

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

- BOB STUMP- CHAIRMAN
- GARY PIERCE
- BRENDA BURNS
- BOB BURNS
- SUSAN BITTER SMITH

2013 FEB 11 P 4: 14

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR AN INCREASE IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. W-01412A-12-0195

STAFF'S NOTICE OF FILING SURREBUTTAL TESTIMONY

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files Surrebuttal Testimony of Brendan Aladi in the above-referenced docket.

RESPECTFULLY SUBMITTED this 11th day of February, 2013.

Wesley C. Van Cleve
 Bridget A. Humphrey
 Attorneys, Legal Division
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85007
 (602) 542-3402

Original and thirteen (13) copies of the foregoing filed this 11th day of February, 2013, with:

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

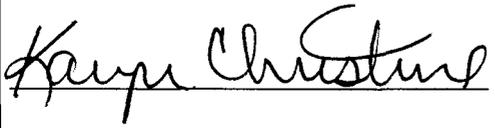
Arizona Corporation Commission
DOCKETED

FEB 11 2013

DOCKET CONTROL

1 **Copy of the foregoing mailed this**
2 **11th day of February, 2013, to:**

3 Jay L. Shapiro, Esq.
4 FENNEMORE CRAIG
5 3003 North Central Avenue, Suite 2600
6 Phoenix, Arizona 85012

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01412A-12-0195
VALLEY UTILITIES WATER COMPANY, INC.,)
AN ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE OF ITS)
UTILITY PLANT AND PROPERTY AND FOR AN)
INCREASE IN ITS RATES AND CHARGES FOR)
UTILITY SERVICE BASED THEREON.)
_____)

SURREBUTTAL

TESTIMONY

OF

BRENDAN C. ALADI

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 11, 2013

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EXECUTIVE SUMMARY
VALLEY UTILITIES WATER COMPANY, INC.
DOCKET NO. W-01412A-12-0195

The Surrebuttal Testimony of Staff witness Brendan Aladi addresses rate base, operating income, revenue requirement and rate design issues.

Revenue Requirement – Staff recommends a revenue requirement of \$1,599,823, a \$330,956 or a 26.08 percent increase over Staff’s adjusted test year revenues that provides a 6.50 percent rate of return. Staff’s adjustments to original cost rate base (“OCRB”) resulted in a Staff adjusted OCRB of \$1,963,591. Staff’s recommendations reflect seven rate base adjustments and three operating income Adjustments.

Staff addresses Company witness Robert Prince on:

Late Payment Fee

Staff addresses Company witness Ray Jones on:

Plant not used and useful
Well No. 2 retirement
Well No. 6A post-test year plant retirement
Accumulated depreciation
Cash working capital

1 **I. INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Brendan C. Aladi. I am a Public Utilities Analyst III. My business address is
4 1200 West Washington Street, Phoenix, Arizona 85007.

5
6 **Q. Are you the same Brendan Aladi who previously filed Direct Testimony on the rate**
7 **base, operating income, and revenue requirement, and rate design transactions in**
8 **this proceeding?**

9 A. Yes.

10
11 **II. PURPOSE OF TESTIMONY**

12 **Q. What is the purpose of your Surrebuttal Testimony in this case?**

13 A. My Surrebuttal Testimony addresses issues raised in Valley Utilities Water Company,
14 Inc.'s ("VUWC" or "Company") Rebuttal Testimony regarding Staff's recommendations
15 on rate base, operating adjustments, and rate design.

16
17 **Q. How is your testimony organized?**

18 A. My testimony is presented in four sections. Section I is the introduction. Section II is the
19 description/purpose of my testimony. Section III presents my responses to the Rebuttal
20 Testimony provided by Robert Prince. Section IV presents my response to the Rebuttal
21 Testimony provided by Ray Jones.

22
23 **Q. Does your Surrebuttal Testimony cover all issues in this case?**

24 A. No. Staff attempts to address rebuttal issues only. For any issue not discussed by Staff in
25 Surrebuttal Testimony, it relies on Staff's Direct Testimony.
26

1 **Q. Have you prepared any schedules to accompany your testimony?**

2 A. Yes. I prepared Surrebuttal schedules BCA-1 to BCA-20. The Surrebuttal schedules
3 reflect the Company's application as filed, not its rebuttal position.

4

5 **III. STAFF'S RESPONSE TO THE REBUTTAL TESTIMONY OF ROBERT PRINCE**

6 *Late Payment Penalty*

7 **Q. What is the Company proposing regarding late payment penalty?**

8 A. VUWC continues to propose a late payment penalty charge of \$10 per month.

9

10 **Q. What is Staff recommending regarding a late payment penalty charge?**

11 A. Staff is recommending a late payment charge of 1.5 percent of the outstanding balance per
12 month. Staff believes that \$10 per month is excessive compared to other Arizona Utilities.

13

14 **Q. How long has the Company had this \$10 late fee?**

15 A. It has been in effect for more than 20 years.

16

17 **Q. Is it working to encourage the timely payment of customer bills?**

18 A. Apparently not.

19

20 **Q. Why do you say that?**

21 A. In the Company's prior rate case this issue was discussed and at that time the Company's
22 delinquency rate was running 16 to 18 percent and the Company was collecting \$28,000 to
23 \$30,000 per year in late fees.

