



ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

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Chairman
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Commissioner
PAUL NEWMAN,
Commissioner
BRENDA BURNS,
Commissioner

Arizona Corporation Commission

DOCKETED

JUL 27 2012

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IN THE MATTER OF THE APPLICATION)
OF VAIL WATER COMPANY FOR A)
DETERMINATION OF THE FAIR VALUE)
OF ITS UTILITY PLANT AND PROPERTY)
AND FOR AN INCREASE IN ITS RATES)
AND CHARGES BASED THEREON)

DOCKET NO. W-01651B-12-0339
APPLICATION

Vail Water Company ("Vail"), an Arizona public service corporation ("VWC" or "Company"), through this filing applies in accordance with A.R.S. § 40-250 and the Commission's Rule R14-2-103 for an order establishing the fair value of its plant and property used for the provision of service and approving permanent rates and charges. In support of its Application, the Company states the following:

1. VWC is a public service corporation providing water utility service in Pima County, Arizona pursuant to a Certificate of Convenience and Necessity granted by the Arizona Corporation Commission ("Commission"). During the test year, VWC served approximately 3900 water service customers. VWC's office is located at 1010 N. Finance Center Drive, Suite 200, Tucson, AZ 85710, and its phone number is 520-571-1958.
2. Mr. Christopher "Kip" Volpe is the Company's Vice President and the primary management contact in relation to this Application.

1 3. The individuals responsible for this Application are Mr. Volpe and Mr.
2 Thomas Bourassa. Mr. Volpe's mailing address is 1010 N. Finance Center Drive, Suite
3 200, Tucson, AZ 85710, and his email address is kvolpe@estesco.net. Mr. Bourassa's
4 mailing address is 139 W. Wood Drive, Phoenix, Arizona 85029, and his email address is
5 tjb114@cox.net.

6 4. All discovery and data requests concerning this Application should be
7 directed by electronic mail to Mr. Volpe (see above) and Mr. Bourassa (see above), as well
8 as counsel for the Company at mhallam@lrlaw.com and mbingham@lrlaw.com.

9 5. This Application is filed in compliance with a Settlement Agreement
10 between the Company and the Commission Staff approved by the Commission in Decision
11 No. 73218.

12 6. The Commission approved the Company's present rates and charges for
13 water service in Decision No. 62450 (Apr. 14, 2000). Except for the suspension of the
14 Company's CAP surcharge as approved in Decision No. 73218, there have been no
15 changes to the Company's rate and charges since Decision No. 62450.

16 7. The Company's operating expenses have increased since the last test year
17 and the Company has added more than \$18 million of new plant. Through this filing, the
18 Company is requesting modifications to its rates and charges to allow it to earn a
19 reasonable rate of return. The Company has agreed to use its original cost rate base as its
20 fair value rate base in this proceeding to reduce disputes and minimize rate case expense.

21 8. As part of this Application, the Company is submitting schedules in
22 compliance with AAC R14-2-103 for Class "B" utilities utilizing a test year ending
23 December 31, 2011. The Company is proposing that the Commission utilize this test year
24 with certain adjustments discussed in further detail in its testimony.

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1 9. During the test year, the Company's adjusted gross revenue were
2 \$2,334,747. The adjusted operating income was \$312,107. The adjusted fair value rate
3 base was \$3,312,774.

4 10. Through this Application, the Company is requesting an increase in revenues
5 of \$44,144 or 1.89 percent. The rates and charges proposed in this Application will
6 produce a rate of return of 10.4 percent.

7 11. Submitted as **Attachment 1** to this Application is the Direct Testimony of
8 Christopher Volpe, which provides an overview of the Company, the purposes of the
9 Company's CAP surcharge, and the status of the CAP project; and the Direct Testimony
10 of Thomas Bourassa, in two volumes that provide an overview of the Company's revenue
11 requirement, including schedules, development of rate base and income statement
12 adjustments, cost of capital (including the D schedules) and related issues, proposed rate
13 design (including the applicable schedules), the impact of the proposed rates on customer
14 bills, and the Company's proposed CAP surcharge.

15 12. Submitted as **Attachment 2** to this Application are the ADEQ MAP invoice,
16 the Company's water plant descriptions and a water use data sheet for the calendar year
17 ended December 31, 2011.

18 13. **CAP Surcharge**

19 As part of this Application, the Company is proposing a CAP surcharge mechanism
20 to recover costs of direct delivery of CAP water to the Company's service territory. In
21 Decision No. 73218, the Commission approved a Settlement Agreement between
22 Commission Staff and the Company in which the parties agreed that the Company would
23 seek this surcharge as part of this rate case filing. The Company is seeking approval of the
24 CAP surcharge mechanism to avoid another costly rate case in order to receive recognition
25 of the cost to receive CAP water directly once the CAP project is complete. Under the
26 Company's proposal, the CAP-related costs that would be part of the surcharge would

1 include depreciation on the CAP project investment, CAP M&I delivery charges, wheeling
2 fees from Tucson Water, a return on net investment, income taxes, and other CAP-related
3 costs and credits. As proposed, the Company would make a separate filing for
4 Commission consideration before the surcharge becomes effective. The amount of the
5 surcharge will be determined and submitted for approval by the Commission once the
6 planned CAP project pipeline and related equipment is in service and all CAP-related cost
7 components are known and measurable.

8 **CONCLUSION**

9 The Company respectfully requests that the Commission issue an order consistent
10 with the requests set forth in this Application, as more fully set forth in the testimony,
11 exhibits and schedules that accompany this Application.

12 Respectfully submitted this 27th day of July, 2012.

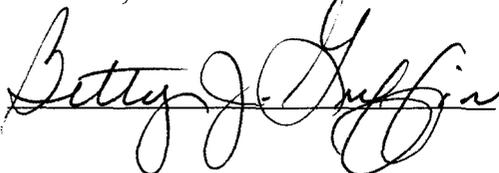
13 LEWIS AND ROCA

14 

15 _____
16 Michael McNulty
17 Michael Hallam
18 Lewis and Roca, LLP
19 40 N. Central Avenue
20 Phoenix, Arizona 85004
21 Attorneys for the Vail Water Company

22 ORIGINAL and thirteen (13) copies
23 of the foregoing filed this 27th day of
24 July, 2012 with:

25 Arizona Corporation Commission
26 Docket Control – Utilities Division
1200 W. Washington Street
Phoenix, Arizona 85007



Vail Water Company

Application For A Determination Of The Fair Of Its Utility
Plant And Property And For An Increase In Its Rates And
Charges Based Thereon

Attachment 1

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF
VAIL WATER COMPANY FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANT AND PROPERTY AND
FOR AN INCREASE IN ITS RATES AND
CHARGES BASED THEREON

DOCKET NO. W-01651B-12-_____

**DIRECT TESTIMONY OF
CHRISTOPHER VOLPE
ON BEHALF OF VAIL WATER COMPANY
JULY 27, 2012**

**DIRECT TESTIMONY OF
CHRISTOPHER VOLPE
ON BEHALF OF
VAIL WATER COMPANY
JULY 27, 2012**

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1

2 **INTRODUCTION AND QUALIFICATIONS**

3 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE**
4 **NUMBER.**

5 A. My name is Christopher (“Kip”) Volpe. My business address is 1010 N. Finance Center
6 Drive, Suite 200, Tucson, AZ 85710, and my business phone number is 520-571-1958,
7 ext. 105.

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

9 A. I am employed by TEM Corp., a management company that performs management
10 services for Vail Water Company (“VWC” or the “Company”) under a service contract.

11 **Q. PLEASE DESCRIBE YOUR PRIMARY RESPONSIBILITIES FOR VAIL.**

12 A. I am a Vice President of the Company and oversee the administration and operations of
13 Vail.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. The purpose of my testimony is to provide an overview of Vail Water Company and its
16 system and to provide background relating to the Company’s request for a CAP
17 surcharge.

18 **I BACKGROUND INFORMATION**

19 **Q. PLEASE PROVIDE AN OVERVIEW OF VAIL WATER COMPANY AND ITS**
20 **SYSTEM.**

1 A. VWC is a water utility certificated by the Arizona Corporation Commission
2 (“Commission”) to provide service southeast of the City of Tucson in Pima County,
3 Arizona. The Company currently has approximately 3900 water service customers.
4 VWC’s system is comprised of four (4) wells and seven (7) storage tanks. The system
5 also utilizes a chlorination system. The Company has added more than \$18 million in
6 plant since the Company’s last rate case. A more detailed description of the utility plant
7 is set forth in Attachment 2 to the Company’s Application.

8 **Q. WHY IS VAIL FILING A RATE CASE AT THIS TIME?**

9 A. In Decision No. 73218, the Commission approved a Settlement Agreement between
10 VWC and Commission Staff, which, among other items, required VWC to file a rate case
11 on or before July 31, 2012, using a December 31, 2011 test year. The Commission
12 approved Vail’s last rate increase in April 2000 in Decision No. 62450.

13 **Q. WHAT IS THE COMPANY’S COMPLIANCE STATUS?**

14 A. To the best of my knowledge, the Company is currently is compliance with all rules and
15 requirements of PDEQ, ADEQ, ADWR and the Commission.

16 **II SURCHARGE REQUEST**

17 **Q. THE COMPANY IS REQUESTING A SURCHARGE TO ACCOMPLISH**
18 **DIRECT USE OF CAP WATER IN ITS SERVICE TERRITORY, CORRECT?**

19 A. Yes, as part of the Settlement Agreement that the Commission approved in Decision No.
20 73218, VWC and Commission Staff agreed that VWC would propose in this rate case a
21 surcharge to pay for certain costs relating to that direct use:

22
23 As part of the Rate Case, Vail will propose a surcharge to address costs relating to the
24 CAP project in an effort to avoid the need for the filing of another rate case immediately
25 after the conclusion of the Rate Case. Staff generally supports the concept of such a
26 surcharge for amounts to be paid Tucson Water under a Wheeling Agreement, M&I and
27 delivery charges, as well as other CAP-related cost components; however, Staff’s final

1 recommendation on such a surcharge is subject to Staff's examination of the actual
2 surcharge application filed by Vail and Vail's financial information as part of the Rate
3 Case.

4 The details of the proposed surcharge are set forth in Mr. Bourassa's Direct Testimony.

5 **Q. WHAT IS THE CURRENT STATUS OF THAT PROJECT?**

6 A. As of this date, the engineering design proposal for the CAP pipeline has been bid, and
7 Westland Resources, Inc. has been selected as the engineer. Research of necessary
8 easements and rights of way has been identified and the Company has contacted property
9 owners to obtain the necessary easements.

10 Progress with Tucson Water continues as it attempts to determine costs for the proposed
11 Wheeling Agreement. A target date of September 2012 has been set to review the
12 proposed Wheeling Agreement costs. VWC has requested a contract template to be
13 forwarded for its review.

14 **Q. WHAT ARE THE BENEFITS OF DIRECT USE IN VAIL'S SERVICE**
15 **TERRITORY?**

16 A. As confirmed in both Decision No. 62450 and 73218, direct use of CAP water in VWC's
17 service territory is the preferred method. Direct use of VWC's CAP water will benefit its
18 customers in several ways. First, it will secure a renewable supply of potable water,
19 fortifying its assured water supply. Direct access to the CAP water will also enhance
20 Vail's ability to provide an uninterrupted supply from a source with similar quality to
21 groundwater. In addition to these service benefits, the direct use of CAP water should be
22 less expensive for Vail's customers in the long term by maintaining compliance with the
23 management plan of the Tucson Active Management Area ("AMA") by mitigating
24 VWC's replenishment obligations instead of purchasing more costly CAGR credits.

1 The project will also relieve pressure on aquifers in the Tucson AMA and benefit the
2 entire state by firming Arizona's supply of Colorado River water.

3 **III CONCLUSION**

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 **A. Yes.**

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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
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IN THE MATTER OF THE APPLICATION
OF VAIL WATER COMPANY FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANT AND
PROPERTY AND FOR AN INCREASE IN
ITS RATES AND CHARGES BASED
THEREON.

DOCKET NO: W-01651B-12-_____

**DIRECT TESTIMONY OF
THOMAS J. BOURASSA
(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**

July 27, 2012

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. WHAT IS YOUR PROFESSION AND BACKGROUND?**

6 A. I am a Certified Public Accountant and am self-employed, providing consulting
7 services to utility companies as well as general accounting services. I have a B.S.
8 in Chemistry and Accounting from Northern Arizona University (1980) and an
9 M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

10 **Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND**
11 **REGULATORY EXPERIENCE?**

12 A. Yes. Prior to becoming a private consultant, I was employed by High-Tech
13 Institute, Inc., and served as controller and chief financial officer. Prior to working
14 for High-Tech Institute, I worked as a division controller for the Apollo Group,
15 Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode,
16 CPAs. In that position, I prepared compilations and other write-up work for water
17 and wastewater utilities, as well as tax returns.

18 In my private practice, I have prepared and/or assisted in the preparation of
19 several water and wastewater utility rate applications before the Arizona
20 Corporation Commission ("Commission").

21 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

22 A. I am testifying in this proceeding on behalf of the Vail Water Company ("VWC"
23 or the "Company"). VWC is seeking increases in its rates and charges for water
24 and service in its certificated service area.

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1 **II. OVERVIEW OF THE COMPANY'S REQUEST FOR RATE RELIEF**

2 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

3 A. I will testify in support of the Company's proposed adjustments to its rates and
4 charges for water utility service. I am sponsoring the direct schedules, which are
5 filed concurrently herewith in support of the Company's application. I was
6 responsible for the preparation of these schedules based on my investigation and
7 review of VWC's relevant books and records.

8 For the convenience of the Commission and the parties, the two portions of
9 my direct testimony, each with the relevant schedules attached, are being filed
10 separately in this case. In this volume of my direct testimony, I address the rate
11 base, income statement (revenue and operating expenses), required increase in
12 revenue, and rate design and proposed rates and charges for service. Schedules A
13 through C, E-F, G and H, are attached to this portion of my direct testimony. The
14 Company has not prepared a cost of service study (G schedules). The Company
15 did not feel it necessary to prepare a cost of service study and consequently the G
16 schedules are omitted.

17 **Q. THANK YOU. PLEASE CONTINUE.**

18 A. In the second volume of my direct testimony, to which the D schedules are
19 attached, I address cost of capital. VWC is requesting a return on common equity
20 of 10.4 percent. As shown on Schedule D-1, the Company's pro forma
21 consolidated capital structure for ratemaking purposes consists of 100 percent
22 equity and 0 percent debt. The weighted average cost of capital is 10.4 percent.

23 **Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.**

24 A. The test year used by VWC is the 12-month period ending December 31, 2011.
25 The Company is requesting a 10.4 percent return on its fair value rate base
26 ("FVRB"). The Company has also proposed certain pro forma adjustments to take

1 into account known and measurable changes to rate base, expenses and revenues.
2 These pro forma adjustments are consistent with normal ratemaking and are
3 contemplated by the Commission's rules and regulations governing rate
4 applications. *See* R14-2-103. These adjustments are necessary to obtain a normal
5 or realistic relationship between revenues, expenses and rate base on a going-
6 forward basis.

7 The Company's fair value rate base is \$3,312,774. The increase in revenues
8 to provide for recovery of operating expenses and a 10.4 percent return on rate
9 base is approximately \$44,114, an increase of approximately 1.89 percent over the
10 adjusted and annualized test year revenues.

11 **Q. WHY IS THE COMPANY FILING FOR RATE INCREASES AT THIS**
12 **TIME?**

13 A. The Company is filing a rate case at this time to meet its obligation pursuant to a
14 Commission approved Settlement Agreement ("Agreement") between the
15 Commission Staff and the Company. *See* Decision 73218. Per the Agreement, the
16 Company is required to file a rate case using a test year ended December 31, 2011
17 on or before July 31, 2012.¹

18 There are a few notable items the Company is proposing as part of this rate
19 case. First, the Company does not seek the re-instatement of its CAP recovery fee.
20 Second, the Company is seeking the approval of a CAP surcharge mechanism
21 designed to recover the CAP-related costs for the delivery of CAP water to its
22 service territory. Third, the Company proposes to continue to collect its CAP
23 hook-up fee once the CAP surcharge has been implemented.

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¹ Decision 73218 at 13.

1 **III. VWC'S SCHEDULES**

2 **A. Summary of A, E and F Schedules.**

3 **Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S SCHEDULES.**
4 **PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F.**

5 A. The A-1 Schedule is a summary of the rate base, operating income, current
6 operating margin, required operating margin, operating income deficiency, and the
7 increase in gross revenue. A 10.4 percent return on FVRB is requested. The
8 increase in the revenue requirement is \$44,114. Revenues at present and proposed
9 and customer classifications are also shown on this schedule.

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

12 Schedule A-3 contains the Company's capital structure for the test year and
13 the two prior years.

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

17 Schedule A-5 is the summary of the Company's changes in financial
18 position (cash flow) for the prior two years, the test year at present rates, and a
19 projected year at present and proposed rates.

20 The E Schedules are based on the Company's actual operating results, as
21 reported by the Company in annual reports filed with the Commission. The E-1
22 Schedule contains the comparative balance sheet data for the years 2009, 2010, and
23 2011 ended on December 31.

24 Schedule E-2, page 1, contains the income statement for the years 2009,
25 2010, and 2011 ended on December 31.

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Schedule E-3 contains the statements of changes in the Company's financial position for the test year and the two prior years.

Schedule E-4 provides the changes in shareholder equity.

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

Schedule E-7 contains operating statistics for the years ended 2009, 2010, and 2011 ended on December 31.

Schedule E-8 contains the taxes charged to operations.

The accountant's notes to the financial statements and the financial assumptions used in preparing the rate filing schedules are shown on Schedules E-9 and F-4, respectively, in accordance with the Commission's standard filing requirements. The Company does not prepare audited financial statements.

Schedule F-1 contains the results of operations at the present rates (actual and adjusted), and at proposed rates.

Schedule F-2 contains the summary of changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

Schedule F-3 shows the Company's projected construction requirements for 2012, 2013, 2014.

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

B. Rate Base (B Schedules).

Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE LABELED AS THE B SCHEDULES?

1 A. Yes. I will start with Schedule B-5, which is the working capital allowance. I used
2 the "formula method" of computing the working capital allowance to reduce costs.
3 However, the Company is not requesting a working capital allowance.

4 **Q. WHY DIDN'T THE COMPANY PREPARE A LEAD-LAG STUDY AND**
5 **USE THE RESULTS OF THAT STUDY TO COMPUTE WORKING**
6 **CAPITAL?**

7 A. Because the costs to prepare a lead-lag study outweigh the benefits. By way of
8 illustration, in a recent case for Chaparral Water Company (W-02113A-07-0551),
9 the Residential Utility Consumer Office prepared a lead lag study and computed a
10 negative \$111,000 of cash working capital. VWC is about one third the size in
11 terms of the level of expenses. So, let's assume for argument's sake that a lead-lag
12 study would produce negative working capital of \$37,000. If the negative \$37,000
13 were included in rate base, the impact on the revenue requirement would be a
14 negative \$5,233 (-\$37,000 times 10.4 percent return times the tax factor of 1.36).
15 A formal lead/lag study may not produce a negative working capital amount.
16 Further, I would argue for the inclusion of rate case expense in prepaid expenses or
17 alternatively using rate case expense in the computation of lead/lag days in the
18 study, both approaches would lead to a much less negative or even positive
19 working capital.

20 In the meantime, the Company would have incurred \$10,000 just to have the
21 study prepared. Plus, the Company could easily incur more than \$15,000
22 defending its working capital calculation, all of which increases rate case expense.

23 **Q. THANK YOU. PLEASE CONTINUE.**

24 A. The Company did not file Schedules B-3 and B-4. To limit issues in dispute and
25 reduce rate case expense, VWC is requesting that its original cost rate base
26 ("OCRB") be used as its FVRB.

1 **Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**
2 **THE COMPANY'S ORIGINAL COST RATE BASE?**

3 A. Yes. Schedule B-2 shows adjustments to the Company's OCRB cost rate base
4 proposed by the Company. Schedule B-2, pages 2 through 5, provides the
5 supporting information. These adjustments are, in summary:

6 B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-
7 in-service. There is one plant-in-service adjustment included in Adjustment 1.
8 This is shown on Schedule B-2, page 3, and is labeled as Adjustment "A".

9 Adjustment A of B-2 adjustment number 1 adjusts plant-in-service to reflect
10 a conforming adjustment to the prior rate case plant-in-service balance.

11 **Q. PLEASE CONTINUE.**

12 A. Adjustment B-2 shown on Schedule B-2, page 2, adjusts accumulated depreciation.
13 The details of the accumulated depreciation adjustment are shown a Schedule B-2,
14 page 4. There is one plant-in-service adjustment included in Adjustment 2. This is
15 shown on Schedule B-2, page 4, and is labeled as Adjustments "A".

16 Adjustment A of B-2 adjustment number 2 adjusts accumulated depreciation
17 reflects the re-computed amounts of accumulated depreciation per the Company's
18 B-2 plant schedule.

19 **Q. DO THE PLANT IN SERVICE AND ACCUMULATED DEPRECIATION**
20 **BALANCES SHOWN ON B-2 REFLECT THE LAST COMMISSION RATE**
21 **ORDER?**

22 A. Yes. They also reflect the depreciation rates used for depreciation expense in the
23 last rate case.

24 **Q. THE ADJUSTMENT TO ACCUMULATED DEPRECIATION IS OVER**
25 **\$2.7 MILLION. WHY IS THE ADJUSTMENT SO LARGE?**

26 A. Two reasons. First, the Company used incorrect depreciation rates since the last

1 test year. Second, the Company did not use half-year convention for computing
2 depreciation. Half-year convention treats plant acquired during the year as being
3 acquired exactly in the middle of the year. This means that only half of the full-
4 year depreciation is taken in the first year. Together, these two errors have resulted
5 in a greatly overstated accumulated depreciation balance through the end of the test
6 year.

7 **Q. PLEASE CONTINUE.**

8 A. Adjustment B-2 shown on Schedule B-2, page 5, adjusts the accumulated
9 amortization balance of contributions-in-aid of construction ("CIAC") to the
10 recomputed amount reflecting the annual composite depreciation rate for plant-in-
11 service. Computations of amortization since the last rate case take into account
12 unexpended hook-up fees for each year and the gross CIAC balance at the end of
13 the test year reflects an adjustment for unexpended hook-up fees ("HUFs"); that is,
14 HUF funds were collected but have not yet been expended for plant-in-service as
15 of the end of the test year. Since there is no corresponding plant-in-service cost in
16 rate base, it is proper to exclude the unexpended amounts from rate base. To
17 include unexpended HUFs in rate base as CIAC will result in a mismatch and an
18 understatement of rate base.

19 **Q. HAS THE COMMISSION RECENTLY RECOGNIZED THAT**
20 **EXCLUDING UNEXPENDED CIAC FROM RATE BASE IS PROPER?**

21 A. Yes. In the recent Bella Vista Water Company rate case Decision 72251, April 7,
22 2011, the Commission found deductions of HUF amounts as CIAC from rate base
23 is not proper until such funds have been expended for plant.²

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² Decision 72251 at 47.

1 Q. ARE THERE ANY OTHER ADJUSTMENTS TO THE RATE BASE
2 COMPONENTS?

3 A. No.

4 Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON
5 A-1 DETERMINED?

6 A. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no
7 adjustment for the current values of the Company's plant and property.

8 C. INCOME STATEMENT (C SCHEDULES)

9 Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO
10 THE INCOME STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.

11 A. The following is a summary of adjustments shown on Schedule C-1:

12 Adjustment 1 annualizes depreciation expense. The proposed depreciation
13 rate for each component of utility plant is shown on Schedule C-2, page 2. The
14 depreciation rates approved last rate case were plant account specific. The
15 Company proposes to continue to use account specific rates except the rates it
16 proposes are based upon the typical and customary depreciation rates
17 recommended by Staff Engineering.

18 Adjustment 2 increases the property taxes based on proposed revenues. The
19 details of the computation are shown on Schedule C-2, page 3.

20 Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT THE CURRENT
21 AND PROPOSED RATES?

22 A. I employed a modified version of the Arizona Department of Revenue - Centrally
23 Valued Properties ("ADOR" or "the Department") method for determining
24 property taxes. The ADOR method uses twice the average of the prior three years
25 of historical revenue plus an addition for CWIP and a deduction for the book value
26 of transportation equipment in the determination of the full cash value. The

1 modified method determines full cash value by using the using twice the adjusted
2 test year revenues rather than the prior three years of historical revenue. For
3 determining the property tax expense at proposed revenues, I used two times the 3
4 year average consisting of two years of adjusted test year revenues plus one year of
5 proposed revenues. The change to property taxes at proposed revenues is reflected
6 in the gross revenue conversion factor shown on the A-1 Schedule. For both of the
7 computations of property tax expense, I used an assessed value equal to 20 percent
8 of full cash value (the current assessment rate) which was then multiplied by the
9 property tax rate to determine the property tax expense.

10 **Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?**

11 A. Yes, more than I can count. *See, e.g., Chaparral City Water Company*, Decision
12 No. 68176 (September 30, 2005) at 13, *Rio Rico Utilities*, Decision No. 67279
13 (January 6, 2011) at 8; *Arizona Water Company*, Decision No. 64282 (December
14 28, 2001) at 12 – 13; *Bella Vista Water Company*, Decision No. 65350 (November
15 1, 2002) at 16; *Arizona-American Water Company*, Decision No. 67093 (June 30,
16 2004) at 9 – 10; *Black Mountain Sewer Corporation*, Decision 69164 (December 5,
17 2006) at 10-11.

18 **Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH**
19 **REVENUES PROPER RATEMAKING?**

20 A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new
21 rates are sufficient to produce the revenue requirement. For this reason, the
22 Commission has repeatedly approved the use of proposed revenues to determine an
23 appropriate level of property tax expense to be recovered through rates. This has
24 been accomplished by either reflecting the change to property taxes from the
25 increase in revenues in the revenue gross-up factor or by adjusting the test year
26 property tax expense to reflect the revenues at proposed rates and not reflecting the

1 change in the revenue gross-up factor. In more recent years, the Staff has adopted
2 the former method. To be consistent with Staff's approach in more recent rate
3 cases, I have reflected the change in property taxes, from the increase in revenues
4 in the revenue gross-up factor.³

5 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME**
6 **STATEMENT ADJUSTMENTS.**

7 A. Adjustment 3 shows the rate case expense estimated by the Company. The
8 Company estimates rate case expense of \$150,000. The Company proposes that
9 rate case expense be recovered over five years because it believes a five-year cycle
10 for future rate cases is reasonable given this utility's circumstances. Using a five
11 year recovery period, the annual rate case expense is \$30,000.

12 **Q. WHY DO YOU BELIEVE THIS IS A REASONABLE ESTIMATE OF**
13 **RATE CASE EXPENSE FOR THIS RATE CASE?**

14 A. Because it is based on what I have seen in other rate cases. The best recent
15 example I know is Sahuarita Water Company rate case, Decision 72177, February
16 11, 2011. The Commission granted rate case expense of \$225,000 normalized over
17 five years in that case or about \$45,000 annually.⁴ Sahuarita Water was somewhat
18 larger than VWC at the time it its rate case with about 4,600 customers compared
19 to VWC's approximately 3,900 customers.

20 The recent H2O, Inc. rate case is another example, Decision 71414,
21 December 8, 2009. The H2O case, the rate case expense was 120,000 recovered
22 over 3 years or \$40,000 annually. H2O was somewhat larger than VWC at the
23 time it its rate case with about 6,400 customers compared to VWC's approximately
24 3,900 customers.

25 ³ See Schedule C-3, page 2.

26 ⁴ See Decision 72177 at 24.

1 Another relevant example is the recent Las Quintas Serenas Water Company
2 rate case, Decision 72498, July 25, 2011. The Commission granted rate case
3 expense of \$80,000 recovered over three years in that case or about \$27,000
4 annually.⁵ VWC is about 4 times larger than Las Quintas Serenas Water which had
5 about 1,000 customers at the time of its rate case compared to VWC's
6 approximately 3,900 customers.

7 These cases, among the many others I have worked on in the past,
8 contributed to the formation of the basis for my estimate. I also considered other
9 factors which include but are not limited to: 1) whether the utility has its own
10 regulatory staff and legal staff, 2) the intervener(s) in the case; 3) the length of time
11 between rate cases; and, 4) the scope and complexity of the issues.

12 **Q. PLEASE EXPLAIN WHY YOU REFER TO THIS AMOUNT AS AN**
13 **"ESTIMATE"?**

14 **A.** Because I can't see the future, I can only make estimates based on my experience.
15 The specifics of who may intervene, what unique issues may come into dispute,
16 what kind of procedural problems we will encounter, etc. I cannot predict. I know
17 what we have done to prepare the direct filing and I know that rate cases are
18 lengthy and expensive, but I still have to start with an estimate. If things turn out
19 more complicated than anticipated, the Company will modify its request to account
20 for that increased expense. Conversely, if the case proceeds and rate case expense
21 is lower than expected, we would make an appropriate adjustment downward.

22 **Q. SHOULDN'T THE COMPANY'S SHAREHOLDERS BEAR SOME OF THE**
23 **BURDEN OF RATE CASE EXPENSE?**

24
25
26

⁵ See Decision 72498 at 10.

1 A. As a practical matter, the utility always does. My estimate of \$150,000 assumes
2 VWC will actually incur more than \$150,000 of rate case expense in this case.
3 Whether those additional amounts should be sought for recovery is hard to say. I
4 would agree that if the utility does something improper, or advances positions in
5 bad-faith, it should shoulder the burden of such actions. But, as I testified, the
6 Commission dictates the process, not the utility, and absent such circumstances, the
7 utility must be allowed to recover its reasonably incurred rate case expense as a
8 cost of service.

9 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME**
10 **STATEMENT ADJUSTMENTS?**

11 A. Adjustment 4 annualizes revenues to the year-end number of customers. The
12 annualization of revenues is based on the number of customers at the end of the test
13 year, compared to the actual number of customers during each month of the test
14 year. Average revenues per customer by month were computed for the test year
15 and then multiplied by the increase (or decrease) in number of customers for each
16 month of the test year. The total of the monthly revenue change comprise the
17 revenue annualization. This was done for each customer class.

18 Adjustment 5 annualizes purchased power expense based on the additional
19 gallons sold from annualizing revenues to the year-end number of customers in
20 Adjustment 4, above. This adjustment is intended to match the additional expense
21 associated with the revenue annualization.

22 Adjustment 6 removes Central Arizona Project ("CAP") recovery fees from
23 the test year recorded other revenues. Per Decision 73218 approving the
24 Agreement, VWC ceased charging these fees.⁶ The Company is proposing that
25

26 ⁶ Decision 73218 at 9.

1 these fees not be re-instated. Since the Company proposes to no longer charge
2 these fees it is proper to remove the revenues from the test year.

3 Adjustment number 7 reduces management fees to cost.

4 Adjustment number 8 moves interest expense related to customer security
5 deposits to operating expenses.

6 Adjustment number 9 annualizes wages and salaries reflecting wages
7 increase granted after the end of the test year.

8 Adjustment 10 reflects income taxes based upon the Company adjusted test
9 year revenue and expense. The Company is proposing income taxes in the cost of
10 service even though VWC is a Subchapter S Corporation (“S-Corp”) and does not
11 pay income taxes itself.

12 **Q. ISN'T IT THE COMMISSION'S CURRENT POLICY TO DENY INCOME**
13 **TAX RECOVERY FOR S-CORPS AND OTHER TAX PASS-THROUGH**
14 **ENTITIES?**

15 A. Yes. However, the Commission current policy has been challenged in several
16 recent rate cases, many of which I participated in.⁷ These challenges prompted the
17 Commission in 2011 to direct Staff to conduct a workshop on the current tax policy
18 as part of a compliance filing in the Commission's Decision No. 71878.⁸ The
19 income tax issue is also before the Commission in the pending Pima Utility
20 Company rate case (Docket No. W-02199A-11-0329).

21 **Q. HAS THE COMMISSION ALWAYS DENIED INCOME TAX RECOVERY**
22 **IN THE PAST?**

23
24 ⁷ See Farmers Water Company, Decision No. 71510, May 17, 2010; Sahuarita Water Company, Decision
25 No. 72177, February 11, 2011; Johnson Utilities, Decision No. 71854, August 25, 2010 and Decision No.
26 72579, September 15, 2011; Global Water, Decision 71878, September 15, 2010, Sunrise Water
Company, Decision No. 71445, December 23, 2009.

⁸ See Generic Docket No. W-00000C-06-0149).

1 A. No. The Commission allowed income tax recovery to tax pass-through entities up
2 until the *Consolidated Utilities* rate case, Decision 55829, January 8, 1988. Since
3 then, there have been but a handful of cases where income tax recovery was
4 allowed.⁹ I should note, that unlike the single rate case with a limited number of
5 parties participating and which established the current “the income tax policy”,
6 there has been a great deal of input to the Commission on a change in the policy
7 from many different stakeholders on both sides of the issue. Arguably, a much
8 more complete and robust record is now before the Commission upon which a
9 decision to include or exclude an income tax allowance for tax pass-through
10 entities as a matter of policy can be made.¹⁰ A decision may even be forthcoming
11 before the conclusion of this rate case.¹¹

12 **Q. IF VWC ITSELF DOES NOT PAY THE TAXES WHY SHOULD THEY**
13 **RECOVER THEM THROUGH RATES?**

14 A. I do not wish to repeat all of the testimony from other rate cases and the comments
15 and information provided to the Commission through the generic docket supporting
16 an income tax allowance. In my view, it all boils down to a simple test. Either the
17 income arises from the operation of the utility or it doesn't. If it does, then income
18 tax liability is a cost of service and the utility should be allowed to recover the cost
19 of that tax liability regardless of the entity type. Staff recognized this before the
20 *Consolidated Utilities* decision reversed the Commission's policy on recovery of a
21

22 ⁹ See Camp Verde Water System, Inc. Decision No. 60105, March 19, 1997; Fisher's Landing Water and
23 Sewer Works, LLC Decision 64998, June 6, 2002; Winchester Water Company, LLC Decision No. 65219,
September 24, 2002; and, Wickenburg Ranch Water, LLC Decision No. 70741, February 12, 2009.

24 ¹⁰ See Farmers Water Company, Decision No. 71510, May 17, 2010; Sahuarita Water Company, Decision
25 No. 72177, February 11, 2011; Johnson Utilities, Decision No. 71854, August 25, 2010 and Decision No.
72579, September 15, 2011; Global Water, Decision 71878, September 15, 2010; Sunrise Water
26 Company, Decision No. 71445, December 23, 2009; and Pima Utility Company rate case, Docket No. W-
02199A-11-0329.

¹¹ See Pima Utility Company rate case, Docket No. W-02199A-11-0329.

1 tax allowance for pass-through entities. Specifically, Staff argued in its exceptions
2 to the recommended opinion and order that its position was premised “upon the
3 belief that the partners incur tax liability as a result of utility operations. Although
4 the liability flows through to each partner, the expense accrues as does
5 depreciation, salary, maintenance or any other cost of service expense.”¹²

6 The choice of whether an income tax liability generated by the income from
7 utility operations is recognized by way of taxable entity (a Subchapter C-
8 Corporation) or through a tax pass-through entity (Subchapter S Corporation,
9 Partnership (Subchapter K), Limited Liability Company, or Sole Proprietorship) is
10 a mere technical distinction. There is no question that VWC generates taxable
11 income and that its shareholders pay tax on that income *pro rata*.

12 **Q. IS THE COMPANY REQUESTING THE SAME LEVEL OF INCOME**
13 **TAXES AS IF IT WERE A SUBCHAPTER C CORPORATION?**

14 A. No. I will describe the method to computing the effective income tax rate and
15 income tax allowance later. For now, the method for computing the income tax
16 allowance basically utilizes the Federal Energy Regulatory Commission’s
17 (“FERC”) approach for computing the effective income tax rates for tax pass-
18 thought entities. The FERC approach utilizes the weighted average marginal
19 income tax rate of the owners. I have gone a step further and computed the
20 weighted average of the effective tax rates on the *pro rata* share of taxable income
21 (and only the *pro rata* share of taxable income) passed to the owners of VWC
22 rather than marginal tax rates. In my view the approach I used is more consistent
23 with the stand-alone method¹³ used by this Commission for C corporations and

24
25 ¹² See Staff’s Exceptions to Hearing Officer’s Proposed Opinion and Order (filed December 29, 1987, in
26 Consolidated Water Utilities, Ltd., Docket Nos. E-1009-86-216, E-1009-86-217 & E-1009-86-332
(consolidated)).

¹³ The “stand-alone” method method calculates taxes based upon regulated revenues and operating costs of

1 actual results in lower effective tax rate than under the FERC approach. The
2 approach used in this case is more conservative and is the same approach I used in
3 the pending Pima Utility Company rate case.¹⁴

4 **Q. PLEASE EXPLAIN THE METHODOLOGY YOU USED FOR THE**
5 **DETERMINATION OF THE INCOME TAX ALLOWANCE IN THE**
6 **INSTANT CASE.**

7 A. The basic methodology is summarized as follows:

- 8 1. Identify all the taxable persons or entities and all non-taxable
9 entities who are owners of the utility. If necessary, drill down
10 through all ownership levels until an individual or taxable or
11 nontaxable entity is reached.
- 12 2. Establish an effective or marginal tax rate for each taxable entity.
13 Rather than using presumptive rates such as 28% for all individual
14 taxpayers and 35% for taxable entities, the effective income tax rate
15 for all taxable entities is determined based on the current statutory
16 federal and state income tax rates and the proportionate share of
17 income passed through to each owner. Only the passed through
18 taxable income is considered in computing the effective tax rate for
19 each owner. Other income and deductions which may be available to
20 the owners are ignored so as to prevent cross-subsidization between
21 utility and non-utility operations.

22
23
24 _____
25 the utility itself without regard to the utility's unregulated revenues and operating costs of the utility or its
26 parent and other affiliated companies. The "stand alone" calculation is used so that taxes in utility rates are
based upon the costs of providing service.

¹⁴ Pima Water Company rate case (Docket No. W-02199A-11-0329).

1 3. Calculate a weighted average effective tax rate for the combined
2 ownership.

3 4. Use weighted average tax rate for calculating income tax allowance.

4 **Q. PLEASE COMMENT ON THE EFFECTIVE INCOME TAX RATES FOR**
5 **THE OWNERS OF VWC?**

6 A. The computed individual effective tax rates (federal and state) range from a low of
7 about 12.6 percent to a high of about 21.4 percent. The average of these rates is
8 about 15.9 percent; far lower than a presumptive 28 percent margin rate for
9 individuals. The taxable entity effective tax rates range from a low of about 28.2
10 percent to a high of about 36 percent. The average of these rates is about 31.7
11 percent; far lower than a presumptive 35 percent marginal tax rate taxable entities
12 such as trusts and C-Corps.

13 **Q. WHAT IS AVERAGE EFFECTIVE INCOME TAX RATE USED TO**
14 **COMPUTE THE INCOME TAX ALLOWANCE?**

15 A. In the instant case, as a result of using the approach described above, the effective
16 income tax rate (federal and state) is about 25.4 percent. This rate can be found on
17 Schedule C-3, page 1.

18 **Q. HOW DOES THE COMPUTED OVERALL EFFECTIVE TAX RATE**
19 **COMPARE TO A COMPARABLE C-CORP?**

20 A. The computed overall effective tax rate (federal and state) at proposed revenues for
21 a comparable C-Corp would be approximately 38.6 percent.

22 **D. Rate Design (H Schedules).**

23 **Q. WHAT ARE THE COMPANY'S PRESENT RATES FOR WATER**
24 **SERVICE?**

25 A. The Company's present rates are:

26 **MONTHLY SERVICE CHARGES**

1	5/8" x 3/4" Meter	\$ 13.18
2	3/4" Meter	\$ 21.00
3	1" Meter	\$ 40.50
4	1 1/2" Meter	\$ 89.20
5	2" Meter	\$ 147.70
6	3" Meter	\$ 284.20
7	4" Meter	\$ 479.20
8	6" Meter	\$966.92
9	Gallons in minimum	0

10 **COMMODITY RATES**

11	All gallons (per 1,000 gallons)	\$4.00
12	CAP Recovery Fee (per 1,000 gallons)	\$0.32 ¹⁵
13	CAP Hook-up Fee	See Schedule H-3, page 4.

15 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER SERVICE?**

17 **A.** The Company's proposed rates are:

18 **MONTHLY SERVICE CHARGES**

19	5/8" x 3/4" Meter	\$ 14.70
20	3/4" Meter	\$ 23.42
21	1" Meter	\$ 45.16
22	1 1/2" Meter	\$ 99.46
23	2" Meter	\$ 164.69
24	3" Meter	\$316.88

26 ¹⁵ Company ceased charging this fee per the Settlement Agreement.

1	4" Meter		\$ 534.31
2	6" Meter		\$ 1,078.12
3	Gallons in minimum		0
4	COMMODITY RATES		
5	5/8"X3/4" -Residential	1 to 4,000	\$ 3.75
6		4,001 to 10,000	\$ 4.00
7		Over 10,000	\$ 4.25
8	5/8"X3/4" - Commercial	1 to 10,000	\$ 4.00
9		Over 10,000	\$ 4.25
10	3/4" - Residential	1 to 4,000	\$ 3.75
11		4,001 to 10,000	\$ 4.00
12		Over 10,000	\$ 4.25
13	3/4" Meter - Commercial	1 to 10,000	\$ 4.00
14		Over 10,000	\$ 4.25
15	1" Meter	1 to 25,000	\$ 4.00
16		Over 25,000	\$ 4.25
17	1 1/2" Meter	1 to 50,000	\$ 4.00
18		Over 50,000	\$ 4.25
19	2" Meter	1 to 80,000	\$ 4.00
20		Over 80,000	\$ 4.25
21	3" Meter	1 to 160,000	\$ 4.00
22		Over 160,000	\$ 4.25
23	4" Meter	1 to 250,000	\$ 4.00
24		Over 250,000	\$ 4.25
25	6" Meter	1 to 500,000	\$ 4.00
26		Over 500,000	\$ 4.25

1	CAP Recovery Fee (per 1,000 gallons)	*removed
2	CAP Surcharge (per 1,000 gallons)	*to be determined
3	CAP Hook-up Fee	See Schedule H-3, page 4.

4 **Q. WHAT METER SIZE ARE THE MAJORITY OF CUSTOMERS ON AND**
5 **WHAT WAS THE AVERAGE MONTHLY BILL DURING THE TEST**
6 **YEAR?**

7 A. The largest customer class is the 5/8x3/4 inch residential class comprising over 94
8 percent of the customer base. As shown on Schedule H-2, page 1, the average
9 monthly bill under present rates for a 5/8x3/4 inch residential customer using an
10 average 6,720 gallons is \$40.06

11 **Q. WHAT WILL BE THE 5/8X3/4 INCH RESIDENTIAL CUSTOMER**
12 **AVERAGE MONTHLY BILL UNDER THE NEW RATES?**

13 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates
14 for a 5/8x3/4 inch residential customer using an average 6,720 gallons is \$40.58 – a
15 \$0.52 increase over the present monthly bill or a 1.29 percent increase.

