,520	\$68.98	\$94.45	\$27.47	41.0%
Median Usage	4,500	\$60.98	\$82.96	\$22.00	36.1%

Proposed Settlement Agreement					
Average Usage	5,520	\$68.98	\$78.49	\$11.51	17.2%
Median Usage	4,500	\$60.98	\$69.49	\$8.51	14.0%

Present & Proposed Rates (Without Taxes)
 Residential, Commercial and Misc. 5/8 X 3/4 - Inch Meter - Year 2 of Phase-In

Gallons of Consumption	Present Rates	Company Proposed Rates	% Increase	Proposed Settlement Agreement Rates	% Increase
0	\$42.20	\$52.20	23.7%	\$43.49	2.3%
1,000	45.95	58.48	27.9%	47.51	3.5%
2,000	49.80	64.76	29.8%	51.29	4.0%
3,000	53.85	71.04	31.9%	55.24	4.4%
4,000	57.80	77.32	33.8%	59.07	12.8%
4,500	60.98	82.96	36.1%	63.49	14.0%
5,000	63.91	88.59	38.6%	67.90	15.6%
5,520	66.98	94.45	41.0%	73.49	17.2%
6,000	69.82	99.86	43.0%	78.77	18.5%
7,000	75.73	111.13	46.7%	84.56	20.8%
8,000	81.64	122.40	49.9%	90.39	23.0%
9,000	87.55	133.67	52.7%	96.22	24.8%
10,000	94.86	147.08	55.4%	102.21	25.9%
11,000	101.77	160.49	57.7%	108.27	27.0%
12,000	108.88	173.90	59.7%	114.20	27.8%
13,000	115.99	187.31	61.6%	120.17	26.6%
14,000	123.10	200.72	63.1%	126.19	29.3%
15,000	130.21	214.13	64.4%	132.19	29.9%
16,000	137.32	227.54	65.7%	138.18	30.5%
17,000	144.43	240.95	66.8%	144.15	31.0%
18,000	151.54	254.36	67.9%	150.16	31.4%
19,000	158.65	267.77	68.8%	156.15	31.8%
20,000	165.76	281.18	69.6%	162.13	32.2%
25,000	201.31	348.23	73.0%	206.11	33.7%
30,000	236.86	415.28	75.3%	249.07	34.7%
35,000	272.41	482.33	77.1%	292.04	35.5%
40,000	307.96	549.38	78.4%	335.00	36.1%
45,000	343.51	616.43	79.5%	377.97	36.5%
50,000	379.06	683.48	80.9%	420.93	36.9%
75,000	556.81	1,018.73	83.0%	607.75	36.1%
100,000	734.56	1,353.98	84.3%	801.56	38.7%

Goodman Water Company
 Test Year Ended December 31, 2009

Docket No. W-02500A-10-0382

PROPOSED SETTLEMENT AGREEMENT TYPICAL BILL ANALYSIS
 Residential, Commercial and Misc. 5/8 X 3/4 - Inch Meter - Year 3 of Phase-In

Average Number of Customers: 531

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,520	\$66.98	\$94.45	\$27.47	41.0%
Median Usage	4,500	\$80.96	\$82.96	\$2.00	36.1%

Proposed Settlement Agreement					
Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,520	\$66.98	\$82.37	\$15.39	23.0%
Median Usage	4,500	\$80.96	\$72.95	\$11.01	19.5%

Present & Proposed Rates (Without Taxes)
 Residential, Commercial and Misc. 5/8 X 3/4 - Inch Meter - Year 3 of Phase-In

Gallons of Consumption	Present Rates	Company Proposed Rates	% Increase	Proposed Settlement Agreement Rates	% Increase
0	\$42.20	\$52.20	23.7%	\$45.25	7.2%
1,000	45.95	58.48	27.3%	49.91	8.4%
2,000	49.90	64.76	29.8%	54.37	9.0%
3,000	53.85	71.04	31.9%	58.83	9.4%
4,000	57.80	77.32	33.8%	63.29	18.0%
4,500	60.96	82.96	36.1%	67.75	19.6%
5,000	63.91	88.59	38.6%	72.21	21.3%
5,520	66.98	94.45	41.0%	76.67	23.0%
6,000	69.82	99.86	43.0%	81.13	24.4%
7,000	76.78	111.13	46.7%	85.59	28.9%
8,000	81.84	122.40	49.9%	90.05	29.1%
9,000	87.55	133.87	52.7%	94.51	31.0%
10,000	94.66	147.08	55.4%	98.97	32.4%
11,000	101.77	160.49	57.7%	103.43	33.6%
12,000	108.88	173.80	59.7%	107.89	34.6%
13,000	115.99	187.31	61.5%	112.35	35.5%
14,000	123.10	200.72	63.1%	116.81	36.3%
15,000	130.21	214.13	64.4%	121.27	37.0%
16,000	137.32	227.54	65.7%	125.73	37.6%
17,000	144.43	240.95	66.8%	130.19	38.1%
18,000	151.54	254.36	67.9%	134.65	38.7%
19,000	158.65	267.77	68.8%	139.11	39.1%
20,000	165.76	281.18	69.6%	143.57	39.6%
25,000	201.31	348.23	73.0%	173.03	41.2%
30,000	236.86	415.28	75.3%	202.49	42.4%
35,000	272.41	482.33	77.1%	231.95	43.3%
40,000	307.96	549.38	78.4%	261.41	44.0%
45,000	343.51	616.43	78.5%	290.87	44.5%
50,000	379.06	683.48	80.3%	320.33	44.9%
75,000	556.81	1,018.73	83.0%	454.79	46.2%
100,000	734.56	1,353.98	84.3%	589.25	46.9%