24

1 **Q. What is the Company's delinquency rate now?**

2 A. The Company's delinquency rate continues to run at 17 percent and the Company
3 continues to collect \$28,000 to \$30,000 per year in late fees.

4
5 **Q. What do you believe was the Commission's purpose in authorizing such an
6 extraordinarily high late fee of \$10?**

7 A. In Staff's opinion, it would be to try and solve a late payment/delinquency problem.

8
9 **Q. Has this fee solved or even improved the problem?**

10 A. Apparently not.

11
12 **Q. What does Staff suggest be done?**

13 A. Staff recommends that the Company develop some other strategies to improve its
14 delinquency rate. High late fees have done nothing to solve the problem. One alternative
15 might be to require deposits from customers who are delinquent on a recurring basis.

16
17 **Q. What is Staff's specific recommendation?**

18 A. Staff recommends that the late fee be reduced to 1-1/2 percent per month. Also, as just
19 mentioned, the Company should develop new strategies to solve/improve its delinquency
20 rate and present them to the Consumer Services Section of the Utilities Division within
21 120 days of the effective date of this order. Consumer Services Staff will evaluate and
22 make recommendations to the Company regarding those new strategies.

23

1 **IV. STAFF'S RESPONSE TO THE REBUTALL TESTIMONY RAY JONES**

2 *Post Test Year Plant - Not used and Useful*

3 **Q. What is the Company proposing regarding post-test year ("PTY") plant?**

4 A. The Company submitted two PTY plant projects; a pump replacement on Well No. 6A
5 and a drainage improvement project at the Bethany Hills Site. In its Direct Testimony,
6 Staff recommended a PTY plant adjustment for Well No. 6A and recommended denial of
7 the PTY plant for drainage improvement. Mr. Jones stated that the Company did not
8 agree with Staff's recommendation for the drainage improvement because the drainage
9 project was completed in December 2012 at a cost of \$82,118 and therefore should be
10 included in this proceeding. Staff continues to support the exclusion of the drainage
11 improvement project from the rate base. (See Testimony of Marlin Scott, Jr.).

12
13 *Well No. 2*

14 **Q. What is the Company proposing regarding retirement of Well No. 2?**

15 A. The Company asserts that the adjustment to retire well No. 2 of \$2,408 is not needed
16 because the amount is already included in the \$103,497 unbooked plant retirements shown
17 on Schedule B-2, Page 2 of the schedules provided with the Company's Direct Testimony.

18
19 **Q. Is Staff's surrebuttal position the same as its direct position (i.e. to recommend
20 retirement of Well No. 2 from rate base)?**

21 A. No. Staff now agrees that the retirement of Well No. 2 is already addressed in the
22 Company's direct filing. Staff has removed this adjustment in its surrebuttal schedule.

23

1 *Post-Year Plant – Well No. 6A*

2 **Q. What is the Company’s proposal regarding retirement of the pump at Well No. 6A?**

3 A. The Company states that adjustment to add post-test year plant (the pump at well No. 6A)
4 of \$31,231 is not needed because the amount is already included in rate base in the direct
5 filing. However, the estimated plant cost included in the direct filing was \$34,500, which
6 leaves an excess amount of \$3,269.

7
8 **Q. What is Staff’s recommendation regarding the pump at well No. 6A?**

9 A. Staff agrees that the actual pump cost of \$31,231 is already included in rate base and the
10 excess pump cost of \$3,269 should be removed from rate base. Staff recommends an
11 adjustment to reduce the pumping equipment account by \$3,269.

12
13 *Accumulated Depreciation*

14 **Q. What is Staff recommending regarding accumulated depreciation?**

15 A. Staff recommends an adjustment of \$22,782 to accumulated depreciation. The
16 adjustments include the removal of accumulated depreciation for the retirement of pumps
17 at well 6A, well 2, and 2 pumps at well 4. See Surrebuttal Schedule BCA-10.

18
19 **Q. What is Staff’s recommendation?**

20 A. Staff recommends an adjustment to reduce accumulated depreciation by \$22,782.

21
22 *Working Capital*

23 **Q. Did the Company accept Staff’s Direct Testimony position on the treatment of
24 depreciation and amortization when calculating cash working capital allowance?**

25 A. Yes. The Company agrees to exclude depreciation and amortization expense from the
26 cash working capital allowance calculation.

1 **Q. Did the Company continue to propose that the working capital calculation include a**
2 **WIFA debt service reserve?**

3 A. Yes. However, Staff believes that debt service reserve should not be a component of
4 working capital.

5
6 **Q. And why is that?**

7 A. The Company reported \$146,105 in a WIFA debt service reserve. However, there is no
8 reflection of this amount in the Company's balance sheet.