16 **Q. IS THE COMPANY'S RATE DESIGN A CONSERVATION ORIENTED**
17 **RATE DESIGN?**

18 A. Yes. Inverted tier rate designs are conservation oriented. The smaller residential
19 meters (5/8"x3/4" and 3/4") are on an inverted three tier rate design and all other
20 meter sizes are on an inverted two tier design.

21 The Company's proposed rates also provide somewhat more revenue
22 stability than the current rate design in that it provides for about 36.4 percent of the
23 revenue requirement from monthly minimums whereas under present rates about
24 34 percent of revenues are derived from the monthly minimums. Generally, the
25 portion of revenue derived from the monthly minimums should be in the range of
26 40 to 50 percent and ideally closer to 50 percent. So, the Company rate design is

1 less stable than I would like. However, the proposed rate design achieves an
2 appropriate balance for this case given the constraints in moving from the current
3 single tier rate design to an inverted tier design with more revenue stability.

4 **1. Other Tariff Changes.**

5 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO ITS CAP HOOK-UP**
6 **FEE OR ITS OFFSITE FACILITIES HOOK-UP FEE?**

7 A. No. The Company proposes to continue to charge both hook-up fees. The
8 Company also continues to propose that the CAP Hook-up Fee continue to be
9 treated as revenues and the Offsite Facilities Hook-up Fee be treated as CIAC.
10 However, the Company also proposes that when the proposed CAP surcharge
11 mechanism is implemented the Company will continue to collect the CAP hook-up
12 fees. The CAP surcharge mechanism is discussed below.

13 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO MISCELLANEOUS**
14 **SERVICE CHARGES?**

15 A. Yes. The Company is proposing an after-hours service charge which would apply
16 to all service charges when service is requested after-hours. Accordingly, the
17 Company proposes the current after-hours establishment fee, after-hours re-
18 establishment fee, and after-hours reconnection fee be eliminated.

19 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO ITS REFUNDABLE**
20 **SERVICE LINE AND METER CHARGES?**

21 A. Yes. The Company is proposing to update these charges based on the latest costs
22 recommended by Staff Engineering. The Company has increased Staff's typical
23 and customary meter charges to reflect the added cost of the transmitter module
24 necessary for remote wireless meter reading (\$150).

25 **2. CAP Surcharge.**

26 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED CAP SURCHARGE.**

1 A. The purpose of the CAP surcharge mechanism is to recover the CAP water costs
2 and costs of delivery of CAP water to the Company's service territory and to its
3 customers once the CAP project is complete and water is being delivered.

4 Under the Company's proposed CAP surcharge mechanism, the Company
5 would be required to make a separate filing for Commission consideration before a
6 surcharge becomes effective. The amount of the surcharge will be determined and
7 submitted for approval by the Commission once the planned CAP project pipeline
8 and related equipment is in service and all CAP related cost components are known
9 and measurable. The Company also proposes that the CAP surcharge be based on
10 gallons sold similar to a commodity rate. The Company believes this is a fair and
11 reasonable approach as higher water users will pay more.

12 **Q. WHY PROPOSE A SURCHARGE MECHANISM RATHER WHY NOT**
13 **WAIT UNTIL THE CAP PROJECT IS COMPLETE AND FILE ANOTHER**
14 **RATE CASE?**

15 A. The Company is seeking approval of the CAP surcharge mechanism to avoid
16 another costly rate case in order receive recognition of the cost to receive CAP
17 water directly in its rates once the CAP project is complete. As per Decision
18 62450, the Company's CAP Hook-up fee and CAP recovery surcharge were
19 conditioned on the Company directly using CAP water by December 31, 2015.
20 The Company could complete the CAP project earlier than December 31, 2015.
21 Based on the estimated timeline of this rate case, the Company would be filing
22 another rate case within about 1-3 years of the end of the instant case in order to
23 receive recognition of the costs.

24 **Q. PLEASE EXPLAIN IN MORE DETAIL WHAT THE CAP RELATED**
25 **COSTS YOU REFERRED TO EARLIER WOULD BE.**

26 A. The CAP related costs would include depreciation on the CAP project investment,

1 the CAP M&I (subcontract and capital) charges, wheeling fees from Tucson Water,
2 a return on net investment, income taxes, and any other CAP-related costs/credits.

3 **Q. THE ADJUSTED TEST YEAR REVENUES IN THIS CASE INCLUDE CAP**
4 **PURCHASED WATER COSTS. HOW WILL THE CAP PURCHASED**
5 **WATER COSTS TAKE THESE EXPENSES INTO ACCOUNT ONCE THE**
6 **SURCHARGE IS IMPLMENTED?**

7 A. The test year operating expenses include CAP purchased water costs of
8 approximately \$200,000. The adjusted test year CAP water costs will be
9 subtracted from the base surcharge costs. Since these expenses are being
10 considered in the determination of the revenue requirement and base water rates in
11 the instant case, the computation of the CAP surcharge must take this into account
12 otherwise the Company will double recover these costs.

13 **Q. WILL THE COMPANY BE REQUIRED TO SUBMIT AN ANNUAL**
14 **REPORT OF THE SURCHARGE COLLECTIONS?**

15 A. Yes. The Company will track the surcharge collections during the year and
16 identify any over (under) recovery. An annual report will be submitted to the
17 Commission as a compliance item.

18 Additionally, the Company will be required to submit annually a schedule
19 showing the computation of each year's surcharge along with supporting
20 documentation of the underlying costs. Any over (under) recovery of the prior
21 year's surcharge will be considered in the subsequent year's computation of the
22 surcharge. For example, if the Company over recovered fees, the amount of the
23 over recovery will be subtracted from the base cost to be recovered.

24 **Q. WILL THE COMPANY PROVIDE THE COMMISSION A FULL**
25 **ACCOUNTING INCLUDING THE SUPPORTING DOCUMENTATION**
26 **FOR THE CAP PROJECT COSTS?**

1 A. Yes. In VWC's initial application to the Commission for implementation of the
2 surcharge, the Company will submit a full accounting of the CAP project costs
3 along with the approval of construction certificate and any other documentation
4 Staff may require to verify the total cost of the investment and insure that all
5 regulatory approvals have been received.

6 **Q. HAVE YOU PREPARED AN EXHIBIT TO ILLUSTRATE THE**
7 **COMPUTATION OF THE SURCHARGE?**

8 A. Yes. Attached as Exhibit TJB-RB-DT1 are schedules which are illustrative of the
9 annual surcharge computation.

10 **Q. PLEASE EXPLAIN EACH OF THE COMPONENTS SHOWN IN THE**
11 **PROPOSED SURCHARGE COMPUTATION AS ILLUSTRATED IN THE**
12 **EXHIBIT.**

13 A. An explanation of each of the components is as follows:

14 Component 1 - Annual Depreciation - This component computes the annual
15 depreciation expense on the CAP project plant costs. The depreciation rate will be
16 the actual composite rate based upon the authorized depreciation rates by plant
17 account in the instant case and the relative dollar amount of plant costs in each
18 plant account.

19 Component 2 - Annual CAP M&I Charges - This component is based upon
20 VWC's current CAP allocation of 1,857 acre feet and the CAP M&I rate in effect
21 for the year,

22 Component 3 - Annual Tucson Water Wheeling Fees - This component will be
23 based upon the fees set forth in the final wheeling agreement between VWC and
24 Tucson Water and the volume of water delivered to VWC's service territory as
25 defined by the wheeling agreement.

26 Component 4 - Annual Recharge Credits - This component is based upon the the

1 difference between the volume of water delivered to VWC's service territory and
2 the undelivered volume of CAP water that is recharged at the recharge facilities.

3 Component 5 - Annual Return on Investment plus Income Taxes - This
4 component is based upon the net plant investment and the authorized return and a
5 gross-up for income taxes.

6 Component 6 - Other CAP-Related Costs/Credits - This component includes
7 other CAP-related water costs and credits. As currently contemplated, this
8 component would include a provision for over/under recovery of the prior year
9 CAP project costs and a provision for CAP purchased water costs included in base
10 rates, as discussed earlier.

11 **Q. PLEASE EXPLAIN TO FINAL COMPUTATION OF THE SURCHARGE.**

12 A. Once the component costs have been determined, the CAP surcharge (per 1,000
13 gallons) will be calculated by dividing the total costs by the prior year gallons sold
14 (in 1,000's).

15 **Q. WHAT IS THE ESTIMATED INITIAL CAP SURCHARGE BASED UPON**
16 **THE ESTIMATED COMPONENT COSTS AND APPROACH DESCRIBED**
17 **ABOVE?**

18 A. Based on the components and the approach described above the initial (year 1)
19 computation of the CAP surcharge. See Page 1 of Exhibit TJB-RB-DT1. The
20 component costs shown on page 1 are estimates at this time. As shown, the
21 indicated year 1 CAP surcharge (per 1,000 gallons) is \$2.33.

22 Page 2 of Exhibit TJB-RB-DT1 illustrates the year 2 computation of the
23 CAP surcharge. As you will find reflected in Component 5, the net investment is
24 reduced by the accumulated depreciation. You will also find reflected in
25 Component 2 that the CAP M&I charges were increased to reflect increases in the
26 CAP subcontract and delivery charges. The CAP M&I charges and recharge

1 credits shown are currently estimates and for illustrative purposes only. The base
2 CAP M&I charge per acre foot is based upon the provisional 2014 rate. Based
3 upon the most recent CAP rate schedule, the CAP charges are expected to increase
4 through 2018. As shown, the indicated year 2 CAP surcharge (per 1,000 gallons)
5 is somewhat lower at \$2.32. Of course, the year 2 computation also assumes the
6 same gallons sold in year 2 as in year 1. The gallons sold may be higher or lower
7 depending on the conditions and circumstances each year. All things being equal,
8 if customer growth occurs, the gallons sold (denominator) will be higher leading to
9 a lower surcharge amount.

10 **Q. HOW WILL THE CAP SURCHARGE APPEAR ON THE CUSTOMERS**
11 **BILL?**

12 A. As a separate line item labeled as "CAP water surcharge".

13 **Q. WHAT WOULD BE THE YEAR 1 IMPACT ON THE AVERAGE**
14 **MONTHLY BILL FOR A 5/8X3/4 INCH RESIDENTIAL CUSTOMER**
15 **BASED ON THE \$2.33 PER 1,000 GALLON SURCHARGE ESTIMATE?**

16 A. The CAP surcharge would total \$15.66 for average monthly usage for a 5/8x3/4
17 inch residential customer using 6,720 gallons (\$2.33 times 6.72). The \$15.66
18 translates to an increase of approximately 39% over the current average monthly
19 bill of \$40.06.

20 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

21 A. Yes.

22

23

24

25

26

Vail Water Company

Thomas J. Bourassa, CPA Direct Testimony

Exhibit TJB-RB-DT1

Vail Water Company
 CAP Surcharge Mechanism
 Computation of CAP Surcharge (Year 1)

EXHIBIT TJB-RB-1
 Page 1

Line
No.

1 Component 1 - Annual Depreciation

2	[1] CAP Project Costs		\$	1,900,000
3	[2] Composite Depreciation Rate			2.20%
4	[3] Depreciation [1]x[2]		\$	41,800

5

6 Component 2 - Annual CAP M&I Charges

7	[4] CAP Allocation (a.f.)			1,857
8	[5] M&I Charges (per a.f.) using 2013 firm rate		\$	129.00
9	[6] Total M&I Charges [4]x[5]		\$	239,553

10

11 Component 3 - Annual Tucson Water Wheeling Fees

12	[7] CAP Water Delivered to Vail Service Territory (a.f.)			1,100
13	[8] Wheeling fee (per a.f.)		\$	500.00
14	[9] Total Wheeling Fees		\$	550,000

15

16 Component 4 - Annual Recharge Credits

17	[10] CAP Water Recharged (a.f.) [4]-[7]			757
18	[11] M&I Charges (per a.f.) = [5]		\$	129.00
19	[12] Total Recharge Credits for Future Use -[10]x[11]		\$	(97,653)

20

21 Component 5 - Return on Investment plus Income Taxes

22	[13] CAP Project Costs = [1]		\$	1,900,000
23	[14] Less: Accumulated Depreciation (sum of prior years depreciation expense)		\$	-
24	[15] Net Investment [13] - [14]		\$	1,900,000
25	[16] Authorized Rate of Return			10.40%
26	[17] Required Return [15]x[16]		\$	197,600
27	[18] Income Tax Factor			1.36
28	[19] Total Return plus Income Taxes [17]x[18]		\$	268,736

29

30 Component 6 - Other CAP-Related Costs/Credits

31	[20] Test Year Purchased Water		\$	(199,817)
32	[21] Prior Year Under (Over) recovery		\$	-
33	[22] Other - Specify (provide supporting schedule)		\$	-
34	[23] Total Other CAP-Related Costs/Credits [20]+[21]+[22]		\$	(199,817)

35

36 Computation of Commodity Charge

37	[24] Total Base Cost to be Recovery [3]+[6]+[9]+[12]+[19]+[23]		\$	802,619
38	[25] Gallons sold in prior year (in 1,000's)			344,560
39	[26] Cost per 1,000 gallons [24]/[25]		\$	<u>2.33</u>

40

Vail Water Company
CAP Surcharge Mechanism
Computation of CAP Surcharge (Year 2)

EXHIBIT TJB-RB-1
Page 2

Line No.		
1	<u>Component 1 - Annual Depreciation</u>	
2	[1] CAP Project Costs	\$ 1,900,000
3	[2] Composite Depreciation Rate	2.20%
4	[3] Depreciation [1]x[2]	\$ 41,800
5		
6	<u>Component 2 - Annual CAP M&I Charges</u>	
7	[4] CAP Allocation (a.f.)	1,857
8	[5] M&I Charges (per a.f.) using 2014 provisional rate	\$ 138.00
9	[6] Total M&I Charges [4]x[5]	\$ 256,266
10		
11	<u>Component 3 - Annual Tucson Water Wheeling Fees</u>	
12	[7] CAP Water Delivered (a.f.)	1,100
13	[8] Wheeling fee (per a.f.)	\$ 500.00
14	[9] Total Wheeling Fees	\$ 550,000
15		
16	<u>Component 4 - Annual Recharge Credits</u>	
17	[10] CAP Water Recharged (a.f.) [4]-[7]	757
18	[11] M&I Charges (per a.f.) = [5]	\$ 138.00
19	[12] Total Recharge Credits for Future Use -[10]x[11]	\$ (104,466)
20		
21	<u>Component 5 - Return on Investment plus Income Taxes</u>	
22	[13] CAP Project Costs = [1]	\$ 1,900,000
23	[14] Less: Accumulated Depreciation (sum of prior years depreciation expense)	\$ (41,800)
24	[15] Net Investment [13] - [14]	\$ 1,816,400
25	[16] Authorized Rate of Return	10.40%
26	[17] Required Return [15]x[16]	\$ 188,906
27	[18] Income Tax Factor	1.36
28	[19] Total Return plus Income Taxes [17]x[18]	\$ 256,912
29		
30	<u>Component 6 - Other CAP-Related Costs/Credits</u>	
31	[20] Test Year Purchased Water	\$ (199,817)
32	[21] Prior Year Under (Over) recovery	\$ -
33	[22] Other - Specify (provide supporting schedule)	\$ -
34	[23] Total Other CAP-Related Costs/Credits [20]+[21]+[22]	\$ (199,817)
35		
36	<u>Computation of Commodity Charge</u>	
37	[24] Total Base Cost to be Recovery [3]+[6]+[9]+[12]+[19]+[23]	\$ 800,695
38	[25] Gallons sold in prior year (in 1,000's)	344,560

Vail Water Company

**Schedules A through C,
E through F, and H**

Vail Water Company
 Test Year Ended December 31, 2011
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Schedule A-1
 Page 1
 Witness: Bourassa

Line No.					
1	Fair Value Rate Base		\$	3,312,774	
2					
3	Adjusted Operating Income			312,107	
4					
5	Current Rate of Return			9.42%	
6					
7	Required Operating Income		\$	344,528	
8					
9	Required Rate of Return on Fair Value Rate Base			10.40%	
10					
11	Operating Income Deficiency		\$	32,421	
12					
13	Gross Revenue Conversion Factor			1.3606	
14					
15	Increase in Gross Revenue Requirement		\$	44,114	
16					
17					
18	Adjusted Test Year Revenues		\$	2,334,747	
19	Increase in Gross Revenue Revenue Requirement		\$	44,114	
20	Proposed Revenue Requirement		\$	2,378,860	
21	% Increase			1.89%	
22					
23	Customer		Present	Proposed	Dollar
24	Classification		Rates	Rates	Increase
25	(Residential Commercial, Irrigation)				Percent
26	5/8x3/4 Inch Residential	\$	1,728,603	\$ 1,768,199	\$ 39,596 2.29%
27	3/4 Inch Residential		55,737	57,656	1,919 3.44%
28	1 Inch Residential		2,132	2,300	168 7.86%
29					
30	5/8x3/4 Inch Commercial		3,471	3,589	119 3.42%
31	3/4 Inch Commercial		1,804	1,897	92 5.13%
32	1 Inch Commercial		4,172	4,389	217 5.20%
33	1/12 Inch Commercial		17,977	19,690	1,713 9.53%
34	2 Inch Commercial		67,893	73,168	5,274 7.77%
35					
36	5/8x3/4 Inch Irrigation		2,073	2,170	97 7.24%
37	3/4 Inch Irrigation		5,089	5,458	368 7.24%
38	1 Inch Irrigation		17,540	18,581	1,041 5.93%
39	1/12 Inch Irrigation		17,246	18,324	1,078 6.25%
40	2 Inch Irrigation		113,577	119,941	6,365 5.60%
41					
42	5/8x3/4 Inch Standpipe		12,909	8,590	(4,319) -33.46%
43	1 Inch Standpipe		2,256	1,881	(375) -16.64%
44	3 Inch Construction		37,004	26,030	(10,974) -29.66%
45					
46	Revenue Annualization		29,925	32,890	2,965 9.91%
47					
48	Subtotal		\$ 2,119,407	\$ 2,164,752	\$ 45,345 2.14%
49					
50	Other Water Revenues		214,637	214,637	- 0.00%
51	Reconciling Amount		703	(528)	(1,231) -175.11%
52	Rounding				- 0.00%
53	Total of Water Revenues		\$ 2,334,746	\$ 2,378,860	\$ 44,114 1.89%
54					
55					
56	<u>SUPPORTING SCHEDULES:</u>				
57	B-1				
58	C-1				
59	C-3				
60	H-1				

Vail Water Company
 Test Year Ended December 31, 2011
 Summary of Results of Operations

Exhibit
 Schedule A-2
 Page 1
 Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2009	12/31/2010	Actual 12/31/2011	Adjusted 12/31/2011	Present Rates 12/31/2012	Proposed Rates 12/31/2012
1	Gross Revenues	\$ 2,370,309	\$ 2,385,453	\$ 2,398,492	\$ 2,334,747	\$ 2,334,747	\$ 2,378,860
2							
3	Revenue Deductions and	2,053,707	2,027,381	2,115,259	2,022,639	2,022,639	2,034,332
4	Operating Expenses						
5							
6	Operating Income	\$ 316,602	\$ 358,072	\$ 283,233	\$ 312,107	\$ 312,107	\$ 344,528
7							
8	Other Income and	44,506	35,192	29,364	29,364	29,364	29,364
9	Deductions						
10							
11	Interest Expense	(4,229)	(4,491)	(4,981)	-	-	-
12							
13	Net Income	\$ 356,878	\$ 388,773	\$ 307,616	\$ 341,472	\$ 341,472	\$ 373,893
14							
15	Common Shares	63,809	63,809	63,809	63,809	63,809	63,809
16							
17	Earned Per Average						
18	Common Share	5.59	6.09	4.82	5.35	5.35	5.86
19							
20	Dividends Paid	140,000	350,000	387,500	387,500	387,500	387,500
21							
22							
23	Dividends Per						
24	Common Share	2.19	5.49	6.07	6.07	6.07	6.07
25							
26	Payout Ratio	0.39	0.90	1.26	1.13	1.13	1.04
27							
28	Return on Average						
29	Invested Capital	1.79%	2.02%	1.62%	1.58%	1.61%	1.76%
30							
31	Return on Year End						
32	Capital	1.84%	2.04%	1.63%	1.58%	1.64%	1.80%
33							
34	Return on Average						
35	Common Equity	8.29%	8.77%	6.97%	7.38%	7.51%	8.20%
36							
37	Return on Year End						
38	Common Equity	8.08%	8.73%	7.03%	7.12%	7.24%	7.88%
39							
40	Times Bond Interest Earned						
41	Before Income Taxes	74.87	79.74	56.86	-	-	-
42							
43	Times Total Interest and						
44	Preferred Dividends Earned						
45	After Income Taxes	75.62	81.17	58.09	-	-	-
46							
47							
48							
49							
50							
51	<u>SUPPORTING SCHEDULES</u>						
52	C-1						
53	E-2						
54	F-1						
55							

Vail Water Company
 Test Year Ended December 31, 2011
 Summary of Capital Structure

Exhibit
 Schedule A-3
 Page 1
 Witness: Bourassa

Line No.	Description:	Prior Years Ended		Unadjusted	Adjusted
		12/31/2009	12/31/2010	Test Year 12/31/2011	Projected Year 12/31/2012
1					
2					
3	Short-Term Debt	-	-	-	-
3					
4	Long-Term Debt	-	-	-	-
5					
6	Total Debt	\$ -	\$ -	\$ -	\$ -
7					
8					
9	Preferred Stock	-	-	-	-
10					
11	Common Equity	4,414,639	4,453,412	4,373,528	7,489,520
12					
13					
14	Total Capital & Debt	\$ 4,414,639	\$ 4,453,412	\$ 4,373,528	\$ 7,489,520
15					
16					
17	Capitalization Ratios:				
18					
19	Long-Term Debt	0.00%	0.00%	0.00%	0.00%
20					
21	Total Debt	0.00%	0.00%	0.00%	0.00%
22					
23					
24	Preferred Stock	-	-	-	-
25					
26	Common Equity	100.00%	100.00%	100.00%	100.00%
27					
28					
29	Total Capital	100.00%	100.00%	100.00%	100.00%
30					
31					
32	Weighted Cost of				
33	Senior Capital	0.00%	0.00%	0.00%	0.00%
34					
35					
36					
37					
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42					
43					
44					
45	<u>SUPPORTING SCHEDULES:</u>				
46	E-1				
47	D-1				
48					
49					
50					

Vail Water Company
Test Year Ended December 31, 2011
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

<u>Line No.</u>		<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1				
2				
3				
4	Prior Year Ended 12/31/2008	24,840	24,840	20,043,125
5				
6	Prior Year Ended 12/31/2009	22,199	22,199	20,065,324
7				
8	Test Year Ended 12/31/2010	242,781	242,781	20,308,105
9				
10	Projected Year Ended 12/31/2011	118,052	118,052	20,426,157
11				
12				
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34	<u>SUPPORTING SCHEDULES:</u>			
35	B-2			
36	E-5			
37	F-3			
38				
39				
40				

Vail Water Company
 Test Year Ended December 31, 2011
 Summary Statements of Cash Flows

Exhibit
 Schedule A-5
 Page 1
 Witness: Bourassa

Line No.	Prior Year Ended	Prior Year Ended	Test Year Ended	Projected Year	
	12/31/2009	12/31/2010	12/31/2011	Present Rates	Proposed Rates
	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2012
5	Cash Flows from Operating Activities				
6	\$ 356,878	\$ 388,773	\$ 307,616	\$ 341,472	\$ 373,893
7	(8,345)	(3,235)	(2,613)		
8	Adjustments to reconcile net income to net cash provided by operating activities:				
9	660,269	645,432	635,952	570,649	570,649
10	-	-	-		
11	Changes in Certain Assets and Liabilities:				
12	(1,825)	(46,175)	40,151		
13	-	-	-		
14	-	-	-		
15	-	-	-		
16	(676,847)	(226,303)	(201,056)		
17	-	-	-		
18	40,268	17,712	35,802		
19	-	-	-		
20	(85,166)	(77,125)	(81,392)		
21	166	(66,965)	1,289		
22	-	-	-		
23	\$ 285,400	\$ 632,115	\$ 735,749	\$ 912,121	\$ 944,541
24	Cash Flow From Investing Activities:				
25	(24,840)	(22,199)	(242,781)	(118,052)	(118,052)
26	-	-	-		
27	-	-	-		
28	\$ (24,840)	\$ (22,199)	\$ (242,781)	\$ (118,052)	\$ (118,052)
29	Cash Flow From Financing Activities				
30	521,921	247,483	111,327		
31	-	(702,876)	(210,007)		
32	-	-	-		
33	212,688	179,144	406,002	406,002	406,002
34	(326,316)	(288,337)	(289,153)	(289,153)	(289,153)
35	-	-	-		
36	(140,000)	(350,000)	(387,500)	(239,030)	(239,030)
37	-	-	-		
38	-	-	-		
39	\$ 268,294	\$ (914,586)	\$ (369,330)	\$ (122,181)	\$ (122,181)
40	528,854	(304,670)	123,638	671,887	704,308
41	248,764	777,618	472,948	596,586	596,586
42	\$ 777,618	\$ 472,948	\$ 596,586	\$ 1,268,473	\$ 1,300,894
43					
44					
45					
46					
47	<u>SUPPORTING SCHEDULES:</u>				
48	E-3				
49	F-2				
50					
51					

Vail Water Company
 Test Year Ended December 31, 2011
 Summary of Rate Base

Exhibit
 Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	<u>Original Cost Rate base</u>	<u>Fair Value Rate Base</u>
1		
2		
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Line No.	<u>Original Cost Rate base</u>	<u>Fair Value Rate Base</u>
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SUPPORTING SCHEDULES:

- B-2
- B-3
- B-5
- E-1

Vail Water Company
 Test Year Ended December 31, 2011
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustment	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 20,308,105	(149,394)	\$ 20,158,710
3				
4	Less:			
5	Accumulated			
6	Depreciation	6,432,277	(2,710,101)	3,722,176
7				
8				
9	Net Utility Plant			
10	in Service	\$ 13,875,828		\$ 16,436,535
11				
12	Less:			
13	Advances in Aid of			
14	Construction	11,374,431	-	11,374,431
15				
16	Contributions in Aid of			
17	Construction - Gross	3,117,009	(186,782)	2,930,228
18				
19	Accumulated Amortization of CIAC	(670,251)	64,419	(605,832)
20				
21	Customer Meter Deposits	529,140		529,140
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				
26	Plus:			
27				
28	Deferred CAP Charges	1,104,206		1,104,206
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				
34	Total	\$ 629,705		\$ 3,312,774

45 SUPPORTING SCHEDULES:
 46 B-2, pages 2
 47 E-1
 48
 49
 50

RECAP SCHEDULES:
 B-1

Vail Water Company
 Test Year Ended December 31, 2011
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 2
 Witness: Bourassa

Line No.	Actual at End of Test Year	Proforma Adjustments				Adjusted at end of Test Year
		1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 Intentionally Left Blank	
1	\$ 20,308,105	(149,394)				\$ 20,158,710
2			(2,710,101)			3,722,176
3						
4						
5						
6	6,432,277					
7						
8						
9						
10	\$ 13,875,828	(149,394)	2,710,101			\$ 16,436,535
11						
12						
13						
14	11,374,431					11,374,431
15						
16						
17	3,117,009			(186,782)		2,930,228
18						
19	(670,251)			64,419		(605,832)
20						
21	529,140					529,140
22						
23						
24						
25						
26						
27	1,104,206					1,104,206
28						
29						
30						
31						
32	\$ 629,705	(149,394)	2,710,101	122,362		\$ 3,312,774
33						
34						
35						
36						
37						
38						
39						
40						

SUPPORTING SCHEDULES:
 B-1

SUPPORTING SCHEDULES:
 B-2, pages 3-5
 E-1

Vail Water Company
 Test Year Ended December 31, 2011
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1 -A

Exhibit
 Schedule B-2
 Page 3.1
 Witness: Bourassa

Line

No.

1

2

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4 Acct.

5 No.

6 Description

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Recorded
Original

Plant
Per

Cost

Reconstruction

Difference

Acct. No.	Description	Recorded Original Cost	Plant Per Reconstruction	Difference
301	Organization Cost	-	-	-
302	Franchise Cost	-	-	-
303	Land and Land Rights	17,750	17,750	-
304	Structures and Improvements	399,328	399,328	(0)
305	Collecting and Impounding Res.	-	-	-
306	Lake River and Other Intakes	-	-	-
307	Wells and Springs	1,126,979	1,126,979	0
308	Infiltration Galleries and Tunnels	-	-	-
309	Supply Mains	2,995	2,995	(0)
310	Power Generation Equipment	-	-	-
311	Electric Pumping Equipment	1,553,110	1,553,110	(0)
320	Water Treatment Equipment	-	-	-
320.1	Water Treatment Plant	-	-	-
320.2	Chemical Solution Feeders	-	-	-
330	Dist. Reservoirs & Standpipe	1,621,069	1,621,069	0
330.1	Storage tanks	-	-	-
330.2	Pressure Tanks	-	-	-
331	Trans. and Dist. Mains	14,023,034	14,023,034	0
333	Services	12,451	12,451	0
334	Meters	923,082	923,082	0
335	Hydrants	492,908	492,908	(0)
336	Backflow Prevention Devices	7,901	7,901	(0)
339	Other Plant and Misc. Equip.	6,553	6,553	(0)
340	Office Furniture and Fixtures	29,683	29,683	0
340.1	Computers and Software	15,621	15,621	-
341	Transportation Equipment	54,807	54,806	(0)
342	Stores Equipment	-	-	-
343	Tools and Work Equipment	15,645	15,645	(0)
344	Laboratory Equipment	-	-	-
345	Power Operated Equipment	-	-	-
346	Communications Equipment	-	-	-
347	Miscellaneous Equipment	5,190	5,190	-
348	Other Tangible Plant	-	-	-
	1998 ACC Plant Adjustment	-	(149,395)	(149,395)
	TOTALS	\$ 20,308,105	\$ 20,158,709	\$ (149,395)

SUPPORTING SCHEDULE

B-2, pages 3.2 to 3.14

Vail Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.2
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Per Decision 62450		1999				Accum. Deprec.		
				Plant at 12/31/1998	Accum. Deprec. At 12/31/2008	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)		Salvage A/D Only	Depreciation (Calculated)
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	3,500	-	-	-	-	-	3,500	-	-
4	304	Structures & Improvements	2.80%	62,198	17,499	2,753	-	2,753	-	64,951	19,279	-
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	155,446	43,733	17,905	-	17,905	-	173,351	48,993	-
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	295,681	83,186	12,860	-	12,860	-	308,541	94,062	-
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	118,072	33,218	1,825	-	1,825	-	119,897	35,598	-
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,413,166	397,575	271,852	-	271,852	-	1,685,018	428,557	-
19	333	Services	3.30%	15,376	4,326	(2,950)	-	(2,950)	-	12,426	4,785	-
20	334	Meters	3.60%	105,774	29,758	44,429	-	44,429	-	150,203	34,366	-
21	335	Hydrants	3.60%	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.60%	2,701	760	2,973	-	2,973	-	5,674	911	-
24	340	Office Furniture & Equipment	6.80%	4,039	1,136	1,290	-	1,290	-	5,329	1,455	-
25	340.1	Computers & Software	6.80%	-	-	2,950	-	2,950	-	2,950	100	-
26	341	Transportation Equipment	13.30%	32,900	9,256	20,247	-	20,247	-	39,240	146	-
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	827	233	-	-	-	827	-	(562)	-
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	(149,395)	(100,842)	-	-	-	-	(149,395)	(3,944)	(104,786)
35		TOTALS		2,060,285	500,987	376,134	-	376,134	-	2,421,685	57,799	562,903

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Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2000						Accum. Deprec.	
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)		Plant Balance
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	3,500	-
4	304	Structures & Improvements	2.80%	-	-	-	-	1,819	-	64,951	21,097
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	12,731	-	12,731	-	-	5,751	186,082	54,744
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	11,820	-	11,820	-	-	11,320	320,361	105,382
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	4,487	-	4,487	-	-	2,443	124,384	38,040
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	45,393	-	45,393	-	-	34,154	1,730,411	462,712
19	333	Services	3.30%	25	-	25	-	-	410	12,451	5,195
20	334	Meters	3.60%	38,863	-	38,863	-	-	6,107	189,066	40,473
21	335	Hydrants	3.60%	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.60%	879	-	879	-	-	220	6,553	1,131
24	340	Office Furniture & Equipment	6.80%	2,326	-	2,326	-	-	441	7,655	1,896
25	340.1	Computers & Software	6.80%	6,229	-	6,229	-	-	412	9,179	513
26	341	Transportation Equipment	13.30%	-	-	-	-	-	5,219	39,240	5,365
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	794	-	794	-	-	31	794	(532)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	5,190	-	5,190	-	-	93	5,190	93
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	(3,944)	(149,395)	-
35		TOTALS		128,737	-	128,737	-	-	64,477	2,550,422	627,360

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NARUC		2002									
Line No.	Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments ¹	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	7,500	-	7,500	-	-	-	11,000	-
4	304	Structures & Improvements	2.80%	-	-	-	2,000	-	1,791	62,951	22,707
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-
7	307	Lake, River, Canal Intakes	3.20%	-	-	-	-	-	-	-	-
8	308	Wells & Springs	0.00%	8,598	-	8,598	-	-	12,529	395,826	76,446
9	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-
10	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-
11	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-
12	311	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-
13	311	Pumping Equipment	3.60%	309,156	-	309,156	-	-	17,098	629,517	134,013
14	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-
15	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-
16	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-
17	330	Distribution Reservoirs & Standpipes	2.00%	-	-	-	15,000	-	8,801	432,528	37,560
18	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-
19	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-
20	331	Transmission & Distribution Mains	2.00%	1,784,712	-	1,784,712	-	-	73,917	4,588,217	581,968
21	333	Services	3.30%	-	-	-	-	-	411	12,451	6,017
22	334	Meters	3.60%	82,558	-	82,558	-	-	10,628	336,493	59,074
23	335	Hydrants	3.60%	-	-	-	-	-	-	-	-
24	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-	-
25	339	Other Plant & Misc Equipment	3.60%	5,719	-	5,719	-	-	236	6,553	1,603
26	340	Office Furniture & Equipment	6.80%	3,316	-	3,316	-	-	797	14,581	3,255
27	340.1	Computers & Software	6.80%	-	-	-	-	-	737	12,495	1,874
28	341	Transportation Equipment	13.30%	-	-	-	-	-	5,219	39,240	15,803
29	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-
30	343	Tools, Shop & Garage Equipment	7.70%	1,750	-	1,750	-	-	129	2,544	(342)
31	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-
32	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-
33	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-
34	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	187	5,190	467
35	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-
36		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	(3,944)	(149,395)	(116,618)
TOTALS				2,203,309	-	2,203,309	17,000	-	128,534	6,400,191	823,826

NARUC Line Account		Description	Allowed Deprec. Rate	2003					Accum. Deprec.	
No.	No.			Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only		Depreciation (Calculated)
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	11,000	-
4	304	Structures & Improvements	2.80%	39,852	-	39,852	-	2,321	102,803	25,027
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	168,351	-	168,351	-	15,360	564,177	91,806
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	0.00%	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	276,980	-	276,980	-	27,648	906,497	161,661
12	320	Water Treatment Equipment	2.55%	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	349,054	-	349,054	-	12,141	781,582	49,701
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	647,298	-	647,298	-	98,237	5,235,515	680,205
19	333	Services	3.30%	-	-	-	-	411	12,451	6,428
20	334	Meters	3.60%	43,395	-	43,395	-	12,895	379,888	71,969
21	335	Hydrants	3.60%	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	6,553	1,838
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	236	24,524	4,584
24	340	Office Furniture & Equipment	6.80%	9,943	-	9,943	-	1,330	14,120	2,779
25	340.1	Computers & Software	6.80%	1,625	-	1,625	-	905	6,669	22,472
26	341	Transportation Equipment	13.30%	21,808	-	21,808	-	-	-	-
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	490	-	490	-	215	3,034	(128)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	187	5,190	654
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	(3,944)	(149,395)	(120,562)
35		TOTALS		1,558,796	-	1,558,796	-	174,610	7,958,887	988,436
36				-	-	-	-	-	-	-

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Plant Additions and Retirements

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Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2004					Accum. Deprec.	
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only		Depreciation (Calculated)
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-
4	304	Structures & Improvements	2.80%	13,214	-	13,214	-	3,063	116,017	28,091
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	14,893	-	14,893	-	18,289	578,870	110,095
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.80%	14,116	-	14,116	-	32,888	920,613	194,549
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	-	-	-	-	15,632	781,582	65,333
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	3,233,912	-	3,233,912	71,200	136,337	8,398,227	745,343
19	333	Services	3.30%	-	-	-	-	411	12,451	6,839
20	334	Meters	3.60%	205,315	(11,621)	193,694	3,685	17,096	569,897	85,380
21	335	Hydrants	3.60%	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	-	5,067	5,067	-	91	5,067	91
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	236	6,553	2,074
24	340	Office Furniture & Equipment	6.80%	933	-	933	-	1,699	25,457	6,284
25	340.1	Computers & Software	6.80%	-	-	-	-	960	14,120	3,739
26	341	Transportation Equipment	13.30%	30,048	-	30,048	39,240	7,508	51,856	(9,259)
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	5,201	-	5,201	915	399	7,320	(644)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	187	5,190	841
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	(3,944)	(149,395)	(124,506)
35		TOTALS		3,517,432	(6,554)	3,510,878	115,040	230,853	11,354,825	1,114,249

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Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2005						Accum. Deprec.	
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)		Plant Balance
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	11,000	-
4	304	Structures & Improvements	2.80%	16,415	-	16,415	-	-	3,478	132,432	31,569
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	486,713	-	486,713	-	-	26,311	1,065,583	136,406
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	385,087	-	385,087	-	-	40,074	1,305,700	234,623
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	201,590	-	201,590	-	-	17,648	983,172	82,960
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,751,217	-	1,751,217	-	-	185,477	10,149,444	930,819
19	333	Services	3.30%	-	-	-	-	-	411	12,451	7,249
20	334	Meters	3.60%	311,350	-	311,350	72,274	-	24,820	808,973	37,926
21	335	Hydrants	3.60%	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	182	5,067	274
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	236	6,553	2,310
24	340	Office Furniture & Equipment	6.80%	3,327	-	3,327	-	-	1,844	28,784	8,128
25	340.1	Computers & Software	6.80%	-	-	-	-	-	960	14,120	4,599
26	341	Transportation Equipment	13.30%	-	-	-	-	-	6,897	51,856	(2,363)
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	651	-	651	-	-	589	7,971	(55)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	187	5,190	1,028
34		1983 ACC Adjustment to Plant		-	-	-	-	-	(3,944)	(149,395)	(128,450)
35		TOTALS		3,156,350	-	3,156,350	72,274	-	305,169	14,436,901	1,347,144

Vail Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
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Witness: Bourassa

NARUC		2007		Plant		Plant		Plant		Plant		Plant		Plant		Plant		Plant		
Line No.	Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	6,750	-	6,750	-	-	-	17,750	-	-	-	-	-	-	-	17,750	-	-
4	304	Structures & Improvements	2.80%	218,451	-	218,451	-	-	8,014	395,445	43,915	-	-	-	-	-	-	395,445	43,915	-
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	-	-	-	-	-	36,063	1,126,979	207,551	-	-	-	-	-	-	1,126,979	207,551	-
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	244,070	-	244,070	-	-	51,398	1,549,770	333,026	-	-	-	-	-	-	1,549,770	333,026	-
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	609,673	-	609,673	-	-	25,760	1,592,845	128,404	-	-	-	-	-	-	1,592,845	128,404	-
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,877,226	-	1,877,226	-	-	250,268	13,452,020	1,398,330	-	-	-	-	-	-	13,452,020	1,398,330	-
19	333	Services	3.30%	-	-	-	-	-	411	12,451	8,071	-	-	-	-	-	-	12,451	8,071	-
20	334	Meters	3.60%	41,452	-	41,452	59,683	-	29,463	809,302	(57,071)	-	-	-	-	-	-	809,302	(57,071)	-
21	335	Hydrants	3.60%	354,032	-	354,032	2,238	-	6,373	354,032	6,373	-	-	-	-	-	-	354,032	6,373	-
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	248	5,776	(1,481)	-	-	-	-	-	-	5,776	(1,481)	-
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	236	6,553	2,782	-	-	-	-	-	-	6,553	2,782	-
24	340	Office Furniture & Equipment	6.80%	-	-	-	-	-	1,972	28,996	12,064	-	-	-	-	-	-	28,996	12,064	-
25	340.1	Computers & Software	6.80%	-	-	-	-	-	1,062	15,620	6,772	-	-	-	-	-	-	15,620	6,772	-
26	341	Transportation Equipment	13.30%	-	-	-	-	-	6,897	51,856	11,431	-	-	-	-	-	-	51,856	11,431	-
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	5,756	-	5,756	2,915	-	739	11,024	(1,609)	-	-	-	-	-	-	11,024	(1,609)	-
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	187	5,190	1,401	-	-	-	-	-	-	5,190	1,401	-
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	(3,944)	(149,395)	(136,338)	-	-	-	-	-	-	(149,395)	(136,338)	-
35		TOTALS		3,357,410	-	3,357,410	64,836	-	415,148	19,286,214	1,963,623	-	-	-	-	-	-	19,286,214	1,963,623	-

Vail Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
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Witness: Bourassa

NARUC		2008		Plant		Plant		Plant		Plant		Plant		Plant		Plant		Plant	
Line No.	Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	17,750	-	-	-	-	-	-	-	17,750	-
4	304	Structures & Improvements	2.80%	3,882	-	3,882	-	-	-	399,327	55,042	-	-	-	-	-	-	399,327	55,042
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	1,126,979	243,614	-	-	-	-	-	-	1,126,979	243,614
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	-	-	-	1,838	-	-	-	386,947	-	-	-	-	-	-	-	386,947
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	51,600	-	51,600	25,642	-	-	1,618,803	134,879	-	-	-	-	-	-	1,618,803	134,879
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	367,475	-	367,475	-	-	272,715	13,819,495	1,671,045	-	-	-	-	-	-	13,819,495	1,671,045
19	333	Services	3.30%	-	-	-	-	-	-	12,451	8,482	-	-	-	-	-	-	12,451	8,482
20	334	Meters	3.60%	98,538	-	98,538	34,117	-	30,294	873,723	(60,894)	-	-	-	-	-	-	873,723	(60,894)
21	335	Hydrants	3.60%	120,356	-	120,356	-	-	14,912	474,388	21,284	-	-	-	-	-	-	474,388	21,284
22	336	Backflow Prevention Devices	3.60%	2,125	-	2,125	-	-	246	7,901	(1,235)	-	-	-	-	-	-	7,901	(1,235)
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	236	6,553	3,018	-	-	-	-	-	-	6,553	3,018
24	340	Office Furniture & Equipment	6.80%	1,430	-	1,430	5,697	-	1,827	24,729	8,194	-	-	-	-	-	-	24,729	8,194
25	340.1	Computers & Software	6.80%	-	-	-	-	-	1,062	15,620	7,834	-	-	-	-	-	-	15,620	7,834
26	341	Transportation Equipment	13.30%	11,000	-	11,000	8,050	-	7,093	54,806	10,474	-	-	-	-	-	-	54,806	10,474
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	1,610	-	1,610	-	-	911	12,634	(698)	-	-	-	-	-	-	12,634	(698)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	187	5,190	1,588	-	-	-	-	-	-	5,190	1,588
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	(3,944)	(149,395)	(140,282)	-	-	-	-	-	-	(149,395)	(140,282)
35		TOTALS		658,016	-	658,016	75,344	-	461,015	19,868,886	2,349,293	-	-	-	-	-	-	19,868,886	2,349,293