Goodman Water Company
 Test Year Ended December 31, 2008

Docket No. W-02500A-10-0382

PROPOSED SETTLEMENT AGREEMENT TYPICAL BILL ANALYSIS
 Residential, Commercial and Misc. 3/4 - Inch Meter - Year 1 of Phase-In

Average Number of Customers: 86

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,028	\$91.09	\$126.26	\$35.19	38.6%
Median Usage	4,500	\$82.06	\$109.06	\$27.00	32.9%

Proposed Settlement Agreement					
Average Usage	6,028	\$91.09	\$99.30	\$8.21	9.0%
Median Usage	4,500	\$82.06	\$88.25	\$6.19	7.4%

Present & Proposed Rates (Without Taxes)
 Residential, Commercial and Misc. 3/4 - Inch Meter - Year 1 of Phase-In

Gallons of Consumption	Present Rates	Company Proposed Rates	% Increase	Proposed Settlement Rates	% Increase
0	\$63.30	\$78.30	23.7%	\$61.41	-3.0%
1,000	67.16	84.58	26.0%	65.56	-2.4%
2,000	71.20	90.86	27.8%	69.69	-2.1%
3,000	75.15	97.14	29.3%	73.83	-1.8%
4,000	79.10	103.42	30.7%	77.97	4.0%
4,500	82.06	109.06	32.9%	81.95	5.4%
5,000	85.01	114.69	34.9%	85.95	6.8%
6,000	90.92	125.96	38.5%	90.06	9.0%
6,028	91.09	126.26	38.6%	90.30	9.0%
7,000	96.83	137.23	41.7%	94.17	11.0%
8,000	102.74	148.50	44.5%	98.38	12.8%
9,000	108.85	159.77	47.1%	102.26	14.4%
10,000	115.76	173.18	49.8%	106.77	16.8%
11,000	122.87	186.59	51.9%	111.25	16.8%
12,000	129.98	200.00	53.9%	115.73	17.6%
13,000	137.09	213.41	55.7%	120.21	18.3%
14,000	144.20	226.82	57.3%	124.70	19.1%
15,000	151.31	240.23	58.6%	129.18	19.7%
16,000	158.42	253.64	60.1%	133.66	20.3%
17,000	165.53	267.05	61.6%	138.14	20.9%
18,000	172.64	280.46	62.5%	142.62	21.4%
19,000	179.75	293.87	63.5%	147.10	21.9%
20,000	186.86	307.28	64.4%	151.58	22.3%
25,000	222.41	374.33	68.3%	175.99	24.1%
30,000	257.96	441.38	71.1%	200.39	25.4%
35,000	293.51	508.43	73.2%	224.80	26.3%
40,000	329.06	575.48	74.9%	249.20	27.1%
45,000	364.61	642.53	76.2%	273.61	27.7%
50,000	400.16	709.58	77.3%	298.01	28.2%
75,000	577.91	1,044.83	80.8%	450.00	29.8%
100,000	755.66	1,380.08	82.6%	602.00	30.8%

Goodman Water Company
 Test Year Ended December 31, 2009

Docket No. W-02500A-10-0382

PROPOSED SETTLEMENT AGREEMENT TYPICAL BILL ANALYSIS
Residential, Commercial and Misc. 3/4 - Inch Meter - Year 2 of Phase-In

Average Number of Customers: 86

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,028	\$91.09	\$126.28	\$35.19	38.6%
Median Usage	4,500	\$82.06	\$109.06	\$27.00	32.9%

Proposed Settlement Agreement					
Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,028	\$91.09	\$104.58	\$13.49	14.8%
Median Usage	4,500	\$82.06	\$91.09	\$9.03	11.0%

Present & Proposed Rates (Without Taxes)
Residential, Commercial and Misc. 3/4 - Inch Meter - Year 2 of Phase-In