9
10 **Q. If this WIFA debt service reserve does not show up on the Company's balance sheet,**
11 **what does this suggest?**

12 A. It is not clear. However, it could mean that the Company has incorrectly accounted for
13 this reserve. What is clear is that the WIFA reserve does not show up as an asset on the
14 Company's books. Absent the proper accounting for the reserve, Staff cannot support
15 recognizing this as a component of working capital.

16
17 **Q. What is Staff's recommendation?**

18 A. Staff recommends including interest expense in the Company's cash working capital
19 calculation and removing debt service reserve from the working capital calculation.

20
21 *Rate design*

22 **Q. What Criticism does the Company have of Staff's rate Design?**

23 A. The Company contends that Staff recommended rate design places 130 percent of the
24 increase into the high usage third tier and this will result in more revenue volatility than
25 the Company's.

26

1 **Q. Please comment on Company's criticism.**

2 A. Staff's rate design was done on the entire revenue requirement not just the increase. The
3 revenue requirement was appropriately distributed among the minimum and commodity
4 charges.

5
6 **Q. How much of the current revenue requirement does the Company recover from its
7 monthly minimum charge?**

8 A. The Company recovers 34.67 percent of its total revenue requirement from the monthly
9 minimum charge.

10

11 **Q. How much of Staff's recommended revenue requirement will the Company recover
12 from Staff's recommended monthly minimum charge?**

13 A. The Company will recover 40.00 percent of Staff's recommended revenue requirement
14 from the monthly minimum charge.

15

16 **Q. So Staff has increased the percentage of revenue coming from the monthly minimum
17 charge?**

18 A. Yes.

19

20 **Q. What is the difference between the current 34.67 percent and Staff's recommended
21 40.00 percent coming from the monthly minimum charge?**

22 A. The difference is 5.33 percent.

23

1 **Q. And what percentage and dollar amount of the Staff recommended increase will**
2 **come from the rate design Staff recommends?**

3 A. The Company will recover \$85,271, or 25.77 percent of the recommended increase from
4 the monthly minimum charge.

5

6 **Q. Does this conclude your Surrebuttal Testimony?**

7 A. Yes, it does.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION		[A] COMPANY ORIGINAL COST		[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$	2,201,185	\$	1,963,591
2	Adjusted Operating Income (Loss)	\$	19,628	\$	(82,221)
3	Current Rate of Return (L2 / L1)		0.89%		-4.19%
4	Required Rate of Return		6.45%		6.50%
5	Required Operating Income (L4 * L1)	\$	141,976	\$	127,633
6	Operating Income Deficiency (L5 - L2)	\$	122,348	\$	209,855
7	Gross Revenue Conversion Factor		1.28290		1.57707
8	Increase (Decrease) In Gross Revenue (L7 * L6)	* \$	156,961	\$	330,956 *
9	Adjusted Test Year Revenue	\$	1,454,522	\$	1,268,867
10	Proposed Annual Revenue (L8 + L9)	\$	1,611,483	\$	1,599,823
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	**	10.79%		26.08% **
12	Debt Service Coverage Ratio		Not Provided		3.35

References:

Column [A]: Company Schedules A-1
Column [B]: Staff Schedules BCA-2, & BCA-3

* Note that Staff's recommended increase is larger than the Company's due to Staff's reduction of test year revenue by \$185,655.

** Also note that the Company proposes to continue the arsenic facility surcharge that produced \$185,655 in the test year. For comparative purposes, this amount should be added to the requested \$156,961 increase for an actual total increase of \$342,616, or 27.00 percent over the Staff adjusted test year revenue.

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<i>Calculation of Gross Revenue Conversion Factor:</i>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.1319%			
3	Revenues (L1 - L2)	99.8681%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	36.4594%			
5	Subtotal (L3 - L4)	63.4087%			
6	Revenue Conversion Factor (L1 / L5)	1.577070			
<i>Calculation of Uncollectible Factor:</i>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	35.5525%			
9	One Minus Combined Income Tax Rate (L7 - L8)	64.4475%			
10	Uncollectible Rate	0.2046%			
11	Uncollectible Factor (L9 * L10)	0.1319%			
<i>Calculation of Effective Tax Rate:</i>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	30.7254%			
16	Effective Federal Income Tax Rate (L14 x L15)	28.584457%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		35.5525%		
<i>Calculation of Effective Property Tax Factor</i>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	35.5525%			
20	One Minus Combined Income Tax Rate (L18-L19)	64.4475%			
21	Property Tax Factor	1.4073%			
22	Effective Property Tax Factor (L20*L21)		0.9070%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			36.4594%	
24	Required Operating Income	\$ 127,633			
25	Adjusted Test Year Operating Income (Loss)	(82,221)			
26	Required Increase in Operating Income (L24 - L25)		\$ 209,855		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 7,793			
28	Income Taxes on Test Year Revenue (Col. [A], L52)	(107,973)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		115,766		
30	Recommended Revenue Requirement	\$ 1,599,823			
31	Uncollectible Rate (Line 10)	0.2046%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ 3,273			
33	Adjusted Test Year Uncollectible Expense	\$ 2,596			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		677		
35	Property Tax with Recommended Revenue	\$ 58,228			
36	Property Tax on Test Year Revenue	53,571			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		4,658		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		<u>\$ 330,956</u>	\$ -	
<i>Calculation of Income Tax:</i>					
39	Revenue	\$ 1,268,867	\$ 330,956	\$ 1,599,823	\$ 135,427
40	Operating Expenses Excluding Income Taxes	\$ 1,459,062	\$ 5,335	\$ 1,464,396	\$ 98,180
41	Synchronized Interest (L56)	\$ 98,180		\$ 98,180	\$ 37,247
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (288,374)		\$ 37,247	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ (20,094)		\$ 2,595	
45	Federal Taxable Income (L42 - L44)	\$ (268,280)		\$ 34,652	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)		\$ 5,198	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (6,250)		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (65,629)		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ (87,879)		\$ 5,198	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (107,973)		\$ 7,793	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			30.7254%	
<i>Calculation of Interest Synchronization:</i>					
54	Rate Base	\$ 1,963,591			
55	Weighted Average Cost of Debt	5.00%			
56	Synchronized Interest (L45 X L46)	\$ 98,180			

