

Transcript Exhibit



0000145090

Docket #(s): W-016518-12-0339

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Exhibit #: A-1 thru A-6

Part 1 of 2 ~~see~~ see barcode 0000145091

for part 2

Arizona Corporation Commission  
**DOCKETED**

MAY 22 2013

DOCKETED BY ZM

RECEIVED  
AZ CORP COMMISSION  
DOCKET CONTROL  
2013 MAY 22 PM 2 33

NEW APPLICATION  
ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED  
AZ CORP COMMISSION  
DOCKET CONTROL

2012 JUL 27 AM 10 56

GARY PIERCE,  
Chairman

BOB STUMP,  
Commissioner

SANDRA D. KENNEDY  
Commissioner

PAUL NEWMAN,  
Commissioner

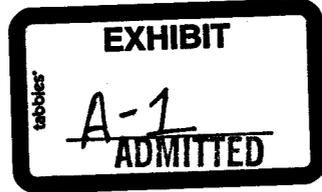
BRENDA BURNS,  
Commissioner

Arizona Corporation Commission

DOCKETED

JUL 27 2012

|             |           |
|-------------|-----------|
| DOCKETED BY | <i>nr</i> |
|-------------|-----------|



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](mailto: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](mailto: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](mailto:mhallam@lrlaw.com) and [mbingham@lrlaw.com](mailto: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.

25  
26

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

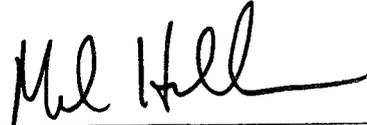
1 include depreciation on the CAP project investment, CAP M&I delivery charges, wheeling  
2 fees from Tucson Water, a return on net investment, income taxes, and other CAP-related  
3 costs and credits. As proposed, the Company would make a separate filing for  
4 Commission consideration before the 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 27<sup>th</sup> day of July, 2012.

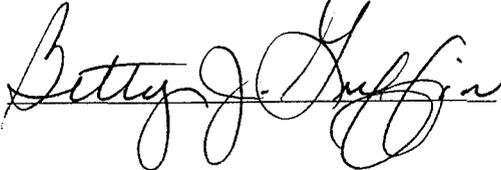
13 LEWIS AND ROCA

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 27<sup>th</sup> 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**

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## 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

**BANK OF TUCSON** 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

TWO SIGNATURES REQUIRED

Annual Sampling Fee Invoice-Monitoring Assistance

THIS DOCUMENT CONTAINS HEAT SENSITIVE INK. TOUCH OR PRESS HERE. THE IMAGE DISAPPEARS WITH HEAT.

VAIL WATER COMPANY

13416

State of Arizona

4/18/2012

| Date     | Type | Reference | Original Amt. | Balance Due  | Discount | Payment   |
|----------|------|-----------|---------------|--------------|----------|-----------|
| 4/5/2012 | Bill | 68410     | 10,147.07     | 10,147.07    |          | 10,147.07 |
|          |      |           |               | Check Amount |          | 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 | Original Amt. | Balance Due  | Discount | Payment   |
|----------|------|-----------|---------------|--------------|----------|-----------|
| 4/5/2012 | Bill | 68410     | 10,147.07     | 10,147.07    |          | 10,147.07 |
|          |      |           |               | Check Amount |          | 10,147.07 |

Bank of Tucson Annual Sampling Fee Invoice-Monitoring Assista 10,147.07



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<br>STE 200<br>1010 N FINANCE CENTER DR.<br>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<br>1010 N FINANCE CENTER DR<br>STE 200<br>TUCSON AZ 85710-1357 | Owner Id #: 21869<br>Billing for Calendar Year: 2012<br>Due Date: 05/18/2012 | MAP |
| 10041 - Vail Water Company  |  |     |

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  
WMS00G0

**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 | n/a    | mg/l |
| Well 2 | n/a    | mg/l |
| Well 3 | < .010 | mg/l |
| Well 5 | < .010 | mg/l |
| Well 6 | < .010 | mg/l |
| Well 8 | < .010 | 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?

( X ) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?

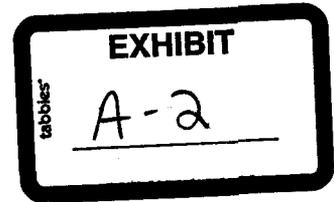
( X ) Yes ( ) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?

( X ) 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.*



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BEFORE THE ARIZONA CORPORATION COMMISSION

2012 AUG 20 P 4: 36

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

ARIZONA CORP COMMISSION  
DOCKET CONTROL

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  
AMENDMENT TO APPLICATION

Through this filing, Vail Water Company files certain amended schedules based on discussions with Commission Staff. Attached to this filing are revised pages 1 through 3 of Schedule H-3.

Respectfully submitted this 20th day of August, 2012.

LEWIS AND ROCA

Michael McNulty  
Michael Hallam  
Lewis and Roca, LLP  
40 N. Central Avenue  
Phoenix, Arizona 85004  
Attorneys for Vail Water Company

ORIGINAL and thirteen (13) copies  
of the foregoing filed this 20th day of  
August, 2012 with:

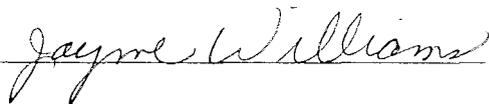
1 Arizona Corporation Commission  
2 Docket Control – Utilities Division  
3 1200 W. Washington Street  
4 Phoenix, Arizona 85007

5 Copy of the foregoing hand-delivered  
6 this 20th day of August, 2012 to:

7 Lyn Farmer, Esq.  
8 Chief Administrative Law Judge  
9 Hearing Division  
10 Arizona Corporation Commission  
11 1200 West Washington Street  
12 Phoenix, Arizona 85007

13 Janice Alward, Esq.  
14 Chief Counsel, Legal Division  
15 Arizona Corporation Commission  
16 1200 West Washington Street  
17 Phoenix, Arizona 85007

18 Mr. Steven M. Olea  
19 Director, Utilities Division  
20 Arizona Corporation Commission  
21 1200 West Washington Street  
22 Phoenix, Arizona 85007