Gallons of Consumption	Present Rates	Company Proposed Rates	% Increase	Proposed Settlement Agreement Rates	% Increase
0	\$63.30	\$78.30	23.7%	\$71.79	2.4%
1,000	67.15	84.58	26.0%	73.49	3.0%
2,000	71.20	90.88	27.6%	75.49	3.2%
3,000	76.15	97.14	28.3%	77.84	3.6%
4,000	79.10	103.42	30.7%	80.87	3.6%
4,500	82.06	109.06	32.9%	91.09	11.0%
5,000	85.01	114.89	34.9%	95.50	12.3%
6,000	90.92	125.96	38.5%	104.33	14.7%
6,028	91.09	126.28	38.6%	104.58	14.8%
7,000	96.83	137.23	41.7%	113.18	16.9%
8,000	102.74	148.50	44.5%	121.69	18.7%
9,000	108.65	159.77	47.1%	130.62	20.4%
10,000	115.76	173.18	49.8%	140.31	21.6%
11,000	122.87	186.59	51.9%	150.81	22.7%
12,000	129.98	200.00	53.9%	160.80	23.7%
13,000	137.09	213.41	55.7%	170.79	24.6%
14,000	144.20	226.82	57.3%	180.78	25.4%
15,000	151.31	240.23	58.8%	190.78	26.1%
16,000	158.42	253.64	60.1%	200.77	26.7%
17,000	165.53	267.05	61.3%	210.76	27.3%
18,000	172.64	280.46	62.5%	220.76	27.9%
19,000	179.75	293.87	63.5%	230.75	28.4%
20,000	186.86	307.28	64.4%	240.74	28.8%
25,000	222.41	374.33	68.3%	290.71	30.7%
30,000	257.96	441.38	71.1%	340.67	32.1%
35,000	293.51	508.43	73.2%	390.64	33.1%
40,000	329.06	575.48	74.9%	440.60	33.9%
45,000	364.61	642.53	76.2%	490.57	34.5%
50,000	400.16	709.58	77.3%	540.53	35.1%
75,000	577.91	1,044.83	80.8%	700.36	36.8%
100,000	755.66	1,380.08	82.6%	940.18	37.7%

Goodman Water Company
 Test Year Ended December 31, 2009

Docket No. W-02500A-10-0382

PROPOSED SETTLEMENT AGREEMENT TYPICAL BILL ANALYSIS
 Residential, Commercial and Misc. 3/4 - Inch Meter - Year 3 of Phase-In

Average Number of Customers: 88

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	8,028	\$91.09	\$125.28	\$35.19	38.6%
Median Usage	4,500	\$82.06	\$109.06	\$27.00	32.9%

Proposed Settlement Agreement					
Average Usage	8,028	\$91.09	\$109.72	\$18.63	20.5%
Median Usage	4,500	\$82.06	\$95.51	\$13.46	16.4%

Present & Proposed Rates (Without Taxes)
 Residential, Commercial and Misc. 3/4 - Inch Meter - Year 3 of Phase-In

Gallons of Consumption	Present Rates	Company Proposed Rates	% Increase	Proposed Settlement Agreement Rates	% Increase
0	\$63.30	\$78.30	23.7%	\$77.85	7.2%
1,000	67.15	84.58	26.0%	82.44	7.9%
2,000	71.20	90.86	27.6%	87.00	8.1%
3,000	75.15	97.14	29.3%	91.56	8.5%
4,000	79.10	103.42	30.7%	96.12	14.9%
4,500	82.06	109.08	32.9%	100.68	16.4%
5,000	85.01	114.69	34.9%	105.24	17.8%
6,000	90.92	125.96	38.5%	109.80	20.4%
6,028	91.09	126.28	38.6%	109.72	20.5%
7,000	96.83	137.23	41.7%	114.36	22.6%
8,000	102.74	148.50	44.5%	119.00	24.6%
9,000	108.65	159.77	47.1%	123.64	26.4%
10,000	115.76	173.18	48.8%	128.28	27.8%
11,000	122.87	186.59	51.9%	132.92	29.0%
12,000	129.98	200.00	53.9%	137.56	30.1%
13,000	137.09	213.41	55.7%	142.20	31.1%
14,000	144.20	226.82	57.3%	146.84	32.0%
15,000	151.31	240.23	58.8%	151.48	32.8%
16,000	158.42	253.64	60.1%	156.12	33.5%
17,000	165.53	267.05	61.3%	160.76	34.2%
18,000	172.64	280.46	62.5%	165.40	34.8%
19,000	179.75	293.87	63.5%	170.04	35.4%
20,000	186.86	307.28	64.4%	174.68	35.9%
25,000	222.41	374.33	68.8%	206.96	38.0%
30,000	257.96	441.38	71.1%	239.24	39.5%
35,000	293.51	508.43	73.2%	271.52	40.7%
40,000	329.06	575.48	74.9%	303.80	41.6%
45,000	364.61	642.53	76.2%	336.08	42.3%
50,000	400.16	709.58	77.3%	368.36	42.9%
75,000	577.61	1,044.63	80.8%	535.96	44.8%
100,000	755.66	1,380.08	82.6%	703.56	45.8%