RATE BASE - ORIGINAL COST

LINE NO.	(A)	(B)	ADJ NO.	(C)
	COMPANY AS FILED	STAFF ADJUSTMENTS		STAFF AS ADJUSTED
1	\$ 10,331,861	\$ (86,051)	1, 2, 3, 4, 5	\$ 10,245,810
2	3,034,427	(22,782)	6	3,011,645
3	<u>\$ 7,297,434</u>	<u>\$ (63,269)</u>		<u>\$ 7,234,165</u>
<i>LESS:</i>				
4	\$ 3,933,272			\$ 3,933,272
5	\$ -	\$ -		\$ -
6	\$ 1,561,727	\$ -		\$ 1,561,727
7	438,464	-		438,464
8	<u>\$ 1,123,263</u>	<u>-</u>		<u>\$ 1,123,263</u>
9	\$ 5,056,535	\$ -		\$ 5,056,535
10	\$ 78,425	\$ -		\$ 78,425
11	\$ 195,362	\$ -		\$ 195,362
<i>ADD: Working Capital</i>				
12	\$ 234,073	\$ (174,325)	7	\$ 59,748
13	\$ -	\$ -		\$ -
14	<u>\$ 2,201,185</u>	<u>\$ (237,594)</u>		<u>\$ 1,963,591</u>

References:

Column [A], Company Schedule B-1, Page 1
Column [B]: Schedule BCA-4
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 1 - NOT USED AND USEFUL PLANT COSTS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct. No. 304 - Structures and Improvements	\$ 252,106	\$ (60,000)	\$ 192,106

References:

- Column [A]: Company Schedule B-2
- Column [B]: Testimony, BCA
- Column [C]: Column [A] + Column [B]

Valley Utilities Water Company
Docket No. W-01412A-12-0195
Test Year Ended December 31, 2011

Surrebuttal Schedule BCA-6

RATE BASE ADJUSTMENT NO. 2 - RETIRE WELLS # 2 AND 4

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 307 - Wells and Springs	\$ 1,425,122	\$ (14,610)	\$ 1,410,512

References:

- Column A: Company Schedule B-2
- Column B: Testimony, BCA
- Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - ADD POST TEST YEAR PLANT

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 320 - Pumping Equipment	\$ 801,549	(3,269)	798,280

References:

Column A: Company Schedule B-2

Column B: Testimony, BCA

Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - RETIRE AN OLD PUMP - WELL #6A

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 320 - Pumping Equipment	\$ 798,280	(6,670)	791,610
2				
3				
4				
5		Pumping Equipment	\$ 832,780	
6		Unbooked Retirement - Well #6A	(6,670)	
7		Net	\$ 826,110	

References:

- Column A: Company Schedule B-2
- Column B: Testimony, BCA
- Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 5 - RETIRE OLD PUMP - WELL #6A

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 320 - Pumping Equipment	\$ 791,610	(3,910)	787,700
2				
3				
4				
5		Pumping Equipment	\$ 791,610	
6		Unbooked Retirement - Well #6A	(3,910)	
7		Net	\$ 787,700	

References:

- Column A: Company Schedule B-2
- Column B: Testimony, BCA
- Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - REMOVE UNBOOKED PLANT RETIREMENT FROM THE ACCUMULATED DEPRECIATION ACCOUNT
--

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	PER COMPANY	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 3,034,427	\$ (22,782)	\$ 3,011,645
2				
3				
4				
5	Computation:			
	Retire old Pump - Well #6A	\$ -	\$ (6,670)	\$ -
	Retire old Pump - Well #2	-	\$ (3,150)	-
	Retire old Pump - Well #4	-	\$ (760)	-
	Retire old Pump - Well #4	-	\$ (12,202)	-
		\$ 3,034,427	\$ (22,782)	\$ 3,011,645

References:

- Column A: Company Schedule B-1
- Column B: Testimony, BCA
- Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 7 -WORKING CAPITAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Working Capital	\$ 234,073	\$ (174,325)	\$ 59,749