23  
24  
25  
26  


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

Exhibit  
 Schedule H-3  
 Witness: Bourassa  
 Page 1  
**REVISED**

| Line No. | Monthly Usage Charge for:  | Present Rates | Proposed Rates                      | Change        | Percent Change |
|----------|--|---------------|-------------------------------------|---------------|----------------|
| 1        | Meter Size (All Classes):  |               |                                     |               |                |
| 2        | 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   | 966.70        | 1,078.12                            | 111.42        | 11.53%         |
| 9        | WIFA Surcharge   | 6.92          | -                                   | (6.92)        | -100.00%       |
| 10       | Standpipe  | by meter size | -                                   | -             |                |
| 11       |  | (a)           | (a)                                 |               |                |
| 12       | Fire Sprinkler   |               |                                     |               |                |
| 13       |  | -             | -                                   |               |                |
| 14       |  |               |                                     |               |                |
| 15       | Gallons In Minimum (All Classes)                                   |               |                                     |               |                |
| 16       |  |               |                                     |               |                |
| 17       |  |               |                                     |               |                |
| 18       |  |               |                                     |               |                |
| 19       | <b>Commodity Rates</b>   |               |                                     |               |                |
| 20       |  |               |                                     |               |                |
| 21       | 5/8x3/4 inch (all classes, including standpipe and construction)   |               | (Per 1,000 gallons)<br>Present Rate | Proposed Rate |                |
| 22       |  |               | \$ 4.00                             | \$ 4.00       |                |
| 23       | 5/8x3/4 Inch - Residential only                                    |               |                                     | \$ 3.75       |                |
| 24       |  |               |                                     | \$ 4.00       |                |
| 25       |  |               |                                     | \$ 4.25       |                |
| 26       |  |               |                                     | \$ 4.00       |                |
| 27       | 5/8x3/4 Inch - Commercial, Industrial, Irrigation                  |               |                                     | \$ 4.25       |                |
| 28       |  |               |                                     | \$ 4.00       |                |
| 29       |  |               |                                     | \$ 4.25       |                |
| 30       | 3/4 Inch Meter (all classes, including standpipe and construction) |               | \$ 4.00                             | \$ 4.00       |                |
| 31       |  |               |                                     | \$ 3.75       |                |
| 32       | 3/4 Inch Meter - Residential only                                  |               |                                     | \$ 4.00       |                |
| 33       |  |               |                                     | \$ 4.25       |                |
| 34       |  |               |                                     | \$ 4.00       |                |
| 35       |  |               |                                     | \$ 4.25       |                |
| 36       | 3/4 Inch Meter - Commercial, Industrial, Irrigation                |               |                                     | \$ 3.75       |                |
| 37       |  |               |                                     | \$ 4.00       |                |

(a) Higher of \$5.00 per month or 1.0 percent of the monthly minimum.  
 NT = No Tariff

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

| Line No. | Commodity Rates  | Block   | Present Rate        | Proposed Rate |
|----------|--|---|---------------------|---------------|
|          |  |   | (Per 1,000 gallons) |               |
| 1        |  | Over Minimum Gallons                              | \$ 4.00             |               |
| 2        |  |   |                     |               |
| 3        | 1 Inch Meter (all classes, including standpipe and construction)   | Over Minimum Gallons                              | \$                  |               |
| 4        |  |   |                     |               |
| 5        |  |   |                     |               |
| 6        | 1 inch Meter (all classes except standpipe and construction)       | 1 gallons to 25,000 gallons over 25,000 gallons   | \$                  | 4.00          |
| 7        |  |   | \$                  | 4.25          |
| 8        |  |   |                     |               |
| 9        | 1.5 Inch Meter (all classes, including standpipe and construction) | Over Minimum Gallons                              | \$                  | 4.00          |
| 10       |  |   |                     |               |
| 11       | 1.5 Inch Meter (all classes except standpipe and construction)     | 1 gallons to 50,000 gallons over 50,000 gallons   | \$                  | 4.00          |
| 12       |  |   | \$                  | 4.25          |
| 13       |  |   |                     |               |
| 14       | 2 Inch Meter (all classes, including standpipe and construction)   | Over Minimum Gallons                              | \$                  | 4.00          |
| 15       |  |   |                     |               |
| 16       | 2 Inch Meter (all classes except standpipe and construction)       | 1 gallons to 80,000 gallons over 80,000 gallons   | \$                  | 4.00          |
| 17       |  |   | \$                  | 4.25          |
| 18       |  |   |                     |               |
| 19       | 3 Inch Meter (all classes, including standpipe and construction)   | Over Minimum Gallons                              | \$                  | 4.00          |
| 20       |  |   |                     |               |
| 21       | 3 Inch Meter (all classes except standpipe and construction)       | 1 gallons to 160,000 gallons over 160,000 gallons | \$                  | 4.00          |
| 22       |  |   | \$                  | 4.25          |
| 23       |  |   |                     |               |
| 24       | 4 Inch Meter (all classes, including standpipe and construction)   | Over Minimum Gallons                              | \$                  | 4.00          |
| 25       |  |   |                     |               |
| 26       | 4 Inch Meter (all classes except standpipe and construction)       | 1 gallons to 250,000 gallons over 250,000 gallons | \$                  | 4.00          |
| 27       |  |   | \$                  | 4.25          |
| 28       |  |   |                     |               |
| 29       | 6 Inch Meter (all classes, including standpipe and construction)   | Over Minimum Gallons                              | \$                  | 4.00          |
| 30       |  |   |                     |               |
| 31       | 6 Inch Meter (all classes except standpipe and construction)       | 1 gallons to 500,000 gallons over 500,000 gallons | \$                  | 4.00          |
| 32       |  |   | \$                  | 4.25          |
| 33       |  |   |                     |               |
| 34       |  |   |                     |               |
| 35       | Construction/Standpipe   | All gallons                                       | \$                  | 4.00          |
| 36       |  |   | \$                  | 4.25          |
| 37       | CAP Recovery Surcharge (per 1,000 gallons)                         | All gallons                                       | \$                  | 0.32          |
| 38       |  |   |                     | removed       |
| 39       | CAP Water Surcharge (per 1,000 gallons)                            | All gallons                                       | NT                  | see testimony |
| 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 <sup>1</sup> | Present Meter Installation Charge | Present Service Line Charge | Total Present Charge | Proposed Service Line Charge | Proposed Meter Installation Charge | Total Proposed Charge |
|----------|---|-----------------------------------|-----------------------------|----------------------|------------------------------|------------------------------------|-----------------------|
| 1        | 5/8 x 3/4 Inch                              |                                   |                             | \$ 400.00            | \$ 445.00                    | \$ 305.00                          | \$ 750.00             |
| 2        | 3/4 Inch                                    |                                   |                             | \$ 440.00            | \$ 445.00                    | \$ 405.00                          | \$ 850.00             |
| 3        | 1 Inch                                      |                                   |                             | \$ 500.00            | \$ 495.00                    | \$ 465.00                          | \$ 960.00             |
| 4        | 1 1/2 Inch                                  |                                   |                             | \$ 675.00            | \$ 550.00                    | \$ 675.00                          | \$ 1,225.00           |
| 5        | 2 Inch Turbo                                |                                   |                             | NT                   | \$ 830.00                    | \$ 1,195.00                        | \$ 2,025.00           |
| 6        | 2 Inch, Compound                            |                                   |                             | \$ 1,660.00          | \$ 830.00                    | \$ 2,040.00                        | \$ 2,870.00           |
| 7        | 3 Inch Turbo                                |                                   |                             | NT                   | \$ 1,045.00                  | \$ 1,820.00                        | \$ 2,865.00           |
| 8        | 3 Inch, compound                            |                                   |                             | \$ 2,150.00          | \$ 1,165.00                  | \$ 2,604.00                        | \$ 3,769.00           |
| 9        | 4 Inch Turbo                                |                                   |                             | NT                   | \$ 1,490.00                  | \$ 2,820.00                        | \$ 4,310.00           |
| 10       | 4 Inch, compound                            |                                   |                             | \$ 3,135.00          | \$ 1,670.00                  | \$ 3,795.00                        | \$ 5,465.00           |
| 11       | 6 Inch Turbo                                |                                   |                             | NT                   | \$ 2,210.00                  | \$ 5,175.00                        | \$ 7,385.00           |
| 12       | 6 Inch, compound                            |                                   |                             | \$ 6,190.00          | \$ 2,330.00                  | \$ 7,070.00                        | \$ 9,400.00           |