Vail Water Company
Plant Additions and Retirements

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Witness: Bourassa

NARUC		2009									
Line No.	Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	17,750	-
4	304	Structures & Improvements	2.80%	-	-	-	-	-	11,181	399,327	66,223
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	-	-	-	-	-	36,063	1,126,979	279,677
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	546	-	546	-	-	55,735	1,548,478	442,682
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	2,266	-	2,266	-	-	32,399	1,621,069	167,277
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	2,995	-	2,995	-	-	276,420	13,822,490	1,947,465
19	333	Services	3.30%	-	-	-	-	-	411	12,451	8,893
20	334	Meters	3.60%	33,038	-	33,038	22,935	-	31,636	883,826	(52,193)
21	335	Hydrants	3.60%	3,570	-	3,570	-	-	17,142	477,958	38,426
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	284	7,901	(950)
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	236	6,553	3,254
24	340	Office Furniture & Equipment	6.80%	4,951	-	4,951	-	-	1,850	29,680	10,044
25	340.1	Computers & Software	6.80%	-	-	-	-	-	1,062	15,620	8,897
26	341	Transportation Equipment	13.30%	-	-	-	-	-	7,289	54,806	17,764
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	409	-	409	-	-	989	13,043	291
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	187	5,190	1,775
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	(3,944)	(149,395)	(144,226)
35		TOTALS		47,775	-	47,775	22,935	-	469,940	19,893,726	2,795,299

Vall Water Company
Plant Additions and Retirements

Exhibit
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Witness: Bourassa

NARUC		2011									
Line No.	Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	17,750	-
4	304	Structures & Improvements	2.80%	-	1	1	-	-	11,181	399,328	88,585
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	-	-	-	-	-	36,063	1,126,979	351,804
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	2,995	2,995	-	-	30	2,995	30
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	2,756	(1)	2,755	-	-	55,862	1,553,110	554,324
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	-	-	-	-	-	32,421	1,621,069	232,120
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	203,639	(2,995)	200,644	-	-	278,455	14,023,034	2,502,370
19	333	Services	3.30%	-	-	-	-	-	411	12,451	9,715
20	334	Meters	3.60%	32,042	1	32,043	13,109	-	32,890	923,082	(11,443)
21	335	Hydrants	3.60%	14,950	-	14,950	-	-	17,476	492,908	73,108
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	284	7,901	(381)
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	236	6,553	3,726
24	340	Office Furniture & Equipment	6.80%	-	3	3	-	-	2,018	29,683	14,080
25	340.1	Computers & Software	6.80%	-	1	1	-	-	1,062	15,621	11,021
26	341	Transportation Equipment	13.30%	-	-	-	-	-	7,289	54,806	32,342
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	2,602	-	2,602	-	-	1,104	15,645	2,399
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	187	5,190	2,148
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	(1,225)	(149,395)	(149,395)
35		TOTALS		255,889	5	255,894	13,109	-	475,746	20,158,709	3,716,554

Vail Water Company
 Reconciliation of Plant to Prior Rate Case

Exhibit
 Schedule B-2
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 Witness: Bourassa

Line	NARUC		Company as Filed	Staff	1999	Per Decision	1999 Plant	12/31/1998
No.	Account	Description	12/31/1998	Adjustments	Staff	12/31/1998		Beginning
No.	No.	Description	12/31/1998	Adjustments	Adjustments	12/31/1998	1999 Plant	Balance
1	301	Organization Cost				-		-
2	302	Franchise Cost				-		-
3	303	Land and Land Rights	3,500			3,500		3,500
4	304	Structures & Improvements	61,770	428		62,198		62,198
5	305	Collecting & Impounding Reservoirs				-		-
6	306	Lake, River, Canal Intakes				-		-
7	307	Wells & Springs	145,736	9,710		155,446		155,446
8	308	Infiltration Galleries				-		-
9	309	Raw Water Supply Mains				-		-
10	310	Power Generation Equipment				-		-
11	311	Pumping Equipment	289,392	6,289		295,681		295,681
12	320	Water Treatment Equipment				-		-
13	320.1	Water Treatment Plants				-		-
14	320.2	Solution Chemical Feeders				-		-
15	330	Distribution Reservoirs & Standpipes	118,072			118,072		118,072
16	330.1	Storage Tanks				-		-
17	330.2	Pressure Tanks				-		-
18	331	Transmission & Distribution Mains	1,405,829	7,337	78,891	1,492,057	(78,891)	1,413,166
19	333	Services	15,376			15,376		15,376
20	334	Meters	105,685	89		105,774		105,774
21	335	Hydrants				-		-
22	336	Backflow Prevention Devices				-		-
23	339	Other Plant & Misc Equipment		2,701		2,701		2,701
24	340	Office Furniture & Equipment	4,039			4,039		4,039
25	340.1	Computers & Software				-		-
26	341	Transportation Equipment	32,900	1,007	20,247	54,154	(21,254)	32,900
27	342	Stores Equipment				-		-
28	343	Tools, Shop & Garage Equipment		827		827		827
29	344	Laboratory Equipment				-		-
30	345	Power Operated Equipment				-		-
31	346	Communication Equipment				-		-
32	347	Miscellaneous Equipment				-		-
33	348	Other Tangible Plant				-		-
34		1983 ACC Adjustment to Plant	(149,395)			(149,395)		(149,395)
35		CWIP from 1996 rate case	36,593	(36,593)		-		-
36		Proforma 1999 Plant	78,891		(78,891)	-		-
37		WIFA Loan Improvements	819,000	(819,000)		-		-
38		1999 Transportation Equip				-		-
39		TOTALS	2,967,388	(827,205)	20,247	2,160,430	(100,145)	2,060,285

Vail Water Company
 Test Year Ended December 31, 2011
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 -A

Exhibit
 Schedule B-2
 Page 4.1
 Witness: Bourassa

Line No.	Acct. No. Description	Recorded Accumulated Depreciation	Accumulated Depreciation Per Plant Reconstruction	Difference
1				
2				
3				
4	Acct.			
5	No. Description	<u>Depreciation</u>	<u>Reconstruction</u>	<u>Difference</u>
6	301 Organization Cost	-	-	-
7	302 Franchise Cost	-	-	-
8	303 Land and Land Rights	-	-	-
9	304 Structures and Improvements	126,481	88,585	(37,896)
10	305 Collecting and Impounding Res.	-	-	-
11	306 Lake River and Other Intakes	-	-	-
12	307 Wells and Springs	356,953	351,804	(5,149)
13	308 Infiltration Galleries and Tunnels	-	-	-
14	309 Supply Mains	949	30	(919)
15	310 Power Generation Equipment	-	-	-
16	311 Electric Pumping Equipment	491,924	554,324	62,400
17	320 Water Treatment Equipment	-	-	-
18	320.1 Water Treatment Plant	-	-	-
19	320.2 Chemical Solution Feeders	-	-	-
20	330 Dist. Reservoirs & Standpipe	513,448	232,120	(281,328)
21	330.1 Storage tanks	-	-	-
22	330.2 Pressure Tanks	-	-	-
23	331 Trans. and Dist. Mains	4,441,578	2,502,370	(1,939,208)
24	333 Services	3,944	9,715	5,771
25	334 Meters	292,372	(11,443)	(303,815)
26	335 Hydrants	156,121	73,108	(83,013)
27	336 Backflow Prevention Devices	2,503	(381)	(2,884)
28	339 Other Plant and Misc. Equip.	2,076	3,726	1,650
29	340 Office Furniture and Fixtures	9,402	14,080	4,679
30	340.1 Computers and Software	4,948	11,021	6,073
31	341 Transportation Equipment	17,359	32,342	14,983
32	342 Stores Equipment	-	-	-
33	343 Tools and Work Equipment	4,955	2,399	(2,556)
34	344 Laboratory Equipment	-	-	-
35	345 Power Operated Equipment	-	-	-
36	346 Communications Equipment	-	-	-
37	347 Miscellaneous Equipment	1,644	2,148	505
38	348 Other Tangible Plant	-	-	-
39	1998 ACC Plant Adjustment	-	(149,395)	(149,395)
40	TOTALS	\$ 6,432,277	\$ 3,716,554	\$ (2,710,101)

SUPPORTING SCHEDULE

B-2, pages 3.2 to 3.14

45

Vail Water Company
 Test Year Ended December 31, 2011
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

Exhibit
 Schedule B-2
 Page 5
 Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at 12/31/2010	\$ 3,299,762	\$ 605,832
6	Less: Unexpended HUF's	<u>(369,535)</u>	
7	Adjusted CIAC Balance	\$ 2,930,228	
8			
9	Book balance at 12/31/2010	<u>\$ 3,117,009</u>	<u>\$ 670,251</u>
10			
11	Increase (decrease)	\$ (186,782)	\$ (64,419)
12			
13			
14	Adjustment to CIAC/AA CIAC	<u>\$ (186,782)</u>	<u>\$ 64,419</u>
15	Label	3a	3b
16			
17			
18			
19			
20			
21	<u>SUPPORTING SCHEDULES</u>		
22	E-1		
23	B-2, page 5.1		
24			
25			
26			
27			
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41			
42			

Line No.	Description	1999		2000		2001		2002		2003		2004	
		Balance 12/31/1998	Additions	Balance 12/31/2000	Additions	Balance 12/31/2001	Additions	Balance 12/31/2002	Additions	Balance 12/31/2003	Additions	Balance 12/31/2004	
1	Decision 62450												
2	Balance 12/31/1998												
3													
4													
5	CIAC	116,204	475,990	23,473	499,363	185,874	685,237	242,829	928,066	62,830	990,896	293,831	1,284,727
6	Less: Unexpended HUF's		(32,649)		(48,690)		(69,190)		(109,590)		(160,518)		(377,662)
7	Amortizable Balance		443,244		450,673		626,047		818,477		830,378		908,835
8													
9	Amortization Decision												
10													
11	Amortization Rate		2.99%		2.53%		2.02%		2.01%		2.20%		2.04%
12	Amortization (1/2 yr convention)		10,594		11,409		12,626		16,466		18,243		18,455
13	Accumulated Amortization		187,275		198,685		211,310		227,776		246,019		264,473
14													
15	Net CIAC	116,204	285,615	23,473	300,678	185,874	473,927	242,829	700,290	62,830	744,878	293,831	1,020,254

Line No.	Description	2005		2006		2007		2008		2009		2010	
		Balance 12/31/2005	Additions	Balance 12/31/2006	Additions	Balance 12/31/2007	Additions	Balance 12/31/2008	Additions	Balance 12/31/2009	Additions	Balance 12/31/2010	
23													
24	CIAC	488,618	1,773,345	90,156	1,863,501	100,722	1,964,223	537,706	2,501,929	212,688	2,714,617	179,144	2,893,761
25	Less: Unexpended HUF's		(476,568)		(246,288)		(216,884)		(241,597)		(282,001)		(322,405)
26	Amortizable Balance		1,296,777		1,617,215		1,747,338		2,260,333		2,432,617		2,571,357
27													
28	Amortization Rate		2.12%		2.25%		2.15%		2.32%		2.36%		2.36%
29	Amortization (1/2 yr convention)		27,429		36,467		37,647		52,493		57,394		60,714
30	Accumulated Amortization		291,902		328,369		366,016		418,509		475,903		536,617
31													
32	Net CIAC	488,618	1,481,444	90,156	1,535,132	100,722	1,598,207	537,706	2,083,420	212,688	2,238,715	179,144	2,357,144

2011	
Balance 12/31/2011	
Additions	
406,001	3,299,762
	(369,535)
	2,930,228
	2.36%
	69,214
	605,832
406,001	2,693,931

Vail Water Company
 Test Year Ended December 31, 2011
 Computation of Working Capital

Exhibit
 Schedule B-5
 Page 1
 Witness: Bourassa

Line
 No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	102,958
3	Pumping Power (1/24 of Pumping Power)		9,108
4	Purchased Water (1/24 of Purchased Water)		8,326
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	\$	<u>120,391</u>
10			
11			
12	Working Capital Requested	\$	<u>-</u>
13			
14			
15			
16			
17			<u>Adjusted Test Year</u>
18	Total Operating Expense	\$	2,022,639
19	Less:		
20	Income Tax	\$	106,244
21	Property Tax		103,681
22	Depreciation		570,649
23	Purchased Water		199,817
24	Pumping Power		218,584
25	Allowable Expenses	\$	<u>823,665</u>
26	1/8 of allowable expenses	\$	<u>102,958</u>
27			
28			
29	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
30	E-1	B-1	
31			
32			
33			
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38			
39			
40			

Vail Water Company
 Test Year Ended December 31, 2011
 Income Statement

Exhibit
 Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 2,090,185	\$ 29,925	\$ 2,120,110	\$ 44,114	\$ 2,164,224
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	308,307	(93,671)	214,637		214,637
5		<u>\$ 2,398,492</u>	<u>\$ (63,745)</u>	<u>\$ 2,334,747</u>	<u>\$ 44,114</u>	<u>\$ 2,378,860</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 260,897	16,087	\$ 276,984	-	\$ 276,984
	Employee Benefits	12,757	-	12,757	-	12,757
8	Purchased Water	199,817	-	199,817	-	199,817
9	Purchased Power	215,373	3,211	218,584	-	218,584
10	Chemicals	1,732	-	1,732	-	1,732
11	Materials and Supplies	14,372	-	14,372	-	14,372
12	Repairs and Maintenance	28,876	-	28,876	-	28,876
13	Office Supplies and Expense	73,301	-	73,301	-	73,301
14	Contractual Services - Engineering	6,270	-	6,270	-	6,270
15	Contractual Services - Accounting	10,473	-	10,473	-	10,473
16	Contractual Services - Legal	12,933	-	12,933	-	12,933
17	Contractual Services - Mgmt Fees	394,545	(183,406)	211,138	-	211,138
18	Contractual Services - Other	15,976	-	15,976	-	15,976
19	Contractual Services - Water Testing	3,906	-	3,906	-	3,906
20	Rents - Building/Real Property	7,920	-	7,920	-	7,920
21	Rents - Equipment	8,314	-	8,314	-	8,314
22	Transportation Expenses	33,154	-	33,154	-	33,154
23	Insurance - Vehicle	5,111	-	5,111	-	5,111
24	Insurance - General Liability	32,130	-	32,130	-	32,130
25	Insurance - Worker's Comp	3,111	-	3,111	-	3,111
26	Reg. Comm. Exp.	11,946	-	11,946	-	11,946
27	Reg. Comm. Exp. - Rate Case	-	30,000	30,000	-	30,000
28	Bad Debt Expense	6,856	-	6,856	-	6,856
29	Miscellaneous Expense	11,424	-	11,424	-	11,424
30	Depreciation Expense	635,952	(65,303)	570,649	-	570,649
31	Taxes Other Than Income	-	-	-	-	-
32	Property Taxes	108,115	(4,434)	103,681	656	104,337
33	Income Tax	-	106,244	106,244	11,037	117,281
34	Interest on Meter Deposits	-	4,981	4,981	-	4,981
35	Total Operating Expenses	<u>\$ 2,115,259</u>	<u>\$ (92,620)</u>	<u>\$ 2,022,639</u>	<u>\$ 11,693</u>	<u>\$ 2,034,332</u>
36	Operating Income	<u>\$ 283,233</u>	<u>\$ 28,875</u>	<u>\$ 312,107</u>	<u>\$ 32,421</u>	<u>\$ 344,528</u>
37	Other Income (Expense)					
38	Interest Income	33,771	-	33,771	-	33,771
39	Other income	6,090	-	6,090	-	6,090
40	Interest Expense	(4,981)	4,981	-	-	-
41	Other Expense	-	-	-	-	-
42	Gain (loss) on Disposal of Equip	(10,496)	-	(10,496)	-	(10,496)
43	Total Other Income (Expense)	<u>\$ 24,383</u>	<u>\$ 4,981</u>	<u>\$ 29,364</u>	<u>\$ -</u>	<u>\$ 29,364</u>
44	Net Profit (Loss)	<u>\$ 307,616</u>	<u>\$ 33,856</u>	<u>\$ 341,472</u>	<u>\$ 32,421</u>	<u>\$ 373,893</u>

45
 46 SUPPORTING SCHEDULES:
 47 C-1, page 2
 48 E-2
 49

RECAP SCHEDULES:
 A-1

Vall Water Company
 Test Year Ended December 31, 2011
 Income Statement

Exhibit
 Schedule C-1
 Page 2.1
 Witness: Bourassa

Line No.	Revenues	1 Test Year Book Results	2 Depreciation	3 Property Taxes	4 Rate Case Expense Annualization	5 Revenue Annualization	6 Annualize Purchased Power	7 Remove CAP Recovery Fee Revenue
1	Revenues							
2	Metered Water Revenues	\$ 2,090,185			29,925			
3	Unmetered Water Revenues							
4	Other Water Revenues	\$ 308,307						(93,671)
5		\$ 2,398,492	\$ -	\$ -	\$ 29,925	\$ -	\$ -	\$ (93,671)
6	Operating Expenses							
7	Salaries and Wages	\$ 260,897						
8	Employee Benefits	12,757						
9	Purchased Water	198,817						
10	Purchased Power	215,373					3,211	
11	Chemicals	1,732						
12	Materials and Supplies	14,372						
13	Repairs and Maintenance	28,876						
14	Office Supplies and Expense	73,301						
15	Contractual Services - Engineering	6,270						
16	Contractual Services - Accounting	10,473						
17	Contractual Services - Legal	12,933						
18	Contractual Services - Mgmt Fees	394,545						
19	Contractual Services - Other	15,976						
20	Contr. Services - Water Testing	3,906						
21	Rents - Building/Real Property	7,920						
22	Rents - Equipment	8,314						
23	Transportation Expenses	33,154						
24	Insurance - Vehicle	5,111						
25	Insurance - General Liability	32,130						
26	Insurance - Worker's Comp	3,111						
27	Reg. Comm. Exp.	11,946						
28	Reg. Comm. Exp. - Rate Case							
29	Bad Debt Expense	6,856			30,000			
30	Miscellaneous Expense	11,424						
31	Depreciation Expense	635,952	(65,303)					
32	Taxes Other Than Income							
33	Property Taxes	108,115		(4,434)				
34	Income Tax							
35	Interest on Customer Sec. Dep.							
36	Total Operating Expenses	\$ 2,115,259	\$ (65,303)	\$ (4,434)	\$ 30,000	\$ -	\$ 3,211	\$ -
37	Operating Income	\$ 283,233	\$ 65,303	\$ 4,434	\$ (30,000)	\$ 29,925	\$ (3,211)	\$ (93,671)
38	Other Income (Expense)							
39	Interest Income	33,771						
40	Other Income	6,090						
41	Interest Expense	(4,981)						
42	Other Expense							
43	Gain (loss) on Disposal of Equip	(10,496)						
44	Total Other Income (Expense)	\$ 24,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
45	Net Profit (Loss)	\$ 307,616	\$ 65,303	\$ 4,434	\$ (30,000)	\$ 29,925	\$ (3,211)	\$ (93,671)

SUPPORTING SCHEDULES:

C-2
 E-2

Vail Water Company
 Test Year Ended December 31, 2011
 Income Statement

Exhibit
 Schedule C-1
 Page 2.2
 Witness: Bourassa

Line No.	Z	8	9	10	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
	Mgmt Fees	Move Interest Expense To O.E.	Wages and Salaries	Income Tax			
1					\$ 2,120,110	\$ 44,114	\$ 2,164,224
2	Metered Water Revenues						
3	Unmetered Water Revenues				214,637		214,637
4	Other Water Revenues				2,334,747	44,114	2,378,860
5							
6	Operating Expenses						
7	Salaries and Wages		16,087		276,984		276,984
8	Employee Benefits				12,757		12,757
9	Purchased Water				199,817		199,817
10	Purchased Power				218,584		218,584
11	Chemicals				1,732		1,732
12	Materials and Supplies				14,372		14,372
13	Repairs and Maintenance				28,876		28,876
14	Office Supplies and Expense				73,301		73,301
15	Contractual Services - Engineering				6,270		6,270
16	Contractual Services - Accounting				10,473		10,473
17	Contractual Services - Legal				12,933		12,933
18	Contractual Services - Mgmt Fees				211,138		211,138
19	Contractual Services - Other	(183,406)			15,976		15,976
20	Contr. Services - Water Testing				3,906		3,906
21	Rents - Building/Real Property				7,920		7,920
22	Rents - Equipment				8,314		8,314
23	Transportation Expenses				33,154		33,154
24	Insurance - Vehicle				5,111		5,111
25	Insurance - General Liability				32,130		32,130
26	Insurance - Worker's Comp				3,111		3,111
27	Reg. Comm. Exp.				11,946		11,946
28	Reg. Comm. Exp. - Rate Case				30,000		30,000
29	Bad Debt Expense				6,856		6,856
30	Miscellaneous Expense				11,424		11,424
31	Depreciation Expense				570,649		570,649
32	Taxes Other Than Income						
33	Property Taxes				103,681	656	104,337
34	Income Tax			106,244	106,244	11,037	117,281
35	Interest on Customer Sec. Dep.				4,981		4,981
36	Total Operating Expenses	\$ (183,406)	\$ 4,981	\$ 16,087	\$ 2,022,639	\$ 11,693	\$ 2,034,332
37	Operating Income	\$ 183,406	\$ (4,981)	\$ (16,087)	\$ 312,107	\$ 32,421	\$ 344,528
38	Other Income (Expense)						
39	Interest Income				33,771		33,771
40	Other Income				6,090		6,090
41	Interest Expense						
42	Other Expense						
43	Gain (loss) on Disposal of Equip				(10,496)		(10,496)
44	Total Other Income (Expense)	\$ -	\$ 4,981	\$ -	\$ 29,364	\$ -	\$ 29,364
45	Net Profit (Loss)	\$ 183,406	\$ -	\$ (16,087)	\$ 341,472	\$ 32,421	\$ 373,893

SUPPORTING SCHEDULES:
 C-1, page 1

SUPPORTING SCHEDULES:
 C-2
 E-2

Vail Water Company
 Test Year Ended December 31, 2011
 Adjustments to Revenues and Expenses

Exhibit
 Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	
1							
2	<u>Depreciation Expense</u>	<u>Property Taxes</u>	<u>Rate Case Expense</u>	<u>Revenue Annualization</u>	<u>Annualize Purchase Power</u>	<u>Remove CAP Recovery Fee Revenue</u>	
3				29,925		(93,671)	(63,745)
4	Revenues						
5							
6	Expenses	(65,303)	(4,434)	30,000	3,211		(36,526)
7							
8	Operating Income	65,303	4,434	(30,000)	29,925	(3,211)	(93,671)
9							(27,219)
10							
11	Interest						
12	Expense						-
13	Other						
14	Income /						-
15	Expense						
16							
17	Net Income	65,303	4,434	(30,000)	29,925	(3,211)	(93,671)
18							(27,219)
19							
20							
21		<u>Adjustments to Revenues and Expenses</u>					
22		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>
23							
24		<u>Mgmt Fees</u>	<u>Move Interest Expense to O.E.</u>	<u>Wages and Salaries</u>	<u>Income tax</u>		
25	Revenues						(63,745)
26							
27	Expenses	(183,406)	4,981	16,087	106,244		(92,620)
28							
29	Operating Income	183,406	(4,981)	(16,087)	(106,244)	-	-
30							28,875
31							
32	Interest						
33	Expense		4,981				4,981
34	Other						
35	Income /						-
36	Expense						
37							
38	Net Income	183,406	-	(16,087)	(106,244)	-	-
39							33,856

Vail Water Company
 Test Year Ended December 31, 2011
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Schedule C-2
 Page 2
 Witness: Bourassa

Depreciation Expense

Line No.	Acct.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1					
2					
3					
4	No.	Description	Cost	Rates	Expense
5	301	Organization Cost	-	0.00%	-
6	302	Franchise Cost	-	0.00%	-
7	303	Land and Land Rights	17,750	0.00%	-
8	304	Structures and Improvements	399,328	3.33%	13,298
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	1,126,979	3.33%	37,528
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	2,995	2.00%	60
14	310	Power Generation Equipment	-	5.00%	-
15	311	Electric Pumping Equipment	1,553,110	12.50%	194,139
16	320	Water Treatment Equipment	-	3.33%	-
17	320.1	Water Treatment Plant	-	3.33%	-
18	320.2	Chemical Solution Feeders	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	1,621,069	2.22%	35,988
20	330.1	Storage tanks	-	2.22%	-
21	330.2	Pressure Tanks	-	5.00%	-
22	331	Trans. and Dist. Mains	14,023,034	2.00%	280,461
23	333	Services	12,451	3.33%	415
24	334	Meters	923,082	8.33%	76,893
25	335	Hydrants	492,908	2.00%	9,858
26	336	Backflow Prevention Devices	7,901	6.67%	527
27	339	Other Plant and Misc. Equip.	6,553	6.67%	437
28	340	Office Furniture and Fixtures	29,683	6.67%	1,980
29	340.1	Computers and Software	15,621	20.00%	3,124
30	341	Transportation Equipment	54,806	20.00%	10,961
31	342	Stores Equipment	-	4.00%	-
32	343	Tools and Work Equipment	15,645	5.00%	782
33	344	Laboratory Equipment	-	10.00%	-
34	345	Power Operated Equipment	-	5.00%	-
35	346	Communications Equipment	-	10.00%	-
36	347	Miscellaneous Equipment	5,190	10.00%	519
37	348	Other Tangible Plant	-	10.00%	-
38		TOTALS	\$ 20,308,104		\$ 666,969
39					
40			<u>Gross CIAC</u>	<u>Amort. Rate</u>	
41		Less: Amortization of Contributions	\$ 2,930,228	3.2871%	\$ (96,320)
42		Total Depreciation Expense			\$ 570,649
43					
44		Adjusted Test Year Depreciation Expense			635,952
45					
46		Increase (decrease) in Depreciation Expense			(65,303)
47					
48		Adjustment to Revenues and/or Expenses			\$ (65,303)
49					
50		<u>SUPPORTING SCHEDULE</u>			
51		B-2, page 3			

Vail Water Company
 Test Year Ended December 31, 2011
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Schedule C-2
 Page 3
 Witness: Bourassa

Property Taxes

Line No.	<u>DESCRIPTION</u>	<u>Test Year as adjusted</u>	<u>Company Recommended</u>
1	Company Adjusted Test Year Revenues	\$ 2,334,747	\$ 2,334,747
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	4,669,494	4,669,494
4	Company Recommended Revenue	2,334,747	2,378,860
5	Subtotal (Line 4 + Line 5)	7,004,241	7,048,354
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,334,747	2,349,451
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	4,669,494	4,698,903
10	Plus: 10% of CWIP - 2010 ¹	-	-
11	Less: Net Book Value of Licensed Vehicles	22,449	22,449
12	Full Cash Value (Line 9 + Line 10 - Line 11)	4,647,045	4,676,454
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	929,409	935,291
15	Composite Property Tax Rate - Obtained from ADOR	11.1556%	11.1556%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 103,681	\$ 104,337
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	\$ 103,681	
19	Test Year Property Taxes	\$ 108,115	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	<u>\$ (4,434)</u>	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 104,337
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 103,681
24	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 656</u>
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 656
27	Increase in Revenue Requirement		\$ 44,114
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.48741%
29			
30			
31	¹ Intentionally excluded test year CWP.		
32			
33			
34			
35			
36			
37			
38			
39			
40			

Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 3

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Rate Case Expense

Line
No.
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

3	Estimated Rate Case Expense	\$	150,000
5	Estimated Amortization Period in Years		5
7	Annual Rate Case Expense	\$	<u>30,000</u>
9	Test Year Rate Case Expense	\$	-
11	Increase(decrease) Rate Case Expense	\$	<u>30,000</u>
13	Adjustment to Revenue and/or Expense	\$	<u>30,000</u>

Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
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Witness: Bourassa

Revenue Annualization

Line
No.

1		
2		
3		
4	Revenue Annualization	\$ 29,925
5		
6		
7		
8	Total Revenue from Annualization	<u>\$ 29,925</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ 29,925</u>
12		
13	<u>SUPPORTING SCHEDULES</u>	
14	C-2 pages 5.1 to 5.16	
15	H-1	
16		
17		
18		
19		
20		

Vail Water Company
Revenue Annualization to Year End Customers: Commercial 58x3/4 Inch Meter
Test Year Ended December 31, 2011

Line No.	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	
1	6	6	6	6	6	6	6	
2	7	7	7	7	7	7	7	
3	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
4	37.47	44.32	50.32	70.85	55.18	43.18	65.85	
5	(37)	(44)	(50)	-	-	-	-	
6	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
7	38.98	45.84	51.84	72.36	56.70	44.70	67.36	
8	(39)	(46)	(52)	-	-	-	-	
9	(6,072)	(7,786)	(9,286)	-	-	-	-	
10								
11	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year		
12	6	6	6	6	6			
13	6	6	6	6	6			
14	6	6	6	6	6			
15	6	6	6	6	6			
16	(3)							
17	48.85	45.18	30.18	38.52	26.52			
18	-	-	-	-	-			
19	-	-	-	-	-			
20	-	-	-	-	-			
21	50.36	46.70	31.70	40.03	28.03			
22	-	-	-	-	-			
23	-	-	-	-	-			
24	-	-	-	-	-			

Vail Water Company
 Revenue Annualization to Year End Customers: Commercial 3/4 Inch Meter
 Test Year Ended December 31, 2011

Exhibit
 Schedule C-2
 Page 5.5
 Witness: Bourassa

Line No.	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	2	2	2	2	2	2	2
2	2	2	2	6	2	2	2
3	(4)						
4	\$ 47.00	\$ 54.00	\$ 51.00	\$ 36.00	\$ 70.00	\$ 100.00	\$ 111.00
5	\$ -	\$ -	\$ -	\$ (144)	\$ -	\$ -	\$ -
6							
7	\$ 49.42	\$ 56.42	\$ 53.42	\$ 38.42	\$ 72.98	\$ 104.85	\$ 116.54
8	\$ -	\$ -	\$ -	\$ (154)	\$ -	\$ -	\$ -
9							
10				(15,001)			
11							
12							
13							
14							
15	2	2	2	2	2	2	2
16	2	2	2	2	2	2	2
17							
18	\$ 81.00	\$ 87.00	\$ 68.00	\$ 70.00	\$ 55.00		
19	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20							
21							
22	\$ 84.67	\$ 91.04	\$ 70.85	\$ 72.98	\$ 57.42		
23	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24							

Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
2	2	2	2	2	(4)
2	2	2	2	2	
\$ 81.00	\$ 87.00	\$ 68.00	\$ 70.00	\$ 55.00	\$ (144)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (154)
					\$ (15,001)

Vail Water Company
 Revenue Annualization to Year End Customers: Commercial 2 Inch Meter
 Test Year Ended December 31, 2011

Exhibit
 Schedule C-2
 Page 5.8
 Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	27	27	27	27	27	27	27
2	Actual Customers	25	25	25	25	25	25	25
3	Increase in Number of Customers/Bills	2	2	2	2	2	2	2
4	Average Revenue / Present Rates	\$ 197.70	\$ 223.06	\$ 227.70	\$ 234.42	\$ 230.10	\$ 212.34	\$ 234.64
5	Revenue Annualization / Present Rates	\$ 395	\$ 446	\$ 455	\$ 469	\$ 460	\$ 425	\$ 469
6								
7	Increase in Number of Customers	2	2	2	2	2	2	2
8	Average Revenue / Proposed Rates	\$ 214.69	\$ 240.05	\$ 244.69	\$ 251.41	\$ 247.09	\$ 229.33	\$ 251.63
9	Revenue Annualization / Proposed Rates	\$ 429	\$ 480	\$ 489	\$ 503	\$ 494	\$ 459	\$ 503
10	Additional Gallons to be Produced	25,001	37,681	40,001	43,361	41,201	32,321	43,472
11								
12								
13								
14								
15	Year End Number of Customers	Aug 27	Sep 27	Oct 27	Nov 27	Dec 27		
16	Actual Customers	26	27	27	27	27		
17	Increase in Number of Customers/Bills	1	-	-	-	-		15
18	Average Revenue / Present Rates	\$ 217.32	\$ 218.07	\$ 205.48	\$ 232.66	\$ 204.66		
19	Revenue Annualization / Present Rates	\$ 217	\$ -	\$ -	\$ -	\$ -		\$ 3,337
20								
21	Increase in Number of Customers	1	-	-	-	-		
22	Average Revenue / Proposed Rates	\$ 234.30	\$ 235.06	\$ 222.47	\$ 249.65	\$ 221.65		\$ 3,592
23	Revenue Annualization / Proposed Rates	\$ 217	\$ -	\$ -	\$ -	\$ -		\$ 280,442
24	Additional Gallons to be Produced	17,404	-	-	-	-		

Vail Water Company

Revenue Annualization to Year End Customers: Irrigation 5/8x3/4 Inch
Test Year Ended December 31, 2011

Exhibit
Schedule C-2
Page 5.9
Witness: Bourassa

Line No.	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	3	3	3	3	3	3	3
2	3	3	3	3	3	3	3
3	3	3	3	3	3	3	3
4	3	3	3	3	3	3	3
5	3	3	3	3	3	3	3
6	3	3	3	3	3	3	3
7	3	3	3	3	3	3	3
8	3	3	3	3	3	3	3
9	3	3	3	3	3	3	3
10	3	3	3	3	3	3	3
11	3	3	3	3	3	3	3
12	3	3	3	3	3	3	3
13	3	3	3	3	3	3	3
14	3	3	3	3	3	3	3
15	3	3	3	3	3	3	3
16	3	3	3	3	3	3	3
17	3	3	3	3	3	3	3
18	3	3	3	3	3	3	3
19	3	3	3	3	3	3	3
20	3	3	3	3	3	3	3
21	3	3	3	3	3	3	3
22	3	3	3	3	3	3	3
23	3	3	3	3	3	3	3
24	3	3	3	3	3	3	3

Line No.	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
1	3	3	3	3	3	
2	3	3	3	3	3	
3	3	3	3	3	3	
4	3	3	3	3	3	
5	3	3	3	3	3	
6	3	3	3	3	3	
7	3	3	3	3	3	
8	3	3	3	3	3	
9	3	3	3	3	3	
10	3	3	3	3	3	
11	3	3	3	3	3	
12	3	3	3	3	3	
13	3	3	3	3	3	
14	3	3	3	3	3	
15	3	3	3	3	3	
16	3	3	3	3	3	
17	3	3	3	3	3	
18	3	3	3	3	3	
19	3	3	3	3	3	
20	3	3	3	3	3	
21	3	3	3	3	3	
22	3	3	3	3	3	
23	3	3	3	3	3	
24	3	3	3	3	3	

Line No.	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	3	3	3	3	3	3	3
2	3	3	3	3	3	3	3
3	3	3	3	3	3	3	3
4	3	3	3	3	3	3	3
5	3	3	3	3	3	3	3
6	3	3	3	3	3	3	3
7	3	3	3	3	3	3	3
8	3	3	3	3	3	3	3
9	3	3	3	3	3	3	3
10	3	3	3	3	3	3	3
11	3	3	3	3	3	3	3
12	3	3	3	3	3	3	3
13	3	3	3	3	3	3	3
14	3	3	3	3	3	3	3
15	3	3	3	3	3	3	3
16	3	3	3	3	3	3	3
17	3	3	3	3	3	3	3
18	3	3	3	3	3	3	3
19	3	3	3	3	3	3	3
20	3	3	3	3	3	3	3
21	3	3	3	3	3	3	3
22	3	3	3	3	3	3	3
23	3	3	3	3	3	3	3
24	3	3	3	3	3	3	3

Vail Water Company

Revenue Annualization to Year End Customers: Irrigation 3/4 Inch
 Test Year Ended December 31, 2011

Exhibit
 Schedule C-2
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 Witness: Bourassa

Line No.		Month of Jan 11	Month of Feb 11	Month of Mar 11	Month of Apr 11	Month of May 11	Month of Jun 11	Month of Jul 11
1	Year End Number of Customers	11	11	11	11	11	11	11
2	Actual Customers	-	-	-	-	-	-	-
3	Increase in Number of Customers/Bills	40.27	31.55	35.18	37.36	41.55	44.09	47.36
4	Average Revenue / Present Rates	\$	\$	\$	\$	\$	\$	\$
5	Revenue Annualization / Present Rates	\$	\$	\$	\$	\$	\$	\$
6		-	-	-	-	-	-	-
7	Increase in Number of Customers	42.69	33.96	37.60	39.78	43.96	46.51	49.78
8	Average Revenue / Proposed Rates	\$	\$	\$	\$	\$	\$	\$
9	Revenue Annualization / Proposed Rates	\$	\$	\$	\$	\$	\$	\$
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-
12		-	-	-	-	-	-	-
13		-	-	-	-	-	-	-
14		-	-	-	-	-	-	-
15	Year End Number of Customers	11	11	11	11	11	11	11
16	Actual Customers	10	11	11	11	11	11	1
17	Increase in Number of Customers/Bills	1	-	-	-	-	-	-
18	Average Revenue / Present Rates	\$ 32.20	\$ 44.46	\$ 37.18	\$ 43.36	\$ 31.00	\$	\$
19	Revenue Annualization / Present Rates	\$	\$	\$	\$	\$	\$	\$
20		-	-	-	-	-	-	-
21	Increase in Number of Customers	1	-	-	-	-	-	-
22	Average Revenue / Proposed Rates	\$ 34.62	\$ 46.87	\$ 39.60	\$ 45.78	\$ 33.42	\$	\$
23	Revenue Annualization / Proposed Rates	\$	\$	\$	\$	\$	\$	\$
24	Additional Gallons to be Produced	2,800	-	-	-	-	-	2,800

Vail Water Company
Revenue Annualization to Year End Customers: Irrigation 1 Inch
Test Year Ended December 31, 2011

Exhibit
 Schedule C-2
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 Witness: Bourassa

Line No.	Month of Jan 16	Month of Feb 16	Month of Mar 16	Month of Apr 16	Month of May 16	Month of Jun 16	Month of Jul 16
1	1	1	1	1	1	1	1
2	86.10	97.70	86.37	88.64	105.53	111.17	136.70
3	\$ 86	\$ 98	\$ 86	\$ 89	\$ 106	\$ 111	\$ 137
4	1	1	1	1	1	1	1
5	90.76	102.36	91.03	93.29	110.19	115.83	141.36
6	\$ 91	\$ 102	\$ 91	\$ 93	\$ 110	\$ 116	\$ 141
7	11,400	14,300	11,467	12,034	16,257	17,667	24,050
8	1	1	1	1	1	1	1
9	93.43	99.17	96.50	86.75	70.75	-	-
10	\$ 93	\$ 99	\$ 97	\$ -	\$ -	\$ -	\$ -
11	1	1	1	1	1	1	1
12	98.09	103.83	101.16	91.41	75.41	-	-
13	\$ 93	\$ 99	\$ 97	\$ -	\$ -	\$ -	\$ -
14	13,234	14,667	14,000	-	-	-	-
15	1	1	1	1	1	1	1
16	93.43	99.17	96.50	86.75	70.75	-	-
17	\$ 93	\$ 99	\$ 97	\$ -	\$ -	\$ -	\$ -
18	1	1	1	1	1	1	1
19	98.09	103.83	101.16	91.41	75.41	-	-
20	\$ 93	\$ 99	\$ 97	\$ -	\$ -	\$ -	\$ -
21	13,234	14,667	14,000	-	-	-	-
22	1	1	1	1	1	1	1
23	93.43	99.17	96.50	86.75	70.75	-	-
24	\$ 93	\$ 99	\$ 97	\$ -	\$ -	\$ -	\$ -
	10						
	\$ 1,001						
	\$ 1,048						
	149,077						

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	6	6	6	6	6	6	6
2	Actual Customers	7	7	6	7	6	7	7
3	Increase in Number of Customers/Bills	(1)	(1)	-	(1)	-	(1)	(1)
4	Average Revenue / Present Rates	\$ 180.54	\$ 167.18	\$ 122.20	\$ 170.59	\$ 167.54	\$ 280.79	\$ 334.47
5	Revenue Annualization / Present Rates	\$ (181)	\$ (167)	\$ -	\$ (171)	\$ -	\$ (281)	\$ (334)
6								
7	Increase in Number of Customers	(1)	(1)	-	(1)	-	(1)	(1)
8	Average Revenue / Proposed Rates	\$ 190.80	\$ 177.44	\$ 132.46	\$ 180.85	\$ 177.79	\$ 291.05	\$ 347.55
9	Revenue Annualization / Proposed Rates	\$ (191)	\$ (177)	\$ -	\$ (181)	\$ -	\$ (291)	\$ (348)
10	Additional Gallons to be Produced	(22,836)	(19,495)	-	(20,347)	-	(47,898)	(61,317)
11								
12								
13								
14								
15	Year End Number of Customers	6	6	6	6	6	6	6
16	Actual Customers	7	7	7	6	6	6	6
17	Increase in Number of Customers/Bills	(1)	(1)	(1)	-	-	-	(8)
18	Average Revenue / Present Rates	\$ 315.64	\$ 291.29	\$ 245.37	\$ 147.87	\$ 119.87		
19	Revenue Annualization / Present Rates	\$ (316)	\$ (291)	\$ (245)	\$ -	\$ -	\$ (1,986)	
20								
21	Increase in Number of Customers	(1)	(1)	(1)	-	-	-	
22	Average Revenue / Proposed Rates	\$ 327.55	\$ 301.68	\$ 255.62	\$ 158.13	\$ 130.13		
23	Revenue Annualization / Proposed Rates	\$ (316)	\$ (291)	\$ (245)	\$ -	\$ -	\$ (2,073)	
24	Additional Gallons to be Produced	(56,610)	(50,524)	(39,041)	-	-	(318,068)	

Vail Water Company
 Revenue Annualization to Year End Customers: Irrigation 2 Inch
 Test Year Ended December 31, 2011