Computation of Cash Working Capital:	\$ 46,235	\$ (28,220)	1	\$ 18,015
Material and Supplies Inventories	\$ 32,699	\$ -		\$ 32,699
Working Funds and Special Deposits	\$ 146,105	\$ (146,105)	2	\$ -
Prepayments	\$ 9,035	\$ -		\$ 9,035
Total Working Capital	\$ 234,073	\$ (174,325)		\$ 59,749

References:

- Column A: Company Schedule B-2
- Column B: Testimony, BCA
- Column C: Column [A] + Column [B]

1. Removed depreciation and amortization.
2. Removed as not included in working capital.

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A]	[B]		[C]	[D]	[E]
		COMPANY TEST YEAR AS FILED	STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	STAFF TEST YEAR AS ADJUSTED	STAFF PROPOSED CHANGES	STAFF RECOMMENDED
REVENUES:							
1	Metered Water Revenue	\$ 1,395,426	\$ (185,655)	1	\$ 1,209,771	\$ 330,956	\$ 1,540,727
2	Water Sales - Unmetered	682	-		682		682
3	Other Operating Revenues	58,414	-		58,414	-	58,414
4	Total Revenues	<u>\$ 1,454,522</u>	<u>\$ (185,655)</u>		<u>\$ 1,268,867</u>	<u>\$ 330,956</u>	<u>\$ 1,599,823</u>
5							
EXPENSES:							
7	Salaries and Wages	\$ 452,645	-		\$ 452,645	\$ -	\$ 452,645
8	Employee Pensions & Benefits	73,738	-		73,738	-	73,738
9	Purchased Water	4,045	-		4,045	-	4,045
10	Purchased Power	143,759	-		143,759	-	143,759
10	Repairs and Maintenance	128,499	-		128,499	-	128,499
11	Chemicals	7,567	-		7,567	-	7,567
12	Materials & Supplies	-	-		-	-	-
13	Office Supplies & Expense	8,119	-		8,119	-	8,119
14	Contractual Services - Engineering	2,020	-		2,020	-	2,020
14	Contractual Services - Accounting	2,879	-		2,879	-	2,879
15	Contractual Services - Legal	4,259	-		4,259	-	4,259
	Contractual Management Fees	-	-		-	-	-
16	Contractual Services - Testing	10,732	-		10,732	-	10,732
17	Contractual Services - Other	14,069	-		14,069	-	14,069
18	Equipment Rental	2,215	-		2,215	-	2,215
19	Rents	35,553	-		35,553	-	35,553
20	Transportation Expenses	29,087	-		29,087	-	29,087
21	Insurance - General Liability	20,878	-		20,878	-	20,878
22	Insurance - Workman's Compensation	2,528	-		2,528	-	2,528
23	Reg. Comm. Exp.	14,169	-		14,169	-	14,169
24	Reg. Comm. Exp. - Rate Case	40,000	-		40,000	-	40,000
25	Miscellaneous Expense	49,017	-		49,017	-	49,017
26	Bad Debt Expense	2,975	-		2,975	677	3,652
27	Depreciation Expense	322,982	-		322,982	-	322,982
28	Taxes Other Than Income	33,756	-		33,756	-	33,756
29	Property Taxes	53,525	\$ 46	2	53,571	4,658	58,228
30	Income Taxes	(24,122)	\$ (83,851)	3	(107,973)	115,766	7,793
31	Interest Expense - Customer Deposits	-	\$ -		-	-	-
32	Total Operating Expenses	<u>\$ 1,434,894</u>	<u>\$ (83,806)</u>		<u>\$ 1,351,088</u>	<u>\$ 121,101</u>	<u>\$ 1,472,189</u>
33							
34	Operating Income (Loss)	<u>\$ 19,628</u>	<u>\$ (101,849)</u>		<u>\$ (82,221)</u>	<u>\$ 209,855</u>	<u>\$ 127,633</u>