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

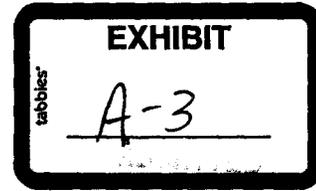
| Other Charges:                                   | Present Rates        | Proposed Rates       |
|--|----------------------|----------------------|
| Establishment                                    | \$ 25.00             | \$ 25.00             |
| Establishment - After Hours                      | \$ 50.00             | Remove from tariff   |
| Reestablishment (within 12 months)               | (a)                  | (a)                  |
| Reestablishment (within 12 months After Hours)   | (b)                  | Remove from tariff   |
| Reconnection (Delinquent)                        | \$ 30.00             | \$ 30.00             |
| Reconnection (Delinquent), If after hours        | \$ 35.00             | Remove from tariff   |
| Meter Test (if correct)                          | \$ 30.00             | \$ 30.00             |
| Meter Re-read (if correct)                       | \$ 15.00             | \$ 15.00             |
| Deposit  | (c)                  | (c)                  |
| Deposit Interest                                 | (c)                  | (c)                  |
| NSF Check  | \$ 25.00             | \$ 25.00             |
| Deferred Payment, per month                      | 1.5%                 | 1.5%                 |
| Late Payment Fee (per month)                     | 1.5%                 | 1.5%                 |
| Moving Customer Meter (Customer Request)         | Cost                 | Cost                 |
| Illegal Hook-up                                  | (d)                  | (d)                  |
| Transfer Fee                                     | \$ 25.00             | \$ 25.00             |
| After hours service charge (at customer request) | NT                   | \$ 50.00             |
| Main Extension                                   | per Rule R-14-2-406B | per Rule R-14-2-406B |

(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

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

TABLE OF CONTENTS

|   |                                      |   |
|---|--------------------------------------|---|
| 1 | INTRODUCTION AND QUALIFICATIONS..... | 1 |
| 2 | I BACKGROUND INFORMATION .....       | 1 |
| 3 | II SURCHARGE REQUEST.....            | 2 |
| 4 | III CONCLUSION .....                 | 4 |
| 5 |                                      |   |

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 in 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  
Chairman
- BOB STUMP  
Commissioner
- SANDRA D. KENNEDY  
Commissioner
- PAUL NEWMAN  
Commissioner
- BRENDA BURNS  
Commissioner

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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TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS..... 1

II. OVERVIEW OF THE COMPANY’S REQUEST FOR RATE RELIEF ..... 2

III. VWC’S SCHEDULES ..... 4

    A. Summary of A, E and F Schedules. .... 4

    B. Rate Base (B Schedules). .... 5

    C. INCOME STATEMENT (C SCHEDULES)..... 9

    D. Rate Design (H Schedules). .... 18

        1. Other Tariff Changes..... 22

        2. CAP Surcharge..... 22

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.<sup>1</sup>

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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<sup>1</sup> 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.<sup>2</sup>

24  
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<sup>2</sup> 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.<sup>3</sup>

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.<sup>4</sup> 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 

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<sup>3</sup> See Schedule C-3, page 2.

26 <sup>4</sup> 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.<sup>5</sup> 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 

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<sup>5</sup> 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.<sup>6</sup> The Company is proposing that  
25

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26 <sup>6</sup> 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.<sup>7</sup> 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.<sup>8</sup> 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 <sup>7</sup> 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.

<sup>8</sup> 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.<sup>9</sup> 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.<sup>10</sup> A decision may even be forthcoming  
11 before the conclusion of this rate case.<sup>11</sup>

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 <sup>9</sup> 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 <sup>10</sup> 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  
Company, Decision No. 71445, December 23, 2009; and Pima Utility Company rate case, Docket No. W-  
02199A-11-0329.

26 <sup>11</sup> 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.”<sup>12</sup>

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 method<sup>13</sup> used by this Commission for C corporations and

24 \_\_\_\_\_  
25 <sup>12</sup> 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)).

<sup>13</sup> 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.<sup>14</sup>

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.

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



|   |                    |           |
|---|--------------------|-----------|
| 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 <sup>15</sup>      |
| 13 | CAP Hook-up Fee                      | See Schedule H-3, page 4. |

15 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER**  
 16 **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  |

25  
 26 <sup>15</sup> 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 2)

EXHIBIT TJB-RB-1  
 Page 2

| Line<br>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&amp;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  
CAP Surcharge Mechanism  
Computation of CAP Surcharge (Year 1)

EXHIBIT TJB-RB-1  
Page 1

| Line<br>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&amp;I Charges</u>                               |                |
| 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          | <u>Component 3 - Annual Tucson Water Wheeling Fees</u>                        |                |
| 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          | <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]   | \$ 129.00      |
| 19          | [12] Total Recharge Credits for Future Use -[10]x[11]                         | \$ (97,653)    |
| 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) | \$ -           |
| 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          | <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]                | \$ 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