Exhibit
 Schedule C-2
 Page 5.13
 Witness: Bourassa

Line No.	Month of	Jan	Feb	Mar	Apr	May	Jun	Jul
1	Year End Number of Customers	13	13	13	13	13	13	13
2	Actual Customers	11	11	11	12	12	12	11
3	Increase in Number of Customers/Bills	2	2	2	1	1	1	2
4	Average Revenue / Present Rates	\$ 568.36	\$ 486.76	\$ 505.51	\$ 740.83	\$ 1,050.95	\$ 1,072.22	\$ 1,112.21
5	Revenue Annualization / Present Rates	\$ 1,137	\$ 974	\$ 1,011	\$ 741	\$ 1,051	\$ 1,072	\$ 2,224
6								
7	Increase in Number of Customers	2	2	2	1	1	1	2
8	Average Revenue / Proposed Rates	\$ 591.64	\$ 504.93	\$ 524.85	\$ 774.89	\$ 1,104.39	\$ 1,126.99	\$ 1,169.47
9	Revenue Annualization / Proposed Rates	\$ 1,183	\$ 1,010	\$ 1,050	\$ 775	\$ 1,104	\$ 1,127	\$ 2,339
10	Additional Gallons to be Produced	210,329	169,528	178,903	148,283	225,813	231,131	482,253
11								
12								
13								
14								
15	Year End Number of Customers	13	13	13	13	13	13	13
16	Actual Customers	11	12	12	13	13	13	13
17	Increase in Number of Customers/Bills	2	1	1	-	-	-	15
18	Average Revenue / Present Rates	\$ 818.25	\$ 978.98	\$ 712.57	\$ 829.10	\$ 748.46		
19	Revenue Annualization / Present Rates	\$ 1,636	\$ 979	\$ 713	\$ -	\$ -		\$ 11,538
20								
21	Increase in Number of Customers	2	1	1	-	-	-	
22	Average Revenue / Proposed Rates	\$ 857.14	\$ 1,027.92	\$ 744.86	\$ 868.67	\$ 782.99		\$ 12,075
23	Revenue Annualization / Proposed Rates	\$ 1,636	\$ 979	\$ 713	\$ -	\$ -		\$ 2,330,549
24	Additional Gallons to be Produced	335,273	207,820	141,217	-	-		

Vail Water Company
 Test Year Ended December 31, 2011
 Customer Classification
 Gallons Sold Data

Standpipe - 1 Inch

Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)	MidPoint Usage	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
--------------	--------------	------------	--------------------	--------------------------	----------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------

Vail Water Company
 Revenue Annualization to Year End Customers: Standpipe - 1 Inch
 Test Year Ended December 31, 2011
 Schedule C-2
 Page 5.15
 Witness: Bourassa

Line No.	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	1	1	1	1	1	1	1
2	1	1	1	1	1	1	1
3	130.50	170.50	150.50	190.50	230.50	210.50	190.50
4	\$	\$	\$	\$	\$	\$	\$
5	\$	\$	\$	\$	\$	\$	\$
6							
7	95.63	138.13	116.88	159.38	201.88	180.63	159.38
8	\$	\$	\$	\$	\$	\$	\$
9	\$	\$	\$	\$	\$	\$	\$
10							
11							
12							
13							
14							
15	210.50	260.50	230.50	150.50	130.50		
16	\$	\$	\$	\$	\$	\$	\$
17	\$	\$	\$	\$	\$	\$	\$
18							
19	180.63	233.75	201.88	116.88	95.63		
20	\$	\$	\$	\$	\$	\$	\$
21	\$	\$	\$	\$	\$	\$	\$
22							
23							
24							

Line No.	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
1	1	1	1	1	1	1
2	1	1	1	1	1	1
3	210.50	260.50	230.50	150.50	130.50	
4	\$	\$	\$	\$	\$	\$
5	\$	\$	\$	\$	\$	\$
6						
7	180.63	233.75	201.88	116.88	95.63	
8	\$	\$	\$	\$	\$	\$
9	\$	\$	\$	\$	\$	\$
10						
11						
12						
13						
14						
15	210.50	260.50	230.50	150.50	130.50	
16	\$	\$	\$	\$	\$	\$
17	\$	\$	\$	\$	\$	\$
18						
19	180.63	233.75	201.88	116.88	95.63	
20	\$	\$	\$	\$	\$	\$
21	\$	\$	\$	\$	\$	\$
22						
23						
24						

Line No.	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
1	1	1	1	1	1	1
2	1	1	1	1	1	1
3	210.50	260.50	230.50	150.50	130.50	
4	\$	\$	\$	\$	\$	\$
5	\$	\$	\$	\$	\$	\$
6						
7	180.63	233.75	201.88	116.88	95.63	
8	\$	\$	\$	\$	\$	\$
9	\$	\$	\$	\$	\$	\$
10						
11						
12						
13						
14						
15	210.50	260.50	230.50	150.50	130.50	
16	\$	\$	\$	\$	\$	\$
17	\$	\$	\$	\$	\$	\$
18						
19	180.63	233.75	201.88	116.88	95.63	
20	\$	\$	\$	\$	\$	\$
21	\$	\$	\$	\$	\$	\$
22						
23						
24						

Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Annualize Purchased Power

Line No.			
1			
2	Purchased power expense recorded in test year	\$	215,373
3			
4	Gallons sold in test year (in 1,000's)		344,456
5			
6	Cost per 1,000 gallons	\$	0.63
7			
8	Additional gallons sold from annualization (in 1,000's)	\$	5,097
9			
10	Increase in purchased power expense	\$	3,211
11			
12			
13	Adjustment to Revenue and/or Expense	\$	<u>3,211</u>
14			
15			
16			
17	<u>SUPPORTING SCHEDULES</u>		
18	Work papers		
19	H-1		
20			

Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Remove C.A.P. Recovery Fee Revenues

Line No.		
1		
2		
3	C.A.P. Recovery Fee revenues recorded in test year	<u>(93,671)</u>
4		
5		
6	Total	<u>\$ (93,671)</u>
7		
8		
9		
10		
11	Adjustment to other water revenues.	\$ (93,671)
12		
13		
14	Adjustment to Revenue and/or Expense	<u>\$ (93,671)</u>
15		
16	<u>REFERENCE</u>	
17	Work papers	
18	Testimony	
19		
20		

Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Contractual Services - Management Fees

Line No.		
1		
2	Number of test year billings	45,819
3	Additional billings from revenue annualization	585
4		<hr/>
5	Total adjusted test year number of billings	46,404
6		
7		
8	Cost per bill	\$ 4.55
9		
10	Total Cost	\$ 211,138
11		
12	Management fees recorded in test year	\$ 394,545
13		<hr/>
14	Increase (decrease) in Contractual Services - Management Fees	\$ (183,406)
15		
16		
17	Adjustment to Revenue and/or Expense	<u>\$ (183,406)</u>
18		
19	<u>REFERENCE</u>	
20	Work papers	

Vail Water Company
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

Reclass Interest Expense on Customer Security Deposits

Line No.			
1			
2	<u>Interest on customer security deposits recorded in test year</u>	\$	4,981
3			
4			
5	Adjustment to operating expenses	\$	4,981
6			
7			
8	Adjustment to Revenue and/or Expense	\$	<u>4,981</u>
9			
10			
11			
12			
13			
14			
15			
16			
17	<u>REFERENCE</u>		
18	Work papers		
19			
20			

Vail Water Company
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Schedule C-2
Page 10
Witness: Bourassa

Wages and Salaries

Line No.		
1		
2	Proforma 2012 wages and salaries (including payroll taxes)	\$ 276,984
3		
4	Test year wages and salaries (including payroll taxes)	<u>\$ 260,897</u>
5		
6	Increase (decrease) in wages and salaries	<u>\$ 16,087</u>
7		
8		
9		
10	Adjustment to Revenue and/or Expense	<u>\$ 16,087</u>
11		
12		
13		
14		
15	<u>REFERENCE</u>	
16	Work papers	
17		
18		
19		
20		

Vail Water Company
 Test Year Ended December 31, 2011
 Adjustment to Revenues and/or Expenses
 Adjustment Number 10

Exhibit
 Schedule C-2
 Page 11
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjusted with Rate Increase
1	<u>Income Tax Computation</u>		
2			
3			
4			
5			
6	Revenue	\$ 2,334,747	\$ 2,378,860
	Operating Expenses Excluding Income Taxes	1,916,395	1,917,051
	Synchronized Interest	-	-
7	Income Before Taxes	<u>\$ 418,352</u>	<u>\$ 461,809</u>
8			
9	Arizona Income Before Taxes	\$ 418,352	\$ 461,809
10			
11	Less: Effective Arizona Income Tax	<u>\$ 12,973</u>	<u>\$ 14,321</u>
12	Rate = 3.1010% ¹		
13	Arizona Taxable Income	\$ 405,379	\$ 447,488
14			
15	Arizona Income Taxes	\$ 12,973	\$ 14,321
16			
17	Federal Income Before Taxes	\$ 418,352	\$ 461,809
18			
19	Less Arizona Income Taxes	<u>\$ 12,973</u>	<u>\$ 14,321</u>
20			
21	Federal Taxable Income	<u>\$ 405,379</u>	<u>\$ 447,488</u>
22			
23			
24			
25	FEDERAL INCOME TAXES:		
26	Effective Federal Tax Rate = 23.0084% ¹	\$ 93,271	\$ 102,960
27			
28			
29			
30			
31			
32	Federal Income Taxes	<u>\$ 93,271</u>	<u>\$ 102,960</u>
33			
34			
35	Total Income Tax	<u>\$ 106,244</u>	<u>\$ 117,281</u>
36			
37	Overall Tax Rate	<u>25.40%</u>	<u>25.40%</u>
38			
39	Income Tax	\$ 106,244	\$ 117,281
40	Test Year Income tax Expense	-	106,244
41	Adjustment to Income Tax Expense	<u>\$ 106,244</u>	<u>\$ 11,036</u>
42			
43			
44	¹ See work papers/testimony		

Vail Water Company
 Test Year Ended December 31, 2011
 Computation of Gross Revenue Conversion Factor

Exhibit
 Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Combined Federal and State Effective Income Tax Rate	25.396%
2		
3	Property Taxes	<u>1.110%</u>
4		
5		
6	Total Tax Percentage	26.506%
7		
8	Operating Income % = 100% - Tax Percentage	73.494%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.3606
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<i>Calculation of Gross Revenue Conversion Factor:</i>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	26.5056%					
5	Subtotal (L3 - L4)	73.4944%					
6	Revenue Conversion Factor (L1 / L5)	1.360648					
<i>Calculation of Uncollectible Factor:</i>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (Line 17)	25.3959%					
9	One Minus Combined Income Tax Rate (L7 - L8)	74.6041%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<i>Calculation of Effective Tax Rate:</i>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	3.1010%					
14	Federal Taxable Income (L12 - L13)	96.8990%					
15	Applicable Federal Income Tax Rate (Line 53)	23.0084%					
16	Effective Federal Income Tax Rate (L14 x L15)	22.2949%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		25.3959%				
<i>Calculation of Effective Property Tax Factor:</i>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	25.3959%					
20	One Minus Combined Income Tax Rate (L18-L19)	74.6041%					
21	Property Tax Factor	1.4874%					
22	Effective Property Tax Factor (L20*L21)		1.1097%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			26.5056%			
24	Required Operating Income	\$ 344,528					
25	Adjusted Test Year Operating Income (Loss)	\$ 312,107					
26	Required Increase in Operating Income (L24 - L25)		\$ 32,421				
27	Income Taxes on Recommended Revenue (Col. (E), L52)	\$ 117,281					
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ 106,244					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 11,037				
30	Recommended Revenue Requirement	\$ 2,378,860					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 104,337					
36	Property Tax on Test Year Revenue	\$ 103,681					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 656				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 44,114				

	(A) Test Year			(B) Company Recommended		
	Total	Vail Water Company		Total	Vail Water Company	
39 Revenue	\$ 2,334,747	\$ 2,334,747		\$ 2,378,860	\$ 2,378,860	
40 Operating Expenses Excluding Income Taxes	\$ 1,916,395	\$ 1,916,395		\$ 1,917,051	\$ 1,917,051	
41 Synchronized Interest (L58)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
42 Arizona Taxable Income (L39 - L40 - L41)	\$ 418,352	\$ 418,352	\$ -	\$ 461,810	\$ 461,810	\$ -
43 Arizona State Effective Income Tax Rate (see work papers)	3.1010%	3.1010%	3.1010%	3.1010%	3.1010%	3.1010%
44 Arizona Income Tax (L42 x L43)	\$ 12,973	\$ 12,973	\$ -	\$ 14,321	\$ 14,321	\$ -
45 Federal Taxable Income (L42 - L44)	\$ 405,379	\$ 405,379	\$ -	\$ 447,489	\$ 447,489	\$ -
46 Effective Tax Rate (see work papers)	23.0084%	23.0084%		23.0084%	23.0084%	
47 Federal Income Tax	\$ 93,271	\$ 93,271	\$ -	\$ 102,960	\$ 102,960	\$ -
48	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
49	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
51 Total Federal Income Tax	\$ 93,271	\$ 93,271	\$ -	\$ 102,960	\$ 102,960	\$ -
52 Combined Federal and State Income Tax (L44 + L47)	\$ 106,244	\$ 106,244	\$ -	\$ 117,281	\$ 117,281	\$ -

53
 54 WATER Applicable Federal Income Tax Rate [Col. (E), L51 - Col. (B), L51] / [Col. (E), L45 - Col. (B), L45] 23.0084%
 55

<i>Calculation of Interest Synchronization:</i>		
56 Rate Base	\$ 3,312,774	N/A
57 Weighted Average Cost of Debt	0.0000%	0.0000%
58 Synchronized Interest (L56 X L57)	\$ -	\$ -

Vail Water Company
Test Year Ended December 31, 2011
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.	Test Year Ended 12/31/2011	Year Ended 12/31/2010	Year Ended 12/31/2009
1	ASSETS		
2	\$ 20,308,105	\$ 20,065,324	\$ 20,043,125
3	3,500	3,500	3,500
4	69,613	69,613	69,613
5	(6,432,277)	(5,664,565)	(4,899,881)
6	<u>\$ 13,948,940</u>	<u>\$ 14,473,872</u>	<u>\$ 15,216,357</u>
7			
8	CURRENT ASSETS		
9	\$ 596,586	\$ 472,948	\$ 777,618
10	2,142,090	2,253,417	2,500,901
11	915,478	705,471	2,595
12	154,197	194,348	148,173
13	62,420	62,420	62,420
14	-	-	-
15	-	-	-
16	-	-	-
17	<u>\$ 3,870,770</u>	<u>\$ 3,688,604</u>	<u>\$ 3,491,706</u>
18			
19	<u>\$ 1,104,206</u>	<u>\$ 903,150</u>	<u>\$ 676,847</u>
20	<u>\$ 1,104,206</u>	<u>\$ 903,150</u>	<u>\$ 676,847</u>
21			
22	\$ -	\$ -	\$ -
23			
24	<u>\$ 18,923,916</u>	<u>\$ 19,065,626</u>	<u>\$ 19,384,909</u>
25			
26			
27	LIABILITIES AND STOCKHOLDERS' EQUITY		
28			
29	\$ 4,373,528	\$ 4,453,412	\$ 4,414,639
30			
31	\$ -	\$ -	\$ -
32			
33	CURRENT LIABILITIES		
34	\$ 113,137	\$ 77,335	\$ 59,623
35	-	-	-
36	-	-	-
37	83,375	83,100	75,825
38	-	-	-
39	3,547	2,257	69,222
40	-	-	-
41	-	-	-
42	<u>\$ 200,058</u>	<u>\$ 162,693</u>	<u>\$ 204,670</u>
43	DEFERRED CREDITS		
44	\$ 529,140	\$ 610,807	\$ 695,206
45	11,374,431	11,663,584	11,951,921
46	-	-	-
47	3,117,009	2,711,008	2,531,864
48	(670,251)	(535,878)	(413,392)
49	<u>\$ 14,350,330</u>	<u>\$ 14,449,521</u>	<u>\$ 14,765,600</u>
50			
51	<u>\$ 18,923,916</u>	<u>\$ 19,065,626</u>	<u>\$ 19,384,909</u>
52			
53			
54			
55	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
56	Workpapers	A-3	
57			

Vail Water Company
Test Year Ended December 31, 2011
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.	Test Year Ended <u>12/31/2011</u>	Prior Year Ended <u>12/31/2010</u>	Prior Year Ended <u>12/31/2009</u>
1	Revenues		
2	\$ 2,090,185	\$ 2,045,027	\$ 2,057,807
3	-	-	-
4	308,307	340,426	312,502
5	<u>\$ 2,398,492</u>	<u>\$ 2,385,453</u>	<u>\$ 2,370,309</u>
6	Operating Expenses		
7	\$ 260,897	\$ 238,424	\$ 250,245
8	12,757	16,276	21,389
9	199,817	172,963	143,003
10	215,373	211,105	211,964
11	1,732	1,743	4,184
12	14,372	10,223	10,793
13	28,876	13,263	14,059
14	73,301	65,947	67,225
15	6,270	7,035	13,001
16	10,473	10,545	10,462
17	12,933	25	6,006
18	394,545	387,294	377,315
19	15,976	11,993	10,386
20	3,906	14,220	14,624
21	7,920	6,525	6,334
22	8,314	2,470	8,941
23	33,154	24,245	24,247
24	5,111	5,111	5,224
25	32,130	32,989	34,629
26	3,111	2,905	4,799
27	11,946	5,475	8,568
28	-	-	-
29	6,856	5,124	-
30	11,424	14,290	14,019
31	635,952	645,432	660,269
32	-	-	-
33	108,115	121,758	132,021
34	-	-	-
35	-	-	-
36	<u>\$ 2,115,259</u>	<u>\$ 2,027,381</u>	<u>\$ 2,053,707</u>
37	<u>\$ 283,233</u>	<u>\$ 358,072</u>	<u>\$ 316,602</u>
38	Other Income (Expense)		
39	33,771	36,739	50,089
40	6,090	6,434	3,205
41	(4,981)	(4,491)	(4,229)
42	-	-	-
43	(10,496)	(7,981)	(8,789)
44	<u>\$ 24,383</u>	<u>\$ 30,701</u>	<u>\$ 40,277</u>
45	<u>\$ 307,616</u>	<u>\$ 388,773</u>	<u>\$ 356,878</u>

49 SUPPORTING SCHEDULES:
50 Workpapers
51

RECAP SCHEDULES:
A-2

Vail Water Company
Test Year Ended December 31, 2011
Comparative Statements of Cash Flows

Exhibit
Schedule E-3
Page 1
Witness: Bourassa

Line No.	Test Year Ended <u>12/31/2011</u>	Prior Year Ended <u>12/31/2010</u>	Prior Year Ended <u>12/31/2009</u>
3	Cash Flows from Operating Activities		
4	\$ 307,616	\$ 388,773	\$ 356,878
5	(2,613)	(3,235)	(8,345)
6	provided by operating activities:		
7	635,952	645,432	660,269
8	Other - Adjustments		
9	Changes in Certain Assets and Liabilities:		
10	40,151	(46,175)	(1,825)
11	Accounts Receivable		
12	Unbilled Revenues		
13	Materials and Supplies Inventory		
14	(201,056)	(226,303)	(676,847)
15	Prepaid Expenses		
16	35,802	17,712	40,268
17	Deferred Charges		
18	(81,392)	(77,125)	(85,166)
19	1,289	(66,965)	166
20	Notes Receivable		
21	Accounts Payable		
22	Intercompany payable		
23	Customer Meter Deposits		
24	Taxes Payable		
25	Other assets and liabilities		
26	Net Cash Flow provided by Operating Activities		
27	\$ 735,749	\$ 632,115	\$ 285,400
28	Cash Flow From Investing Activities:		
29	(242,781)	(22,199)	(24,840)
30	Capital Expenditures		
31	-	-	-
32	Plant Held for Future Use		
33	Changes in debt reserve fund		
34	Net Cash Flows from Investing Activities		
35	\$ (242,781)	\$ (22,199)	\$ (24,840)
36	Cash Flow From Financing Activities		
37	111,327	247,483	521,921
38	(210,007)	(702,876)	-
39	Change in Restricted Cash		
40	406,002	179,144	212,688
41	(289,153)	(288,337)	(326,316)
42	Change in Short-term Investments		
43	(387,500)	(350,000)	(140,000)
44	Proceeds from Long-Term Debt		
45	Net receipt of contributions in aid of construction		
46	Net receipts of advances in aid of construction		
47	Repayments of Long-Term Debt		
48	Distributions/Dividends Paid		
49	Deferred Financing Costs		
50	Addnl Paid in Capital		
51	Net Cash Flows Provided by Financing Activities		
52	\$ (369,330)	\$ (914,586)	\$ 268,294
53	123,638	(304,670)	528,854
54	472,948	777,618	248,764
55	\$ 596,586	\$ 472,948	\$ 777,618

44 SUPPORTING SCHEDULES:
45 Workpapers/cashflow water.xls
46

RECAP SCHEDULES:
A-5

Vail Water Company
 Test Year Ended December 31, 2011
 Statement of Changes in Stockholder's Equity

Exhibit
 Schedule E-4
 Page 1
 Witness: Bourassa

Line No.		Common Stock	Additional Paid-In-Capital	Retained Earnings	Total
1					
2					
3					
4	Balance, December 31, 2008	\$ 638,099	\$ 2,445,314	\$ 1,114,348	\$ 4,197,761
5	Addnl Paid In Capital Adjustment				-
6	Distributions/Dividends			(140,000)	(140,000)
7	Rounding				-
8	Net Income			356,878	356,878
9					
10	Balance, December 31, 2009	\$ 638,099	\$ 2,445,314	\$ 1,331,226	\$ 4,414,639
11	Addnl Paid In Capital				-
12	Distributions/Dividends			(350,000)	(350,000)
13	Rounding				-
14	Net Income			388,773	388,773
15					
16	Balance, December 31, 2010	\$ 638,099	\$ 2,445,314	\$ 1,369,999	\$ 4,453,412
17	Addnl Paid In Capital				-
18	Distributions/Dividends			(387,500)	(387,500)
19	Rounding				-
20	Net Income			307,616	307,616
21					
22	Balance, December 31, 2011	<u>\$ 638,099</u>	<u>\$ 2,445,314</u>	<u>\$ 1,290,115</u>	<u>\$ 4,373,528</u>
23					
24					
25					
26					
27					
28					
29	<u>SUPPORTING SCHEDULES:</u>			<u>RECAP SCHEDULES:</u>	
30				E-1	
31					
32					
33					
34					
35					
36					
37					
38					
39					
40					

Vail Water Company
 Test Year Ended December 31, 2011
 Detail of Plant in Service

Exhibit
 Schedule E-5
 Page 1
 Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2010	Plant Additions, Reclassifications or Retirements	Plant Balance at 12/31/2011
1					
2	301	Organization Cost	\$ -	\$ -	\$ -
3	302	Franchise Cost	-	-	-
4	303	Land and Land Rights	17,750	-	17,750
5	304	Structures & Improvements	399,327	1	399,328
6	305	Collecting & Impounding Reservoirs	-	-	-
7	306	Lake, River, Canal Intakes	-	-	-
8	307	Wells & Springs	1,126,979	-	1,126,979
9	308	Infiltration Galleries	-	-	-
10	309	Raw Water Supply Mains	-	2,995	2,995
11	310	Power Generation Equipment	-	-	-
12	311	Pumping Equipment	1,550,355	2,755	1,553,110
13	320	Water Treatment Equipment	-	-	-
14	320	Water Treatment Plants	-	-	-
15	320.2	Solution Chemical Feeders	-	-	-
16	330.0	Distribution Reservoirs & Standpipes	1,621,069	-	1,621,069
17	330	Storage Tanks	-	-	-
18	330.2	Pressure Tanks	-	-	-
19	331.0	Transmission & Distribution Mains	13,822,490	200,544	14,023,034
20	331	Trans. and Dist. Mains	12,451	-	12,451
21	333	Services	904,148	18,934	923,082
22	334	Meters	477,958	14,950	492,908
23	335	Hydrants	7,901	-	7,901
24	336	Backflow Prevention Devices	6,553	-	6,553
25	339	Other Plant and Misc. Equip.	29,680	3	29,683
26	340	Office Furniture and Fixtures	15,620	1	15,621
27	340.1	Computers and Software	54,806	-	54,806
28	341	Transportation Equipment	-	-	-
29	342	Stores Equipment	13,043	2,602	15,645
30	343	Tools and Work Equipment	-	-	-
31	344	Laboratory Equipment	-	-	-
32	345	Power Operated Equipment	-	-	-
33	346	Communications Equipment	5,190	-	5,190
34	347	Miscellaneous Equipment	-	-	-
35	348	Other Tangible Plant	(149,395)	-	(149,395)
36					
37					
38		TOTAL WATER PLANT	\$ 19,915,925	\$ 242,785	\$ 20,158,709

SUPPORTING SCHEDULES

41 Workpapers/Trial Balance Mapping Water and Sewer tjb.xls

42
43

RECAP SCHEDULES:

A-4
E-1

Vail Water Company
 Test Year Ended December 31, 2011
 Operating Statistics

Exhibit
 Schedule E-7
 Page 1
 Witness: Bouras

Line No.		Test Year Ended <u>12/31/2011</u>	Prior Year Ended <u>12/31/2010</u>	Prior Year Ended <u>12/31/2009</u>
1	<u>WATER STATISTICS:</u>			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	344,580	336,989	344,852
6				
7				
8				
9	Water Revenues from Customers:	\$ 2,090,185	\$ 2,045,027	\$ 2,057,807
10				
11				
12				
13				
14	Year End Number of Customers	10,188	10,193	10,187
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	34	33	34
19				
20				
21				
22	Annual Revenue per Year End Customer	\$ 205.16	\$ 200.63	\$ 202.00
23				
24	Pumping Cost Per 1,000 Gallons	\$ 0.6250	\$ 0.6264	\$ 0.6147
25	Purchased Water Cost per 1,000 Gallons	\$ 0.5799	\$ 0.5133	\$ 0.4147

Vail Water Company
Test Year Ended December 31, 2011
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2011	Prior Year Ended 12/31/2010	Prior Year Ended 12/31/2009
1	Description			
2				
3	State Income Taxes	\$ -	\$ -	\$ -
4	Federal Income Taxes	-	-	-
5	Payroll Taxes	19,567	17,882	18,768
6	Property Taxes	108,115	121,758	132,021
7				
8	Totals	<u>\$ 127,682</u>	<u>\$ 139,640</u>	<u>\$ 150,790</u>
9				
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Vail Water Company
Test Year Ended December 31, 2011
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

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See attached audited financial statements.

LaVoie & Co., P.C.
Certified Public Accountants

February 17, 2012

Mr. Christopher Volpe, CPA
Vice President and Treasurer
Vail Water Company, Inc.
1010 N. Finance Center Drive, Ste. 200
Tucson, AZ 85710

Dear Kip:

Enclosed are the audited financial statements for the years ending December 31, 2011 and 2010.

If you have any questions, please feel free to contact me.

Sincerely,



Thomas R. LaVoie
LaVoie & Company, P.C.

TRLmf

Enclosure

VAIL WATER COMPANY
AUDITED FINANCIAL STATEMENTS
December 31, 2011 and 2010

Vail Water Company
Audited Financial Statements
December 31, 2011 and 2010

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Statements of Assets, Capitalization and Liabilities - Income Tax Basis	2
Statements of Revenue, Expenses and Accumulated Earnings - Income Tax Basis	4
Notes to Financial Statements	5

INDEPENDENT AUDITORS' REPORT

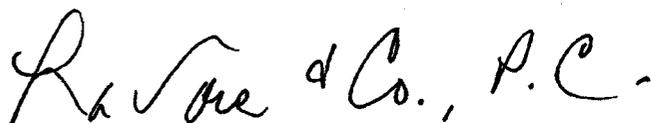
Board of Directors
Vail Water Company
Tucson, Arizona

We have audited the accompanying statements of assets, capitalization and liabilities - income tax basis of Vail Water Company (an Arizona S-Corporation) as of December 31, 2011 and 2010, and the related statements of revenue, expenses and accumulated earnings - income tax basis for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, capitalization, and liabilities of Vail Water Company at December 31, 2011 and 2010 and its revenue, expenses and accumulated earnings for the years then ended, on the basis of accounting described in Note 2.



La Voie & Company, P.C.
Tucson, Arizona
February 13, 2012

Vail Water Company

STATEMENTS OF ASSETS, CAPITALIZATION AND
LIABILITIES - INCOME TAX BASIS

	December 31,	
	2011	2010
ASSETS		
Utility Plant:		
Land	\$ 17,750	\$ 17,750
Plant and equipment (Note 3)	20,274,736	20,031,954
Construction work-in-progress (Note 4)	69,613	69,613
Total Utility Plant	20,362,099	20,119,317
Less accumulated depreciation	(6,416,657)	(5,648,945)
Net Utility Plant	13,945,442	14,470,372
Other Assets:		
Water storage and recharge credits (Note 9)	1,104,206	903,150
Other	3,500	3,500
	1,107,706	906,650
Current Assets:		
Cash	596,586	472,948
Customer accounts receivable	154,197	194,348
Receivable from annexation group	62,420	62,420
Total Current Assets	813,203	729,716
Noncurrent Assets:		
Money market funds (Note 5)	505,858	277,914
Certificates of deposit (Note 5)	2,551,710	2,680,974
	3,057,568	2,958,888
Total Assets	\$ 18,923,919	\$ 19,065,626

The accompanying notes are an integral part of these financial statements.

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
CAPITALIZATION & LIABILITIES		
Capitalization:		
Common stock (\$10 par value; 1,000,000 shares authorized; 63,810 shares issued and outstanding)	\$ 638,099	\$ 638,099
Capital-in-excess of stated value	2,445,314	2,445,314
Accumulated earnings	<u>1,290,116</u>	<u>1,369,999</u>
Total Capitalization	4,373,529	4,453,412
Current Liabilities:		
Accounts payable and accrued expenses	116,684	79,593
Customer deposits, current portion (Note 6)	<u>128,000</u>	<u>136,000</u>
Total Current Liabilities	244,684	215,593
Customer Deposits, long-term (Note 6)	484,515	557,906
Advances For Construction:		
Line extension agreements (Note 7)	12,393,821	12,338,632
Hook-up fee tariffs (Note 8)	1,064,028	1,108,372
Sub-station advance	30,000	30,000
Annexation participation agreement	<u>333,342</u>	<u>361,711</u>
Total Advances For Construction	13,821,191	13,838,715
Total Liabilities	<u>14,550,390</u>	<u>14,612,214</u>
Total Capitalization and Liabilities	<u>\$ 18,923,919</u>	<u>\$ 19,065,626</u>

The accompanying notes are an integral part of these financial statements.

Vail Water Company

STATEMENTS OF REVENUE, EXPENSES
AND ACCUMULATED EARNINGS
- INCOME TAX BASIS

	<u>For The Years Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Operating Revenue:		
Water sales	\$ 2,136,208	\$ 2,085,154
Fees and other income	<u>257,878</u>	<u>298,751</u>
Total Operating Revenue	2,394,086	2,383,905
Operating Expenses:		
Administrative and general	461,347	416,151
Long term water storage	199,817	172,963
Professional services	444,102	431,112
Depreciation and amortization (Note 3)	635,952	645,432
Purchased power	215,373	211,105
Property and other taxes	108,729	122,407
Repairs and maintenance	33,834	16,247
Other	<u>16,105</u>	<u>11,963</u>
Total Operating Expenses	<u>2,115,259</u>	<u>2,027,380</u>
Net Income From Operations	278,827	356,525
Other Income (Expense):		
Interest Income	33,771	36,739
Interest Expense	<u>(4,981)</u>	<u>(4,491)</u>
Net Income	307,617	388,773
Distributions to shareholders	(387,500)	(350,000)
Accumulated earnings, beginning of year	<u>1,369,999</u>	<u>1,331,226</u>
Accumulated earnings, end of year	<u>\$ 1,290,116</u>	<u>\$ 1,369,999</u>

The accompanying notes are an integral part of these financial statements.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

Note 1 - ORGANIZATION HISTORY AND NATURE OF OPERATIONS

Vail Water Company (the "Company"), formerly known as Del Lago Water Company, was formed on June 10, 1959 as a corporation under the laws of the State of Arizona. The Company is engaged in the regulated utility business of public water supply. The Company is regulated by several Arizona agencies, including the Arizona Corporation Commission (ACC), which has jurisdiction with respect to rates, services, accounting procedures and other matters. The Company is operating under a rate order effective May 1, 2000.

The Company provides groundwater to 3,899 customers in Vail, Arizona. As a consequence of utilizing groundwater, the Company is subject to various water conservation requirements authorized pursuant to the Arizona Revised Statutes 45-566. In addition, the Company has a fully executed, judicially validated, municipal subcontract with the Central Arizona Water Conservation District and the United States of America for the purchase of up to 786 acre feet per annum of Central Arizona Project Water. Effective January 1, 2008, the Company entered into a fully executed, judicially validated, municipal subcontract with the Central Arizona Water Conservation District and the United States of America, for the purchase of an additional 1,071 acre feet per annum of Central Arizona Project Water. This brings the total per annum acre feet of Central Arizona Project Water to 1,857.

Under a Decision and Order dated November 10, 2005, the Department of Water Resources of the State of Arizona designated the Company as having an assured water supply of 3,749 acre feet. Certain conditions apply including on going reporting by the Company to the Department of Water Resources.

The Company owns nine registered wells, four of which provide water to customers. The Company is dependent upon adequate water sources either from the ground or from purchase of Central Arizona Project Water.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

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

a) The tax basis of accounting requires that contributions in aid of construction (whether or not made by the utility's shareholders) received after June 12, 1996, are not taxable when received and have a zero tax basis to the Company:

- 1) if not included in the utility's rate base for rate making purposes,
- 2) if used to acquire or construct property before the end of the second year following receipt of the contribution, and
- 3) if certain conditions concerning the keeping of records are met.

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

Vail Water Company
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- b) The tax basis of accounting expenses certain costs when paid under the economic performance rules. GAAP accounting requires the recognition of expenses as incurred.
- c) The tax basis of accounting uses specific statutory lives for depreciation purposes. GAAP requires assets to be depreciated over the assets' estimated useful lives.
- d) The tax basis of accounting uses the direct write-off method for bad debts while GAAP uses the reserve method.

Central Arizona Project Hook-Up Fee - As described in Note 9, the Company charges a CAP hook-up fee service charge for future CAP water delivery. In the 2000 rate hearing, the ACC instructed the Company to treat the CAP hook-up fee as revenue when received.

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

Income Taxes - The stockholders of the Company have elected to have the corporation taxed under the provisions of Subchapter S of the Internal Revenue Code. Accordingly, the separately stated items of income and deductions of the corporation will be reported on the income tax returns of the individual stockholders. For federal purposes, years 2008 through 2010 remain open to audit. For State purposes, years 2007 through 2010 remain open to audit.

Advances and Contributions in Aid of Construction - Outside parties, generally customers and developers, make payments to the Company to fund certain capital expenditures to provide water to new customers. Amounts received are recorded as liabilities. Generally, as new customers begin to receive service, most of these amounts are refundable for limited periods of times. After the Company has paid all required refunds, the remaining balances are recorded as contributions in aid of construction. Contributions in aid of construction are amortized to income over the lives of the respective plant assets. Nonrefundable amounts received by the Company are recorded as contributions in aid of construction, as discussed under Basis of Accounting, paragraph a), above.

Concentrations of Credit Risk - In the normal course of business, the Company extends unsecured credit to customers.

The Company holds its cash balances in various FDIC financial institutions. Accounts at these institutions are insured up to \$250,000 by the FDIC. At December 31, 2011, the Company's uninsured bank balances totaled \$1,212,000.

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

Reclassifications - Certain amounts for 2010 have been reclassified to conform to the 2011 presentation.

Vail Water Company
 NOTES TO FINANCIAL STATEMENTS (Continued)
 December 31, 2011 and 2010

Note 3 - PLANT AND EQUIPMENT

Plant and equipment at December 31 consists of:

	<u>2011</u>	<u>2010</u>	Estimated Useful Lives
Structures and improvements	\$ 399,328	\$ 399,328	20-40
Wells and springs	1,126,979	1,126,979	20-40
Pumping equipment	1,561,012	1,556,379	20-40
Distribution reservoirs and standpipes	1,621,069	1,621,069	20-40
Transmission and distribution mains	14,026,029	13,822,489	20-40
Hydrants	492,908	477,958	20-40
Meters	923,082	883,826	20-40
Other equipment and furniture	<u>124,329</u>	<u>121,727</u>	5-7
	<u>\$20,274,736</u>	<u>\$20,009,755</u>	

Depreciation expense on the Statement of Revenue, Expenses and Accumulated Earnings is net of the amortization of expired contributions in aid of construction discussed in Note 7 as follows:

	<u>2011</u>	<u>2010</u>
Depreciation expense	\$770,325	\$767,918
Amortization of expired contributions in aid of construction	(134,373)	(122,486)
	<u>\$635,952</u>	<u>\$645,432</u>

Note 4 - CONSTRUCTION WORK-IN-PROGRESS

Construction work-in-progress typically consists of water mains, transmission and distribution lines and reservoirs. Construction work-in-progress is funded by advances for construction.

Note 5 - NONCURRENT ASSETS

The money market funds and certificates of deposit are restricted for the following purposes at December 31:

	<u>2011</u>	<u>2010</u>
Hookup tariff (Note 8)	\$ 505,858	\$ 277,914
CAP hookup and service charge (Note 9)	<u>2,551,710</u>	<u>2,680,974</u>
	<u>\$3,057,568</u>	<u>\$2,958,888</u>

Vail Water Company
 NOTES TO FINANCIAL STATEMENTS (Continued)
 December 31, 2011 and 2010

Note 6 - CUSTOMER DEPOSITS

Customers are required to make meter, service line, and guarantee deposits when service is initiated. Meter and service line deposits are subject to the 2000 rate order and are refundable at a rate of 10% per year.

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

	<u>2011</u>	<u>2010</u>
Meter	\$528,790	\$610,386
Service line	350	420
Guarantee	<u>83,375</u>	<u>83,100</u>
	612,515	693,906
Less current portion	<u>(128,000)</u>	<u>(136,000)</u>
	<u>\$484,515</u>	<u>\$557,906</u>

The schedule of estimated deposit refunds payable to customers for each of the next five years and in the aggregate, as of December 31, is as follows:

	<u>Annual Refund</u>
2011	\$128,000
2012	56,000
2013	43,000
2014	39,000
2015	35,000
Thereafter	<u>311,515</u>
	<u>\$612,515</u>

Note 7 - LINE EXTENSION AGREEMENTS

Developers and customers, on behalf of the Company, have constructed line extensions and necessary plant to provide service to their property. The Company agrees to refund amounts, up to the cost of such agreements, over 10 to 30 years based upon 10% to 20% of gross annual revenue from water sales to the customers serviced by the lines. At the expiration of this period any unrefunded balance remains with the Company and is classified as contributions in aid of construction. Agreements with remaining balances in the amount of \$359,000 and \$138,000 expired during 2011 and 2010, respectively.

Note 8 - HOOK-UP FEE TARIFFS

On January 14, 1998, the Arizona Corporation Commission approved an off-site facilities hook-up fee tariff, initially applicable to the south service area, until such time as the north and south systems were physically connected. The interconnection of the two systems was completed and accepted by Pima County DEQ on March 14, 2002. The hook-up fee tariff is now being charged throughout the Company's service area. Customers have advanced funds to the Company for these hook-up fees. The fees are a non-refundable charge assessed to new connections requiring a main extension.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

Note 9 - CENTRAL ARIZONA PROJECT

As a condition of the May 2000 rate order, the Company agreed to begin recharging its CAP water allocation within six months. As a result of this condition, the Company entered into a contract with the Central Arizona Water Conservation District for the provision of incentive recharge water. The contract is subject to the terms and conditions of the original municipal subcontract entered into between the parties. In order to recover its associated costs, the May 2000 rate order approved a CAP hookup fee for all new line extensions and subdivisions north of well No. 3, and a CAP service charge of \$.32 per 1,000 gallons of usage that applies to all customers. Following the interconnection of the systems north and south of well No. 3, the CAP hookup fee will also apply to all customers. The Company collected \$110,000 and \$97,000 of CAP hookup fees during 2011 and 2010, respectively. The CAP service charge is to be segregated in an interest bearing account and used solely for the purpose of paying CAP holding and M&I expenses.

The Company has entered into a contract to recharge its entire CAP allocation for the purpose of accumulating long-term storage credits. Excess CAP recharged over current usage accumulates as long-term storage credits. During 2009, the Company purchased 4,000 acre feet of long-term storage credits from the City of Tucson for \$489,000. The Company had 7,191 and 6,612 acre feet of long-term storage credits as of December 31, 2011 and 2010, respectively.

Note 10 - RELATED PARTY TRANSACTIONS

During 2011 and 2010, the Company charged Del Lago Golf, LLC, an entity owned by certain stockholders of the Company, \$81,000 and \$76,000, respectively, for water usage, storage credits, and energy use. The amounts in customer accounts receivable from this entity at December 31, 2011 and 2010 was \$30,000 for both years.

The Company entered into a lease arrangement with Del Lago Golf, LLC, an entity owned by certain shareholders of the Company, to lease 185 and 155 acre feet of long-term storage credits in 2011 and 2010, respectively.

The Company entered into a ten-year ground lease with Del Lago Golf, LLC, an entity owned by certain stockholders of the Company. The lease calls for rate increases of 3% each March 1. Rent expense for 2011 and 2010 was \$6,700 and \$6,500, respectively.

The Company also rented a backhoe from Del Lago, LLC for 2011 and 2010 in the amount of \$7,000 and \$2,000, respectively.

The Company has entered into an agreement for management services with a corporation controlled by a stockholder of the Company. The management agreement expired December 31, 2011 and required the Company to pay \$8.50 per customer per month in exchange for certain accounting and administrative functions. Management services paid under the contract were \$396,000 and \$387,000 for 2011 and 2010, respectively. Management services are included in professional services. At December 31, 2011 and 2010, \$33,000 and \$0 respectively, are included in accounts payable and accrued expenses. A new agreement was entered into for 2012 at \$8.50 per customer.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

Note 11 - STOCK TRANSFER RESTRICTIONS

The stockholders have entered into a Stockholders' Agreement, which establishes certain transfer restrictions on the stock of the Company as follows:

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

Note 12 - PENSION PLAN

The Company entered into a salary deferral plan under IRC Section 401(k). Participants must be 21 and have six months of service to enter the Plan. The Company made no contributions to the Plan for 2011 or 2010.

Note 13 - CONTINGENCY

The Arizona Corporation Commission (ACC) claims that the Company failed to meet a deadline to submit final plans for a system for direct delivery of CAP water to the Company's service area. If the ACC prevails, the Company would have to refund all CAP unexpended funds (see Note 9), totaling approximately \$1,900,000. The Company has applied for an extension of the aforementioned deadline until June 30, 2013. The Company is currently before an ACC administrative law judge and believes a mutually agreed upon resolution will be reached not having a material financial effect on the Company.

Note 14 - SUBSEQUENT EVENTS

The Company did not have any subsequent events through February 13, 2012, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2011.