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule BCA-15
- Column (C): Column (A) + Column (B)
- Column (D): Schedules BCA-1 and BCA-2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ.#1 Metered Water Revenues Ref. Sch BCA-17	(C) ADJ.#2 Property Taxes Ref. Sch BCA-18	(D) ADJ.#3 Income Taxes Ref. Sch BCA-19	(H) Staff Adjusted
	REVENUES:					
1	Metered Water Revenues	\$ 1,395,426	\$ -	\$ -	\$ -	\$ 1,209,771
2	Water Sales - Unmetered (Fire Service)	682	-	-	-	682
3	Other Operating Revenues	58,414	-	-	-	58,414
4	Total Revenues	\$ 1,454,522	\$ (185,655)	\$ -	\$ -	\$ 1,268,867
	OPERATING EXPENSES:					
6	Salaries and Wages	\$ 452,645	-	-	-	\$ 452,645
7	Employee Pensions & Benefits	73,738	-	-	-	73,738
8	Purchased Water	4,045	-	-	-	4,045
9	Purchased Power	143,759	-	-	-	143,759
10	Repairs and Maintenance	128,499	-	-	-	128,499
11	Chemicals	7,567	-	-	-	7,567
12	Materials & Supplies	-	-	-	-	-
13	Office Supplies & Expense	8,119	-	-	-	8,119
14	Contractual Services - Engineering	2,020	-	-	-	2,020
15	Contractual Services - Accounting	2,879	-	-	-	2,879
16	Contractual Services - Legal	4,259	-	-	-	4,259
17	Contractual Services - Management Fees	-	-	-	-	-
18	Contractual Services - Testing	10,732	-	-	-	10,732
19	Contractual Services - Other	14,069	-	-	-	14,069
20	Equipment Rental	2,215	-	-	-	2,215
21	Rents	35,553	-	-	-	35,553
22	Transportation Expenses	29,087	-	-	-	29,087
23	Insurance - General Liability	20,878	-	-	-	20,878
24	Insurance - Workmans Compensation	2,528	-	-	-	2,528
25	Reg. Comm. Exp. - Rate Case	14,169	-	-	-	14,169
26	Reg. Comm. Exp. - Miscellaneous Expense	40,000	-	-	-	40,000
27	Bad Debt Expense	49,017	-	-	-	49,017
28	Depreciation Expense	2,975	-	-	-	2,975
29	Taxes Other Than Income	322,982	-	-	-	322,982
30	Property Taxes	33,756	-	-	-	33,756
31	Income Taxes	53,525	-	46	(83,851)	53,571
32	Interest Expense - Customer Deposits	(24,122)	-	-	-	(107,973)
33	Total Operating Expenses	\$ 1,434,894	\$ -	\$ 46	\$ (83,851)	\$ 1,351,088
34	Operating Income (Loss)	\$ 19,628	\$ (185,655)	\$ (46)	\$ 83,851	\$ (82,221)

OPERATING INCOME ADJUSTMENT NO. 1 - DISCONTINUATION OF SURCHARGE REVENUE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Metered Water Revenue	\$ 1,395,426	\$ (185,655)	\$ 1,209,771

References:

- Column A: Company Testimony
- Column B: Testimony, BCA
- Column C: Column [A] - Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 1,268,867	\$ 1,268,867
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	2,537,734	\$ 2,537,734
4	Staff Recommended Revenue, Per Schedule CSB-1	1,268,867	\$ 1,599,823
5	Subtotal (Line 4 + Line 5)	3,806,601	4,137,557
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,268,867	\$ 1,379,186
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	2,537,734	\$ 2,758,371
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	2,537,734	\$ 2,758,371
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	507,547	\$ 551,674
15	Composite Property Tax Rate	10.5548%	10.5548%
			\$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 53,571	
17	Company Proposed Property Tax	53,525	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 46	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 58,228
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 53,571
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 4,658
22	Increase to Property Tax Expense		\$ 4,658
23	Increase in Revenue Requirement		330,956
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.407307%

OPERATING INCOME ADJUSTMENT NO. 3 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Income Tax	(\$24,122)	(\$83,851)	(\$107,973)

References:

Column A: Company Schedule C-2
Column B: Testimony, BCA
Column C: Column [A] + Column [B]

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4 Inch	\$ 12.40	\$ 14.00	\$ 18.00
3/4 Inch	18.60	21.00	27.00
1 Inch	31.00	35.00	45.00
1 1/2 Inch	62.00	70.00	90.00
2 Inch	99.00	112.00	144.00
3 Inch	198.00	224.00	288.00
4 Inch	310.00	350.00	450.00
6 Inch	620.00	700.00	900.00
8 Inch	N/A	N/A	N/A
10 Inch	N/A	N/A	N/A
12 Inch	N/A	N/A	N/A
<u>Commodity Charge - Per 1,000 Gallons</u>			
<u>5/8" x 3/4" Meter (Residential)</u>			
First 3,000 gallons	\$ 1.5000	1.69	N/A
3,001 to 10,000 gallons	2.4400	2.76	N/A
Over 10,000 gallons	3.1500	3.56	N/A
First 3,000 gallons	N/A	N/A	\$ 1.45
3,001 to 10,000 gallons	N/A	N/A	\$ 2.50
Over 10,000 gallons	N/A	N/A	\$ 4.09
<u>3/4" Meter (Residential)</u>			
First 3,000 gallons	1.5000	N/A	N/A
3,001 to 10,000 gallons	2.4400	N/A	N/A
Over 10,000 gallons	3.1500	N/A	N/A
First 3,000 gallons	N/A	1.96	N/A
3,001 to 10,000 gallons	N/A	2.76	N/A
Over 10,000 gallons	N/A	3.56	N/A
First 3,000 gallons	N/A	N/A	1.45
3,001 to 10,000 gallons	N/A	N/A	2.50
Over 10,000 gallons	N/A	N/A	4.09
<u>1" Meter (All Meters)</u>			
First 23,000 gallons	2.4400	N/A	N/A
Over 23,000 gallons	3.1500	N/A	N/A
First 23,000 gallons	N/A	2.76	N/A
Over 23,000 gallons	N/A	3.56	N/A
First 14,000 gallons	N/A	N/A	2.50
Over 14,000 gallons	N/A	N/A	4.09
<u>1 1/2" Meter (All Meters)</u>			
First 58,000 gallons	2.4400	N/A	N/A
Over 58,000 gallons	3.1500	N/A	N/A
First 58,000 gallons	N/A	2.76	N/A
Over 58,000 gallons	N/A	3.56	N/A
First 40,000 gallons	N/A	N/A	2.50
Over 40,000 gallons	N/A	N/A	4.09
<u>2" Meter (All Meters)</u>			
First 95,000 gallons	2.4400	N/A	N/A
Over 95,000 gallons	3.1500	N/A	N/A
First 95,000 gallons	N/A	2.76	N/A
Over 95,000 gallons	N/A	3.56	N/A
First 75,000 gallons	N/A	N/A	2.50
Over 75,000 gallons	N/A	N/A	4.09
<u>3" Meter (All Meters)</u>			
First 207,000 gallons	2.4400	N/A	N/A
Over 207,000 gallons	3.1500	N/A	N/A
First 207,000 gallons	N/A	2.76	N/A
Over 207,000 gallons	N/A	3.56	N/A
First 150,000 gallons	N/A	N/A	2.50
Over 150,000 gallons	N/A	N/A	4.09
<u>4" Meter (All Meters)</u>			
First 335,000 gallons	2.4400	N/A	N/A
Over 335,000 gallons	3.1500	N/A	N/A
First 335,000 gallons	N/A	2.76	N/A
Over 335,000 gallons	N/A	3.56	N/A
First 225,000 gallons	N/A	N/A	2.50
Over 225,000 gallons	N/A	N/A	4.09
<u>6" Meter (All Meters)</u>			
First 690,000 gallons	2.4400	N/A	N/A
Over 690,000 gallons	3.1500	N/A	N/A
First 450,000 gallons	N/A	2.76	N/A
Over 450,000 gallons	N/A	3.56	N/A
First 450,000 gallons	N/A	N/A	2.50
Over 450,000 gallons	N/A	N/A	4.09
Construction Water	\$ 3.15	\$ 3.56	\$ 4.09