**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 Requirement           |    |                | \$ | 44,114          |                  |
| 20       | Proposed Revenue Requirement                    |    |                | \$ | 2,378,860       |                  |
| 21       | % Increase                                      |    |                |    | 1.89%           |                  |
| 22       |   |    |                |    |                 |                  |
| 23       | <b>Customer</b>                                 |    | <b>Present</b> |    | <b>Proposed</b> | <b>Dollar</b>    |
| 24       | <b>Classification</b>                           |    | <b>Rates</b>   |    | <b>Rates</b>    | <b>Increase</b>  |
| 25       | <b>(Residential Commercial, Irrigation)</b>     |    |                |    |                 | <b>Percent</b>   |
| 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 5.93%        |
| 38       | 1 Inch Irrigation                               |    | 17,540         |    | 18,581          | 1,041 6.25%      |
| 39       | 1/12 Inch Irrigation                            |    | 17,246         |    | 18,324          | 1,078 5.60%      |
| 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       | <b>Subtotal</b>                                 | \$ | 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       | <b>Total of Water Revenues</b>                  | \$ | 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<br>No. | Description:                 | Prior Years Ended |                   | Unadjusted<br>Test<br>Year | Adjusted<br>Projected<br>Year |
|-------------|------------------------------|-------------------|-------------------|----------------------------|-------------------------------|
|             |                              | <u>12/31/2009</u> | <u>12/31/2010</u> | <u>12/31/2011</u>          | <u>12/31/2012</u>             |
| 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          |                              |                   |                   |                            |                               |
| 38          |                              |                   |                   |                            |                               |
| 39          |                              |                   |                   |                            |                               |
| 40          |                              |                   |                   |                            |                               |
| 41          |                              |                   |                   |                            |                               |
| 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              |                                 |                                  |                                    |                                       |
| 13              |                                 |                                  |                                    |                                       |
| 14              |                                 |                                  |                                    |                                       |
| 15              |                                 |                                  |                                    |                                       |
| 16              |                                 |                                  |                                    |                                       |
| 17              |                                 |                                  |                                    |                                       |
| 18              |                                 |                                  |                                    |                                       |
| 19              |                                 |                                  |                                    |                                       |
| 20              |                                 |                                  |                                    |                                       |
| 21              |                                 |                                  |                                    |                                       |
| 22              |                                 |                                  |                                    |                                       |
| 23              |                                 |                                  |                                    |                                       |
| 24              |                                 |                                  |                                    |                                       |
| 25              |                                 |                                  |                                    |                                       |
| 26              |                                 |                                  |                                    |                                       |
| 27              |                                 |                                  |                                    |                                       |
| 28              |                                 |                                  |                                    |                                       |
| 29              |                                 |                                  |                                    |                                       |
| 30              |                                 |                                  |                                    |                                       |
| 31              |                                 |                                  |                                    |                                       |
| 32              |                                 |                                  |                                    |                                       |
| 33              |                                 |                                  |                                    |                                       |
| 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<br>Year<br>Ended<br><u>12/31/2009</u> | Prior<br>Year<br>Ended<br><u>12/31/2010</u> | Test<br>Year<br>Ended<br><u>12/31/2011</u> | Projected Year<br>Present<br>Rates<br><u>12/31/2012</u> |  | Proposed<br>Rates<br><u>12/31/2012</u> |
|----|---|---|--|---|--|--|
| 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 |   |   |  |   |  |  |
| 29 |   |   |  |   |  |  |
| 30 |   |   |  |   |  |  |
| 31 |   |   |  |   |  |  |
| 32 |   |   |  |   |  |  |
| 33 |   |   |  |   |  |  |
| 34 |   |   |  |   |  |  |
| 35 |   |   |  |   |  |  |
| 36 |   |   |  |   |  |  |
| 37 |   |   |  |   |  |  |
| 38 |   |   |  |   |  |  |
| 39 |   |   |  |   |  |  |
| 40 |   |   |  |   |  |  |
| 41 |   |   |  |   |  |  |
| 42 |   |   |  |   |  |  |
| 43 |   |   |  |   |  |  |
| 44 |   |   |  |   |  |  |
| 45 |   |   |  |   |  |  |
| 46 |   |   |  |   |  |  |
| 47 |   |   |  |   |  |  |
| 48 |   |   |  |   |  |  |
| 49 |   |   |  |   |  |  |
| 50 |   |   |  |   |  |  |
| 51 |   |   |  |   |  |  |

47 SUPPORTING SCHEDULES:

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

| <u>Line</u><br><u>No.</u> |                                      | <u>Original Cost</u><br><u>Rate base</u> | <u>Fair Value</u><br><u>Rate Base</u> |
|---------------------------|--------------------------------------|--|---------------------------------------|
| 1                         |                                      |  |                                       |
| 2                         | Gross Utility Plant in Service       | \$ 20,158,710                            | \$ 20,158,710                         |
| 3                         | Less: Accumulated Depreciation       | <u>3,722,176</u>                         | <u>3,722,176</u>                      |
| 4                         |                                      |  |                                       |
| 5                         | Net Utility Plant in Service         | \$ 16,436,535                            | \$ 16,436,535                         |
| 6                         |                                      |  |                                       |
| 7                         | <u>Less:</u>                         |  |                                       |
| 8                         | Advances in Aid of Construction      | 11,374,431                               | 11,374,431                            |
| 9                         |                                      |  |                                       |
| 10                        | Contributions in Aid of Construction | 2,930,228                                | 2,930,228                             |
| 11                        |                                      |  |                                       |
| 12                        | Accumulated Amortization of CIAC     | (605,832)                                | (605,832)                             |
| 13                        |                                      |  |                                       |
| 14                        | Customer Meter Deposits              | 529,140                                  | 529,140                               |
| 15                        | Deferred Income Taxes & Credits      | -  | -                                     |
| 16                        |                                      |  |                                       |
| 17                        |                                      |  |                                       |
| 18                        |                                      |  |                                       |
| 19                        | <u>Plus:</u>                         |  |                                       |
| 20                        |                                      |  |                                       |
| 21                        | Deferred CAP Charges                 | 1,104,206                                | 1,104,206                             |
| 22                        | Prepayments                          | -  | -                                     |
| 23                        | Allowance for Working Capital        | -  | -                                     |
| 24                        |                                      |  |                                       |
| 25                        |                                      |  |                                       |
| 26                        | Total Rate Base                      | <u>\$ 3,312,774</u>                      | <u>\$ 3,312,774</u>                   |
| 27                        |                                      |  |                                       |
| 28                        |                                      |  |                                       |
| 29                        |                                      |  |                                       |
| 30                        |                                      |  |                                       |
| 31                        |                                      |  |                                       |
| 32                        |                                      |  |                                       |
| 33                        |                                      |  |                                       |
| 34                        |                                      |  |                                       |
| 35                        |                                      |  |                                       |
| 36                        |                                      |  |                                       |
| 37                        |                                      |  |                                       |
| 38                        |                                      |  |                                       |
| 39                        |                                      |  |                                       |
| 40                        |                                      |  |                                       |
| 41                        | <u>SUPPORTING SCHEDULES:</u>         |  |                                       |
| 42                        | B-2                                  |  |                                       |
| 43                        | B-3                                  |  |                                       |
| 44                        | B-5                                  |  |                                       |
| 45                        | E-1                                  |  |                                       |
| 46                        |                                      |  |                                       |
| 47                        |                                      |  |                                       |
| 48                        |                                      |  |                                       |
| 49                        |                                      |  |                                       |
| 50                        |                                      |  |                                       |