RUCO'S RATE BASE ADJUSTMENT NO. 2
 WATER PLANT EXCESS CAPACITY ADJUSTMENT

LINE NO.	ACCT. NO.	ACCOUNT NAME	(4) PER PRIOR DECISION NO. 89404 COMPANY TOTAL PLANT BALANCE	(5) PER PRIOR DECISION NO. 89404 COMPANY ACCUM. DEPRE. BALANCE	(6) SINCE DECISION NO. 89404 COMPANY PLANT ADDITIONS	(7) ADDITIONAL ACCUMULATED DEPRECIATION	(8) RUCO PLANT USED & USEFUL FACTOR	TOTAL WATER PLANT PER RUCO	TOTAL ACCUM. DEPRE. PER RUCO
1	301	Organization Cost	104,818		22,578		43.87%	\$ 114,837	\$ -
2	302	Franchise Cost					100.00%		
3	303	Land and Land Rights			484,859	(0,279)	43.87%	223,873	(4,864)
4	304	Buildings and Improvements	3,726	(300)	172,722		100.00%	83,094	
5	305	Conduits and Impounding Res.					100.00%		
6	306	Laboratory and Other Buildings					100.00%		
7	307	Wells, Pumps, and Other Intakes	388,091	(17,923)		(40,488)	100.00%	388,091	(67,424)
8	308	Transmission Lines and Tunnels					100.00%		
9	309	Supply Main					100.00%		
10	310	Power Generation Equipment	689,093	(35,041)	281,059	(300,000)	43.87%	619,821	(174,834)
11	311	Electric Powering Equipment	1,104	(345)	4,844	(1,822)	43.87%	13,286	(1,178)
12	320	Water Treatment Plant					100.00%		
13	321	Water Treatment Plant					100.00%		
14	322-2	Chemical Solution Facilities					100.00%		
15	330	Dist. Reservoirs & Storage	294,407	(14,480)	542,431	(40,209)	84.15%	642,435	(46,813)
16	330-1	Storage Tanks					100.00%		
17	330-2	Pressure Tanks					100.00%		
18	331	Tanks and Dist. Mains	628,873	(26,324)	942,048	(100,735)	43.87%	1,077,436	(70,488)
19	332	Trunk and Dist. Mains	129,374	(4,878)	257,672	(30,296)	100.00%	380,948	(40,817)
20	333	Services	87,497	(2,310)	283,768	(44,799)	100.00%	84,215	(17,084)
21	334	Mains	69,655	(2,000)	114,782	(10,394)	100.00%	107,737	(12,064)
22	335	Hydrants					100.00%		
23	339	Backflow Prevention Devices			187,362	(35,247)	43.87%	85,065	(19,371)
24	339	Other Plant and Misc. Equip.					100.00%		
25	340	Office Furniture and Fixtures					100.00%		
26	341	Occupiers and Software					100.00%		
27	342	Transportation Equipment					100.00%		
28	343	Tools and Work Equipment					100.00%		
29	344	Laboratory Equipment					100.00%		
30	345	Power Operated Equipment					100.00%		
31	348	Construction Equipment					100.00%		
32	347	Miscellaneous Equipment					100.00%		
33	348	Other Tangible Plant					100.00%		
34	348	Rounding					100.00%		
35		COMPANY TOTAL PLANT & ACCUM. DEPRE.	\$ 2,363,115	\$ (103,509)	\$ 3,097,443	\$ (822,805)		\$ 2,583,161	\$ (461,630)
36		RUCO Excess Capacity Plant Adjustment							
37		RUCO Excess Capacity Accumulated Depreciation Adjustment							
38		RUCO's Used & Useful Factor (Use RUCO Exhibit X)							
39		RUCO's Used & Useful Factor for Distribution Reservoirs							

\$ (1,203,540)
 \$ 269,593

43.87%
 84.15%

Reference:
 Column (8) - Company B & Schedule and RUCO Schedule TCC-6(2009)
 Column (9) - Company B & Schedule
 Column (10) - Company B & Schedule - Plant Additions less Reservoirs
 Column (11) - Company B & Schedule - Accumulated Depreciation
 Column (12) - RUCO's Excess Capacity Factor (L-38) Above
 Column (13) - Column (A) + Column (11)
 Column (14) - Column (8) + Column (11)