Vail Water Company
 Test Year Ended December 31, 2011
 Projected Income Statements - Present & Proposed Rates

Exhibit
 Schedule F-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2012	At Proposed Rates Year Ended 12/31/2012
1	Revenues			
2	Metered Water Revenues	\$ 2,090,185	\$ 2,120,110	\$ 2,164,224
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	308,307	214,637	214,637
5		<u>\$ 2,398,492</u>	<u>\$ 2,334,747</u>	<u>\$ 2,378,860</u>
6	Operating Expenses			
7	Salaries and Wages	\$ 260,897	\$ 276,984	\$ 276,984
8	Employee Benefits	12,757	12,757	12,757
9	Purchased Water	199,817	199,817	199,817
10	Purchased Power	215,373	218,584	218,584
11	Chemicals	1,732	1,732	1,732
12	Materials and Supplies	14,372	14,372	14,372
13	Repairs and Maintenance	28,876	28,876	28,876
14	Office Supplies and Expense	73,301	73,301	73,301
15	Contractual Services - Engineering	6,270	6,270	6,270
16	Contractual Services - Accounting	10,473	10,473	10,473
17	Contractual Services - Legal	12,933	12,933	12,933
18	Contractual Services - Mgmt Fees	394,545	211,138	211,138
19	Contractual Services - Other	15,976	15,976	15,976
20	Contractual Services - Water Testing	3,906	3,906	3,906
21	Rents - Building/Real Property	7,920	7,920	7,920
22	Rents - Equipment	8,314	8,314	8,314
23	Transportation Expenses	33,154	33,154	33,154
24	Insurance - Vehicle	5,111	5,111	5,111
25	Insurance - General Liability	32,130	32,130	32,130
26	Insurance - Worker's Comp	3,111	3,111	3,111
27	Regulatory Commission Expense	11,946	11,946	11,946
28	Regulatory Commission Expense - Rate Case	-	30,000	30,000
29	Bad Debt Expense	6,856	6,856	6,856
30	Miscellaneous Expense	11,424	11,424	11,424
31	Depreciation Expense	635,952	570,649	570,649
32	Taxes Other Than Income	-	-	-
33	Property Taxes	108,115	103,681	104,337
34	Income Tax	-	106,244	117,281
35				
36	Total Operating Expenses	<u>\$ 2,115,259</u>	<u>\$ 2,017,658</u>	<u>\$ 2,029,351</u>
37	Operating Income	<u>\$ 283,233</u>	<u>\$ 317,088</u>	<u>\$ 349,509</u>
38	Other Income (Expense)			
39	Interest Income	33,771	33,771	33,771
40	Other income	6,090	6,090	6,090
41	Interest Expense	(4,981)	-	-
42	Other Expense	-	-	-
43	Gain/Loss Sale of Fixed Assets	(10,496)	(10,496)	(10,496)
44	Total Other Income (Expense)	<u>\$ 24,383</u>	<u>\$ 29,364</u>	<u>\$ 29,364</u>
45	Net Profit (Loss)	<u>\$ 307,616</u>	<u>\$ 346,453</u>	<u>\$ 378,874</u>

48 SUPPORTING SCHEDULES:

49 C-1

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Vail Water Company
 Test Year Ended December 31, 2011
 Projected Statements of Changes in Financial Position
 Present and Proposed Rates

Exhibit
 Schedule F-2
 Page 1
 Witness: Bourassa

Line No.	Test Year Ended <u>12/31/2011</u>	At Present Rates Year Ended <u>12/31/2012</u>	At Proposed Rates Year Ended <u>12/31/2012</u>
5	Cash Flows from Operating Activities		
6	\$ 307,616	\$ 341,472	\$ 373,893
7	(2,613)		
8	Adjustments to reconcile net income to net cash provided by operating activities:		
9	635,952	570,649	570,649
10	-		
11	Changes in Certain Assets and Liabilities:		
12	40,151		
13	-		
14	-		
15	-		
16	(201,056)		
17	-		
18	35,802		
19	-		
20	(81,392)		
21	1,289		
22	-		
23	<u>\$ 735,749</u>	<u>\$ 912,121</u>	<u>\$ 944,541</u>
24	Cash Flow From Investing Activities:		
25	(242,781)	(118,052)	(118,052)
26	-		
27	-		
28	<u>\$ (242,781)</u>	<u>\$ (118,052)</u>	<u>\$ (118,052)</u>
29	Cash Flow From Financing Activities		
30	111,327		
31	(210,007)		
32	-		
33	406,002	406,002	406,002
34	(289,153)	(289,153)	(289,153)
35	-		
36	(387,500)	(239,030)	(239,030)
37	-		
38	-		
39	<u>\$ (369,330)</u>	<u>\$ (122,181)</u>	<u>\$ (122,181)</u>
40	123,638	671,887	704,308
41	472,948	596,586	596,586
42	<u>\$ 596,586</u>	<u>\$ 1,268,473</u>	<u>\$ 1,300,894</u>

SUPPORTING SCHEDULES:

E-3

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Vail Water Company
 Test Year Ended December 31, 2011
 Projected Construction Requirements

Exhibit
 Schedule F-3
 Page 1
 Witness: Bourassa

Line No.	Account	Plant Asset:	Test Year	2012	2013	2014
1						
2						
3	<u>Number</u>	<u>Plant Asset:</u>	<u>Test Year</u>			
4	301	Organization Cost	\$ -			
5	302	Franchise Cost	-			
6	303	Land and Land Rights	-			
7	304	Structures and Improvements	1		10,000	
8	305	Collecting and Impounding Res.	-			
9	306	Lake River and Other Intakes	-			
10	307	Wells and Springs	-			
11	308	Infiltration Galleries and Tunnels	-			
12	309	Supply Mains	2,995			
13	310	Power Generation Equipment	-			
14	311	Electric Pumping Equipment	2,755			
15	320	Water Treatment Equipment	-			
16	320	Water Treatment Equipment	-			
17	320.1	Water Treatment Plant	-			
18	320.2	Chemical Solution Feeders	-			
19	330	Dist. Reservoirs & Standpipe	-			
20	330.1	Storage tanks	-			
21	330.2	Pressure Tanks	200,544			
22	331	Trans. and Dist. Mains	-		378,000	1,525,330
23	333	Services	18,934	76,052		
24	334	Meters	14,950		86,777	202,577
25	335	Hydrants	-			
26	336	Backflow Prevention Devices	-			
27	339	Other Plant and Misc. Equip.	3			
28	340	Office Furniture and Fixtures	1		2,500	
29	340.1	Computers and Software	-	5,000	10,000	
30	341	Transportation Equipment	-	35,000	40,000	35,000
31	342	Stores Equipment	2,602			
32	343	Tools and Work Equipment	-	2,000	2,000	17,000
33	344	Laboratory Equipment	-			
34	345	Power Operated Equipment	-			
35	346	Communications Equipment	-			25,000
	347	Miscellaneous Equipment	-			9,000
	348	Other Tangible Plant	-			
36			-			
37	Total		<u>\$ 242,785</u>	<u>\$ 118,052</u>	<u>\$ 529,277</u>	<u>\$ 1,813,907</u>
38						
39						
40						

Vail Water Company
Test Year Ended December 31, 2011
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line
No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue modified for ratemaking.
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
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Vail Water Company
Revenue Summary
Test Year Ended December 31, 2011

Exhibit
Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues	Additional Bills	Additional Gallons
1	5/8x3/4 Inch	Residential	\$ 1,728,603	\$ 1,768,199	\$ 39,596	2.29%	74.04%	74.33%		
2	3/4 Inch	Residential	55,737	57,656	1,919	3.44%	2.39%	2.42%		
3	1 Inch	Residential	2,132	2,300	168	7.86%	0.09%	0.10%		
4										
5	5/8x3/4 Inch	Commercial	3,471	3,589	119	3.42%	0.15%	0.15%		
6	3/4 Inch	Commercial	1,804	1,897	92	5.13%	0.08%	0.08%		
7	1 Inch	Commercial	4,172	4,389	217	5.20%	0.18%	0.18%		
8	1/12 Inch	Commercial	17,977	19,690	1,713	9.53%	0.77%	0.83%		
9	2 Inch	Commercial	67,893	73,168	5,274	7.77%	2.91%	3.08%		
10										
11	5/8x3/4 Inch	Irrigation	2,073	2,170	97	4.69%	0.09%	0.09%		
12	3/4 Inch	Irrigation	5,089	5,458	368	7.24%	0.22%	0.23%		
13	1 Inch	Irrigation	17,540	18,581	1,041	5.93%	0.75%	0.78%		
14	1/12 Inch	Irrigation	18,246	18,324	1,078	6.25%	0.74%	0.77%		
15	2 Inch	Irrigation	113,577	119,941	6,365	5.60%	4.86%	5.04%		
16										
17	5/8x3/4 Inch	Standpipe	12,909	8,590	(4,319)	-33.46%	0.55%	0.36%		
18	1 Inch	Standpipe	2,256	1,881	(375)	-16.64%	0.10%	0.08%		
19	3 Inch	Construction	37,004	26,030	(10,974)	-29.66%	1.58%	1.09%		
20										
21	Subtotals of Revenues		\$ 2,089,481	\$ 2,131,861	\$ 42,380	2.03%	89.50%	89.62%		
22	Revenue Annualizations:								Additional Bills	Additional Gallons
23	5/8x3/4 Inch	Residential	\$ 21,450	\$ 21,724	\$ 274	1.28%	0.92%	0.91%	531	3,612,962
24	3/4 Inch	Residential	1,715	1,759	44	2.56%	0.07%	0.07%	31	266,008
25	1 Inch	Residential	-	-	-	0.00%	0.00%	0.00%	-	-
26										
27	5/8x3/4 Inch	Commercial	(132)	(137)	(5)	3.44%	-0.01%	-0.01%	-3	(23,144)
28	3/4 Inch	Commercial	(144)	(154)	(10)	6.71%	-0.01%	-0.01%	(4)	(15,001)
29	1 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%	-	-
30	1/12 Inch	Commercial	104	114	10	9.85%	0.00%	0.00%	1	3,731
31	2 Inch	Commercial	3,337	3,592	255	7.63%	0.14%	0.15%	15	280,442
32										
33	5/8x3/4 Inch	Irrigation	(78)	(81)	(3)	3.87%	0.00%	0.00%	(2)	(13,001)
34	3/4 Inch	Irrigation	32	35	2	7.50%	0.00%	0.00%	1	2,800
35	1 Inch	Irrigation	1,001	1,048	47	4.65%	0.04%	0.04%	10	149,077
36	1/12 Inch	Irrigation	(1,986)	(2,073)	(87)	4.36%	-0.09%	-0.09%	(8)	(318,068)
37	2 Inch	Irrigation	11,538	12,075	537	4.66%	0.49%	0.51%	15	2,330,549
38										
39	5/8x3/4 Inch	Standpipe	213	142	(71)	-33.27%	0.01%	0.01%	6	33,375
40	1 Inch	Standpipe	-	-	-	0.00%	0.00%	0.00%	-	-
41	3 Inch	Construction	(7,125)	(5,154)	1,970	-27.66%	-0.31%	-0.22%	(8)	(1,212,811)
42										
43	Subtotal Revenue Annualization		29,925	32,890	2,965	9.91%	1.28%	1.41%	585	5,096,919
44										
45	Total Revenues w/ Annualization		\$ 2,119,407	\$ 2,164,752	\$ 45,345	2.14%	90.78%	91.00%		
46	Adjusted Misc Revenues		214,637	214,637	-	0.00%	9.19%	9.02%		
47	Reconciling Amount		703	(528)	(1,231)	-175.11%	0.03%	-0.02%		
48	Total Revenues		\$ 2,334,746	\$ 2,378,860	\$ 44,114	1.89%	100.00%	100.00%		
49										
50										
51	Reconciliation to GL Revenues									
52	Metered Revenues Per GL		\$ 2,090,185							
53										
54										
55	Adjusted Metered Revenues per GL		\$ 2,090,185							
56										
57	Bill Count Rev. before Annualization		2,089,481							
58	Difference		\$ 703							
59	% Difference		0.03%							
60	Tolerance (+/- 0.5%)		\$ 10,451							
61	Acceptable		Yes							

Vail Water Company
 Test Year Ended December 31, 2011
 Present and Proposed Rates

Exhibit
 Schedule H-3
 Witness: Bourassa
 Page 1

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8x3/4 Inch	\$ 13.18	\$ 14.70	\$ 1.52	11.50%
2	3/4 Inch	21.00	23.42	2.42	11.50%
3	1 Inch	40.50	45.16	4.66	11.50%
4	1 1/2 Inch	89.20	99.46	10.26	11.50%
5	2 Inch	147.70	164.69	16.99	11.50%
6	3 Inch	284.20	316.88	32.68	11.50%
7	4 Inch	479.20	534.31	55.11	11.50%
8	6 Inch	966.92	1,078.12	111.20	11.50%
9	WIFA Surcharge	6.92	-	(6.92)	-100.00%
10	Standpipe	by meter size	-	-	-
11	Fire Sprinkler	(a)	(a)	-	-
12					
13					
14					
15	Gallons In Minimum (All Classes)	-	-	-	-
16					
17					
18					
19					
20					
21	Commodity Rates				
22	5/8x3/4 inch (all classes, including standpipe and construction)	\$	4.00		
23	5/8x3/4 Inch - Residential only			\$ 3.75	
24				\$ 4.00	
25				\$ 4.25	
26					
27	5/8x3/4 Inch - Commercial, Industrial, Irrigation			\$ 4.00	
28				\$ 4.25	
29					
30	3/4 Inch Meter (all classes, including standpipe and construction)	\$	4.00		
31					
32	3/4 Inch Meter - Residential only			\$ 3.75	
33				\$ 4.00	
34				\$ 4.25	
35					
36	3/4 Inch Meter - Commercial, Industrial, Irrigation			\$ 3.75	
37				\$ 4.00	
38					
39	(a) Higher of \$5.00 per month or 1.0 percent of the monthly minimum.				
40	NT = No Tariff				

Vail Water Company
 Test Year Ended December 31, 2011
 Present and Proposed Rates

Exhibit
 Schedule H-3
 Witness: Bourassa
 Page 2

Line No.	Commodity Rates	Block	Present Rate	Proposed Rate
1		Over Minimum Gallons	\$ 4.00	
2				
3	1 Inch Meter (all classes, including standpipe and construction)	1 gallons to 25,000 gallons	\$ 4.00	\$ 4.00
4		over 25,000 gallons		\$ 4.25
5	1 Inch Meter (all classes except standpipe and construction)	Over Minimum Gallons	\$ 4.00	
6				
7				
8	1.5 Inch Meter (all classes, including standpipe and construction)	1 gallons to 50,000 gallons	\$ 4.00	\$ 4.00
9		over 50,000 gallons		\$ 4.25
10	1.5 Inch Meter (all classes except standpipe and construction)	Over Minimum Gallons	\$ 4.00	
11				
12				
13	2 Inch Meter (all classes, including standpipe and construction)	1 gallons to 80,000 gallons	\$ 4.00	\$ 4.00
14		over 80,000 gallons		\$ 4.25
15	2 Inch Meter (all classes except standpipe and construction)	Over Minimum Gallons	\$ 4.00	
16				
17				
18	3 Inch Meter (all classes, including standpipe and construction)	1 gallons to 160,000 gallons	\$ 4.00	\$ 4.00
19		over 160,000 gallons		\$ 4.25
20	3 Inch Meter (all classes except standpipe and construction)	Over Minimum Gallons	\$ 4.00	
21				
22				
23	4 Inch Meter (all classes, including standpipe and construction)	1 gallons to 250,000 gallons	\$ 4.00	\$ 4.00
24		over 250,000 gallons		\$ 4.25
25	4 Inch Meter (all classes except standpipe and construction)	Over Minimum Gallons	\$ 4.00	
26				
27				
28	6 Inch Meter (all classes, including standpipe and construction)	1 gallons to 500,000 gallons	\$ 4.00	\$ 4.00
29		over 500,000 gallons		\$ 4.25
30	6 Inch Meter (all classes except standpipe and construction)	Over Minimum Gallons	\$ 4.00	
31				
32				
33				
34	Construction/Standpipe	All gallons	See above	\$ 4.25
35				
36	CAP Recovery Surcharge (per 1,000 gallons)	All gallons	\$ 0.32	removed
37				
38	CAP Water Surcharge (per 1,000 gallons)	All gallons	NT	see testimony
39				
40				
41				

NT = No Tariff

Vail Water Company
Present and Proposed Rates
Test Year Ended December 31, 2011

Line No.	Meter and Service Line Charges ¹	Present Meter Installation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge
7	5/8 x 3/4 Inch		\$ 400.00	\$ 445.00	\$ 305.00	\$ 750.00
8	3/4 Inch		\$ 440.00	\$ 445.00	\$ 405.00	\$ 850.00
9	1 Inch		\$ 500.00	\$ 495.00	\$ 465.00	\$ 960.00
10	1 1/2 Inch		\$ 675.00	\$ 560.00	\$ 675.00	\$ 1,225.00
11	2 Inch Turbo		NT	\$ 830.00	\$ 1,195.00	\$ 2,025.00
12	2 Inch, Compound		\$ 1,660.00	\$ 830.00	\$ 2,040.00	\$ 2,870.00
13	3 Inch Turbo		NT	\$ 1,045.00	\$ 1,820.00	\$ 2,865.00
14	3 Inch, compound		\$ 2,150.00	\$ 1,165.00	\$ 2,604.00	\$ 3,789.00
15	4 Inch Turbo		NT	\$ 1,490.00	\$ 2,820.00	\$ 4,310.00
16	4 Inch, compound		\$ 3,135.00	\$ 1,670.00	\$ 3,795.00	\$ 5,485.00
17	6 Inch Turbo		NT	\$ 2,210.00	\$ 5,175.00	\$ 7,385.00
18	6 Inch, compound		\$ 6,190.00	\$ 2,330.00	\$ 7,070.00	\$ 9,400.00

1 Proposed charges based on ACC Staff Engineering Memo dated February 21, 2008 plus \$150 additional charge for meter telemetry unit
 21 for remote meter reading.
 22 NT = No Tariff

Other Charges:

26	Establishment	\$ 25.00
27	Establishment - After Hours	\$ 50.00
28	Reestablishment (within 12 months)	(a)
29	Reestablishment (within 12 months After Hours)	(b)
30	Reconnection (Delinquent)	\$ 30.00
31	Meter Test (if correct)	\$ 30.00
32	Meter Re-read (if correct)	\$ 20.00
33	Deposit	(c)
34	Deposit Interest	(c)
35	NSF Check	\$ 25.00
36	Deferred Payment, per month	1.5%
37	Late Payment Fee (per month)	1.5%
38	Moving Customer Meter (Customer Request)	Cost
39	Illegal Hook-up	(d)
40	Transfer Fee	\$ 25.00
41	After hours service charge (at customer request)	NT
42		
43		
44		

	Remove from tariff	\$ 25.00
	(a)	
	Remove from tariff	\$ 30.00
	(b)	
	(c)	
	(c)	
	(c)	
	\$ 25.00	
	1.5%	
	1.5%	
	Cost	
	(d)	
	\$ 25.00	
	\$ 50.00	

(a) Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).
 (b) Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D) plus \$25.00
 (c) Per Rule R14-2-403.B
 (d) Estimated billings from their time illegal connection was made to date.
 NT = No Tariff

Vail Water Company
 Present and Proposed Rates
 Test Year Ended December 31, 2011

Line No.		Present Charge	Proposed Charge
1	<u>Central Arizona Project Hook-Up Fee¹</u>		
2		\$ 1,000.00	\$ 1,000.00
3		1,500.00	1,500.00
4		2,500.00	2,500.00
5	5/8 x 3/4 Inch	5,000.00	5,000.00
6	3/4 Inch	8,000.00	8,000.00
7	1 Inch	17,500.00	17,500.00
8	1 1/2 Inch	30,000.00	30,000.00
9	2 Inch	62,500.00	62,500.00
10	3 Inch	120,000.00	120,000.00
11	4 Inch	190,000.00	190,000.00
12	6 Inch	250,000.00	250,000.00
13	8 Inch		
14	10 Inch		
15	12 Inch or larger		
16			
17			
18			

Line No.		Present Charge	Proposed Charge
19	<u>Offsite Facilities Hook-Up Fee²</u>		
20		\$ 420.00	\$ 420.00
21		504.00	504.00
22		840.00	840.00
23	5/8 x 3/4 Inch	1,680.00	1,680.00
24	3/4 Inch	2,690.00	2,690.00
25	1 Inch	5,040.00	5,040.00
26	1 1/2 Inch	8,400.00	8,400.00
27	2 Inch		
28	3 Inch		
29	4 Inch		
30	6 Inch or larger		
31			
32			

¹ Treated as revenue.
² Treated as contribution-in-aid of construction ("CIAC").

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Vail Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 5/8x3/4 Inch Meter
Test Year Ended December 31, 2011
(Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 1
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 13.18	\$ 14.70	\$ 1.52	11.50%
1,000	17.18	18.45	\$ 1.27	7.37%
2,000	21.18	22.20	\$ 1.02	4.80%
3,000	25.18	25.95	\$ 0.77	3.04%
4,000	29.18	29.70	\$ 0.52	1.77%
5,000	33.18	33.70	\$ 0.52	1.55%
6,000	37.18	37.70	\$ 0.52	1.39%
7,000	41.18	41.70	\$ 0.52	1.25%
8,000	45.18	45.70	\$ 0.52	1.14%
9,000	49.18	49.70	\$ 0.52	1.05%
10,000	53.18	53.70	\$ 0.52	0.97%
12,000	61.18	62.20	\$ 1.02	1.66%
14,000	69.18	70.70	\$ 1.52	2.19%
16,000	77.18	79.20	\$ 2.02	2.61%
18,000	85.18	87.70	\$ 2.52	2.95%
20,000	93.18	96.20	\$ 3.02	3.24%
25,000	113.18	117.45	\$ 4.27	3.77%
30,000	133.18	138.70	\$ 5.52	4.14%
35,000	153.18	159.95	\$ 6.77	4.42%
40,000	173.18	181.20	\$ 8.02	4.63%
45,000	193.18	202.45	\$ 9.27	4.80%
50,000	213.18	223.70	\$ 10.52	4.93%
60,000	253.18	266.20	\$ 13.02	5.14%
70,000	293.18	308.70	\$ 15.52	5.29%
80,000	333.18	351.20	\$ 18.02	5.41%
90,000	373.18	393.70	\$ 20.52	5.50%
100,000	413.18	436.20	\$ 23.02	5.57%
Average Usage				
6,720	\$ 40.06	\$ 40.58	\$ 0.52	1.29%
Median Usage				
5,500	\$ 35.18	\$ 35.70	\$ 0.52	1.47%

Present Rates:
 Monthly Minimum: \$ 13.18
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All Gallons \$ 4.00

Proposed Rates:
 Monthly Minimum: \$ 14.70
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 4,000 \$ 3.75
 Up to 10,000 \$ 4.00
 Over 10,000 \$ 4.25

Vail Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 3/4 Inch Meter
Test Year Ended December 31, 2011
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 21.00	\$ 23.42	\$ 2.42	11.50%
1,000	25.00	27.17	\$ 2.17	8.66%
2,000	29.00	30.92	\$ 1.92	6.60%
3,000	33.00	34.67	\$ 1.67	5.05%
4,000	37.00	38.42	\$ 1.42	3.82%
5,000	41.00	42.42	\$ 1.42	3.45%
6,000	45.00	46.42	\$ 1.42	3.14%
7,000	49.00	50.42	\$ 1.42	2.89%
8,000	53.00	54.42	\$ 1.42	2.67%
9,000	57.00	58.42	\$ 1.42	2.48%
10,000	61.00	62.42	\$ 1.42	2.32%
12,000	69.00	70.92	\$ 1.91	2.78%
14,000	77.00	79.42	\$ 2.41	3.14%
16,000	85.00	87.92	\$ 2.91	3.43%
18,000	93.00	96.42	\$ 3.41	3.67%
20,000	101.00	104.92	\$ 3.91	3.88%
25,000	121.00	126.17	\$ 5.16	4.27%
30,000	141.00	147.42	\$ 6.41	4.55%
35,000	161.00	168.67	\$ 7.66	4.76%
40,000	181.00	189.92	\$ 8.91	4.93%
45,000	201.00	211.17	\$ 10.17	5.06%
50,000	221.00	232.42	\$ 11.42	5.17%
60,000	261.00	274.92	\$ 13.92	5.33%
70,000	301.00	317.42	\$ 16.42	5.45%
80,000	341.00	359.92	\$ 18.92	5.55%
90,000	381.00	402.42	\$ 21.42	5.62%
100,000	421.00	444.92	\$ 23.92	5.68%

Present Rates:
 Monthly Minimum: \$ 21.00
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All Gallons \$ 4.00

Proposed Rates:
 Monthly Minimum: \$ 23.42
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 4,000 \$ 3.75
 Up to 10,000 \$ 4.00
 Over 10,000 \$ 4.25

Average Usage					
8,344	\$ 54.38	\$ 55.79	\$ 1.42	2.60%	
Median Usage					
7,500	\$ 51.00	\$ 52.42	\$ 1.42	2.77%	

Vail Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 1 Inch Meter
Test Year Ended December 31, 2011
(Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 3
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 40.50	\$ 45.16	\$ 4.66	11.50%
1,000	44.50	49.16	\$ 4.66	10.47%
2,000	48.50	53.16	\$ 4.66	9.60%
3,000	52.50	57.16	\$ 4.66	8.87%
4,000	56.50	61.16	\$ 4.66	8.24%
5,000	60.50	65.16	\$ 4.66	7.70%
6,000	64.50	69.16	\$ 4.66	7.22%
7,000	68.50	73.16	\$ 4.66	6.80%
8,000	72.50	77.16	\$ 4.66	6.42%
9,000	76.50	81.16	\$ 4.66	6.09%
10,000	80.50	85.16	\$ 4.66	5.79%
12,000	88.50	93.16	\$ 4.66	5.26%
14,000	96.50	101.16	\$ 4.66	4.83%
16,000	104.50	109.16	\$ 4.66	4.46%
18,000	112.50	117.16	\$ 4.66	4.14%
20,000	120.50	125.16	\$ 4.66	3.87%
25,000	140.50	145.16	\$ 4.66	3.31%
30,000	160.50	166.41	\$ 5.91	3.68%
35,000	180.50	187.66	\$ 7.16	3.97%
40,000	200.50	208.91	\$ 8.41	4.19%
45,000	220.50	230.16	\$ 9.66	4.38%
50,000	240.50	251.41	\$ 10.91	4.54%
60,000	280.50	293.91	\$ 13.41	4.78%
70,000	320.50	336.41	\$ 15.91	4.96%
80,000	360.50	378.91	\$ 18.41	5.11%
90,000	400.50	421.41	\$ 20.91	5.22%
100,000	440.50	463.91	\$ 23.41	5.31%
Average Usage				
4,681	\$ 59.22	\$ 63.88	\$ 4.66	7.86%
Median Usage				
3,500	\$ 54.50	\$ 59.16	\$ 4.66	8.55%

Present Rates:

Monthly Minimum:	\$	40.50
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons	\$	4.00

Proposed Rates:

Monthly Minimum:	\$	45.16
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to 25,000	\$	4.00
Over 25,000	\$	4.25

Vail Water Company
Bill Comparison of Present and Proposed Rates
 Customer Classification Commercial 58x3/4 Inch Meter
 Test Year Ended December 31, 2011

Exhibit
 Schedule H-4
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 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 13.18	\$ 14.70	\$ 1.52	11.50%
1,000	17.18	18.70	\$ 1.52	8.82%
2,000	21.18	22.70	\$ 1.52	7.16%
3,000	25.18	26.70	\$ 1.52	6.02%
4,000	29.18	30.70	\$ 1.52	5.19%
5,000	33.18	34.70	\$ 1.52	4.57%
6,000	37.18	38.70	\$ 1.52	4.08%
7,000	41.18	42.70	\$ 1.52	3.68%
8,000	45.18	46.70	\$ 1.52	3.35%
9,000	49.18	50.70	\$ 1.52	3.08%
10,000	53.18	54.70	\$ 1.52	2.85%
12,000	61.18	62.70	\$ 1.52	2.48%
14,000	69.18	70.70	\$ 1.52	2.19%
16,000	77.18	78.70	\$ 1.52	1.96%
18,000	85.18	86.70	\$ 1.52	1.78%
20,000	93.18	94.70	\$ 1.52	1.63%
25,000	113.18	114.70	\$ 1.52	1.34%
30,000	133.18	134.70	\$ 1.52	1.14%
35,000	153.18	154.70	\$ 1.52	0.99%
40,000	173.18	174.70	\$ 1.52	0.88%
45,000	193.18	194.70	\$ 1.52	0.78%
50,000	213.18	214.70	\$ 1.52	0.71%
60,000	253.18	257.20	\$ 4.02	1.59%
70,000	293.18	299.70	\$ 6.52	2.22%
80,000	333.18	342.20	\$ 9.02	2.71%
90,000	373.18	384.70	\$ 11.52	3.09%
100,000	413.18	427.20	\$ 14.02	3.39%
Average Usage				
8,274	\$ 46.28	\$ 47.79	\$ 1.52	3.28%
Median Usage				
4,500	\$ 31.18	\$ 32.70	\$ 1.52	4.86%

Present Rates:
 Monthly Minimum: \$ 13.18
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All Gallons \$ 4.00

Proposed Rates:
 Monthly Minimum: \$ 14.70
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 50,000 \$ 4.00
 Over 50,000 \$ 4.25

Vail Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification Commercial 3/4 Inch Meter
 Test Year Ended December 31, 2011

Exhibit
 Schedule H-4
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 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 21.00	\$ 23.42	\$ 2.42	11.50%
1,000	25.00	27.42	\$ 2.42	9.66%
2,000	29.00	31.42	\$ 2.42	8.33%
3,000	33.00	35.42	\$ 2.42	7.32%
4,000	37.00	39.42	\$ 2.42	6.53%
5,000	41.00	43.42	\$ 2.42	5.89%
6,000	45.00	47.42	\$ 2.42	5.37%
7,000	49.00	51.42	\$ 2.42	4.93%
8,000	53.00	55.42	\$ 2.42	4.56%
9,000	57.00	59.42	\$ 2.42	4.24%
10,000	61.00	63.42	\$ 2.42	3.96%
12,000	69.00	71.92	\$ 2.91	4.22%
14,000	77.00	80.42	\$ 3.41	4.44%
16,000	85.00	88.92	\$ 3.91	4.61%
18,000	93.00	97.42	\$ 4.41	4.75%
20,000	101.00	105.92	\$ 4.91	4.87%
25,000	121.00	127.17	\$ 6.16	5.10%
30,000	141.00	148.42	\$ 7.41	5.26%
35,000	161.00	169.67	\$ 8.66	5.38%
40,000	181.00	190.92	\$ 9.91	5.48%
45,000	201.00	212.17	\$ 11.17	5.55%
50,000	221.00	233.42	\$ 12.42	5.62%
60,000	261.00	275.92	\$ 14.92	5.71%
70,000	301.00	318.42	\$ 17.42	5.79%
80,000	341.00	360.92	\$ 19.92	5.84%
90,000	381.00	403.42	\$ 22.42	5.88%
100,000	421.00	445.92	\$ 24.92	5.92%
Average Usage				
10,858	\$ 64.43	\$ 67.06	\$ 2.63	4.08%
Median Usage				
9,500	\$ 59.00	\$ 61.42	\$ 2.42	4.09%

Present Rates:

Monthly Minimum:	\$	21.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons	\$	4.00

Proposed Rates:

Monthly Minimum:	\$	23.42
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	10,000	\$ 4.00
Over	10,000	\$ 4.25

Vail Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification Commercial 1 Inch Meter
 Test Year Ended December 31, 2011

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 Schedule H-4
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 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 40.50	\$ 45.16	\$ 4.66	11.50%
1,000	44.50	49.16	\$ 4.66	10.47%
2,000	48.50	53.16	\$ 4.66	9.60%
3,000	52.50	57.16	\$ 4.66	8.87%
4,000	56.50	61.16	\$ 4.66	8.24%
5,000	60.50	65.16	\$ 4.66	7.70%
6,000	64.50	69.16	\$ 4.66	7.22%
7,000	68.50	73.16	\$ 4.66	6.80%
8,000	72.50	77.16	\$ 4.66	6.42%
9,000	76.50	81.16	\$ 4.66	6.09%
10,000	80.50	85.16	\$ 4.66	5.79%
12,000	88.50	93.16	\$ 4.66	5.26%
14,000	96.50	101.16	\$ 4.66	4.83%
16,000	104.50	109.16	\$ 4.66	4.46%
18,000	112.50	117.16	\$ 4.66	4.14%
20,000	120.50	125.16	\$ 4.66	3.87%
25,000	140.50	145.16	\$ 4.66	3.31%
30,000	160.50	166.41	\$ 5.91	3.68%
35,000	180.50	187.66	\$ 7.16	3.97%
40,000	200.50	208.91	\$ 8.41	4.19%
45,000	220.50	230.16	\$ 9.66	4.38%
50,000	240.50	251.41	\$ 10.91	4.54%
60,000	280.50	293.91	\$ 13.41	4.78%
70,000	320.50	336.41	\$ 15.91	4.96%
80,000	360.50	378.91	\$ 18.41	5.11%
90,000	400.50	421.41	\$ 20.91	5.22%
100,000	440.50	463.91	\$ 23.41	5.31%
Average Usage				
18,848	\$ 115.89	\$ 120.55	\$ 4.66	4.02%
Median Usage				
11,000	\$ 84.50	\$ 89.16	\$ 4.66	5.51%

Present Rates:

Monthly Minimum:	\$	40.50
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons	\$	4.00

Proposed Rates:

Monthly Minimum:	\$	45.16
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	25,000	\$ 4.00
Over	25,000	\$ 4.25

Vail Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification Commercial 1 1/2 Inch Meter
 Test Year Ended December 31, 2011

Exhibit
 Schedule H-4
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 Witness: Bourassa

<u>Usage</u>	<u>Present</u>	<u>Proposed</u>	<u>Dollar</u>	<u>Percent</u>
	<u>Bill</u>	<u>Bill</u>	<u>Increase</u>	<u>Increase</u>
-	\$ 89.20	\$ 99.46	\$ 10.26	11.50%
1,000	93.20	103.46	\$ 10.26	11.01%
2,000	97.20	107.46	\$ 10.26	10.55%
3,000	101.20	111.46	\$ 10.26	10.14%
4,000	105.20	115.46	\$ 10.26	9.75%
5,000	109.20	119.46	\$ 10.26	9.39%
6,000	113.20	123.46	\$ 10.26	9.06%
7,000	117.20	127.46	\$ 10.26	8.75%
8,000	121.20	131.46	\$ 10.26	8.46%
9,000	125.20	135.46	\$ 10.26	8.19%
10,000	129.20	139.46	\$ 10.26	7.94%
12,000	137.20	147.46	\$ 10.26	7.48%
14,000	145.20	155.46	\$ 10.26	7.06%
16,000	153.20	163.46	\$ 10.26	6.70%
18,000	161.20	171.46	\$ 10.26	6.36%
20,000	169.20	179.46	\$ 10.26	6.06%
25,000	189.20	199.46	\$ 10.26	5.42%
30,000	209.20	219.46	\$ 10.26	4.90%
35,000	229.20	239.46	\$ 10.26	4.48%
40,000	249.20	259.46	\$ 10.26	4.12%
45,000	269.20	279.46	\$ 10.26	3.81%
50,000	289.20	299.46	\$ 10.26	3.55%
60,000	329.20	341.96	\$ 12.76	3.88%
70,000	369.20	384.46	\$ 15.26	4.13%
80,000	409.20	426.96	\$ 17.76	4.34%
90,000	449.20	469.46	\$ 20.26	4.51%
100,000	489.20	511.96	\$ 22.76	4.65%

Present Rates:
 Monthly Minimum: \$ 89.20
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All Gallons \$ 4.00

Proposed Rates:
 Monthly Minimum: \$ 99.46
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 50,000 \$ 4.00
 Over 50,000 \$ 4.25

Average Usage				
4,611	\$ 107.65	\$ 117.90	\$ 10.26	9.53%
Median Usage				
2,500	\$ 99.20	\$ 109.46	\$ 10.26	10.34%

Vail Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification Commercial 2 Inch Meter
 Test Year Ended December 31, 2011

Exhibit
 Schedule H-4
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 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 147.70	\$ 164.69	\$ 16.99	11.50%
1,000	151.70	168.69	\$ 16.99	11.20%
2,000	155.70	172.69	\$ 16.99	10.91%
3,000	159.70	176.69	\$ 16.99	10.64%
4,000	163.70	180.69	\$ 16.99	10.38%
5,000	167.70	184.69	\$ 16.99	10.13%
6,000	171.70	188.69	\$ 16.99	9.89%
7,000	175.70	192.69	\$ 16.99	9.67%
8,000	179.70	196.69	\$ 16.99	9.45%
9,000	183.70	200.69	\$ 16.99	9.25%
10,000	187.70	204.69	\$ 16.99	9.05%
12,000	195.70	212.69	\$ 16.99	8.68%
14,000	203.70	220.69	\$ 16.99	8.34%
16,000	211.70	228.69	\$ 16.99	8.02%
18,000	219.70	236.69	\$ 16.99	7.73%
20,000	227.70	244.69	\$ 16.99	7.46%
25,000	247.70	264.69	\$ 16.99	6.86%
30,000	267.70	284.69	\$ 16.99	6.34%
35,000	287.70	304.69	\$ 16.99	5.90%
40,000	307.70	324.69	\$ 16.99	5.52%
45,000	327.70	344.69	\$ 16.99	5.18%
50,000	347.70	364.69	\$ 16.99	4.89%
60,000	387.70	404.69	\$ 16.99	4.38%
70,000	427.70	444.69	\$ 16.99	3.97%
80,000	467.70	484.69	\$ 16.99	3.63%
90,000	507.70	527.19	\$ 19.49	3.84%
100,000	547.70	569.69	\$ 21.99	4.01%
Average Usage				
18,005	\$ 219.72	\$ 236.71	\$ 16.99	7.73%
Median Usage				
8,500	\$ 181.70	\$ 198.69	\$ 16.99	9.35%

Present Rates:

Monthly Minimum:	\$	147.70
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons	\$	4.00

Proposed Rates:

Monthly Minimum:	\$	164.69
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to 80,000	\$	4.00
Over 80,000	\$	4.25

Vail Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification Irrigation 5/8x3/4 Inch
 Test Year Ended December 31, 2011
 (Excludes all Revenue Related Taxes)

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 Schedule H-4
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 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 13.18	\$ 14.70	\$ 1.52	11.50%
1,000	17.18	18.70	1.52	8.82%
2,000	21.18	22.70	1.52	7.16%
3,000	25.18	26.70	1.52	6.02%
4,000	29.18	30.70	1.52	5.19%
5,000	33.18	34.70	1.52	4.57%
6,000	37.18	38.70	1.52	4.08%
7,000	41.18	42.70	1.52	3.68%
8,000	45.18	46.70	1.52	3.35%
9,000	49.18	50.70	1.52	3.08%
10,000	53.18	54.70	1.52	2.85%
12,000	61.18	63.20	2.02	3.29%
14,000	69.18	71.70	2.52	3.64%
16,000	77.18	80.20	3.02	3.91%
18,000	85.18	88.70	3.52	4.13%
20,000	93.18	97.20	4.02	4.31%
25,000	113.18	118.45	5.27	4.65%
30,000	133.18	139.70	6.52	4.89%
35,000	153.18	160.95	7.77	5.07%
40,000	173.18	182.20	9.02	5.21%
45,000	193.18	203.45	10.27	5.31%
50,000	213.18	224.70	11.52	5.40%
60,000	253.18	267.20	14.02	5.54%
70,000	293.18	309.70	16.52	5.63%
80,000	333.18	352.20	19.02	5.71%
90,000	373.18	394.70	21.52	5.77%
100,000	413.18	437.20	24.02	5.81%
Average Usage				
10,343	\$ 54.55	\$ 56.15	\$ 1.60	2.94%
Median Usage				
13,000	\$ 65.18	\$ 67.45	\$ 2.27	3.48%

Present Rates:
 Monthly Minimum: \$ 13.18
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All Gallons \$ 4.00

Proposed Rates:
 Monthly Minimum: \$ 14.70
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 10,000 \$ 4.00
 Over 10,000 \$ 4.25

Vail Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification Irrigation 3/4 Inch
 Test Year Ended December 31, 2011
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
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 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 21.00	\$ 23.42	\$ 2.42	11.50%
1,000	25.00	27.42	\$ 2.42	9.66%
2,000	29.00	31.42	\$ 2.42	8.33%
3,000	33.00	35.42	\$ 2.42	7.32%
4,000	37.00	39.42	\$ 2.42	6.53%
5,000	41.00	43.42	\$ 2.42	5.89%
6,000	45.00	47.42	\$ 2.42	5.37%
7,000	49.00	51.42	\$ 2.42	4.93%
8,000	53.00	55.42	\$ 2.42	4.56%
9,000	57.00	59.42	\$ 2.42	4.24%
10,000	61.00	63.42	\$ 2.42	3.96%
12,000	69.00	71.92	\$ 2.91	4.22%
14,000	77.00	80.42	\$ 3.41	4.44%
16,000	85.00	88.92	\$ 3.91	4.61%
18,000	93.00	97.42	\$ 4.41	4.75%
20,000	101.00	105.92	\$ 4.91	4.87%
25,000	121.00	127.17	\$ 6.16	5.10%
30,000	141.00	148.42	\$ 7.41	5.26%
35,000	161.00	169.67	\$ 8.66	5.38%
40,000	181.00	190.92	\$ 9.91	5.48%
45,000	201.00	212.17	\$ 11.17	5.55%
50,000	221.00	233.42	\$ 12.42	5.62%
60,000	261.00	275.92	\$ 14.92	5.71%
70,000	301.00	318.42	\$ 17.42	5.79%
80,000	341.00	360.92	\$ 19.92	5.84%
90,000	381.00	403.42	\$ 22.42	5.88%
100,000	421.00	445.92	\$ 24.92	5.92%
Average Usage				
4,462	\$ 38.85	\$ 41.26	\$ 2.41	6.22%
Median Usage				
1,500	\$ 27.00	\$ 29.42	\$ 2.42	8.94%

Present Rates:
 Monthly Minimum: \$ 21.00
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All Gallons \$ 4.00

Proposed Rates:
 Monthly Minimum: \$ 23.42
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 10,000 \$ 4.00
 Over 10,000 \$ 4.25

Vail Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification Irrigation 1 Inch
 Test Year Ended December 31, 2011
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
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 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 40.50	\$ 45.16	\$ 4.66	11.50%
1,000	44.50	49.16	\$ 4.66	10.47%
2,000	48.50	53.16	\$ 4.66	9.60%
3,000	52.50	57.16	\$ 4.66	8.87%
4,000	56.50	61.16	\$ 4.66	8.24%
5,000	60.50	65.16	\$ 4.66	7.70%
6,000	64.50	69.16	\$ 4.66	7.22%
7,000	68.50	73.16	\$ 4.66	6.80%
8,000	72.50	77.16	\$ 4.66	6.42%
9,000	76.50	81.16	\$ 4.66	6.09%
10,000	80.50	85.16	\$ 4.66	5.79%
12,000	88.50	93.16	\$ 4.66	5.26%
14,000	96.50	101.16	\$ 4.66	4.83%
16,000	104.50	109.16	\$ 4.66	4.46%
18,000	112.50	117.16	\$ 4.66	4.14%
20,000	120.50	125.16	\$ 4.66	3.87%
25,000	140.50	145.16	\$ 4.66	3.31%
30,000	160.50	166.41	\$ 5.91	3.68%
35,000	180.50	187.66	\$ 7.16	3.97%
40,000	200.50	208.91	\$ 8.41	4.19%
45,000	220.50	230.16	\$ 9.66	4.38%
50,000	240.50	251.41	\$ 10.91	4.54%
60,000	280.50	293.91	\$ 13.41	4.78%
70,000	320.50	336.41	\$ 15.91	4.96%
80,000	360.50	378.91	\$ 18.41	5.11%
90,000	400.50	421.41	\$ 20.91	5.22%
100,000	440.50	463.91	\$ 23.41	5.31%
Average Usage				
13,968	\$ 96.37	\$ 101.03	\$ 4.66	4.83%
Median Usage				
9,000	\$ 76.50	\$ 81.16	\$ 4.66	6.09%