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

Exhibit  
 Schedule B-2  
 Page 1  
 Witness: Bourassa

| Line<br>No. |                                  | Actual<br>at<br>End of<br><u>Test Year</u> | Proforma<br><u>Adjustment</u> | Adjusted<br>at end<br>of<br><u>Test Year</u> |
|-------------|----------------------------------|--|-------------------------------|--|
| 1           | Gross Utility                    |  |                               |  |
| 2           | Plant in Service                 | \$ 20,308,105                              | (149,394)                     | \$ 20,158,710                                |
| 3           |                                  |  |                               |  |
| 4           | <b>Less:</b>                     |  |                               |  |
| 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          | <b>Less:</b>                     |  |                               |  |
| 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          | <b>Plus:</b>                     |  |                               |  |
| 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

RECAP SCHEDULES:  
 B-1

48  
 49  
 50

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. | Description                                 | Proforma Adjustments            |                       |                               |                               |                               | Adjusted at end of Test Year |
|----------|---|---------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|------------------------------|
|          |   | 1<br>Actual at End of Test Year | 2<br>Plant-in-Service | 3<br>Accumulated Depreciation | 4<br>Intentionally Left Blank | 5<br>Intentionally Left Blank |                              |
| 1        | Gross Utility Plant in Service              | \$ 20,308,105                   | (149,394)             |                               |                               |                               | \$ 20,158,710                |
| 2        |   |                                 |                       | (2,710,101)                   |                               |                               |                              |
| 3        |   |                                 |                       |                               |                               |                               |                              |
| 4        | <b>Less:</b>                                |                                 |                       |                               |                               |                               |                              |
| 5        | Accumulated Depreciation                    | 6,432,277                       |                       |                               |                               |                               | 3,722,176                    |
| 6        |   |                                 |                       |                               |                               |                               |                              |
| 7        |   |                                 |                       |                               |                               |                               |                              |
| 8        |   |                                 |                       |                               |                               |                               |                              |
| 9        | Net Utility Plant in Service                | \$ 13,875,828                   | \$ (149,394)          | \$ 2,710,101                  | \$ -                          | \$ -                          | \$ 16,436,535                |
| 10       |   |                                 |                       |                               |                               |                               |                              |
| 11       |   |                                 |                       |                               |                               |                               |                              |
| 12       | <b>Less:</b>                                |                                 |                       |                               |                               |                               |                              |
| 13       | Advances in Aid of Construction             | 11,374,431                      |                       |                               |                               |                               | 11,374,431                   |
| 14       |   |                                 |                       |                               |                               |                               |                              |
| 15       |   |                                 |                       |                               |                               |                               |                              |
| 16       | Contributions in Aid of Construction (CIAC) | 3,117,009                       |                       | (186,782)                     |                               |                               | 2,930,228                    |
| 17       |   |                                 |                       |                               |                               |                               |                              |
| 18       |   |                                 |                       |                               |                               |                               |                              |
| 19       | Accumulated Amort of CIAC                   | (670,251)                       |                       | 64,419                        |                               |                               | (605,832)                    |
| 20       |   |                                 |                       |                               |                               |                               |                              |
| 21       | Customer Meter Deposits                     | 529,140                         |                       |                               |                               |                               | 529,140                      |
| 22       | Accumulated Deferred Income Taxes           | -                               |                       |                               |                               |                               | -                            |
| 23       |   |                                 |                       |                               |                               |                               |                              |
| 24       |   |                                 |                       |                               |                               |                               |                              |
| 25       | <b>Plus:</b>                                |                                 |                       |                               |                               |                               |                              |
| 26       |   |                                 |                       |                               |                               |                               |                              |
| 27       | Deferred CAP Charges                        | 1,104,206                       |                       |                               |                               |                               | 1,104,206                    |
| 28       | Prepayments                                 | -                               |                       |                               |                               |                               | -                            |
| 29       | Materials and Supplies                      | -                               |                       |                               |                               |                               | -                            |
| 30       | Allowance for Cash Working Capital          | -                               |                       |                               |                               |                               | -                            |
| 31       |   |                                 |                       |                               |                               |                               |                              |
| 32       | Total                                       | \$ 629,705                      | \$ (149,394)          | \$ 2,710,101                  | \$ 122,362                    | \$ -                          | \$ 3,312,774                 |
| 33       |   |                                 |                       |                               |                               |                               |                              |
| 34       |   |                                 |                       |                               |                               |                               |                              |
| 35       |   |                                 |                       |                               |                               |                               |                              |