Typical Bill Analysis (Without Surcharge)
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,055	\$ 23.19	\$ 30.26	\$ 7.08	30.52%
Median Usage	4,546	19.30	23.34	\$ 4.04	20.94%
Staff Recommended					
Average Usage	7,055	\$ 23.19	\$ 32.49	\$ 9.30	40.11%
Median Usage	4,546	19.30	26.21	\$ 6.92	35.85%

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

Gallons	Company Proposed		%	Staff Recommended		
	Present	Proposed		Rates	Increase	
	5/8 x 3/4"			5/8 x 3/4"		
	Minimum Charge \$	12.40	Minimum Charge \$	14.00	Minimum Charge \$	18.00
	1st Tier Rate	1.5000	1st Tier Rate	1.6900	1st Tier Rate	1.4500
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover	3,000
	2nd Tier Rate	1.5500	2nd Tier Rate	2.7600	2nd Tier Rate	2.4995
	2nd Tier Breakover	10,000	2nd Tier Breakover	10,000	2nd Tier Breakover	9,000
	3rd Tier Rate	3.1500	3rd Tier Rate	3.5600	3rd Tier Rate	4.0900
Consumption	Rates		Rates	Increase	Rates	Increase
-	\$ 12.40	\$ 14.00	12.90%	\$ 18.00	45.16%	
1,000	13.90	15.69	12.88%	19.45	39.93%	
2,000	15.40	17.38	12.86%	20.90	35.71%	
3,000	16.90	19.07	12.84%	22.35	32.25%	
4,000	18.45	21.83	18.32%	24.85	34.69%	
5,000	20.00	24.59	22.95%	27.35	36.75%	
6,000	21.55	27.35	26.91%	29.85	38.51%	
7,000	23.10	30.11	30.35%	32.35	40.03%	
8,000	24.65	32.87	33.35%	34.85	41.37%	
9,000	26.20	35.63	35.99%	37.35	42.55%	
10,000	27.75	38.39	38.34%	41.44	49.32%	
11,000	30.90	41.95	35.76%	45.53	47.34%	
12,000	34.05	45.51	33.66%	49.62	45.72%	
13,000	37.20	49.07	31.91%	53.71	44.37%	
14,000	40.35	52.63	30.43%	57.80	43.24%	
15,000	43.50	56.19	29.17%	61.89	42.27%	
16,000	46.65	59.75	28.08%	65.98	41.43%	
17,000	49.80	63.31	27.13%	70.07	40.70%	
18,000	52.95	66.87	26.29%	74.16	40.05%	
19,000	56.10	70.43	25.54%	78.25	39.48%	
20,000	59.25	73.99	24.88%	82.34	38.97%	
25,000	75.00	91.79	22.39%	102.79	37.05%	
30,000	90.75	109.59	20.76%	123.24	35.80%	
35,000	106.50	127.39	19.62%	143.69	34.92%	
40,000	122.25	145.19	18.76%	164.14	34.26%	
45,000	138.00	162.99	18.11%	184.59	33.76%	
50,000	153.75	180.79	17.59%	205.04	33.36%	
75,000	232.50	269.79	16.04%	307.29	32.17%	
100,000	311.25	358.79	15.27%	409.54	31.58%	