Present Rates:
 Monthly Minimum: \$ 40.50
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All Gallons \$ 4.00

Proposed Rates:
 Monthly Minimum: \$ 45.16
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 25,000 \$ 4.00
 Over 25,000 \$ 4.25

Vail Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Irrigation 1 1/2 Inch
Test Year Ended December 31, 2011

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Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 89.20	\$ 99.46	\$ 10.26	11.50%
1,000	93.20	103.46	\$ 10.26	11.01%
2,000	97.20	107.46	\$ 10.26	10.55%
3,000	101.20	111.46	\$ 10.26	10.14%
4,000	105.20	115.46	\$ 10.26	9.75%
5,000	109.20	119.46	\$ 10.26	9.39%
6,000	113.20	123.46	\$ 10.26	9.06%
7,000	117.20	127.46	\$ 10.26	8.75%
8,000	121.20	131.46	\$ 10.26	8.46%
9,000	125.20	135.46	\$ 10.26	8.19%
10,000	129.20	139.46	\$ 10.26	7.94%
12,000	137.20	147.46	\$ 10.26	7.48%
14,000	145.20	155.46	\$ 10.26	7.06%
16,000	153.20	163.46	\$ 10.26	6.70%
18,000	161.20	171.46	\$ 10.26	6.36%
20,000	169.20	179.46	\$ 10.26	6.06%
25,000	189.20	199.46	\$ 10.26	5.42%
30,000	209.20	219.46	\$ 10.26	4.90%
35,000	229.20	239.46	\$ 10.26	4.48%
40,000	249.20	259.46	\$ 10.26	4.12%
45,000	269.20	279.46	\$ 10.26	3.81%
50,000	289.20	299.46	\$ 10.26	3.55%
60,000	329.20	341.96	\$ 12.76	3.88%
70,000	369.20	384.46	\$ 15.26	4.13%
80,000	409.20	426.96	\$ 17.76	4.34%
90,000	449.20	469.46	\$ 20.26	4.51%
100,000	489.20	511.96	\$ 22.76	4.65%
Average Usage				
31,594	\$ 215.57	\$ 225.83	\$ 10.26	4.76%
Median Usage				
13,000	\$ 141.20	\$ 151.46	\$ 10.26	7.26%

Present Rates:

Monthly Minimum:	\$	89.20
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons	\$	4.00

Proposed Rates:

Monthly Minimum:	\$	99.46
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	50,000	\$ 4.00
Over	50,000	\$ 4.25

Vail Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification Irrigation 2 Inch
 Test Year Ended December 31, 2011
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 13
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 147.70	\$ 164.69	\$ 16.99	11.50%
1,000	151.70	168.69	\$ 16.99	11.20%
2,000	155.70	172.69	\$ 16.99	10.91%
3,000	159.70	176.69	\$ 16.99	10.64%
4,000	163.70	180.69	\$ 16.99	10.38%
5,000	167.70	184.69	\$ 16.99	10.13%
6,000	171.70	188.69	\$ 16.99	9.89%
7,000	175.70	192.69	\$ 16.99	9.67%
8,000	179.70	196.69	\$ 16.99	9.45%
9,000	183.70	200.69	\$ 16.99	9.25%
10,000	187.70	204.69	\$ 16.99	9.05%
12,000	195.70	212.69	\$ 16.99	8.68%
14,000	203.70	220.69	\$ 16.99	8.34%
16,000	211.70	228.69	\$ 16.99	8.02%
18,000	219.70	236.69	\$ 16.99	7.73%
20,000	227.70	244.69	\$ 16.99	7.46%
25,000	247.70	264.69	\$ 16.99	6.86%
30,000	267.70	284.69	\$ 16.99	6.34%
35,000	287.70	304.69	\$ 16.99	5.90%
40,000	307.70	324.69	\$ 16.99	5.52%
45,000	327.70	344.69	\$ 16.99	5.18%
50,000	347.70	364.69	\$ 16.99	4.89%
60,000	387.70	404.69	\$ 16.99	4.38%
70,000	427.70	444.69	\$ 16.99	3.97%
80,000	467.70	484.69	\$ 16.99	3.63%
90,000	507.70	527.19	\$ 19.49	3.84%
100,000	547.70	569.69	\$ 21.99	4.01%
Average Usage				
164,452	\$ 805.51	\$ 843.61	\$ 38.10	4.73%
Median Usage				
133,252	\$ 680.71	\$ 711.01	\$ 30.30	4.45%

Present Rates:
 Monthly Minimum: \$ 147.70
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All Gallons \$ 4.00

Proposed Rates:
 Monthly Minimum: \$ 164.69
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 80,000 \$ 4.00
 Over 80,000 \$ 4.25

Vail Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification Standpipe - 5/8x3/4 Inch
 Test Year Ended December 31, 2011
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 14
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 13.18	\$ -	\$ (13.18)	0.00%
1,000	17.18	4.25	(12.93)	-75.26%
2,000	21.18	8.50	(12.68)	-59.87%
3,000	25.18	12.75	(12.43)	-49.36%
4,000	29.18	17.00	(12.18)	-41.74%
5,000	33.18	21.25	(11.93)	-35.96%
6,000	37.18	25.50	(11.68)	-31.41%
7,000	41.18	29.75	(11.43)	-27.76%
8,000	45.18	34.00	(11.18)	-24.75%
9,000	49.18	38.25	(10.93)	-22.22%
10,000	53.18	42.50	(10.68)	-20.08%
12,000	61.18	51.00	(10.18)	-16.64%
14,000	69.18	59.50	(9.68)	-13.99%
16,000	77.18	68.00	(9.18)	-11.89%
18,000	85.18	76.50	(8.68)	-10.19%
20,000	93.18	85.00	(8.18)	-8.78%
25,000	113.18	106.25	(6.93)	-6.12%
30,000	133.18	127.50	(5.68)	-4.26%
35,000	153.18	148.75	(4.43)	-2.89%
40,000	173.18	170.00	(3.18)	-1.84%
45,000	193.18	191.25	(1.93)	-1.00%
50,000	213.18	212.50	(0.68)	-0.32%
60,000	253.18	255.00	1.82	0.72%
70,000	293.18	297.50	4.32	1.47%
80,000	333.18	340.00	6.82	2.05%
90,000	373.18	382.50	9.32	2.50%
100,000	413.18	425.00	11.82	2.86%
Average Usage 5,522	\$ 35.27	\$ 23.47	\$ (11.80)	-33.46%
Median Usage 4,500	\$ 31.18	\$ 19.13	\$ (12.06)	-38.66%

Present Rates:
 Monthly Minimum: \$ 13.18
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All Gallons \$ 4.00

Proposed Rates:
 Monthly Minimum: \$ -
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All Gallons \$ 4.25

Vail Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification Construction 3 Inch
 Test Year Ended December 31, 2011

Exhibit
 Schedule H-4
 Page 16
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 284.20	\$ -	\$ (284.20)	-100.00%
10,000	324.20	42.50	\$ (281.70)	-86.89%
20,000	364.20	85.00	\$ (279.20)	-76.66%
30,000	404.20	127.50	\$ (276.70)	-68.46%
40,000	444.20	170.00	\$ (274.20)	-61.73%
50,000	484.20	212.50	\$ (271.70)	-56.11%
100,000	684.20	425.00	\$ (259.20)	-37.88%
150,000	884.20	637.50	\$ (246.70)	-27.90%
200,000	1,084.20	850.00	\$ (234.20)	-21.60%
250,000	1,284.20	1,062.50	\$ (221.70)	-17.26%
300,000	1,484.20	1,275.00	\$ (209.20)	-14.10%
350,000	1,684.20	1,487.50	\$ (196.70)	-11.68%
400,000	1,884.20	1,700.00	\$ (184.20)	-9.78%
450,000	2,084.20	1,912.50	\$ (171.70)	-8.24%
500,000	2,284.20	2,125.00	\$ (159.20)	-6.97%
1,000,000	4,284.20	4,250.00	\$ (34.20)	-0.80%
1,500,000	6,284.20	6,375.00	\$ 90.80	1.44%
2,000,000	8,284.20	8,500.00	\$ 215.80	2.60%
2,500,000	10,284.20	10,625.00	\$ 340.80	3.31%
3,000,000	12,284.20	12,750.00	\$ 465.80	3.79%
3,500,000	14,284.20	14,875.00	\$ 590.80	4.14%
4,000,000	16,284.20	17,000.00	\$ 715.80	4.40%
4,500,000	18,284.20	19,125.00	\$ 840.80	4.60%
5,000,000	20,284.20	21,250.00	\$ 965.80	4.76%
10,000,000	40,284.20	42,500.00	\$ 2,215.80	5.50%
15,000,000	60,284.20	63,750.00	\$ 3,465.80	5.75%
20,000,000	80,284.20	85,000.00	\$ 4,715.80	5.87%
Average Usage				
139,198	\$ 840.99	\$ 591.59	\$ (249.40)	-29.66%
Median Usage				
45,000	\$ 464.20	\$ 191.25	\$ (272.95)	-58.80%

Present Rates:
 Monthly Minimum: \$ 284.20
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All gallons \$ 4.00

Proposed Rates:
 Monthly Minimum: \$ -
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 All gallons \$ 4.25

Vail Water Company
 Test Year Ended December 31, 2011
 Commercial 3/4 Inch Meter
 Customer Classification

Exhibit
 Schedule H-5
 Page 5
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
1	1,000				4									4	4	-
1,001	2,000														4	-
2,001	3,000														4	-
3,001	4,000														4	-
4,001	5,000	1													4	-
5,001	6,000		1											1	5	5
6,001	7,000			1										4	9	27
7,001	8,000					1								10	10	33
8,001	9,000	1												2	12	48
9,001	10,000													1	13	57
10,001	12,000				1									4	17	95
12,001	14,000													1	18	106
14,001	16,000				1									1	19	119
16,001	18,000					1								1	20	134
18,001	20,000						1							2	22	168
20,001	25,000							1						1	23	187
25,001	30,000								1					4	27	277
30,001	35,000													1	28	304
35,001	40,000													28	28	304
40,001	45,000													28	28	304
45,001	50,000													28	28	304
50,001	60,000													28	28	304
60,001	70,000													28	28	304
70,001	80,000													28	28	304
80,001	90,000													28	28	304
90,001	100,000													28	28	304
-	-													-	-	-
-	-													-	-	-
-	-													-	-	-
Totals																
2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2																
Average Usage 10,858																
Median Usage 9,500																
Average # Customers 2																
Change in Number of Customers																

Vail Water Company
 Test Year Ended December 31, 2011
 Commercial 1 1/2 Inch Meter

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
1,000	2,000	2	4	2	2	4	1	3	1	1	1	1	1	9	39	15
2,000	3,000	4	2	3	2	3	4	4	3	2	2	1	6	30	71	63
3,000	4,000	5	3	2	3	2	5	2	3	3	4	2	3	32	104	146
4,000	5,000	-	2	3	5	3	3	2	2	3	2	3	3	33	139	198
5,000	6,000	2	3	-	-	2	2	1	-	2	-	1	-	13	117	186
6,000	7,000	-	-	-	-	-	-	-	1	-	-	-	-	1	118	196
7,000	8,000	-	-	-	-	-	-	-	-	2	-	1	-	3	121	242
8,000	9,000	-	-	-	2	-	-	-	-	-	1	-	-	5	126	245
9,000	10,000	-	-	-	-	-	-	-	2	1	2	-	1	6	132	290
10,000	12,000	-	-	-	-	1	-	-	-	2	1	-	-	7	139	349
12,000	14,000	-	-	-	-	-	-	-	1	-	-	-	-	6	145	406
14,000	16,000	-	-	-	-	-	-	-	-	-	-	-	-	5	150	481
16,000	18,000	-	-	-	-	-	-	-	-	-	-	-	-	2	158	539
18,000	20,000	-	-	-	-	-	-	-	-	-	-	-	-	2	160	589
20,000	25,000	-	-	-	-	-	-	-	-	1	1	-	-	2	163	660
25,000	30,000	-	-	-	-	-	-	-	-	-	-	-	-	2	164	683
30,000	35,000	-	-	-	-	-	-	-	-	-	-	-	-	1	166	738
35,000	40,000	1	-	-	-	-	-	-	1	-	-	-	-	1	167	770
40,000	45,000	-	-	-	-	-	-	-	-	-	-	-	-	1	167	770
45,000	50,000	-	-	-	-	-	-	-	-	-	-	-	-	1	167	770
50,000	60,000	-	-	-	-	-	-	-	-	-	-	-	-	1	167	770
60,000	70,000	-	-	-	-	-	-	-	-	-	-	-	-	1	167	770
70,000	80,000	-	-	-	-	-	-	-	-	-	-	-	-	1	167	770
80,000	90,000	-	-	-	-	-	-	-	-	-	-	-	-	1	167	770
90,000	100,000	-	-	-	-	-	-	-	-	-	-	-	-	1	167	770

Totals	14	14	14	13	14	14	14	14	14	14	14	14	14	167	4,611	2,500
															Average Usage	14
															Median Usage	14
															Average # Customers	-
															Change in Number of Customers	-

Vail Water Company
 Test Year Ended December 31, 2011
 Customer Classification Irrigation 2 Inch

Exhibit
 Schedule H-5
 Page 13
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
1	1,000	1	2	1	1	2	3	1	1	1	1	1	1	9	9	9
1,001	2,000	-	-	1	1	-	-	-	1	2	-	-	-	7	16	4
2,001	3,000	1	-	-	-	1	-	-	-	-	-	-	-	3	19	8
3,001	4,000	-	-	-	-	-	1	-	-	-	-	1	-	3	22	16
4,001	5,000	1	-	-	-	-	1	-	2	-	-	-	-	2	24	23
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	2	4	28	41
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	28	41
7,001	8,000	1	-	-	-	1	-	-	1	-	-	-	-	2	30	54
8,001	9,000	-	1	-	-	-	-	-	-	-	-	-	-	2	32	69
9,001	10,000	-	-	1	-	-	-	-	-	-	-	1	-	2	34	86
10,001	12,000	-	-	1	-	-	-	-	-	-	-	-	1	2	36	105
12,001	14,000	-	1	-	1	-	-	-	-	-	2	-	1	4	40	149
14,001	16,000	-	-	-	-	-	1	-	1	1	1	-	-	10	50	279
16,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	50	279
18,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	50	279
20,001	25,000	1	-	-	-	-	-	-	-	1	-	-	-	2	52	324
25,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	324
30,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	324
35,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	324
40,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	53	361
45,001	50,000	-	-	-	-	-	1	-	-	-	-	-	-	1	54	404
50,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	54	404
60,001	70,000	-	2	-	-	-	-	-	-	-	-	-	1	2	55	459
70,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	57	589
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	57	589
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	58	674
112,812	112,812	-	-	-	-	1	-	2	-	-	-	-	-	4	62	1,054
115,868	115,868	-	-	-	-	-	1	-	-	-	-	-	-	1	63	1,166
118,744	118,744	-	1	-	-	-	-	-	-	-	-	-	1	1	64	1,282
124,632	124,632	-	-	-	-	-	-	-	-	-	-	-	-	1	65	1,401
128,315	128,315	-	-	-	-	1	-	-	-	-	-	-	-	1	66	1,526
129,508	129,508	-	-	-	-	-	-	-	-	-	-	-	-	1	67	1,654
129,770	129,770	-	1	-	-	-	-	-	-	-	-	-	-	1	68	1,783
132,624	132,624	-	-	-	-	-	-	-	-	-	-	-	-	1	69	1,913
133,880	133,880	-	-	-	-	-	-	-	-	-	-	-	-	1	70	2,046
134,076	134,076	-	-	-	-	-	-	-	-	-	-	-	1	1	71	2,180
140,814	140,814	-	1	-	-	-	-	-	-	-	-	-	-	1	72	2,314
143,456	143,456	1	-	-	-	-	-	-	-	-	-	-	-	1	73	2,455
144,174	144,174	1	-	-	-	-	-	-	-	-	-	-	-	1	74	2,598
146,551	146,551	-	-	-	-	-	-	-	-	-	-	1	-	1	75	2,742
148,577	148,577	-	-	-	-	-	-	-	-	-	-	-	-	1	76	2,889
153,055	153,055	1	-	-	-	-	-	-	-	-	-	-	-	1	77	3,037
156,876	156,876	-	-	-	-	1	-	-	-	-	-	-	-	1	78	3,190
159,085	159,085	-	-	-	-	1	-	-	-	-	-	-	-	1	79	3,347
159,973	159,973	-	1	-	-	-	-	-	-	-	-	-	1	1	80	3,506
161,751	161,751	-	-	-	-	-	-	-	-	-	-	-	-	1	81	3,666
171,422	171,422	-	-	-	-	-	-	-	-	-	-	-	-	1	82	3,828
173,073	173,073	-	-	-	-	-	-	-	-	-	-	-	-	1	83	3,999
175,144	175,144	-	-	-	-	-	-	-	1	-	-	-	-	1	84	4,173
175,823	175,823	-	-	-	-	-	-	-	-	-	-	-	-	1	85	4,348
		-	-	-	-	-	-	-	-	-	-	-	-	1	86	4,524

Vail Water Company
 Test Year Ended December 31, 2011
 Customer Classification Irrigation 2 Inch

Exhibit
 Schedule H-5
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 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gains (1,000s)
178,769	178,769									1				1	87	4,702
179,147	179,147													1	88	4,881
179,981	179,981			1										1	89	5,061
185,097	185,097										1			1	90	5,247
188,540	188,540											1		1	91	5,435
188,834	188,834				1									1	92	5,624
190,625	190,625				1									1	93	5,815
194,422	194,422									1				1	94	6,009
201,289	201,289				1									1	95	6,210
202,910	202,910										1			1	96	6,413
204,685	204,685												1	1	97	6,618
211,728	211,728	1												1	98	6,830
218,436	218,436											1		1	99	7,048
222,605	222,605					1								1	100	7,271
230,598	230,598													1	101	7,501
234,980	234,980	1												1	102	7,736
236,873	236,873											1		1	103	7,973
236,895	236,895	1												1	104	8,210
243,294	243,294													1	105	8,453
249,559	249,559				1									1	106	8,703
255,660	255,660									1				1	107	8,958
270,579	270,579				1									1	108	9,229
271,608	271,608				1									1	109	9,501
272,179	272,179										1			1	110	9,773
283,520	283,520											1		1	111	10,056
294,243	294,243												1	1	112	10,351
297,928	297,928													1	113	10,649
308,020	308,020													1	114	10,957
311,035	311,035													1	115	11,268
313,675	313,675													1	116	11,581
314,428	314,428						1							1	117	11,896
319,613	319,613													1	118	12,215
320,010	320,010													1	119	12,535
321,573	321,573													1	120	12,857
344,096	344,096									1				1	121	13,201
354,863	354,863									1				1	122	13,556
355,756	355,756													1	123	13,912
408,498	408,498													1	124	14,320
427,488	427,488													1	125	14,748
441,599	441,599													1	126	15,189
444,611	444,611													1	127	15,634
453,369	453,369													1	128	16,087
464,172	464,172													1	129	16,551
465,242	465,242													1	130	17,017
465,263	465,263													1	131	17,482
476,434	476,434													1	132	17,958
477,228	477,228													1	133	18,435
544,174	544,174													1	134	18,980
561,018	561,018													1	135	19,541
561,146	561,146													1	136	20,102
587,140	587,140													1	137	20,689

Vail Water Company
 Test Year Ended December 31, 2011
 Customer Classification Irrigation 2 Inch

Exhibit
 Schedule H-5
 Page 13
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Sales (1,000s)
589,405	589,405	-	-	-	-	-	-	1	-	-	-	-	-	1	138	21,288
620,687	620,687	-	-	-	-	-	-	1	-	-	-	-	-	1	139	21,909
638,648	638,648	-	-	-	-	-	-	1	-	-	-	-	-	1	140	
640,025	640,025	-	-	-	-	-	-	1	-	-	-	-	-	1	141	
Totals														141	141	
														Average Usage	164,452	
														Median Usage	133,252	
														Average # Customers	12	
														Change in Number of Customers	2	

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF VAIL WATER
COMPANY FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR AN
INCREASE IN ITS RATES AND
CHARGES BASED THEREON.

DOCKET NO: W-02199A-12-_____

DIRECT TESTIMONY OF
THOMAS J. BOURASSA
(COST OF CAPITAL)

July 27, 2012

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I. INTRODUCTION AND QUALIFICATIONS..... 1

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT CONCURRENTLY**
6 **FILED DIRECT TESTIMONY ON RATE BASE, INCOME STATEMENT,**
7 **REVENUE REQUIREMENT AND RATE DESIGN IN THIS DOCKET?**

8 A. Yes, and all of my background information and testimony regarding my
9 qualifications are contained in that portion of my direct testimony.

10 **I. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL**
11 **FOR THE COMPANY**

12 **Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR DIRECT**
13 **TESTIMONY?**

14 A. This portion of my direct testimony focuses on cost of capital issues. I will testify
15 in support of Vail Water Company's ("VWC" or "the Company") proposed rate of
16 return on its fair value rate base ("FVRB"). I am sponsoring the Company's D
17 Schedules, which are attached to this testimony. There are 20 schedules that
18 support my testimony and one attachment. As noted above, I am also sponsoring
19 direct testimony that addresses the Company's rate base, income statement
20 (revenue and operating expenses), required increase in revenue, and its rate design
21 and proposed rates and charges for service. For convenience, that testimony and
22 my related schedules are contained in separate volumes.

23 **Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.**

24 A. I have determined that the cost of equity for the publicly traded water utilities falls
25 in the range of 8.5 percent to 12.6 percent with the midpoint of the range at 10.6
26 percent. After accounting for differences in financial risk and company size, I am

1 recommending a return on equity ("ROE") of 10.4 percent for the Company. The
2 10.4 percent is the mid-point of the range of estimates after adjusting for financial
3 and company specific risk.

4 My recommendation is based on consideration of (i) cost of equity estimates
5 using constant growth and multi-stage growth discounted cash flow ("DCF")
6 models and the capital asset pricing model ("CAPM") for the sample group of
7 publicly traded utilities, (ii) my review of the economic conditions expected to
8 prevail during the period in which new rates will be in effect, (iii) my judgments
9 about the risks associated with relatively small utilities like VWC that are not
10 captured by the market data for publicly-traded water utilities used in my DCF and
11 CAPM models, (iv) the financial risk associated with the level of debt in VWC's
12 capital structure, and (v) additional specific business and operational risks faced by
13 VWC.

14 **Q. WHAT IS THE RECOMMENDED CAPITAL STRUCTURE FOR VWC?**

15 A. The actual and adjusted capital structure at the end of the test year (December 31,
16 2011) consists of 100 percent equity.

17 **Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL?**

18 A. The weighted cost of capital based upon a capital structure consisting of 0 percent
19 debt and 100 percent equity and a cost of equity of 10.4 percent is 10.4 percent as
20 shown on Schedule D-1.

21 **Q. PLEASE SUMMARIZE THE APPROACH YOU USED TO ESTIMATE
22 THE COST OF EQUITY FOR THE COMPANY.**

23 A. The cost of equity for VWC cannot be estimated directly because the Company's
24 equity is not in the form of a publicly traded security and thus there is no market
25 data for VWC. Consequently, I employed the DCF and CAPM models using data
26 from a sample of water utilities selected from the Value Line Investment Survey as

1 a starting point in my analysis. There are six water utilities in my sample:
2 American States Water, Aqua America, California Water, Connecticut Water,
3 Middlesex Water, and SJW Corp. As explained later in my testimony, these
4 companies aren't really comparable to VWC, but they are water utilities for which
5 market data are available and because the Utilities Division Staff has relied on data
6 for these water utilities in a number of recent water and sewer utility rate cases.

7 To serve as a check on the reasonableness of my cost of equity estimate and
8 recommendation, I prepared cost of equity estimates using two risk premium
9 methods (build-up methods) that do not require a beta estimate. Again, VWC is
10 not publicly traded, so there is no beta to estimate the cost of equity for VWC
11 directly. Further, there are no publicly traded utilities of comparable size to VWC
12 from which a proxy beta for VWC can be obtained. Build-up methods are
13 commonly used for non-publicly traded companies.

14 My DCF analyses indicate ROEs in the range of 9.1 percent to 10.3 percent
15 with a midpoint of 9.7 percent. The CAPM analysis, again using the same sample
16 group, indicates ROEs in the range of 8.0 percent to 15.0 percent are appropriate
17 with a midpoint of 11.5 percent. Both the DCF and CAPM ranges are before
18 consideration of financial risk and company-specific risks such as size.

19 Given VWC's proposed capital structure and relatively small size compared
20 to the larger publicly-traded utilities used in my sample, the regulatory methods
21 and policies used in this jurisdiction, and other company-specific factors, it is my
22 opinion that at the present time, a cost of equity of at least 10.4 percent is
23 warranted. My cost of equity estimate using the build-up methods indicates a cost
24 of equity for VWC in the range of 10.1 percent to 13.8 percent with a mid-point of
25 12.0 percent. Thus, the 10.4 percent cost of equity estimate produced by the DCF
26 and CAPM is conservative.

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My recommendation of a 10.4 percent ROE balances my judgment about the degree of financial and business risk associated with an investment in VWC as well as consideration of the current economic environment. A summary of my cost of equity analysis result is shown on Schedule D-4.1.

II. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE EXPECTED RETURN ON AN INVESTMENT

Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?

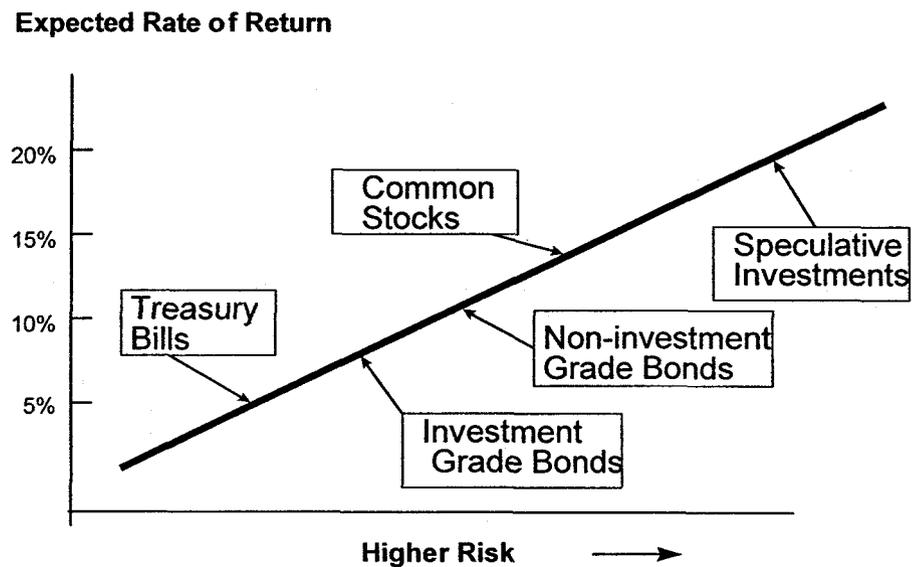
A. The cost of equity is the rate of return that equity investors expect to receive on their investment. Investors can choose to invest in many types of assets, not simply publicly traded stock. Each investment will have varying degrees of risk, ranging from relatively low risk assets such as Treasury securities to somewhat higher risk corporate bonds to even higher risk common stocks. As the level of risk increases, investors require higher returns on their investment. Finance models that are used to estimate the cost of equity often rely on this basic concept.

Q. CAN YOU ILLUSTRATE THE CAPITAL MARKET RISK-RETURN CONCEPT?

A. Yes. The following graph depicts the risk-return relationship that has become widely known as the Capital Market Line ("CML"). The CML illustrates in a general way the risk-return relationship.

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The Capital Market Line (CML)



The CML can be viewed as a continuum of the available investment opportunities for investors. Investment risk increases move upward and to the right along the CML. Again, the return required by investors increases with the risk.

Q. HOW DOES THE RISK-RETURN TRADE OFF CONCEPT WORK IN THE CAPITAL MARKET?

A. As indicated by the CML, the allocation of capital in a free market economy is based upon the relative risk of, and expected return from, an investment. In general, investors rank investment opportunities in the order of their relative risks. Investment alternatives in which the expected return is commensurate with the perceived risk become viable investment options. If all other factors remain equal, the greater the risk, the higher the rate of return investors will require to compensate them for the possibility of loss of either the principal amount invested

1 or the expected annual income from such investment.

2 Short-term Treasury bills provide a high degree of certainty and in nominal
3 terms (after considering inflation) are considered virtually risk free. Long-term
4 bonds and preferred stocks, having priority claims to assets and fixed income
5 payments, are relatively low risk, but are not risk free. The market values of long-
6 term bonds often fluctuate when government policies or other factors cause interest
7 rates to change. Common stocks are higher and to the right on the CML continuum
8 because they are exposed to more risk. Common stock risk includes the nature of
9 the underlying business and financial strength of the issuing corporation as well as
10 market-wide factors, such as general changes in capital costs.

11 The capital markets reflect investor expectations and requirements each day
12 through market prices. Prices for stocks and bonds change to reflect investor
13 expectations and the relative attractiveness of one investment versus another.
14 While the example provided above seems straightforward, returns on common
15 stocks are not directly observable in advance, in contrast to debt or preferred stocks
16 with fixed payment terms. This means that these returns must be estimated from
17 market data. Estimating the cost of equity capital is a matter of informed judgment
18 about the relative risk of the company in question and the expected rate of return
19 characteristics of other alternative investments.

20 **Q. HOW IS THE COST OF EQUITY FOR A PARTICULAR UTILITY**
21 **DETERMINED?**

22 A. The estimation of a utility's cost of equity is complex. It requires an analysis of the
23 factors influencing the cost of various types of capital, such as interest on long-
24 term debt, dividends on preferred stock, and earnings on common equity. The data
25 for such an analysis comes from highly competitive capital markets, where the firm
26 raises funds by issuing common stock, selling bonds, and by borrowing (both long-

1 and short-term) from banks and other financial institutions. In the capital markets,
2 the cost of capital, whether the capital is in the form of debt or equity, is
3 determined by two important factors:

- 4 1) The pure or real rate of interest, often called the risk-free rate of
5 interest; and,
- 6 2) The uncertainty or risk premium (the compensation the investor
7 requires over and above the real or pure rate of interest for subjecting
8 his capital to additional risk).

9 **Q. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.**

10 A. The pure rate of interest essentially reflects both the time preference for and the
11 productivity of capital. From the standpoint of the individual, it is the rate of
12 interest required to induce the individual to forgo present consumption and offer
13 the funds thus saved to others for a specified length of time. Moreover, the pure
14 rate of interest concept is based on the assumption that no uncertainty affects the
15 investment undertaken by the individual, i.e., there is no doubt that the periodic
16 interest payments will be made and the principal returned at the end of the time
17 period. In reality, investments without any risk do not exist. Every commitment of
18 funds involves some degree of uncertainty.

19 Turning to the second factor affecting the cost of capital, it is generally
20 accepted that the higher the degree of uncertainty, the higher the cost of capital.
21 Investors are regarded as risk adverse and require that the rate of return increase as
22 the risk(s) (uncertainty) associated with an investment increase(s).

23 **Q. CAN YOU PROVIDE SOME PERSPECTIVE ON YOUR PREVIOUS
24 DISCUSSION WITH RESPECT TO RETURNS ON COMMON STOCKS?**

25 A. Yes. Conceptually,
26 [1] Required Return for Common Stocks = Return on a risk-free asset + Risk Premium

1 where the risk premium investors require for common stocks will be higher than
2 the risk premium they require for investment grade bonds. This relationship is
3 depicted in the graph of the CML above. As I will discuss later in this testimony,
4 this concept is the basis of risk premium methods, such as the CAPM, that are used
5 to estimate the cost of equity.

6 **Q. WHAT HAS BEEN THE RECENT EXPERIENCE IN THE U.S. CAPITAL**
7 **MARKETS?**

8 A. In the past 10 years, inflation and capital market costs have generally declined.
9 Interest rates have been lower than in previous decades. Past inflation, as
10 measured by the Consumer Price Index, has been at relatively low levels in the past
11 10 years.

12 The roughly 6 year span of economic expansion after the 2001 recession
13 began to wane in 2007. Year-over-year Gross Domestic Product (“GDP”) growth¹
14 for 2004, 2005, and 2006 was 3.6 percent, 2.9 percent, and 2.8 percent,
15 respectively. GDP growth was, in part, spurred on by low interest rates during this
16 period. The Federal Reserve, having lowered the target Federal Funds rate to 1.0
17 percent by the end of 2003, began raising interest rates in 2004 to help keep the
18 economy from overheating and to help keep inflation in check. By mid-2006, the
19 target Federal Funds rate had been raised to 5.25 percent.

20 The economic expansion was broad, taking in the major consumer and
21 industrial sectors for much of its span. However, the economic expansion also
22 brought excesses, particularly in the areas of housing, lending practices, and the
23 financial markets.

24 Economic growth slowed in 2007. For 2007, the year-over-year GDP

25
26 ¹ GDP percentage change based on current dollars (1930-2010).

1 growth had dropped to 2.0 percent with the last quarter of 2007 at a negative 0.2
2 percent. The slow economic growth, combined with the excesses during the
3 economic expansion of the previous 6 years, created turmoil in the credit, financial,
4 and housing markets. This turmoil had a significant drag on the economy. Federal
5 Reserve Chairman Ben Bernanke noted in Congressional testimony in late 2008
6 that financial markets were under considerable stress and that broader retrenchment
7 in the willingness of investors to bear risk, troubles in the credit markets and a
8 weaker outlook of economic growth have each added to the stresses on economic
9 growth.

10 In order to address the weakening economy, the Federal Reserve, starting in
11 September 2007, has undertaken a series of Federal Funds rate cut actions (500 to
12 525 total basis points). The reductions in interest rates by the Federal Open Market
13 Committee ("FOMC") were taken in order to promote economic growth and to
14 mitigate risks to economic activity. The target Federal Funds rate currently stands
15 at zero to .25 percent.

16 The recession, which some argue began in late 2007, continued through
17 2008 and for most of 2009. The year-over-year GDP growth for 2008 was -0.3
18 percent. The year-over-year GDP growth for 2009 was -3.5 percent. However
19 during the last quarter of 2009 the economy grew 3.8 percent. Many economists
20 believe the recession ended in the third quarter of 2009, however, the recovery has
21 been slow and tepid.

22 GDP growth for 2010 was a modest 3.0 percent. However, the economy
23 began to wane in the third and fourth quarters of 2010. In the first and second
24 quarter of 2011, the business expansion stumbled. GDP growth for the first and
25 second quarter of 2011 was 0.4 percent and 1.3 percent, respectively. Economists
26 noted that unusually severe weather and the earthquake in Japan that disrupted

1 supply chains contributed to the falloff in business expansion in the first half of
2 2011. The 2011 budget and debt ceiling battles and the downgrade in U.S. debt
3 have contributed heavily to low consumer sentiment and consumer spending
4 throughout 2011. GDP growth for 2011 was an anemic 1.7 percent. GDP growth
5 for the first quarter of 2012 was just 1.9 percent. Estimates for GDP growth for the
6 first quarter are not much better at 2.0 percent. Economists see the economy
7 plodding along at a listless pace and foresee modest GDP growth of 2.2 to 2.8
8 percent over the next year.

9 **Q. WHAT ABOUT INTEREST RATES AND THE STATUS OF THE STOCK**
10 **MARKET?**

11 A. With respect to interest rates, the Federal Reserve lowered the Federal Funds target
12 rate to near zero during the depths of the 2007 to 2009 recession where it continues
13 to stand at zero to .25 percent. While the move to lower interest rates may have
14 been necessary at the time, the Federal Reserve is left with little latitude to affect
15 new monetary moves going forward. In August 2009, the Federal Reserve
16 announced that it intended to keep interest rates low well into 2013 due, in part, to
17 the expected economic conditions going forward. This news was met with mixed
18 reactions from investors. On the one hand, investors and businesses received some
19 level of certainty regarding interest rates over the next few years. On the other
20 hand, the need to keep interest rates low reflects that the Federal Reserve does not
21 expect economic conditions to improve much over the same period. More recently
22 the Fed has said it is likely to raise interest rates at the end of 2014, but not until
23 then, an announcement that means that the Fed does not expect the economy to
24 complete its recovery from the 2008 crisis over the next few years.

25 In short, the current capital markets continue to reflect the uncertainty and
26 low confidence of investors in the financial markets and in the future prospects of

1 economic growth over the next few years. Naturally, despite relatively low U.S.
2 Treasury yields over the past several years, the premiums required for investors to
3 hold and buy private securities remains high due to this ongoing uncertainty.

4 **Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND**
5 **INTEREST RATES?**

6 A. Yes. All things being equal, the cost of equity moves in the same direction as
7 interest rates. Lower interest rates on U.S Treasuries (“risk-free” rate) imply lower
8 equity returns and visa versa. However, as indicated by Equation [1] above, the
9 risk premium required to compensate investors also impacts the cost of equity.
10 Higher risk premiums required by investors imply higher equity costs and vice
11 versa. Risk premiums are impacted by uncertainty not only with respect future
12 interest rates, but uncertainty with respect business and economic conditions, and
13 inflation (or deflation). Risk premiums also reflect other risk factors such business
14 and operation risk, regulatory risk, financial risk, construction risk, and liquidity
15 risk.

16 **Q. IS VWC AFFECTED BY THESE SAME MARKET UNCERTAINTIES AND**
17 **CONCERNS?**

18 A. Yes, in general, all investors are impacted by economic uncertainty including the
19 Company’s investors. Capital costs have risen significantly over the past few years
20 because of this uncertainty. And, smaller utilities like VWC generally feel the
21 impact worse because of their size, with a small customer base, limited service
22 territory, and a related limited or inability to attract capital.

23 **Q. WHAT RECENT DEVELOPMENTS IN THE WATER UTILITY**
24 **INDUSTRY ARE AFFECTING INVESTMENTS?**

25 A. On the whole, the water and wastewater utility industry is expected to continue to
26 confront increasing need for infrastructure upgrades and replacement, as well as

1 possible additional demand. *Value Line Investment Survey* (July 10, 2012)
2 continues to stress that many utilities have facilities that are decades old and in
3 need of significant maintenance and, in some cases, massive renovation and
4 replacement. As infrastructure costs continue to climb, many smaller companies
5 are at a serious disadvantage. Without sufficient resources to fund improvements
6 to meet new and more stringent requirements, many smaller companies are being
7 forced to sell to larger utilities, which have greater operational flexibility and
8 resources, as well as access to capital. However, *Value Line* notes that many of
9 the companies in this sector are starved for cash and balance sheets are debt-laden.
10 This will require outside financing largely from more debt and higher associated
11 interest expense, which will thwart share-earnings and shareholder gains. Some
12 companies may have to rethink current payout ratios of the costs of doing business
13 cannot be curbed.

14 **Q. WHAT CAN THE COMMISSION DO TO INCENT UTILITIES LIKE VWC**
15 **TO CONTINUE TO MAKE NECESSARY INVESTMENT IN**
16 **INFRASTRUCTURE?**

17 A. The Commission can and should recognize that investors have other options and
18 when it comes to regulated utilities, those options are almost always better than
19 investing in Arizona. By adhering almost uniformly to Staff's recommended
20 ROEs, the Commission is sending a message that it will reduce returns on equity to
21 placate ratepayers with lower rates. That might make ratepayers happy, but it is
22 shortsighted. The health of the state rests on its ability to attract investment,
23 including investment in new water infrastructure and we need a PUC that incents,
24 not discourages that investment with consistent ROEs that are not nearly always at
25 the low end of the spectrum.

26 **Q. PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF RISK ON**

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CAPITAL COSTS.

A. With reference to specific utilities, risk is often discussed as consisting of two separate types of risk: business risk and financial risk.

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and nationally. Business risks include the condition of the economy and capital markets, the state of labor markets, regional stability, government regulation, technological obsolescence, and other similar factors that may impact demand for the business product and its cost of production. For utilities, business risk also includes the volatility of revenues due to abnormal weather conditions, degree of operational leverage, regulation, and regulatory climate. Regulation, for example, can compound the business risk if it is unpredictable in reacting to cost increases both in terms of the time lag and magnitude for recovery of such increases. Regulatory lag makes it difficult to earn a reasonable return, particularly in an inflationary environment and/or when there is significant lag between the timing of investment in capital projects and its recognition in rates. Put simply, the greater the degree of uncertainty regarding the various factors affecting a company's business, the greater the risk of an investment in that company and the greater the compensation required by the investor.

Financial risk, on the other hand, concerns the distribution of business risk to the various capital investors in the utility. As I discussed earlier, permanent capital is normally divided into three categories: long-term debt, preferred stock, and common equity. Because common equity owners have only a residual claim on earnings after debt and preferred stockholders are paid, financial risk tends to be concentrated in that element of the firm's capital. Thus, a decision by management

1 to raise additional capital by issuing additional debt concentrates even more of the
2 financial risk of the utility in the common equity owners.

3 An important component of financial risk is construction risk. Construction
4 risk refers to the magnitude of a company's capital budget. If a company has a
5 large construction budget relative to internally generated cash flows it will require
6 external financing. It is important that companies have access to capital funds on
7 reasonable terms and conditions. Utilities are more susceptible to construction risk
8 for two reasons. First, utilities generally have high capital requirements to build
9 plant to serve customers. Second, utilities have a mandated obligation to serve
10 leaving less flexibility both in the timing and discretion of scheduling capital
11 projects. This is compounded by the limited ability to wait for more favorable
12 market conditions to raise the capital necessary to fund the capital projects.

13 Although often discussed separately, the two types of risks (business and
14 financial) are interrelated. Specifically, a common equity investor may seek to
15 offset exposure to high financial risk by investing in a firm perceived to have a low
16 degree of business risk. In other words, the total risk to an investor would be high
17 if the enterprise was characterized as a high business risk with a large portion of its
18 permanent capital financed with senior debt. To attract capital under these
19 circumstances, the firm would have to offer higher rates of return to its common
20 equity investors.