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

RECAP SCHEDULES:  
 B-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<br>No. | Acct.<br>No. | Description                        | Recorded<br>Original<br>Cost | Plant<br>Per<br>Reconstruction | Difference   |
|-------------|--------------|------------------------------------|------------------------------|--------------------------------|--------------|
| 1           |              |                                    |                              |                                |              |
| 2           |              |                                    |                              |                                |              |
| 3           |              |                                    |                              |                                |              |
| 4           |              |                                    |                              |                                |              |
| 5           |              |                                    |                              |                                |              |
| 6           | 301          | Organization Cost                  | -                            | -                              | -            |
| 7           | 302          | Franchise Cost                     | -                            | -                              | -            |
| 8           | 303          | Land and Land Rights               | 17,750                       | 17,750                         | -            |
| 9           | 304          | Structures and Improvements        | 399,328                      | 399,328                        | (0)          |
| 10          | 305          | Collecting and Impounding Res.     | -                            | -                              | -            |
| 11          | 306          | Lake River and Other Intakes       | -                            | -                              | -            |
| 12          | 307          | Wells and Springs                  | 1,126,979                    | 1,126,979                      | 0            |
| 13          | 308          | Infiltration Galleries and Tunnels | -                            | -                              | -            |
| 14          | 309          | Supply Mains                       | 2,995                        | 2,995                          | (0)          |
| 15          | 310          | Power Generation Equipment         | -                            | -                              | -            |
| 16          | 311          | Electric Pumping Equipment         | 1,553,110                    | 1,553,110                      | (0)          |
| 17          | 320          | Water Treatment Equipment          | -                            | -                              | -            |
| 18          | 320.1        | Water Treatment Plant              | -                            | -                              | -            |
| 19          | 320.2        | Chemical Solution Feeders          | -                            | -                              | -            |
| 20          | 330          | Dist. Reservoirs & Standpipe       | 1,621,069                    | 1,621,069                      | 0            |
| 21          | 330.1        | Storage tanks                      | -                            | -                              | -            |
| 22          | 330.2        | Pressure Tanks                     | -                            | -                              | -            |
| 23          | 331          | Trans. and Dist. Mains             | 14,023,034                   | 14,023,034                     | 0            |
| 24          | 333          | Services                           | 12,451                       | 12,451                         | 0            |
| 25          | 334          | Meters                             | 923,082                      | 923,082                        | 0            |
| 26          | 335          | Hydrants                           | 492,908                      | 492,908                        | (0)          |
| 27          | 336          | Backflow Prevention Devices        | 7,901                        | 7,901                          | (0)          |
| 28          | 339          | Other Plant and Misc. Equip.       | 6,553                        | 6,553                          | (0)          |
| 29          | 340          | Office Furniture and Fixtures      | 29,683                       | 29,683                         | 0            |
| 30          | 340.1        | Computers and Software             | 15,621                       | 15,621                         | -            |
| 31          | 341          | Transportation Equipment           | 54,807                       | 54,806                         | (0)          |
| 32          | 342          | Stores Equipment                   | -                            | -                              | -            |
| 33          | 343          | Tools and Work Equipment           | 15,645                       | 15,645                         | (0)          |
| 34          | 344          | Laboratory Equipment               | -                            | -                              | -            |
| 35          | 345          | Power Operated Equipment           | -                            | -                              | -            |
| 36          | 346          | Communications Equipment           | -                            | -                              | -            |
| 37          | 347          | Miscellaneous Equipment            | 5,190                        | 5,190                          | -            |
| 38          | 348          | Other Tangible Plant               | -                            | -                              | -            |
| 39          |              | 1998 ACC Plant Adjustment          | -                            | (149,395)                      | (149,395)    |
| 40          |              | TOTALS                             | \$ 20,308,105                | \$ 20,158,709                  | \$ (149,395) |

43 SUPPORTING SCHEDULE  
 44 B-2, pages 3.2 to 3.14  
 45

Vail Water Company  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.2  
Witness: Bourassa

| NARUC    |  | 1999                 |                     |                              |                             |                   |                          |                               |                  |                           |               |                |
|----------|--|----------------------|---------------------|------------------------------|-----------------------------|-------------------|--------------------------|-------------------------------|------------------|---------------------------|---------------|----------------|
|          |  | Per Decision 62450   |                     |                              |                             |                   | 1999                     |                               |                  |                           |               |                |
| Line No. | Description                              | Allowed Deprec. Rate | 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) | Plant Balance | Accum. Deprec. |
| 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            | 2.60%                | 62,198              | 17,499                       | 2,753                       | -                 | 2,753                    | -                             | -                | 1,780                     | 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%                | 155,448             | 43,733                       | 17,905                      | -                 | 17,905                   | -                             | -                | 5,261                     | 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                   | -                             | -                | 10,876                    | 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                    | -                             | -                | 2,380                     | 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                  | -                             | -                | 30,982                    | 1,685,018     | 428,557        |
| 19       | 333 Services                             | 3.30%                | 15,376              | 4,326                        | (2,950)                     | -                 | (2,950)                  | -                             | -                | 459                       | 12,426        | 4,785          |
| 20       | 334 Meters                               | 3.60%                | 105,774             | 29,758                       | 44,429                      | -                 | 44,429                   | -                             | -                | 4,608                     | 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                    | -                             | -                | 151                       | 5,674         | 911            |
| 24       | 340 Office Furniture & Equipment         | 6.80%                | 4,039               | 1,136                        | 1,290                       | -                 | 1,290                    | -                             | -                | 319                       | 5,329         | 1,455          |
| 25       | 340.1 Computers & Software               | 6.80%                | -                   | -                            | 2,950                       | -                 | 2,950                    | -                             | -                | 100                       | 2,950         | 100            |
| 26       | 341 Transportation Equipment             | 13.30%               | 32,900              | 9,256                        | 20,247                      | -                 | 20,247                   | -                             | -                | 4,797                     | 39,240        | 146            |
| 27       | 342 Stores Equipment                     | 0.00%                | -                   | -                            | -                           | -                 | -                        | -                             | -                | -                         | -             | -              |
| 28       | 343 Tools, Shop & Garage Equipment       | 7.70%                | 827                 | 233                          | -                           | -                 | -                        | -                             | -                | 32                        | -             | (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)                    | -                           | -                 | -                        | -                             | -                | (3,944)                   | (149,395)     | (104,786)      |
| 35       | TOTALS                                   |                      | 2,060,285           | 500,987                      | 376,134                     | -                 | 376,134                  | -                             | -                | 57,799                    | 2,421,885     | 562,903        |
| 36       |  |                      |                     | 0                            |                             |                   |                          | 14,734                        |                  |                           |               |                |



Vail Water Company  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.4  
Witness: Bourassa