Typical Bill Analysis (Including Surcharge)
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,055	\$ 28.70	\$ 35.77	\$ 7.08	24.66%
Median Usage	4,546	24.81	28.85	\$ 4.04	16.29%
Staff Recommended					
Average Usage	7,055	\$ 28.70	\$ 32.49	\$ 3.79	13.21%
Median Usage	4,546	24.81	26.21	\$ 1.41	5.68%

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

Gallons	Company Proposed		%	Staff Recommended	
	Present	Proposed		Rates	Increase
	5/8 x 3/4"		5/8 x 3/4"		5/8 x 3/4"
	Minimum Charge \$	17.91	Minimum Charge \$	19.51	Minimum Charge \$ 18.00
	1st Tier Rate	1.5000	1st Tier Rate	1.6900	1st Tier Rate 1.4500
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover 3,000
	2nd Tier Rate	1.5500	2nd Tier Rate	2.7600	2nd Tier Rate 2.4995
	2nd Tier Breakover	10,000	2nd Tier Breakover	10,000	2nd Tier Breakover 9,000
	3rd Tier Rate	3.1500	3rd Tier Rate	3.5600	3rd Tier Rate 4.0900
Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 17.91	\$ 19.51	8.93%	\$ 18.00	0.50%
1,000	19.41	21.20	9.22%	19.45	0.21%
2,000	20.91	22.89	9.47%	20.90	-0.05%
3,000	22.41	24.58	9.68%	22.35	-0.27%
4,000	23.96	27.34	14.11%	24.85	3.71%
5,000	25.51	30.10	17.99%	27.35	7.21%
6,000	27.06	32.86	21.43%	29.85	10.30%
7,000	28.61	35.62	24.50%	32.35	13.07%
8,000	30.16	38.38	27.25%	34.85	15.54%
9,000	31.71	41.14	29.74%	37.35	17.78%
10,000	33.26	43.90	31.99%	41.44	24.59%
11,000	36.41	47.46	30.35%	45.53	25.04%
12,000	39.56	51.02	28.97%	49.62	25.42%
13,000	42.71	54.58	27.79%	53.71	25.75%
14,000	45.86	58.14	26.78%	57.80	26.03%
15,000	49.01	61.70	25.89%	61.89	26.27%
16,000	52.16	65.26	25.12%	65.98	26.49%
17,000	55.31	68.82	24.43%	70.07	26.68%
18,000	58.46	72.38	23.81%	74.16	26.85%
19,000	61.61	75.94	23.26%	78.25	27.00%
20,000	64.76	79.50	22.76%	82.34	27.14%
25,000	80.51	97.30	20.85%	102.79	27.67%
30,000	96.26	115.10	19.57%	123.24	28.03%
35,000	112.01	132.90	18.65%	143.69	28.28%
40,000	127.76	150.70	17.96%	164.14	28.47%
45,000	143.51	168.50	17.41%	184.59	28.62%
50,000	159.26	186.30	16.98%	205.04	28.74%
75,000	238.01	275.30	15.67%	307.29	29.11%
100,000	316.76	364.30	15.01%	409.54	29.29%

Valley Utilities Water Company, Inc.
 Test Year Ended December 31, 2011
 Lead/Lag Study - Working Cash Requirement

Surrebuttal Schedule BCA-20

Line No.	Test Year Results	Revenue Lag Days	Expense Lag Days	Net Lag Days	(Lead) Lag Factor	Cash Working Capital Required
1						
2	OPERATING EXPENSES					
3	\$ 452,645	32.1273	12.0000	20.1273	0.0551	\$ 24,960
4	8,791	32.1273	243.5000	(211.3727)	(0.5791)	(5,091)
5	64,947	32.1273	(19.4292)	51.5565	0.1413	9,174
6	4,045	32.1273	35.6367	(3.5094)	(0.0096)	(39)
7	143,759	32.1273	32.0939	0.0334	0.0001	13
8	7,567	32.1273	6.3569	25.7704	0.0706	534
9	128,499	32.1273	23.4959	8.6314	0.0236	3,039
10	33,959	32.1273	24.1491	7.9782	0.0219	742
11	35,553	32.1273	(18.6828)	50.8101	0.1392	4,949
12	29,087	32.1273	30.0000	2.1273	0.0058	170
13	23,406	32.1273	(12.2709)	44.3982	0.1216	2,847
15	76,495	32.1273	30.0000	2.1273	0.0058	446
16	TAXES					
17	33,756	32.1273	12.0000	20.1273	0.0551	1,861
18	55,451	32.1273	202.2500	(170.1227)	(0.4661)	(25,845)
19	8,256	32.1273	30.1300	1.9973	0.0055	45
20	8,749	32.1273	16.2079	15.9194	0.0436	382
22						
23						
24	TEST YEAR WORKING CASH REQUIREMENT					<u>\$ 18,187</u>
25						
26	¹ All other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.					
27	² At proposed rates.					