21 **III. THE MEANING OF "JUST AND REASONABLE" RATE OF RETURN**

22 **Q. HAVE THE COURTS SET FORTH ANY CRITERIA THAT GOVERN THE**
23 **RATE OF RETURN THAT A UTILITY'S RATES SHOULD PRODUCE?**

24 A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for
25 determining whether a rate of return is reasonable in *Bluefield Water Works and*
26 *Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679,

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692-93 (1923):

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments on other business undertakings which are attended by corresponding risks and uncertainties The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally.

In summary, under *Bluefield Water Works*:

- (1) The rate of return should be similar to the return in businesses with similar or comparable risks;
- (2) The return should be sufficient to ensure the confidence in the financial integrity of the utility; and
- (3) The return should be sufficient to maintain and support the utility's credit.

In *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944), the U.S. Supreme Court stated the following regarding the return to owners of a company:

[T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

320 U.S. at 603.

Q. HOW HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY

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PROCEEDINGS?

A. Yes, but the application of the “reasonableness” criteria laid down by the Supreme Court has resulted in controversy. The typical method of computing the overall cost of capital is quite straightforward: it is the composite, weighted cost of the various classes of capital (debt, preferred stock, and common equity) used by the utility. The weighting is done by calculating the proportion that each class of capital bears to total capital. However, there is no consensus regarding the best method of estimating the cost of equity capital. The increasing regulatory emphasis on objectivity in determining the rate of return has resulted in a proliferation of market-based finance models that are used in equity return determination. As will be discussed more fully below, however, none of these models are universally accepted as the “correct” means of estimating the ROE.

IV. THE ESTIMATED COST OF EQUITY FOR VWC

A. The Publicly Traded Utilities That Comprise the Sample Group Used to Estimate the Company’s Cost of Equity.

Q. PLEASE DESCRIBE THE APPROACH YOU FOLLOWED IN YOUR COST OF CAPITAL ANALYSIS FOR VWC.

A. Again, estimating the cost of equity is a matter of informed judgment. The development of an appropriate rate of return for a regulated enterprise involves a determination of the level of risk associated with that enterprise and the determination of an appropriate return for that risk level. Practitioners employ various techniques that provide a link to actual capital market data and assist in defining the various relationships that underlie the equity cost estimation process.

Since VWC is not publicly traded, the information required to directly estimate its cost of equity is not available. Accordingly, as previously noted, I used a sample group of water utilities as a starting point to develop an appropriate cost of equity for VWC. There are six water utilities included in the sample group:

1 American States Water, Aqua America, California Water, Connecticut Water,
2 Middlesex Water, and SJW Corp. All these companies are followed by the *Value*
3 *Line Investment Survey*.

4 **Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY**
5 **COMPARABLE TO VWC?**

6 A. No, but they are utilities for which market data is available. All of them are
7 regulated, they primarily provide water service, although some provide both water
8 and wastewater services, and their primary source of revenues is from regulated
9 services. Therefore, they provide a useful starting point for developing a cost of
10 equity for the Company. I emphasized “starting point” because VWC is not
11 publicly traded. Additionally, there is no market data available for smaller utilities,
12 like VWC, that can be used to more directly develop cost of equity estimates.

13 **Q. BRIEFLY, WHY IS A PROXY SAMPLE GROUP NECESSARY IN A COST**
14 **OF CAPITAL ANALYSIS AND HOW IS IT SELECTED?**

15 A. The comparable earnings standard set forth in the *Hope* and *Bluefield* decisions
16 require the rate of return afforded to utilities be similar to the return in businesses
17 with similar or comparable risks.² A proxy group of companies with comparable
18 risk is therefore the starting point in a cost of capital analysis.

19 There are two broad approaches to choosing a proxy group.³ The first
20 approach consists of selecting pure-play companies that are directly comparable in
21 risk to the subject utility. The companies are chosen using strict criteria with an
22 attempt to identify companies with the same investment risk as the subject utility.
23 There are several qualitative measures that influence investors’ assessment of risk
24 that can be used to screen companies. These include SIC classification, bond

25 ² Bourassa Dt. at 14-15.

26 ³ Morin at 400,

1 ratings, beta risk, business risk scores, size, percentage of revenues from regulated
2 operations, common equity ratio, geographical location, etc.⁴

3 The second approach is to select as large a group of utilities as possible that
4 is representative of the utility industry average and make adjustments for any
5 differences between the subject utility and the industry average. Whether one
6 employs the direct approach or the indirect approach, the selection of companies
7 for a proxy group always raises the question of whether it is possible to select a
8 group that are of comparable risk. Further, there is always the question of
9 identifying any differences in investment risk. The electric, natural gas, and water
10 utility industries have witnessed numerous takeovers, restructuring, corporate
11 reorganizations, unbundling, and increased competition over the last decade or so,
12 all of which has made selections of proxy groups more difficult.⁵

13 The Company's approach utilizes an indirect method. The water companies
14 selected derive the vast majority of their revenues from regulated operations. As
15 shown in Schedule D-4.2, the six water utilities on average derive over 90 percent
16 of the revenues from regulated activities. These companies were also chosen
17 because they are publicly traded, are not in financial distress, and there is a
18 sufficiently long financial and market history from which to perform an analysis.

19 The bottom line is that the water utility companies in my proxy group are
20 considered representative of the average of the industry, and, as I have stated
21 throughout my testimony, must be adjusted for differences in investment risk.

22 **Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY**
23 **SAMPLE CAPTURE ALL OF THE MARKET RISKS THAT VWC MIGHT**
24 **FACE IF IT WERE PUBLICLY TRADED?**

25 ⁴ *Id.*

26 ⁵ *Id.*

1 A. In my opinion, no. As I stated, there is no comparable market data for utility
2 companies the size of VWC. The average revenue of the water utility sample
3 companies is over 150 times that of VWC, and the average net plant of the water
4 utility sample companies is over 76 times that of VWC. Even the smallest
5 company in the sample group, Connecticut Water, has over 25 times the net plant
6 of VWC, and over 32 times the revenues.

7 Putting aside the size aspect, an investment in the Company is not a liquid
8 investment. If an investor invests in any of the publicly traded utilities and is not
9 happy with the returns, he/she may sell his/her stock within minutes while
10 liquidating an investment in VWC could take years. This is liquidity risk.
11 Liquidity risk is a significant risk to an investment in non-publicly traded
12 companies like VWC. Some researchers believe that the size premium
13 phenomenon for smaller companies in the public markets is, in part, a reflection of
14 liquidity risk.

15 **Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE WATER**
16 **UTILITIES IN YOUR SAMPLE.**

17 A. Schedule D-4.2 lists the current operating revenues and net plant for the six water
18 utilities as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports)
19 and VWC, respectively. The six (6) sample companies may be generally described
20 as follows:

21 (1) American States Water (AWR) primarily serves the California
22 market through Golden State Water Company, which provides water
23 services to nearly 256,000 customers within 75 communities in 10
24 counties in the State of California, primarily in Los Angeles, San
25 Bernardino, and Orange counties. AWR also owns an electric utility
26 service provider with over 23,000 customers, but approximately 72

1 percent of its revenues were derived from commercial and residential
2 water customers. Revenues for AWR were nearly \$420 million in
3 2011 and net plant was nearly \$890 million at the end of 2011.

4 (2) Aqua America (WTR) owns regulated utilities in Pennsylvania,
5 Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana,
6 Virginia, Missouri, New York, and Georgia, serving nearly 900,000
7 customers at the end of 2011. WTR's utility base is diversified
8 among residential water, commercial water, fire protection, industrial
9 water, other water, and wastewater customers. Total revenues for
10 WTR were nearly \$730 million in 2011 and net plant was over \$3.6
11 billion at the end of 2011.

12 (3) California Water Service Group (CWT) owns subsidiaries in
13 California, New Mexico, Washington, and Hawaii serving nearly
14 500,000 customers. Revenues for CWT were over \$501 million in
15 2011 and net plant nearly \$1.4 billion at the end of 2011.

16 (4) Connecticut Water Services (CTWS) owns subsidiaries in
17 Connecticut, Maine, Massachusetts and Rhode Island serving over
18 90,000 customers. Revenues for CTWS were over \$69 million in
19 2011 and net plant over \$360 million at the end of 2011.

20 (5) Middlesex Water (MSEX) owns subsidiaries in New Jersey,
21 Delaware and Pennsylvania serving over 110,000 customers and
22 provides water service under contract to municipalities in central
23 New Jersey serving a population of over 303,000. Revenues for
24 MSEX were over \$102 million in 2011 and net plant was over \$422
25 million at the end of 2011.

26 (6) SJW Corp. (SJW) owns San Jose Water, which provides water

1 service in a 138 square mile area in San Jose, California, and
2 surrounding communities serving nearly 235,000 customers.
3 Revenues for SJW were \$239 million in 2011 and net plant was
4 nearly \$731 million at the end of 2011.

5 **Q. HOW DOES VWC COMPARE TO THE SAMPLE WATER UTILITIES?**

6 A. It is much smaller. At the end of the test year, the Company had approximately
7 3,900 water customers. Its revenues totaled approximately \$2.3 million, and net
8 plant-in-service was approximately \$16.4 million. VWC is located in Pima
9 County, Arizona, and has a very small service territory compared to the sample
10 water companies.

11 **Q. ARE THERE OTHER CHARACTERISTICS OF SMALLER UTILITIES,
12 LIKE VWC, THAT INCREASE RISK?**

13 A. Yes. VWC has about 3 times as much zero cost capital (advances-in-aid of
14 construction and contributions-in-aid of construction) in its capitalization as do the
15 sample water utilities. This is not surprising as smaller utilities, having less access
16 to debt and equity capital, fund more of their utility plant with developer funds.
17 All things being the equal, rates are lower as a result. While this is a benefit to
18 ratepayers, a high proportion of zero cost capital increases risk to VWC and its
19 stockholders. VWC has an obligation to refund advances, and like debt
20 obligations, refund payments take priority on cash flows over distributions to
21 shareholders or utilizing cash to cover operating expenses or internally fund capital
22 improvements. And while advanced plant receives depreciation recovery in rates
23 providing cash flows to make refunds, contributed plant does not and neither type
24 of zero cost capital plant contributes to earnings. Ultimately, however, both types
25 of zero cost capital have detrimental impacts on the long-term cash flows of the
26 Company. Advanced plant and contributed plant still has to be maintained and

1 eventually has to be replaced. This places additional stress on earnings and
2 increases risk to the Company as the eventual plant replacements will require the
3 Company to raise additional capital to fund the replacements.

4 Water and sewer utilities are also capital intensive and typically have
5 relatively large construction budgets. Since the last rate case, the Company has
6 added over \$18 million of new plant and has annual capital budgets for the next
7 three years of nearly \$2.5 million. As I have previously discussed in this testimony,
8 firms with large capital budgets face construction risk (a form of financial risk).
9 The size of a utility's capital budget relative to the size of the utility itself often
10 increases construction risk. Large utilities may be able to fund their capital budgets
11 from their earnings, cash flows, and short-term borrowings. For smaller utilities,
12 like VWC, the ability to fund relatively large capital budgets from earnings, cash
13 flows, and short-term debt is difficult without the need for additional outside
14 capital.

15 **Q. WHAT OTHER RISK FACTORS DISTINGUISH VWC FROM THE**
16 **LARGER SAMPLE WATER UTILITIES?**

17 **A.** There are a number of factors including the differences in regulatory environments,
18 differences in the type of test year used for rate making, and differences in the
19 available regulatory mechanisms for recovery of costs outside of a rate case. All
20 these factors have an impact on the ability of a utility to actually earn its authorized
21 return.

22 **Q. SO VWC REALLY ISN'T COMPARABLE TO THE SAMPLE WATER**
23 **UTILITIES.**

24 **A.** It really isn't, for the reasons I have stated. Besides the obvious difference in size
25 as well as difference in regulatory environments, constraints on the rate making
26 process in Arizona, coupled with lower returns over the past decade than most

1 states, make it difficult to obtain approval of rates that allow Arizona water utilities
2 to recover the costs of service they will actually incur during the period when new
3 rates are put in place, which can be a few years beyond the test year. In the
4 interim, actual operating costs continue to increase. Risks are thus higher for VWC
5 and the required return on equity should be above the level required by water
6 utilities that operate in states that do not have such limitations, whether imposed by
7 law or by agency policy, on the rate-setting system. Unfortunately, as I have
8 testified, the approaches commonly used to estimate a utility's cost of equity
9 require market data, which is not available for smaller companies and utilities
10 operating exclusively in Arizona, like VWC. As a result, much larger, public
11 companies must be used as proxies.

12 But the emphasis on proxy is very important. The criteria established by the
13 Supreme Court in decisions such as *Bluefield Water Works* require the use of
14 comparable companies, i.e., companies that would be viewed by investors as
15 having similar risks. A rational investor would not regard VWC as having the
16 same level of risk as WTR or even CTWS - even with VWC's lower financial risk
17 - because of the previously mentioned small size characteristics and the regulatory
18 constraints in Arizona. Consequently, the results produced by the DCF and CAPM
19 methodologies, utilizing data for the sample utilities, often understate the
20 appropriate return on equity for a regulated water utility provider such as VWC.

21 **Q. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL**
22 **STRUCTURE AND ITS COST OF CAPITAL?**

23 **A.** Yes. Generally speaking, when a firm engages in debt financing, it exposes itself
24 to greater risk. Once debt becomes significant relative to the total capital structure,
25 the risk increases in a geometric fashion compared to the linear percentage increase
26 in the debt ratio itself. This risk is illustrated by considering the effect of leverage

1 on net earnings. For example, as leverage increases, the equity ratio falls. This
2 creates two adverse effects. First, equity earnings decline rapidly and may even
3 disappear. Second, the “cushion” of equity protection for debt falls. A decline in
4 the protection afforded debt holders, or the possibility of a serious decline in debt
5 protection, will act to increase the cost of debt financing. Therefore, one may
6 conclude that each new financing, whether through debt or equity, impacts the
7 marginal cost of future financing by any alternative method. For a firm already
8 perceived as being over-leveraged, this additional borrowing would cause the
9 marginal cost of both equity and debt to increase. On the other hand, if the same
10 firm instead successfully employed equity funding, this could actually reduce the
11 real marginal cost of additional borrowing, even if the particular equity issuance
12 occurred at a higher unit cost than an equivalent amount of debt.

13 **Q. HOW DO THE CAPITAL STRUCTURES OF THE SAMPLE WATER**
14 **UTILITIES COMPARE TO VWC?**

15 A. Schedule D-4.3 shows that the pro forma capital structure of VWC for this rate
16 case contains 100 percent equity and 0 percent debt, compared to the average of the
17 water utility sample of 50.0 percent debt and 50.0 percent equity.

18 Having less debt in its capital structure implies that VWC has less financial
19 risk than the sample water utilities. However, smaller utilities cannot support the
20 same level of debt as larger utilities. Smaller utilities face higher business and
21 operational risk, as compared to larger utilities, which magnify the financial risk of
22 higher debt levels in their capital structures. Although VWC does not have any
23 debt in its capital structure, the high proportion of zero cost capital (AIAC and
24 CIAC) serve to keep the impact on the revenue requirement per \$100 of plant
25 investment relatively low compared to the publicly traded companies.
26

1 **B. Overview of the DCF and CAPM Methodologies**

2 **Q. PLEASE EXPLAIN THE GENERAL APPROACHES TO ESTIMATING**
3 **THE COST OF CAPITAL.**

4 **A. These two broad approaches:**

- 5 1) identify comparable-risk sample companies and estimate the cost of
6 capital directly, or,
7 2) find the location of the CML and estimate the relative risk of the
8 company, which jointly determines the cost of capital.

9 The DCF model is an example of a method falling into the first general
10 approach. It is a direct method, but uses only a subset of the total capital market
11 evidence. The DCF model rests on the premise that the fundamental value of an
12 asset (stock) is its ability to generate future cash flows to the owner of that asset
13 (stock). I will explain the DCF model in detail in a moment, but for now, the DCF
14 is simply the sum of a stock's expected dividend yield and the expected long-term
15 growth rate. Dividend yields are readily available, but long-term growth estimates
16 are not.

17 The CAPM is an example of a method falling into the second general
18 approach. It uses information on all securities rather than a small subset. I will
19 explain the CAPM in more detail later. For now, the CAPM is a risk-return
20 relationship, often depicted graphically as the CML. The CAPM is the sum of a
21 risk-free return and a risk premium.

22 The Build-up Risk Premium method ("Build-up Method") is another
23 example of a method falling into the second general approach. I will explain the
24 Build-up Method in more detail later. For now, the Build-up method, like the
25 CAPM, is a risk-return relationship. The Build-up Method is the sum of a risk-free
26 return and a risk premium. However, rather than a single risk premium as is used

1 in the CAPM, the risk premium in the Build-up Method is made up of one or more
2 risk premia. Each risk premium represents the reward an investor receives for
3 taking on a specific risk.

4 Each of these three methods has its own way of measuring investor
5 expectations. In the final analysis, ROE estimates are subjective and should be
6 based on sound, informed judgment rationally articulated and supported by
7 competent evidence. I have applied several versions of the DCF, and two versions
8 of the CAPM to "bracket" the fair cost of equity capital for VWC, but without
9 taking into account the additional risks that VWC possesses. I also use the Build-
10 up Method which serves as a reasonableness check on the results of my DCF and
11 CAPM.

12 **C. Explanation of the DCF Model and Its Inputs**

13 **Q. PLEASE EXPLAIN IN DETAIL THE DCF METHOD OF ESTIMATING**
14 **THE COST OF EQUITY.**

15 **A.** The DCF model is based on the concept that the current price of a share of stock is
16 equal to the present value of future cash flows from the purchase of the stock. In
17 other words, the DCF model is an attempt to replicate the market valuation process
18 that sets the price investors are willing to pay for a share of a company's stock. It
19 rests on the assumption that investors rely on the expected returns (i.e., cash flow
20 they expect to receive) to set the price of a security. The DCF model in its most
21 general form is:

22 [2]
$$P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + CF_n/(1+k)^n$$

23 where k is the cost of equity; n is a very large number; P₀ is the current stock price;
24 and, CF₁, CF₂,...CF_n are all the expected future cash flows expected to be received
25 in periods 1, 2, ... n.

26 Equation (2) can be written to show that the current price (P₀) is also equal

1 to

2 [3]
$$P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + P_t/(1+k)^t$$

3 where P_t is the price expected to be received at the end of the period t . If the future
4 price (P_t) included a premium (an expected increase in the stock price or capital
5 gain), the price the investor would pay today (in anticipation of receiving that
6 premium) would increase. In other words, by estimating the cash flows from the
7 purchase of a stock in the form of dividends and capital gains, we can calculate the
8 investor's required rate of return, i.e., the rate of return an investor presumptively
9 used in bidding the current price to the stock (P_0) to its current level.

10 Equation [3] is a Market Price version of the DCF model. As with the
11 general form of the DCF model in equation [2], in the Market Price approach the
12 current stock price (P_0) is the present value of the expected cash inflows. The cash
13 flows are comprised of dividends and the final selling price of the stock. The
14 estimated cost of equity (k) is the rate of return investors expect if they bought the
15 stock at today's price, held the stock and received dividends through the transition
16 period, and then sold it for price (P_t).

17 **Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET**
18 **PRICE VERSION OF THE DCF MODEL?**

19 **A.** Yes. Assume an investor buys a share of common stock for \$40. If the expected
20 dividend during the coming year is \$2.00, then the expected dividend yield is 5
21 percent ($\$2.00/\$40 = 5.0$ percent). If the stock price is also expected to increase to
22 \$43.00 after one year, this \$3.00 expected gain adds an additional 7.5 percent to the
23 expected total rate of return ($\$3.00/\$40 = 7.5$ percent). Thus, the investor buying
24 the stock at \$40 per share, expects a total return of 12.5 percent (5 percent dividend
25 yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the
26 appropriate measure of the cost of capital because this is the rate of return that

1 caused the investor to commit \$40 of his capital by purchasing the stock.

2 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF**
3 **MODEL.**

4 A. Under the assumption that future cash flows are expected to grow at a constant rate
5 (“g”), equation [2] can be solved for k and rearranged into the simple form:

6 [4] $k = CF_1/P_0 + g$

7 where CF_1/P_0 is the expected dividend yield and g is the expected long-term
8 dividend (price) growth rate (“g”). The expected dividend yield is computed as the
9 ratio of next period’s expected dividend (“ CF_1 ”) divided by the current stock price
10 (“ P_0 ”). This form of the DCF model is known as the constant growth DCF model
11 and recognizes that investors expect to receive a portion of their total return in the
12 form of current dividends and the remainder through future dividends and capital
13 (price) appreciation. A key assumption of this form of the model is that investors
14 expect that same rate of return (k) every year and that market price grows at the
15 same rate as dividends. This has not been historically true for the water utility
16 sample, as shown by the data in Schedule D-4.4 and Schedule D.4.5. As a result,
17 estimates of long-term growth rates (g) should take this into account.

18 **Q. ARE THERE ANY CONCERNS ABOUT APPLYING THE DCF MODEL**
19 **TO UTILITY STOCKS?**

20 A. There are a number of reasons why caution must be used when applying the DCF
21 model to utility stocks. First, the stock price and dividend yield components may
22 be unduly influenced by structural changes in the industry, such as mergers and
23 acquisitions, which influence investor expectations. Second, the DCF model is
24 based on a number of assumptions that may not be realistic given the current
25 capital market environment. The traditional DCF model assumes that the stock
26 price, book value, dividends, and earnings all grow at the same rate. This has not

1 been historically true for the sample water utility companies. Third, the application
2 of the DCF model produces estimates of the cost of equity that are consistent with
3 investor expectations only when the market price of a stock and the stock's book
4 value are approximately the same. The DCF model will overstate the cost of
5 equity when the market-to-book ratio exceeds 1.0 and conversely will understate
6 the cost of equity when the market-to-book ratio is less than 1.0. The reason for
7 this is that the market-derived return produced by the DCF is often applied to book
8 value rate base by regulators. Fourth, the assumption of a constant growth rate
9 may be unrealistic, and there may be difficulty in finding an adequate proxy for the
10 growth rate. Historical growth rates can be downward biased as a result of the
11 impact of anemic historical growth rates in earnings, mergers and acquisitions,
12 restructuring, unfavorable regulatory decisions, and even abnormal weather
13 patterns. Further, by placing too much emphasis on the past, the estimation of
14 future growth becomes circular.

15 **Q. LET'S TURN TO THE SPECIFIC INPUTS USED IN YOUR DCF MODELS.**
16 **WHAT DATA HAVE YOU USED TO COMPUTE THE EXPECTED**
17 **DIVIDEND YIELD (CF_1/P_0) IN YOUR MODELS?**

18 A. First, I computed a current dividend yield (CF_0/P_0). The expected dividend yield
19 (CF_1/P_0) is the current dividend yield (CF_0/P_0) times one plus the growth rate (g). I
20 used the spot price for each of the stocks of the water utilities in the sample group
21 on as reported by the Value Line Investment Analyzer for Jul 10, 2012 for P_0 . The
22 current dividend (CF_0) is the dividend for the next year as reported by Value Line.
23 In my schedules, the current dividend yield is denoted as (D_0/P_0) , where D_0 is the
24 current dividend and P_0 is the spot stock price. (D_1/P_0) is used to denote the
25 expected dividend yield in the schedules.

26 **Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?**

1 A. For my primary DCF growth estimate, I have used analyst growth forecasts, where
2 available, from four different, widely-followed sources: *Zack's Investment*
3 *Research*, *Reuters*, *Yahoo Finance*⁶, and *Value Line*. Schedule D-4.6 reflects the
4 analyst estimates of growth. The currently available estimates from these four
5 sources provide at least two estimates for each of the sample water utility
6 companies. When there is no estimate of forward-looking growth for a utility in the
7 water utilities sample or there is only one estimate, I have assumed investors expect
8 the growth for that utility to equal the average of growth rates for the other water
9 utilities in the sample.

10 **Q. WHY DID YOU USE FORECASTED GROWTH RATES AS YOUR**
11 **PRIMARY ESTIMATE OF GROWTH?**

12 A. The DCF model requires estimates of growth that investors expect in the future and
13 not past estimates of growth that have already occurred. Accordingly, I use as a
14 primary estimate of growth analysts' forecasts of growth. Logically, in estimating
15 future growth, financial institutions and analysts have taken into account all
16 relevant historical information on a company as well as other more recent
17 information.⁷ To the extent that past results provide useful indications of future
18 growth prospects, analysts' forecasts would already incorporate that information.
19 In addition, a stock's current price reflects known historic information on that
20 company, including its past earnings history. Any further recognition of the past
21 will double count what has already occurred. Therefore, forward-looking growth

22 ⁶ Yahoo Finance analyst estimates provided by Thompson Financial.

23 ⁷ David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of
24 Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55. Gordon,
25 Gordon and Gould found that a consensus of analysts' forecasts of earnings per share growth for
26 the next five years provides a more accurate estimate of growth required in the DCF model than
three different historical measures of growth (historical EPS, historical DPS, and historical
retention growth). They explain that this result makes sense because analysts would take into
account such past growth as indicators of future growth as well as any new information.

1 rates should be used.

2 **Q. WHAT OTHER ESTIMATES OF GROWTH DID YOU USE?**

3 A. I use the 5-year historical average growth rates in the stock price, book value per
4 share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS")
5 along with the average of analyst expectations. Using the historical average of
6 growth in price, BVPS, EPS, and DPS is reasonable because investors know that,
7 in equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the
8 same rate and would take information about changes in stock prices and growth in
9 BVPS into account when they price utilities' stocks. As I stated earlier, a basic
10 assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow
11 at the same rate. While I believe the use of historical growth rates gives added
12 recognition to the past that is already incorporated into analyst estimates of growth,
13 I have been criticized by the Staff in the past for not giving direct consideration to
14 past growth rates in my estimate of growth. So, I have endeavored to remove any
15 basis for the criticism in this case. However, I do so reluctantly because the
16 empirical evidence indicates that analyst estimates of growth are the best measure
17 of growth for use in the DCF for utility stocks.

18 **Q. HAVE YOU USED ANALYST ESTIMATES OF DPS GROWTH?**

19 A. No. While I did not use analyst estimates of DPS growth, the average projected
20 DPS growth rate of 3.8 percent is higher than the historical DPS growth rate of
21 3.33 percent. Putting this aside, I did not use analyst estimates of dividend growth
22 primarily because there are analyst estimates for dividend growth for only three of
23 the six sample companies. Further, only one source (*Value Line*) provides DPS
24 growth estimates. The wide availability of earnings growth estimates compared to
25 dividend growth estimates indicates a greater reliance by investors on earnings
26 rather than dividends for their investment decisions.

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D. Explanation of the CAPM and Its Inputs

Q. PLEASE EXPLAIN THE CAPM METHODOLOGY FOR ESTIMATING THE COST OF EQUITY.

A. As I already indicated, the CAPM is a type of risk premium methodology that is often depicted graphically in a form identical to the CML. Put simply, the CAPM formula is the sum of a risk-free rate plus a risk premium. It quantifies the additional return required by investors for bearing incremental risk. The risk-free rate is the reward for postponing consumption by investing in the market. The risk premium is the additional return compensation for assuming risk.

The CAPM formula provides a formal risk-return relationship premised on the idea that only market risk matters, as measure by beta. The CAPM formula is:

$$(7) k = R_f + \beta(R_m - R_f)$$

where k is the expected return, R_f is the risk-free rate, R_m is the market return, $(R_f - R_m)$ is the market risk premium, and β is beta.

The difficulty with the CAPM is that it is a prospective or forward-looking model while most of the capital market data required to match the input variables above is historical.

Q. WHAT IS THE RISK-FREE RATE?

A. It is the return on an investment with no risk. The U.S. Treasury rate serves as the basis for the risk-free rate because the yields are directly observable in the market and are backed by the U.S. government. Practically speaking, short-term rates are volatile, fluctuate widely and are subject to more random disturbances than long-term rates. In short, long-term Treasury rates are preferred for these reasons and because long-term rates are more appropriately matched to securities with an indefinite life or long-term investment horizon.

Q. WHAT IS BETA AND WHAT DOES IT MEASURE?

1 A. Beta is a measure of the relative risk of a security in relation to the market. In
2 other words, it is a measure of the sensitivity of a security to the market as a whole.
3 This sensitivity is also known as systematic risk. It is estimated by regressing a
4 security's excess returns against a market portfolio's excess returns. The slope of
5 the regression line is the beta.

6 Beta for the market is 1.0. A security with a beta greater than 1.0 is
7 considered riskier than the market. A security with a beta less than 1.0 is
8 considered less risky than the market.

9 There are computational problems surrounding beta. It depends on the
10 return data, the time period used, its duration, the choice of the market index, and
11 whether annual, monthly, or weekly return figures are used. Betas are estimated
12 with error. Based on empirical evidence, high betas will tend to have a positive
13 error (risk is overestimated) and low betas will have a negative error (risk is
14 underestimated).⁸

15 **Q. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR VWC?**

16 A. I used the average beta of the sample water utility companies. Betas were obtained
17 from *Value Line Investment Analyzer* (July 10, 2012). *Value Line* is the source for
18 estimated betas that I regularly employ, along with Staff, and it is widely-accepted
19 by financial analysts. The average beta as shown on Schedule D-4.9 is 0.72. I
20 should note that because VWC is not publicly traded, VWC has no beta. I believe
21 that VWC, if it were publicly traded, would have a higher beta than the sample
22 water utility companies.

23 **Q. WHY WOULD VWC HAVE A HIGHER BETA?**

24 A. As previously indicated, smaller companies are more risky than larger companies.

25 ⁸ Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and
26 Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

1 In Chapter 7 of Morningstar's *Ibbotson SBBI 2012 Valuation Yearbook*, for
2 example, Ibbotson reports that when betas (a measure of market risk) are properly
3 estimated, betas are larger for small companies than for larger companies. As I
4 will explain later, Ibbotson also finds that even after accounting for differences in
5 beta risk, small firms require an additional risk premium over and above the added
6 risk premium indicated by differences in beta risk.

7 **Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM.**

8 A. The market-risk premium ($R_m - R_f$) is the return an investor expects to receive as
9 compensation for market risk. It is the expected market return minus the risk-free
10 rate. Approaches for estimating the market risk premium can be historical or
11 prospective.

12 Since expected returns are not directly observable, historical realized returns
13 are often used as a proxy for expected returns on the basis that the historical market
14 risk premium follows what is known in statistics as a "random walk." If the
15 historical risk premium does follow the random walk, then one should expect the
16 risk premium to remain at its historical mean. Based on this argument, the best
17 estimate of the future market risk premium is the historical mean. Morningstar's
18 *SBBI Valuation Edition 2012 Yearbook* provides historical market returns for
19 various asset classes from 1926 to 2011. This publication also provides market risk
20 premiums over U.S. Treasury bonds, which make it an excellent source for
21 historical market risk premiums.

22 Prospective market risk premium estimation approaches necessarily require
23 examining the returns expected from common equities and bonds. One method
24 employs applying the DCF model to a representative market index such as the
25 Value Line 1700 stocks (the *Value Line* Composite Index). The expected return
26 from the DCF is measured for a number of periods of time, and then subtracted

1 from the prevailing risk-free rate for each period to arrive at market risk premium
2 for each period. The market risk premium subsequently employed in the CAPM is
3 the average market risk premium of the overall period.

4 **Q. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU**
5 **PREPARE IN CONNECTION WITH YOUR ASSIGNMENT FOR VWC?**

6 A. I prepared two market risk premium estimates: An historical market risk premium
7 and a current market risk premium.

8 **Q. HOW DID YOU ESTIMATE THE HISTORICAL MARKET RISK**
9 **PREMIUM?**

10 A. I used the Morningstar's *Ibbotson SBBI 2012 Valuation Yearbook* measure of the
11 average premium of the market over long-term treasury securities from 1926
12 through 2011. The average historical market risk premium over long-term treasury
13 securities is 6.6 percent.

14 **Q. HOW DID YOU ESTIMATE THE CURRENT MARKET RISK PREMIUM?**

15 A. I derived a market risk premium by, first, using the DCF model to compute an
16 expected market return for each of the past 12 months using *Value Line's*
17 projections of the mean dividend yield and mean 3-5 year price appreciation
18 (growth) on the *Value Line* 1700 Composite Index. I then subtracted the mean 30-
19 year Treasury yield for each month from the expected market returns to arrive at
20 the expected market risk premiums. Finally, I averaged the computed market risk
21 premiums to determine the current market risk premium. The data and
22 computations are shown on Schedule D-4.11. The average current market risk
23 premium is 16.33 percent. Estimates of the current market risk premium have
24 ranged from 11.7 percent to 20.69 percent over the past 12 months averaging 16.33
25 percent. The most recent 3-month mean is 16.90 percent. My 12-month average
26 estimate at 16.33 percent is roughly in the middle of the 12 month range and is

1 more conservative than the recent 3-month average.

2 **Q. HAS STAFF EMPLOYED A CURRENT MARKET RISK PREMIUM IN**
3 **THE PAST?**

4 A. Yes. However, their estimation of the current market risk premium was somewhat
5 different. Staff uses a DCF model to compute the current market risk premium as I
6 do. However, Staff also uses a single spot estimate using the median annualized
7 projected 3-5 year price appreciation on the *Value Line* 1700 stocks in conjunction
8 the median dividend yield on the *Value Line* 1700 stocks.

9 **Q. WHY DO YOU BELIEVE THAT YOUR APPROACH IS MORE**
10 **APPROPRIATE?**

11 A. Staff typically computes a market risk premium based on a single point in time,
12 which makes estimates extremely volatile, so much so that the expected market
13 risk premium estimate can change by as much as 300 basis points (or more) each
14 time it is estimated. The accuracy of the expected risk premium is greatly
15 enhanced by increasing the number of periods used to estimate it.

16 **Q. WHAT DO YOU ADOPT AS THE RETURN FOR THE RISK-FREE RATE?**

17 A. I use long-term expected Treasury bond rates as the measure of the risk-free return
18 for use with both CAPM cost of equity estimates from two sources: the *Blue Chip*
19 *Financial Forecast* and *Value Line*. Morningstar's *Ibbotson SBBi 2012 Valuation*
20 *Yearbook* explains on page 55 that the appropriate choice for the risk-free rate is
21 the expected return for long-term Treasury securities. Thus, when determining an
22 estimate of the risk-free rate, it is appropriate to adopt a return that is no less than
23 the expected return on the long-term Treasury bond rate. Both of my CAPM
24 estimates are based on expected interest rates using a current estimate and
25 projected estimates of the long-term treasury rates for 2012 and 2013 (from *Blue*
26 *Chip Financial Forecasts* and *Value Line Selection and Opinion*). The 2012-2013

1 timeframe is the period when new rates will be in effect for the Company.

2 **E. Explanation of the Build-Up Method and Its Inputs**

3 **Q. PLEASE EXPLAIN THE BUILD-UP RISK PREMIUM METHODOLOGY**
4 **FOR ESTIMATING THE COST OF EQUITY.**

5 A. As I already indicated, like the CAPM, the Build-up method is a type of risk
6 premium methodology. This is a common and effective method used by appraisers
7 and valuation experts.⁹ The Build-up Method is an additive model in which the
8 return on a security is the sum of a risk-free rate and one or more risk premia.
9 Each premium represents the reward an investor receives for taking on a specific
10 risk. The elegance of the Build-up Method is that it does not require an estimate of
11 market beta, which is problematic for non-publicly traded companies such as
12 VWC. The Build-up Method can be stated as follows:

13 [1] $k = R_f + RP_m + RP_s +/- RP_u$

14 where k = the expected return

15 R_f = risk-free rate

16 RP_m = equity risk premium for the market

17 RP_s = equity risk premium for size

18 RP_u = risk premium attributed to the specific company or to the industry

19 (oftened call the company specific risk premium)

20 Or alternatively as:

21 [2] $k = R_f + RP_{ms} +/- RP_u$

22 where k = the expected return

23 R_f = risk-free rate

24 RP_{m+s} = equity risk premium for the market and size

25
26 ⁹ Morningstar Ibbotson *SBI 2012 Valuation Yearbook*. Chapter 3.

1 RP_u = risk premium attributed to the specific company or to the industry
2 (often call the company specific risk premium)

3 The data for the equity risk premium for the market (RP_m), the equity risk
4 premium for size (RP_s), and the company specific or industry risk premium (RP_u)
5 can be readily obtained from *Morningstar* and/or other size premium studies such
6 as the *Duff & Phelps* study.¹⁰ *Morningstar* quantifies the size premium separate
7 from the market risk premium by market capitalization as a measure of size
8 whereas *Duff & Phelps* study quantifies the risk premium (RP_{m+s}) (market premium
9 (RP_m) plus the size premium (RP_s)) by book value of common equity, 5 year
10 average net income, market value of invested capital, total assets (as reported on
11 balance sheet), 5-year average of earnings before interest, income taxes,
12 depreciation and amortization (EBITDA), sales, and number of employees in
13 addition to market capitalization – all of which have been shown to be highly
14 correlated with market returns. I should note that the authors of the *Duff & Phelps*
15 study conclude that, by whatever measures of size are used, the results are clear
16 that there is an inverse relationship between size and historical equity returns –
17 small companies have higher returns than larger companies.¹¹

18 **Q. ARE THERE ADVANTAGES TO THE USE OF THE BUILD-UP RISK**
19 **PREMIUM METHODOLOGY OVER THE CAPM FOR ESTIMATING**
20 **THE COST OF EQUITY?**

21 A. Yes. First, as I mentioned earlier, the Build-up Method does not require a market
22 beta estimate, which is not available for non-public firms. I use the average beta of
23 the large publicly traded water utilities as a proxy for the beta of VWC. However,
24 as I also discussed, there are computation problems surrounding beta and empirical

25 ¹⁰ Duff & Phelps LLC, *Risk Premium Report 2012*.

26 ¹¹ Duff & Phelps at 26.

1 financial data show that beta does not account for all of the risks associated with
2 smaller firms. Second, each of the risk premia used in the Build-up Method can be
3 quantified using data from the equity markets. Third, the various measures of size
4 including fundamental accounting measures have a practical benefit of eliminating
5 the need to make a “guesstimate” of size for comparative purposes where market
6 data for determining market value measures of size is not available, particularly for
7 non-public firms.

8 **F. Financial Risk Adjustment**

9 **Q. PLEASE EXPLAIN YOUR FINANCIAL RISK ADJUSTMENT TO**
10 **REFLECT THE COMPANY’S LOWER LEVEL OF DEBT IN ITS**
11 **CAPITAL STRUCTURE AS COMPARED TO THE SAMPLE WATER**
12 **UTILITIES.**

13 A. My financial risk estimation is based upon the methodology developed by
14 Professor Hamada of the University of Chicago, which incorporates the beta of a
15 levered firm to that of its unlevered counterpart. The equation is

$$\beta_L = \beta_U[1 + (1 - T)\phi]$$

16 where β_L and β_U are the levered and unlevered betas, respectively, T is the tax rate,
17 and ϕ the leverage, defined as the ratio of debt and equity of the firm. In simple
18 terms, I unlever the average beta of the six publicly-traded water utilities in my
19 sample using a ratio of the market value of debt and the market value of equity.
20 While I can compute the market value of equity of the sample water utilities based
21 on the current number of shares outstanding and the current stock price, estimating
22 the market value of debt is much more difficult. For purposes of my analysis, I
23 assume the market value of debt is the book value. This is a customary and
24 realistic assumption.¹² Once the unlevered beta is determined, I relever the beta

25
26 ¹² Roger A. Morin. *New Regulatory Finance* (2006) 224.

1 using the capital structure of VWC. For the market value of equity, I multiplied
2 VWC's book value of equity times the average market-to-book ratio of the sample
3 water utilities. For VWC's debt, I assume the market value of debt is equal to the
4 book value.

5 The re-levered beta is then used in my CAPM models, and the new CAPM
6 results are compared to my original CAPM results. The computed difference is the
7 basis of my financial risk adjustment. My computation of the financial risk
8 adjustment for VWC can be found in tables D-4.17, D-4.18, and D-4.19.

9 **Q. WHAT IS THE COMPUTED FINANCIAL RISK ADJUSTMENT?**

10 A. A downward adjustment of no more than 120 basis points. Again, however, in my
11 opinion, the beta for VWC would be higher than that of the sample water utilities
12 that would have resulted in a lower downward financial risk adjustment. But I
13 have to make some assumptions to work with, an approach used by Staff and
14 approved by the Commission in past cases.

15 **G. Company Specific Risk Premium**

16 **Q. PLEASE DISCUSS YOUR COMPANY-SPECIFIC RISK PREMIUM.**

17 A. As I testified earlier, VWC is not directly comparable to the sample water utilities
18 because of its small size and the regulatory environment in Arizona. The
19 characteristics associated with small size such as the lack of diversification, limited
20 revenue and cash flow, small customer base, lack of liquidity, as well as the
21 magnitudes of regulatory and construction risk which are common to smaller water
22 utilities regardless of the regulatory jurisdiction. These characteristics and
23 magnitudes of risk are unique only in the sense that the large publicly-traded water
24 utilities (including the companies in the proxy group) do not possess these same
25 characteristics and magnitudes of risk. With respect to Arizona regulation, the use
26 of an historical test year, with limited out-of-period adjustments, and the lack of

1 automatic adjuster mechanism(s) increase the risk of VWC as an investment.

2 **Q. PLEASE DISCUSS SIZE RISK FOR SMALL UTILITY COMPANIES.**

3 A. Investment risk increases as the firm size decreases, all else remaining constant.

4 There is a great deal of empirical evidence that the firm size phenomenon exists.

5 Morningstar's *Ibbotson SBBI 2012 Valuation Yearbook* (Chapter 7) reports that

6 smaller companies have experienced higher returns that are not fully explainable

7 by their higher betas and that beta is inversely related to company size. In other

8 words, smaller companies not only have higher betas but higher returns than larger

9 ones. Even after accounting for differences in beta risk, small companies require

10 an additional risk premium over and above the added risk premium indicated by

11 differences in beta risk. Dr. Zepp also reported evidence that the stocks of small

12 water utilities are more risky than the stocks of larger water utilities, such as those

13 in the water utilities sample.¹³ Even the California PUC conducted a study that

14 showed smaller water utilities are more risky than larger ones.¹⁴ Based on the

15 evidence, it is clear that investors require higher returns on small company stocks

16 than on large company stocks.

17 I have included in Schedule D-4.16 the results of a *Morningstar* study using

18 annual data reporting the size premium based upon firm size and return data (i)

19 provided in Morningstar's *Ibbotson SBBI 2012 Valuation Yearbook* and

20 information, and (ii) contained in Dr. Thomas M. Zepp's 2003 article in *The*

21 *Quarterly Review Economic and Finance*. I have estimated that a small company

22 risk premium in the range of 99 to 367 basis points is appropriate for VWC.

23 **Q. WHAT COMPANY SPECIFIC-RISK PREMIUM DO YOU RECOMMEND**

24 ¹³ Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited", *The Quarterly Review*
25 *Economics and Finance*, Vol. 43, Issue 3, Autumn 2003, 578-582.

26 ¹⁴ Staff Report on Issues Related to Small Water Utilities, June 10, 1991 and CVWC Decision 92-03-093.

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FOR VWC?

A. To be conservative, I recommend a size premium of at least 100 basis points which is at the bottom end of the range of my size premium estimates.