| NARUC    |             | 2001                                 |                      |                             |                   |                          |                               |                  |                           |               |                |
|----------|-------------|--------------------------------------|----------------------|-----------------------------|-------------------|--------------------------|-------------------------------|------------------|---------------------------|---------------|----------------|
| 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%                | -                           | -                 | -                        | -                             | -                | -                         | -             | -              |
| 4        | 304         | Structures & Improvements            | 2.80%                | -                           | -                 | -                        | -                             | -                | -                         | 3,500         | -              |
| 5        | 305         | Collecting & Impounding Reservoirs   | 0.00%                | -                           | -                 | -                        | -                             | -                | 1,819                     | 64,951        | 22,916         |
| 6        | 306         | Lake, River, Canal Intakes           | 0.00%                | -                           | -                 | -                        | -                             | -                | -                         | -             | -              |
| 7        | 307         | Wells & Springs                      | 3.20%                | 201,146                     | -                 | 201,146                  | -                             | -                | 9,173                     | 387,228       | 63,917         |
| 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%                | -                           | -                 | -                        | -                             | -                | 11,533                    | 320,361       | 116,915        |
| 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%                | 323,144                     | -                 | 323,144                  | -                             | -                | 5,719                     | 447,528       | 43,760         |
| 16       | 330.1       | Storage Tanks                        | 0.00%                | -                           | -                 | -                        | -                             | -                | -                         | -             | -              |
| 17       | 330.2       | Pressure Tanks                       | 0.00%                | -                           | -                 | -                        | -                             | -                | -                         | -             | -              |
| 18       | 331         | Transmission & Distribution Mains    | 2.00%                | 1,073,094                   | -                 | 1,073,094                | -                             | -                | 45,339                    | 2,803,505     | 508,051        |
| 19       | 333         | Services                             | 3.30%                | -                           | -                 | -                        | -                             | -                | 411                       | 12,451        | 5,606          |
| 20       | 334         | Meters                               | 3.60%                | 64,869                      | -                 | 64,869                   | -                             | -                | 7,974                     | 253,935       | 48,447         |
| 21       | 335         | Hydrants                             | 3.60%                | -                           | -                 | -                        | -                             | -                | -                         | -             | -              |
| 22       | 336         | Backflow Prevention Devices          | 3.60%                | -                           | -                 | -                        | -                             | -                | -                         | -             | -              |
| 23       | 339         | Other Plant & Misc Equipment         | 3.60%                | -                           | -                 | -                        | -                             | -                | 236                       | 6,553         | 1,367          |
| 24       | 340         | Office Furniture & Equipment         | 6.80%                | 1,207                       | -                 | 1,207                    | -                             | -                | 562                       | 8,862         | 2,458          |
| 25       | 340.1       | Computers & Software                 | 6.80%                | -                           | -                 | -                        | -                             | -                | 624                       | 9,179         | 1,137          |
| 26       | 341         | Transportation Equipment             | 13.30%               | -                           | -                 | -                        | -                             | -                | 5,219                     | 39,240        | 10,584         |
| 27       | 342         | Stores Equipment                     | 0.00%                | -                           | -                 | -                        | -                             | -                | -                         | -             | -              |
| 28       | 343         | Tools, Shop & Garage Equipment       | 7.70%                | -                           | -                 | -                        | -                             | -                | 61                        | 794           | (471)          |
| 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         | 280            |
| 33       | 348         | Other Tangible Plant                 | 0.00%                | -                           | -                 | -                        | -                             | -                | -                         | -             | -              |
| 34       |             | 1983 ACC Adjustment to Plant         | 2.64%                | -                           | -                 | -                        | -                             | -                | (3,944)                   | (149,395)     | (112,674)      |
| 35       |             | TOTALS                               |                      | 1,663,460                   | -                 | 1,663,460                | -                             | -                | 84,912                    | 4,213,882     | 712,292        |





Vail Water Company  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.7  
Witness: Bourassa

| 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) | 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%                | 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%                | 14,693                       | -                 | 14,693                   | -                              | 19,289           | 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                    | 3.60%                | 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%                | -                            | (11,621)          | 193,694                  | 3,685                          | 411              | 12,451         | 6,839                     |               |
| 20       | 334               | Meters                               | 3.60%                | 205,315                      | -                 | 205,315                  | -                              | 17,096           | 569,897        | 85,380                    |               |
| 21       | 335               | Hydrants                             | 3.60%                | -                            | 5,067             | 5,067                    | -                              | -                | 5,067          | 91                        |               |
| 22       | 336               | Backflow Prevention Devices          | 3.60%                | -                            | -                 | -                        | -                              | 91               | 6,553          | 2,074                     |               |
| 23       | 339               | Other Plant & Misc Equipment         | 3.60%                | -                            | -                 | -                        | -                              | 236              | 25,457         | 6,284                     |               |
| 24       | 340               | Office Furniture & Equipment         | 6.80%                | 933                          | -                 | 933                      | -                              | 1,899            | 14,120         | 3,739                     |               |
| 25       | 340.1             | Computers & Software                 | 6.80%                | -                            | -                 | -                        | -                              | 960              | 51,856         | (9,259)                   |               |
| 26       | 341               | Transportation Equipment             | 13.30%               | 30,048                       | -                 | 30,048                   | 39,240                         | 7,508            | -              | -                         |               |
| 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     |

Vail Water Company  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.8  
Witness: Bourassa

| 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) |
| 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        | 82,980                    |
| 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         | 4,699                     |
| 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%                | -                           | -                 | -                        | -                             | 187              | 5,190          | 1,028                     |
| 33       | 348               | Other Tangible Plant                 | 0.00%                | -                           | -                 | -                        | -                             | -                | -              | -                         |
| 34       |                   | 1983 ACC Adjustment to Plant         | 2.64%                | -                           | -                 | -                        | -                             | (3,944)          | (149,395)      | (128,450)                 |
| 35       |                   |                                      |                      |                             |                   |                          |                               |                  |                |                           |
| 36       |                   | TOTALS                               |                      | 3,156,350                   | -                 | 3,156,350                | 72,274                        | 305,169          | 14,438,901     | 1,347,144                 |







Vail Water Company  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.12  
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                    | 395,327       | 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                        | -                | 468,940                   | 19,893,726    | 2,795,299      |



Vail Water Company  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.14  
Witness: Bourassa

| NARUC<br>Line<br>No. | Account<br>No. | Description                          | Allowed<br>Deprec.<br>Rate | 2011                              |                      |                                |                                     |                    | Accum.<br>Deprec. |                              |
|----------------------|----------------|--------------------------------------|----------------------------|-----------------------------------|----------------------|--------------------------------|-------------------------------------|--------------------|-------------------|------------------------------|
|                      |                |                                      |                            | Plant<br>Additions<br>(Per Books) | Plant<br>Adjustments | Adjusted<br>Plant<br>Additions | Plant<br>Retirements<br>(Per Books) | Salvage<br>AD Only |                   | Depreciation<br>(Calculated) |
| 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%                      | -                                 | -                    | -                              | -                                   | -                  | -                 | -                            |
| 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%                      | 2,756                             | (1)                  | 2,755                          | -                                   | 55,862             | 1,553,110         | 554,324                      |
| 16                   | 330.1          | Storage Tanks                        | 0.00%                      | -                                 | -                    | -                              | -                                   | -                  | -                 | -                            |
| 17                   | 330.2          | Pressure Tanks                       | 0.00%                      | -                                 | -                    | -                              | -                                   | -                  | -                 | -                            |
| 18                   | 331            | Transmission & Distribution Mains    | 2.00%                      | 203,539                           | (2,995)              | 200,544                        | -                                   | 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  
 Page 3.15  
 Witness: Bourassa

| Line | NARUC Account |                                      | Company as Filed<br>12/31/1998 | Staff<br>Adjustments | 1999<br>Staff<br>Adjustments | Per Decision<br>12/31/1998 | 1999 Plant | 12/31/1998<br>Beginning<br>Balance |
|------|---------------|--------------------------------------|--------------------------------|----------------------|------------------------------|----------------------------|------------|------------------------------------|
|      | No.           | Description                          |                                |                      |                              |                            |            |                                    |
| 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