H. Summary and Conclusions

Q. HAVE YOU PREPARED A SCHEDULE THAT SUMMARIZES YOUR EQUITY COST ESTIMATES AND PRESENTS YOUR RECOMMENDATIONS?

A. Yes. The equity cost estimates and my recommendations are summarized in Schedule D-4.1.

In the first part of my analysis, I applied two versions of the constant growth DCF model. One uses analyst estimates of growth and the other uses historical growth and analyst expectations. See Schedules D-4.8. The DCF models produce an indicated equity cost in the range of 9.1 percent to 10.3 percent, with a midpoint of 9.7 percent.

In the second part of my analysis, I applied two versions of the CAPM – a historical risk premium CAPM and a current market risk premium CAPM. The CAPM analyses appear in Schedule D-4.12 and produce an indicated cost of equity in the range of 8.0 percent to 15.0 percent, with a midpoint of 11.5 percent.

In the third part of my analysis, I compute a financial risk adjustment to account for the lower level of debt in VWC’s pro forma capital structure compared to the sample water utilities. My recommendation is that a downward financial risk adjustment of no more than 120 basis points be applied to VWC’s cost of equity. My financial risk adjustment analysis is shown in schedules D-4.13, D-4.14, and D-4.15.

In the fourth part of my analysis, I reviewed the financial literature on the small firm size effect and determined that an appropriate small company size

1 premium for small utilities like VWC that should be applied to the DCF and
2 CAPM results is the range of 99 to 386 basis points. See Schedule D-4.16. I also
3 considered the risks for VWC from Arizona regulation. My recommendation is
4 that an upward adjustment for company-specific risk of no less than 100 basis
5 points be applied to VWC's cost of equity.

6 The range of results of both my DCF and CAPM analyses and other risk
7 adjustments is 8.3 percent to 12.4 percent, with a mid-point of 10.4 percent. See
8 Schedule D-4.1.

9 **Q. WHAT EQUITY RETURN DO YOU RECOMMEND?**

10 A. My recommended return on equity based on VWC's capital structure is 10.4
11 percent.

12 **Q. HAVE YOU PREPARED AN ESTIMATE OF THE COST OF EQUITY**
13 **USING THE BUILD-UP METHOD FOR VWC USING DATA FROM**
14 **MORNINGSTAR?**

15 A. Yes. This Build-up method using *Morningstar* data is one check on the
16 reasonableness of my recommendation for VWC. I estimate the cost of equity for
17 VWC to be at least 10.1 percent and up to 14.5 percent. These results are based
18 upon the data from *Morningstar* as contained Table C-1; the risk-rate would be 2.2
19 percent¹⁵, the equity risk premium would be 6.6 percent¹⁶, the small company risk
20 premium of 6.1 percent¹⁷) and data contained in Table 3-5 – Industry Premia
21 Estimates (negative 4.8 for the water supply industry SIC code 494). The
22 calculation is shown as follows:

23
24 ¹⁵ Long-term (20 year) U.S. Treasury Bond Yield as of July 10, 2012.

25 ¹⁶ *Morningstar* Long-horizon historical equity risk premium – Table A-1 1928-2011.

26 ¹⁷ Decile 10 – smallest, market capitalization of \$1.028 million to \$206.795 million. See Appendix C of *Morningstar*.

1 [1] $k = R_f + RP_m + RP_s +/- RP_u$

2 [2] $k = 2.2\% + 6.6\% + 6.1\% - 4.8\%$

3 [3] $k = 10.1\%$

4 The computed 10.1 percent is at the low end. Using more refined data provided by
5 *Morningstar* with respect to the 10th decile, the indicated cost of equity would be
6 13.8 percent for VWC.¹⁸

7 **Q. HAVE YOU PREPARED A COST OF EQUITY ESTIMATE FOR VWC**
8 **USING THE DUFF & PHELPS STUDY DATA?**

9 A. Yes. Please see **Exhibit TJB-COC-DT1**. I have also included cost of equity
10 estimates for the water sample companies. These estimates have been adjusted for
11 leverage (financial risk) differences between the companies in the size portfolios
12 contained in the study and the water sample companies and VWC. Further, like the
13 Build-up Method cost of equity estimate using the *Morningstar* data, the cost of
14 equity estimates includes a downward water industry risk premium adjustment.¹⁹

15 The results are as follows²⁰:

16

17	<u>Stock</u>		<u>Cost of</u>
	<u>Symbol</u>	<u>Company</u>	<u>Equity</u>
18	AWR	American States Water Co.	10.23%
19	WTR	Aqua America	8.22%
20	CWT	California Water Services Group	10.55%

21

22 ¹⁸ *Morningstar* splits the 10th decile portfolio into two groups; Decile 10a (up to \$206.795 million
23 in market capitalization) and Decile 10b (up to \$128.672 million in market capitalization). If
24 publicly traded, VWC would likely fall into the latter group (10b) which has a indicated size
25 premium of 9.8 percent (see Appendix C). Substituting the 9.8 percent size premium for the 6.1
26 percent in the build-up formula the result would be 13.8 percent (2.2%+6.6%+9.8%-4.8%).

¹⁹ Note that the risk premium for the water utility industry is negative indicating that water
utilities are less risky than the market as a whole.

²⁰ See Exhibit TJB-COC-DT1, Table 7.

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CTWS	Connecticut Water Services	11.92%
MSEX	Middlesex Water Company	11.26%
SJW	SJW Corp.	11.65%
	Average	10.64%
	VWC	13.33%

Q. WHAT CONCLUSIONS CAN BE MADE FROM A COMPARISON OF THE BUILD-UP METHOD RESULTS TO YOUR RECOMMENDATIONS FOR THE COST OF EQUITY FOR VWC?

A. First, the results of my DCF and CAPM analyses for the publicly traded water companies compare favorably to the build-up method using the *Duff and Phelps* study data. The mid-point of my DCF and CAPM results is 10.6 percent which is approximately the average of estimates produced by the build-up method using the *Duff and Phelps* study data of 10.64 percent. Second, and more importantly, my recommended ROE of 10.4 for VWC is well below the mid-point of the range of estimates for VWC using both build-up methods (one using the *Morningstar* data and the other using the *Duff and Phelps* study data) which range from 10.1 percent to 13.8 percent with a mid-point of 12.0 percent. Accordingly, I find my recommendation of 10.4 percent appropriately conservative.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON COST OF CAPITAL?

A. Yes.

Vail Water Company

Thomas J. Bourassa Direct Testimony
(Cost of Capital)

Exhibit TJB-COC-DT1

Vail Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD

TABLE 1

Company	Measures of size (Millions)						
	MV Equity ¹	Book Equity ¹	MV/IC ¹	5 Yr. Avg. Net Income	Total Assets ²	5 Yr. Avg. EBITDA ³	
1. American States	\$ 684	\$ 408	\$ 1,024	\$ 32	\$ 1,192	\$ 120	
2. Aqua America	\$ 3,088	\$ 1,251	\$ 4,483	\$ 113	\$ 4,072	\$ 407	
3. California Water	\$ 750	\$ 450	\$ 1,231	\$ 37	\$ 1,692	\$ 128	
4. Connecticut Water	\$ 248	\$ 119	\$ 384	\$ 10	\$ 425	\$ 23	
5. Middlesex	\$ 290	\$ 177	\$ 423	\$ 12	\$ 489	\$ 38	
6. SJW Corp.	\$ 452	\$ 264	\$ 796	\$ 20	\$ 935	\$ 87	
Vail Water Company	NA	\$ 7.1	NA	\$ 0.6	\$ 13.0	\$ 1.1	

¹ From Value Line data

² From Zacks Investment Research. From D-1 for subject utility.

³ Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data⁴

Company	2011	2010	2009	2008	2007	Average
American States	\$ 45.9	\$ 33.2	\$ 29.5	\$ 22.0	\$ 28.0	\$ 31.7
Aqua America	\$ 143.1	\$ 124.0	\$ 104.4	\$ 97.9	\$ 95.0	\$ 112.9
California Water	\$ 37.7	\$ 37.7	\$ 40.6	\$ 39.8	\$ 31.2	\$ 37.4
Connecticut Water	\$ 11.3	\$ 9.8	\$ 10.2	\$ 9.4	\$ 8.8	\$ 9.9
Middlesex	\$ 13.4	\$ 14.3	\$ 10.0	\$ 12.2	\$ 11.8	\$ 12.4
SJW Corp.	\$ 20.9	\$ 24.4	\$ 15.2	\$ 21.5	\$ 19.3	\$ 20.2
Vail Water Company	\$ 0.6	\$ 0.7	\$ 0.7	\$ 0.5	\$ 0.6	\$ 0.6

⁴ Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

EBITDA Data⁵

Company	2011	2010	2009	2008	2007	Average
American States	\$ 133.3	\$ 134.4	\$ 122.6	\$ 105.9	\$ 102.8	\$ 119.8
Aqua America	\$ 397.8	\$ 473.2	\$ 415.2	\$ 384.7	\$ 364.5	\$ 407.1
California Water	\$ 143.3	\$ 155.7	\$ 125.5	\$ 122.1	\$ 95.6	\$ 128.4
Connecticut Water	\$ 24.2	\$ 22.5	\$ 20.3	\$ 21.1	\$ 27.9	\$ 23.2
Middlesex	\$ 34.6	\$ 43.3	\$ 34.6	\$ 38.6	\$ 36.6	\$ 37.6
SJW Corp.	\$ 87.1	\$ 75.4	\$ 93.5	\$ 99.7	\$ 77.7	\$ 86.7
Vail Water Company	\$ 1.1	\$ 1.2	\$ 1.1	\$ 1.0	\$ 1.1	\$ 1.1

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

EBITDA data for subject utility from E-1 and/or ACC reports

⁵ Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

Vail Water Company
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD

TABLE 2

MRP_{ms} Estimates Using Duff & Phelps Study (Unlevered)

Assumes 100% Equity and 0% debt

Data Smoothing with Regression Analysis

Smoothed Premium (RP_{ms}) = Constant + X Coefficients * Log(Relevant Metric)

$RP_{unlevered} = RP_{levered} - W_d W_e (\beta_u - \beta_e) * RP_{market}$

Where β_u = unlevered portfolio beta

β_e = debt beta, assumed to be 0.1

W_d = percentage of debt in capital structure

W_e = percentage of equity in capital structure

RP_{levered} = levered realized risk premium

	MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)
Constant	18.475%	15.380%	18.661%	13.224%	17.273%	14.736%
X Coefficient(s)	-3.239%	-2.561%	-3.201%	-2.616%	-2.812%	-2.723%

	MRP _{ms} (unlevered)						
	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
American States	9.29%	8.70%	9.03%	9.30%	8.62%	9.08%	9.00%
Aqua America	7.17%	7.45%	6.97%	7.85%	7.12%	7.63%	7.37%
California Water	9.16%	8.59%	8.77%	9.11%	8.19%	8.99%	8.80%
Connecticut Water	10.72%	10.07%	10.39%	10.62%	9.88%	11.02%	10.45%
Middlesex	10.50%	9.62%	10.26%	10.37%	9.71%	10.45%	10.15%
SJW Corp.	9.87%	9.18%	9.37%	9.81%	8.92%	9.46%	9.44%
Average (unlevered)	9.45%	8.93%	9.13%	9.51%	8.74%	9.44%	9.20%
Vail Water Company	NA	13.19%	NA	13.78%	14.14%	14.64%	13.94%

Implied Size Premium for Subject Company over publicly traded water utilities

4.74%

Vail Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD

Unlevered Portfolio Beta
 (from Duff & Phelps RP Study - Table C)

TABLE 3

	Company	Symbol	Unlevered Portfolio Beta (β_u)						
			(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	Average
1.	American States	AWR	0.95	0.96	0.98	0.94	0.94	0.97	0.96
2.	Aqua America	WTR	0.87	0.86	0.81	0.88	0.83	0.84	0.85
3.	California Water	CWT	0.98	0.95	0.95	0.94	0.92	0.97	0.95
4.	Connecticut Water	CTWS	0.96	1.00	0.97	0.97	0.99	1.03	0.99
5.	Middlesex	MSEX	0.96	0.98	0.97	0.97	0.99	0.99	0.98
6.	SJW Corp.	SJW	0.95	0.97	0.97	0.96	0.97	0.95	0.96
	Average		0.95	0.95	0.94	0.94	0.94	0.96	0.95
	Vail Water Company		0.95	0.98	1.00	1.01	1.05	1.03	1.00

Vail Water Company
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD

TABLE 4

MRP Estimates Using Duff & Phelps Study (Relevered)

Relevered Realized Risk Premium

$$RP_{\text{relevered}} = RP_{\text{unlevered}} + W_d/W_e \cdot (\beta_u - \beta_d) \cdot RP_{\text{market}}$$

Where β_u = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1

W_d = percentage of debt in capital structure

W_e = percentage of equity in capital structure

$RP_{\text{unlevered}}$ = unlevered realized risk premium from Table 2

RP_{market} = general equity risk premium for the market since 1963 (4.4%)

	Company	Symbol	W _d /W _e	MV		Book		MRP _{mrs} (Relevered)			5 Yr Avg. EBITDA	Average
				Equity	Total Assets	Equity	Total Assets	MVIC	Net Income	Total Assets		
1.	American States	AWR	49.8%	11.11%	10.54%	10.91%	11.10%	10.42%	10.94%	10.84%	10.84%	
2.	Aqua America	WTR	45.2%	8.67%	8.92%	8.35%	9.37%	8.54%	9.07%	8.82%	8.82%	
3.	California Water	CWT	64.2%	11.59%	10.93%	11.12%	11.43%	10.46%	11.40%	11.15%	11.15%	
4.	Connecticut Water	CTWS	54.5%	12.73%	12.17%	12.43%	12.66%	11.97%	13.20%	12.53%	12.53%	
5.	Middlesex	MSEX	45.5%	12.18%	11.35%	11.96%	12.07%	11.45%	12.19%	11.87%	11.87%	
6.	SJW Corp.	SJW	76.0%	12.65%	12.02%	12.22%	12.62%	11.76%	12.24%	12.25%	12.25%	
	Average MRP (Relevered)		55.87%	11.49%	10.99%	11.16%	11.54%	10.77%	11.50%	11.24%	11.24%	
	Vail Water Company	Proforma	0.00%	NA	13.19%	NA	13.78%	14.14%	14.64%	13.94%	13.94%	

Vail Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Equity Risk Premium Adjustment and Other metrics used in Build-up Method

TABLE 5

[1] Estimate of Current Market Risk Premium (RP_{market})	5.50%
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2011) ¹	4.30%
[3] Equity Risk Premium Adjustment ([1] - [2])	1.20%
[4] Average MRP (relevered) for publicly traded water companies (from Table 4)	11.24%
[5] MRP (relevered) for publicly traded water companies (RP_{mwa}) ([3] + [4])	12.44%
[6] Equity Risk Premium Adjustment ([3])	1.20%
[7] Average MRP (relevered) for subject utility company (from Table 4)	13.94%
[8] MRP (relevered) for subject utility company (RP_{mwa}) ([6] + [7])	15.14%
[9] Industry Risk Premium (From Ibbotson for SIC 494 Water Supply Industry Table 3-5)	-4.83%
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.6%) ¹	0.8333
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-4.03%
[12] Risk Free Rate (R_f) ²	2.22%

¹ From Duff and Phelps Risk Premium Report 2012.

² Yield on 20 Yr U.S. Treasury Jul 10, 2012 (Federal Reserve)

Vail Water Company
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD

Cost of Equity (COE) Estimate using Build-up Method

$$E(R_i) = R_f + RP_{m+s} + RP_l + RP_u$$

Where:

$E(R_i)$ = Expected (indicated) rate of return

R_f = Risk-free rate of return. See Table 5.

RP_{m+s} = Market risk premium including size premium. See Table 4.

RP_l = Industry risk premium (adjusted) See Table 5.

RP_u = Company-specific risk premium

TABLE 6

Sample Publicly Traded Water Utilities	Vail Water Company
R_f =	2.22%
RP_{m+s} =	See Table 4
RP_l =	-4.03%
RP_u =	0.00%

	Indicated COE $E(R_i)$						
	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1. American States	10.51%	9.93%	10.30%	10.49%	9.82%	10.33%	10.23%
2. Aqua America	8.06%	8.32%	7.75%	8.77%	7.94%	8.46%	8.22%
3. California Water	10.99%	10.33%	10.51%	10.82%	9.85%	10.79%	10.55%
4. Connecticut Water	12.13%	11.57%	11.82%	12.05%	11.36%	12.59%	11.92%
5. Middlesex	11.58%	10.74%	11.35%	11.47%	10.85%	11.59%	11.26%
6. SJW Corp.	12.05%	11.42%	11.81%	12.01%	11.16%	11.83%	11.65%
Average COE estimate	10.88%	10.38%	10.56%	10.94%	10.16%	10.90%	10.64%
Vail Water Company	NA	12.59%	NA	13.18%	13.53%	14.04%	13.33%

Symbol
 AWR
 WTR
 CWT
 CTWS
 MSEX
 SJW

Company

Vail Water Company

Schedules D

Vail Water Company
 Test Year Ended December 31, 2011
 Summary of Cost of Capital

Exhibit
 Schedule D-1
 Page 1
 Witness: Bourassa

Line No.	Item of Capital	Actual End of Test Year			Adjusted End of Test Year			End of Projected Year		
		Dollar Amount	Cost Rate	Weighted Cost	Dollar Amount	Cost Rate	Weighted Cost	Dollar Amount	Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	-	0.00%	0.00%	-	0.00%	0.00%
2										
3	Stockholder's Equity	4,373,528	10.40%	10.40%	7,148,049 ^{1,2}	10.40%	10.40%	7,489,520	10.40%	10.40%
4										
5	Totals	4,373,528	100.00%	10.40%	7,148,049	100.00%	10.40%	7,489,520	100.00%	10.40%
6										
7										
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¹ Adjustment for Equity for AID Adj. B-2, p. 4 \$ 2,710,101
² Adjustment for Equity for CIAC amortization Adj. B-2, p. 5 \$ 64,419

SUPPORTING SCHEDULES:

RECAP SCHEDULES:
 A-3

Vail Water Company
Test Year Ended December 31, 2011
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line
No.
1
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	<u>End of Test Year</u>			<u>End of Projected Year</u>		
Description of Issue	Shares Outstanding	Dividend Amount	Requirement	Shares Outstanding	Dividend Amount	Requirement
NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						

SUPPORTING SCHEDULES:
E-1

RECAP SCHEDULES:
D-1

Vail Water Company
Test Year Ended December 31, 2011
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line
No.

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The Company is proposing a cost of common equity of 10.40% .

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17

SUPPORTING SCHEDULES:

RECAP SCHEDULES:

18

E-1

D-1

19

D-4.1 to D-4.16

20

Vail Water Company
Summary of Results

Exhibit
Schedule D-4.1
Witness: Bourassa

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4				
5				
6	Range DCF Constant Growth Estimates ¹	9.1%	10.3%	9.7%
7				
8	Range of CAPM Estimates ²	8.0%	15.0%	11.5%
9				
10				
11	Average of DCF and CAPM midpoint estimates	8.5%	12.6%	10.6%
12				
13				
14	Financial Risk Adjustment ³	-1.2%	-1.2%	-1.2%
15				
16	Small Company Risk Premium ⁴	1.0%	1.0%	1.0%
17				
18	Indicated Cost of Equity	8.3%	12.4%	10.4%
19				
20				
21				
22	Recommended Cost of Equity			10.4%
23				
24				
25				
26				
27				
28				
29				

¹ See Schedule D-4-8
² See Schedule D-4.12
³ See Schedule D-4.13, Testimony
⁴ See Schedule D-4.16, Testimony

Vail Water Company
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Schedule D-4.2
Witness: Bourassa

Line No.	Company ¹	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE
1	1. American States	70%	\$ 431.6	\$ 897.8	A+	A2	9.99
2	2. Aqua America	96%	\$ 728.5	\$ 3,657.6	AA-	NR	10.33
3	3. California Water	97%	\$ 520.4	\$ 1,400.6	AA-	NR	9.99
4	4. Connecticut Water	96%	\$ 75.0	\$ 419.9	A	NR	9.75
5	5. Middlesex	90%	\$ 101.6	\$ 425.9	A	NR	10.15
6	6. SJW Corp.	96%	\$ 246.4	\$ 754.5	A	NR	9.99
10	Average	91%	\$ 350.6	\$ 1,259.4			10.03
13	Vail Water Company	100% Water	\$ 2.3	\$ 16.4	NR	NR	
14	(adjusted as of December 31, 2011)						

¹AUS Utility Reports (July 2012).

Vail Water Company
Capital Structures

Exhibit
Schedule D-4.3
Witness: Bourassa

No.	Company	Book Value ¹		Market Value ¹	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	45.5%	54.5%	33.2%	66.8%
2	2. Aqua America	52.7%	47.3%	31.1%	68.9%
3	3. California Water	51.7%	48.3%	39.1%	60.9%
4	4. Connecticut Water	53.2%	46.8%	35.3%	64.7%
5	5. Middlesex	42.8%	57.2%	31.3%	68.7%
6	6. SJW Corp.	56.6%	43.4%	43.2%	56.8%
7	Average	50.4%	49.6%	35.5%	64.5%
8	Vail Water Company	0.0%	100.0%	N/A	N/A
9	(Adjusted Test Year Ended December 31, 2011)				

¹ Value Line Analyzer Data (Jul 10, 2012)

² Adjusted Per Schedule D-1

Vail Water Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.5
Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Ten-Year historical average annual changes</u>						
	<u>Company</u>	<u>Price¹</u>	<u>Book Value²</u>	<u>EPS²</u>	<u>DPS²</u>	<u>Average Col 1-4</u>	<u>Average Future Growth³</u>
1	1. American States	6.51%	5.00%	5.00%	2.00%	4.63%	6.05%
2	2. Aqua America	7.63%	8.50%	7.00%	7.50%	7.66%	7.00%
3	3. California Water	3.95%	5.00%	4.00%	1.00%	3.49%	5.33%
4	4. Connecticut Water	5.00%	4.00%	0.50%	1.50%	2.75%	7.05%
5	5. Middlesex	5.84%	4.50%	2.50%	1.50%	3.58%	4.10%
6	6. SJW Corp.	2.69%	5.50%	2.00%	5.00%	3.80%	11.67%
7							
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14							
15	GROUP AVERAGE	5.27%	5.42%	3.50%	3.08%	4.32%	6.87%
16	GROUP MEDIAN	5.42%	5.00%	3.25%	1.75%	3.69%	6.52%
17							
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28							

¹ Average of changes in annual stock prices ending December 31, 2011. Data from Yahoo Finance website.

² Value Line Analyzer Data, July 10, 2012.

³ See Rejoinder Schedule D-4.6.

Vail Water Company
 Analysts Forecasts of Earnings Per Share Growth

Exhibit
 Schedule D-4.6
 Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]	[5]
	<u>ESTIMATES OF EARNINGS GROWTH</u>				
	<u>Company</u>	<u>Zacks</u> ¹	<u>Reuters</u> ¹	<u>Yahoo</u> ¹	<u>Value Line</u> ¹
1	American States	6.40%	7.65%	4.00%	6.50%
2	Aqua America		7.16%	5.93%	8.50%
3	California Water		5.00%	5.00%	6.00%
4	Connecticut Water		8.00%	6.10%	
5	Middlesex		neg	2.70%	5.50%
6	SJW Corp.		14.00%	14.00%	7.00%
7					<u>Average Growth (G)</u> <u>(Cols 1-4)</u> ²
8					6.05%
9					7.00%
10					5.33%
11					7.05%
12					4.10%
13					11.67%
14					
15	GROUP AVERAGE	6.40%	8.36%	6.29%	6.70%
16	GROUP MEDIAN				6.87%
17					6.52%

¹ Data as of July 10, 2012. See testimony.

² Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28

Vail Water Company
 Current Dividend Yields for Water Utility Sample Group

Line No.	Company	Current Stock Price (P ₀) ¹	Current Dividend (D ₀) ¹	Current Dividend Yield (D ₀ /P ₀) ¹	Average Annual Dividend Yield (D ₀ /P ₀) ^{1,2}
1	1. American States	\$ 36.36	\$ 1.10	3.03%	2.98%
2	2. Aqua America	\$ 22.23	\$ 0.63	2.83%	3.11%
3	3. California Water	\$ 17.94	\$ 0.62	3.46%	3.24%
4	4. Connecticut Water	\$ 28.23	\$ 0.94	3.33%	3.62%
5	5. Middlesex	\$ 18.50	\$ 0.73	3.95%	4.23%
6	6. SJW Corp.	\$ 24.32	\$ 0.69	2.84%	2.78%
13	Average			3.24%	3.33%
14	Median			3.18%	3.18%

¹ Value Line Analyzer Data. Stock prices as of July 10, 2012.

² Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

Vail Water Company
 Discounted Cash Flow Analysis
 DCF Constant Growth

Exhibit
 Schedule D-4.8
 Witness: Bourassa

Line No.	[1] Average Spot Dividend Yield (D_0/P_0) ¹	[2] Expected Dividend Yield (D_1/P_0) ²	[3] Growth (g)	[4] Indicated Cost of Equity k=Div Yld + g (Cols 2+3)
8	3.24%	3.42%	5.65% ³	9.1%
10	3.24%	3.46%	6.87% ⁴	10.3%
Average	3.24%	3.44%	6.26%	9.7%

¹ Spot Dividend Yield = D_0/P_0 . See Schedule D-4.7.

² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

³ Growth rate (g). Average of Past and Future Growth. See Schedule D-4.4, column 7

⁴ Growth rate (g). Average of Analyst Estimates Future Growth. See Schedule D-4.6.

Vail Water Company
Market Betas

Exhibit
Schedule D-4.9
Witness: Bourassa

Line
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<u>Company</u>	<u>Beta (β)¹</u>
1. American States	0.70
2. Aqua America	0.65
3. California Water	0.65
4. Connecticut Water	0.75
5. Middlesex	0.70
6. SJW Corp.	0.85
Average	0.72

1 Value Line Investment Analyzer data (July 10, 2012)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

**Vail Water Company
Forecasts of Long-Term Interest Rates
2012-2013**

**Exhibit
Schedule D-4.10
Witness: Bourassa**

Line No.	Description	Actual 2012 Q-2	2012	2013	Average
6	Blue Chip Consensus Forecasts ¹	2.9%	2.9%	3.4%	3.1%
8	Value Line ²	2.9%	3.2%	3.7%	3.3%
10	Average				3.2%

¹ July 2012 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

² Value Line Quarterly forecast, dated May 25, 2012, Long-term Treasury

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

Vail Water Company
Computation of Current Market Risk Premium

Line No.	Month	Dividend Yield (D _t /P _t) ¹	Expected Dividend Yield (D _t /P _t) ²	Growth (g) ³	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate ⁴	Market Risk Premium (MRP)
4	Jan 2011	2.34%	2.60%	+ 11.10%	= 13.70%	= 4.52%	= 9.18%
5	Feb	2.41%	2.73%	+ 13.16%	= 15.89%	= 4.65%	= 11.24%
6	Mar	2.35%	2.64%	+ 12.33%	= 14.97%	= 4.51%	= 10.46%
7	April	1.83%	2.02%	+ 10.30%	= 12.32%	= 4.50%	= 7.82%
8	May	1.95%	2.18%	+ 11.76%	= 13.94%	= 4.29%	= 9.65%
9	June	1.97%	2.21%	+ 12.11%	= 14.32%	= 4.23%	= 10.09%
10	July	2.23%	2.58%	+ 15.51%	= 18.09%	= 4.27%	= 13.82%
11	Aug	2.73%	3.24%	+ 18.51%	= 21.75%	= 3.65%	= 18.10%
12	Sept	2.88%	3.47%	+ 20.40%	= 23.87%	= 3.18%	= 20.69%
13	Oct	2.60%	3.03%	+ 16.35%	= 19.38%	= 3.13%	= 16.25%
14	Nov	2.75%	3.24%	+ 17.89%	= 21.13%	= 3.02%	= 18.11%
15	Dec 2011	2.70%	3.17%	+ 17.41%	= 20.58%	= 2.98%	= 17.60%
16	Jan 2012	2.61%	2.98%	+ 14.18%	= 17.16%	= 3.03%	= 14.13%
17	Feb	2.60%	2.99%	+ 15.01%	= 18.00%	= 3.11%	= 14.89%
18	Mar	2.36%	2.65%	+ 12.33%	= 14.98%	= 3.28%	= 11.70%
19	April	2.62%	3.02%	+ 15.22%	= 18.24%	= 3.18%	= 15.06%
20	May	2.86%	3.38%	+ 18.12%	= 21.50%	= 2.93%	= 18.57%
21	June	2.73%	3.18%	+ 16.59%	= 19.77%	= 2.70%	= 17.07%
22	Recommended	2.74%	3.19%	+ 16.64%	= 19.84%	= 2.94%	= 16.33%
23							
24							
25	Short-term Trends						
26	Recent Twelve Months Avg	2.64%	3.08%	+ 16.46%	= 19.54%	= 3.21%	= 16.33%
27	Recent Nine Months Avg	2.65%	3.07%	+ 15.90%	= 18.97%	= 3.04%	= 15.93%
28	Recent Six Months Avg	2.63%	3.03%	+ 15.24%	= 18.28%	= 3.04%	= 15.24%
29	Recent Three Months Avg	2.74%	3.19%	+ 16.64%	= 19.84%	= 2.94%	= 16.90%
30							
31							

¹ Average Current Dividend Yield (D_t/P_t) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

² Expected Dividend Yield (D_t/P_t) equals average current dividend yield (D₀/P₀) times one plus growth rate(g).

³ Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

⁴ Monthly average 30 year U.S. Treasury. Federal Reserve.

Vail Water Company
 Capital Asset Pricing Model (CAPM)

Exhibit
 Schedule D-4.12
 Witness: Bourassa

Line No.	Rf ¹	+	beta ³	x	Rp	=	k	
3	3.2%	+	0.72	x	6.6%	=	8.0%	
5	3.2%	+	0.72	x	16.3%	=	15.0%	
7	Average							11.5%

¹ Forecasts of long-term treasury yields. See Schedule D-4.10.

² Value Line Investment Analyzer data. See Schedule D-4.9.

³ Historical Market Risk Premium from (Rp) MorningStar S&P 500 2012 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2011.

⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

Vail Water Company
Financial Risk Computation

Exhibit
Schedule D-4.13
Witness: Bourassa

Line No.									
1	<u>CAPM</u>								
2		<u>Rf</u>	+	<u>β</u>	x	<u>(Rp)</u>	=	<u>k</u>	
3	Historical Market Risk Premium	3.2%	1	0.72	x	6.6%	3	8.0%	
4	Current Market Risk Premium	3.2%	1	0.72	x	16.3%	4	15.0%	
5									
6	Average								11.5%
7									
8									
9	<u>CAPM Relevered Beta</u>								
10		<u>Rf</u>	+	<u>β</u>	x	<u>(Rp)</u>	=	<u>k</u>	
11	Historical Market Risk Premium	3.2%	1	0.62	x	6.6%	3	7.3%	
12	Current Market Risk Premium	3.2%	1	0.62	x	16.3%	4	13.3%	
13									
14	Average								10.3%
15									
16	Financial Risk Adjustment								<u>-1.2%</u>
17									
18									
19									
20									
21									
22									
23									
24									
25									

¹ Forecast of long-term treasury yields. See Schedule D-4.10
² Value Line Investment Analyzer data. See Schedule D-4.9
³ Historical Market Risk Premium from (Rp) MorningStar S&P 2012 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2011
⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11
⁵ Relevered beta found on Schedule D-4.15

Exhibit
Schedule D-4.14
Witness: Bourassa

Vail Water Company
Financial Risk Computation
Unlevered Beta

Line No.	Company	VL Beta $\frac{B_1}{E_1}$	Raw Beta $\frac{Raw B_1}{E_1}$	Tax Rate t^3	MV Debt $\frac{D^4}{E^4}$	MV Equity $\frac{E^4}{E^4}$	Unlevered Raw Beta $\frac{B_{UL}^5}{E^4}$
1	American States	0.70	0.55	43.2%	33.2%	66.8%	0.43
2	Aqua America	0.65	0.48	39.2%	31.1%	68.9%	0.38
3	California Water	0.65	0.48	39.5%	39.1%	60.9%	0.35
4	Connecticut Water	0.75	0.63	41.3%	35.3%	64.7%	0.48
5	Middlesex	0.70	0.55	32.1%	31.3%	68.7%	0.42
6	SJW Corp.	0.85	0.78	38.8%	43.2%	56.8%	0.53
11							
12							
13	Sample Water Utilitie:	0.72	0.58	39.0%	35.5%	64.5%	0.43
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							

¹ Value Line Investment Analyzer data. See Schedule D-4.13
² Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:
Adjusted beta = .33 + (.67) * Raw beta
³ Raw Beta = (VL beta - .33)/(.67)
⁴ Effective tax rates for year ended December 31, 2011.
⁵ See Schedule D-4.3
⁶ Raw B_u = Raw B_i / (1 + (1-t)*D/E)

**Vail Water Company
Financial Risk Computation
Relevered Beta**

**Exhibit
Schedule D-4.15
Witness: Bourassa**

Line No.	Unlevered Raw Beta β_{UL}^1	MV Book Debt BD^2	MV Equity Capital EC^2	Tax Rate t^3	Relevered Raw Beta $\beta_{RL} = \beta_U (1 + (1-t)BD/EC)$	VL Adjusted Relevered Beta β_{RL}
1	0.43	0.0%	100.0%	24.14%	0.43	0.62
2						
3						
4						
5	Vail Water Company					
6						
7						
8						
9						
10						
11						
12						
13	¹ Unlevered Beta from Schedule D-4.14.					
14	² Capital Structure of Company.					
15		BV	MV	MV		
16		(in Thousands)	(in Thousands)	%		
17	Long-term Debt	\$ -	\$ -	0.00%		
18	Preferred Stock	\$ -	-	0.0%		
19	Common Stock	\$ 7,148	13,411	100.0%		
20	Total Capital	\$ 7,148	\$ 13,411	100.0%		
21						
22	(a) Current market-to-book ratio of sample water utilities. See work papers.					
23						
24	³ Current Tax rate based on test year ending 12/31/2011. See Schedule D-1.					
25						
26						

Vail Water Company
Size Premium¹

Exhibit
Schedule D-4.16
Witness: Bourassa

Line No.	Beta(β)	Size Premium	Risk Premium for Small Water Utilities ⁷
1			
2			
3			
4			
5			
6	1.12	1.14%	
7			
8	1.23	1.88%	
9			
10	1.36	3.89%	
11			
12	1.7	6.10%	3.86%
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
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38			
39			
40			
41			

Estimated Risk Premium for small water utilities⁶

0.99%

¹ Data from Table 7-8 of Morningstar, *Ibbotson S&P 500 2012 Valuation Yearbook*.

² Mid-Cap companies includes companies with market capitalization between \$1,621 million and \$6,896 million.

³ Low-Cap companies includes companies with market capitalization between \$422 million and \$1,620 million.

⁴ Micro-Cap companies includes companies with market capitalization less than \$422 million.

⁵ Decile 10 includes companies with market capitalization between \$1.0 million and \$206 million.

⁶ From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.

⁷ Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1. American States	\$ 684 Low-Cap	1.88%	4.22%	0.1666667	0.70%
2. Aqua America	\$ 3,088 Mid-Cap	1.14%	4.96%	0.1666667	0.83%
3. California Water	\$ 750 Low-Cap	1.88%	4.22%	0.1666667	0.70%
4. Connecticut Water	\$ 248 Decile 9	2.80%	3.30%	0.1666667	0.55%
5. Middlesex	\$ 290 Micro-Cap	3.89%	2.21%	0.1666667	0.37%
6. SJW Corp.	\$ 452 Low-Cap	1.88%	4.22%	0.1666667	0.70%
Weighted Size Premium for Small Companies					3.86%

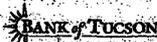
Vail Water Company

Application For A Determination Of The Fair Of Its Utility
Plant And Property And For An Increase In Its Rates And
Charges Based Thereon

Attachment 2

VAIL WATER COMPANY

1010 N. FINANCE CENTER DR., STE 200
TUCSON, AZ 85710
520-571-1958



4400 E. BROADWAY BLVD.
TUCSON, AZ 85711

13416

91-567/1221

4/18/2012

PAY TO THE ORDER OF

State of Arizona

\$ **10,147.07

Ten Thousand One Hundred Forty-Seven and 07/100

DOLLARS

State of Arizona
Arizona Dept of Environmental Qualit
PO Box 18228
Phoenix, AZ 85005

VOID AFTER 180 DAYS

MEMO

Annual Sampling Fee Invoice-Monitoring Assistance

TWO SIGNATURES REQUIRED

THIS DOCUMENT CONTAINS HEAT SENSITIVE INK. TOUCH OR PRESS HERE. RED IMAGE DISAPPEARS WITH HEAT.

⑈013416⑈ ⑆122105676⑆ 700⑈000⑈3⑈

VAIL WATER COMPANY

13416

State of Arizona

4/18/2012

Date	Type	Reference
4/5/2012	Bill	68410

Original Amt.
10,147.07

Balance Due	Discount
10,147.07	
	Check Amount

Payment
10,147.07
10,147.07

Bank of Tucson

Annual Sampling Fee Invoice-Monitoring Assista

10,147.07

VAIL WATER COMPANY

13416

State of Arizona

4/18/2012

Date	Type	Reference
4/5/2012	Bill	68410

Original Amt.
10,147.07

Balance Due	Discount
10,147.07	
	Check Amount

Payment
10,147.07
10,147.07

Bank of Tucson

Annual Sampling Fee Invoice-Monitoring Assista

10,147.07

SFMS9001N1

TO REORDER, CALL YOUR LOCAL SAFEGUARD DISTRIBUTOR AT 820-721-9644

HELVBPO010000 Y089F001023





**MONITORING ASSISTANCE PROGRAM
ANNUAL SAMPLING FEE INVOICE**

* Pursuant to A.R.S. § 49-113, interest will be charged if full payment is not received by the specified due date. If you dispute the amount listed, please contact ADEQ as soon as possible. To reduce interest costs on an unpaid invoice, you may remit an amount that you believe is not in dispute. However, if nonpayment is due to willful neglect, you may suffer an additional five percent penalty of up to twenty-five percent of the amount due for each month or fraction of a month the amount is past due.

If you have any questions about your invoice, contact Mary Kaye Black at (602) 771-4518 or toll-free within Arizona at (800) 234-5677, extension 771-4518.

Pursuant to A.R.S. § 49-360 F and A.A.C. R18-4-304 and R18-4-305, "The director shall establish fees for the monitoring assistance program to be collected from all public water systems..."

Owner Id #: 21869	Invoice Number 68410
To: VAIL WATER COMPANY STE 200 1010 N FINANCE CENTER DR. TUCSON AZ 85710-1357	Public Water System ID #: 10041
	Billing for Calendar Year: 2012
	Due Date: May 18, 2012
	Total Amount Due \$ 10,147.07
	Amount Paid \$

↑ Keep the top portion for your records. ↑ ADEQ Federal Tax #866004791

↓ This entire bottom portion must be returned to ADEQ. ↓

ADEQ Federal Tax #866004791

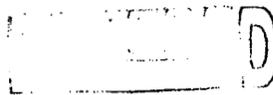
Annual Sampling Fee Invoice

Invoice # 68410

VAIL WATER COMPANY 1010 N FINANCE CENTER DR STE 200 TUCSON AZ 85710-1357	Owner Id #: 21869	MAP
	Billing for Calendar Year: 2012	
	10041 - Vail Water Company	Due Date: 05/18/2012

ANNUAL SAMPLING FEE WORKSHEET

635-000
RECEIVED
APR 05 2012
BY: *EM MS*



Base Fee (all MAP systems)	\$ 250.00
Fee per Connection in 2012..... 3,851 connections X \$ 2.57	\$ 9,897.07
Total Sampling Fee	\$ 10,147.07
Plus Paid Interest Charges and/or Other Adjustments	\$ 0.00
Plus Unpaid Interest Charges as of 04/03/2012	\$ 0.00
Minus Payments Received and/or Other Adjustments	\$ 0.00
Amount Due	\$ 10,147.07
Amount received by ADEQ (Make check payable to State of Arizona)	\$

* A \$12 fee will be charged for any check not honored by the bank.

Do not write below this line

Make your check or money order payable to State of Arizona
THIS FORM MUST ACCOMPANY YOUR REMITTANCE.

Mail to: Arizona Department of Environmental Quality
PO Box 18228
Phoenix, AZ 85005

Check Number:
Received:
Postmarked:
Entered:

CS3 04/03/2012
WM300G0

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (Gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-625703	100	600	614	12	8	1974
55-087817	200	700	759	14	8	1981
55-087816	300	1200	845	14	10	1981
55-087814	300	975	924	14	8	1981

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
N/A		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
10	3	421	
20	6		
25	4		
30	7		
50	2		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
600,000	1	2500	13
550,000	1		
500,000	2		
290,000	1		
100,000	2		

Note: If you are filing for more than one system, please provide separate sheets for each system.

Item 33

Name of System:

ADEQ Public Water System Number:

10-041

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2		5,434
3		
4		55,658
5		
6		160,250
8		163,930
10		16,830
12		115,138

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	3,708
3/4	103
1	24
1 1/2	21
2	40
Comp. 3	3
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	
(TOTAL)	3,899

For the following three items, list the utility owned assets in each category.

TREATMENT EQUIPMENT:

CUTAB TABLET PPG CHLORINATION SYSTEM WITH A .02 RESIDUAL
 CALCIUM HYPOCHLORIDE

STRUCTURES:

ADMINISTRATIVE OFFICE 57x35 1,995 SQ FT STEEL BUILDING

OTHER:

N/A

Note: If you are filing for more than one system, please provide separate sheets for each system.

WATER USE DATA SHEET BY MONTH FOR CALENDER YEAR ~~2010~~ 2011

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	3,804	22,854	25,020	0
FEBRUARY	3,814	26,330	29,048	0
MARCH	3,826	23,229	25,602	0
APRIL	3,836	29,141	31,539	0
MAY	3,851	32,958	37,241	0
JUNE	3,895	35,693	40,443	0
JULY	3,898	35,842	41,488	0
AUGUST	3,902	30,263	37,220	0
SEPTEMBER	3,901	30,661	31,431	0
OCTOBER	3,885	25,848	26,695	0
NOVEMBER	3,906	28,756	30,824	0
DECEMBER	3,899	23,005	25,659	0
TOTALS -->		344,580	382,210	0

What is the level of arsenic for each well in your system.

(If more than one well, please list each separately)

Well 1	<u> n/a </u>	mg/l
Well 2	<u> n/a </u>	mg/l
Well 3	<u> < .010 </u>	mg/l
Well 5	<u> < .010 </u>	mg/l
Well 6	<u> < .010 </u>	mg/l
Well 8	<u> < .010 </u>	mg/l

If system has fire hydrants, what is the fire flow requirement? 1,100 GPM for 2 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
 Yes No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
 Yes No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
 Yes No

If yes, provide the GPCPD amount: 122 GPCD

Note: If you are filing for more than one system, please provide separate sheets for each system.