Accumulated Depreciation

| Line No. | Acct. No. | Description                                     | Per Books Accum. Depl. | A<br>Difference to Computed Balance | Adjustments                   |                               |                               | Adjusted Accum. Depl. |
|----------|-----------|---|------------------------|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|-----------------------|
|          |           |   |                        |                                     | B<br>Intentionally Left Blank | C<br>Intentionally Left Blank | D<br>Intentionally Left Blank |                       |
| 1        |           | Organization Cost                               | -                      | -                                   | -                             | -                             | -                             | -                     |
| 2        | 301       | Franchise Cost                                  | -                      | -                                   | -                             | -                             | -                             | -                     |
| 3        | 302       | Land and Land Rights                            | 126,592                | (37,896)                            | -                             | -                             | 88,696                        | -                     |
| 4        | 303       | Structures and Improvements                     | -                      | -                                   | -                             | -                             | -                             | -                     |
| 5        | 304       | Collecting and Impounding Res.                  | -                      | -                                   | -                             | -                             | -                             | -                     |
| 6        | 305       | Lake River and Other Intakes                    | 357,265                | (5,149)                             | -                             | -                             | 352,116                       | -                     |
| 7        | 306       | Wells and Springs                               | -                      | -                                   | -                             | -                             | -                             | -                     |
| 8        | 307       | Infiltration Galleries and Tunnels              | 950                    | (919)                               | -                             | -                             | 31                            | -                     |
| 9        | 308       | Supply Mains                                    | -                      | -                                   | -                             | -                             | -                             | -                     |
| 10       | 309       | Power Generation Equipment                      | 492,354                | 62,400                              | -                             | -                             | 554,754                       | -                     |
| 11       | 310       | Electric Pumping Equipment                      | -                      | -                                   | -                             | -                             | -                             | -                     |
| 12       | 311       | Water Treatment Equipment                       | -                      | -                                   | -                             | -                             | -                             | -                     |
| 13       | 320       | Water Treatment Plant                           | -                      | -                                   | -                             | -                             | -                             | -                     |
| 14       | 320.1     | Water Treatment Plant                           | -                      | -                                   | -                             | -                             | -                             | -                     |
| 15       | 320.2     | Chemical Solution Feeders                       | -                      | -                                   | -                             | -                             | -                             | -                     |
| 16       | 330       | Dist. Reservoirs & Standpipe                    | 513,897                | (281,328)                           | -                             | -                             | 232,569                       | -                     |
| 17       | 330.1     | Storage tanks                                   | -                      | -                                   | -                             | -                             | -                             | -                     |
| 18       | 330.2     | Pressure Tanks                                  | -                      | -                                   | -                             | -                             | -                             | -                     |
| 19       | 331       | Trans. and Dist. Mains                          | 4,445,464              | (1,939,208)                         | -                             | -                             | 2,506,255                     | -                     |
| 20       | 332       | Services  | 3,947                  | 5,771                               | -                             | -                             | 9,718                         | -                     |
| 21       | 333       | Meters  | 292,628                | (303,815)                           | -                             | -                             | (11,187)                      | -                     |
| 22       | 334       | Hydrants  | 156,258                | (83,013)                            | -                             | -                             | 73,245                        | -                     |
| 23       | 335       | Backflow Prevention Devices                     | 2,505                  | (2,884)                             | -                             | -                             | (379)                         | -                     |
| 24       | 336       | Other Plant and Misc. Equip.                    | 2,077                  | 1,650                               | -                             | -                             | 3,728                         | -                     |
| 25       | 339       | Office Furniture and Fixtures                   | 9,410                  | 4,679                               | -                             | -                             | 14,089                        | -                     |
| 26       | 340       | Computers and Software                          | 4,952                  | 6,073                               | -                             | -                             | 11,025                        | -                     |
| 27       | 340.1     | Transportation Equipment                        | 17,374                 | 14,983                              | -                             | -                             | 32,357                        | -                     |
| 28       | 341       | Stores Equipment                                | -                      | -                                   | -                             | -                             | -                             | -                     |
| 29       | 342       | Tools and Work Equipment                        | 4,960                  | (2,556)                             | -                             | -                             | 2,404                         | -                     |
| 30       | 343       | Laboratory Equipment                            | -                      | -                                   | -                             | -                             | -                             | -                     |
| 31       | 344       | Power Operated Equipment                        | -                      | -                                   | -                             | -                             | -                             | -                     |
| 32       | 345       | Communications Equipment                        | -                      | -                                   | -                             | -                             | -                             | -                     |
| 33       | 346       | Miscellaneous Equipment                         | 1,645                  | 505                                 | -                             | -                             | 2,150                         | -                     |
| 34       | 347       | Other Tangible Plant                            | -                      | -                                   | -                             | -                             | -                             | -                     |
| 35       | 348       | 1998 ACC Plant Adjustment                       | -                      | -                                   | -                             | -                             | -                             | -                     |
| 36       |           | TOTALS  | \$ 6,432,277           | \$ (2,710,101)                      | \$ -                          | \$ -                          | \$ (149,395)                  | \$ 3,722,176          |
| 37       |           | Accumulated Depreciation per Books              |                        |                                     |                               |                               |                               | \$ 6,432,277          |
| 38       |           | Increase (decrease) in Accumulated Depreciation |                        |                                     |                               |                               |                               | \$ (2,710,101)        |
| 39       |           | Adjustment to Accumulated Depreciation          |                        |                                     |                               |                               |                               | \$ (2,710,101)        |

**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<br>No. | Acct. | Description                        | Recorded<br>Accumulated<br>Depreciation | Accumulated<br>Depreciation<br>Per Plant<br>Reconstruction | Difference     |
|-------------|-------|------------------------------------|---|--|----------------|
| 1           |       |                                    |   |  |                |
| 2           |       |                                    |   |  |                |
| 3           |       |                                    |   |  |                |
| 4           |       |                                    |   |  |                |
| 5           |       |                                    |   |  |                |
| 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) |

41  
 42  
 43 SUPPORTING SCHEDULE  
 44 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       |                                |                  |                     |                     |
| <u>No.</u> |                                |                  |                     |                     |
| 1          |                                |                  |                     |                     |
| 2          |                                |                  |                     |                     |
| 3          |                                |                  | Gross               | Accumulated         |
| 4          |                                |                  | <u>CIAC</u>         | <u>Amortization</u> |
| 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         |                                |                  |                     |                     |
| 28         |                                |                  |                     |                     |
| 29         |                                |                  |                     |                     |
| 30         |                                |                  |                     |                     |
| 31         |                                |                  |                     |                     |
| 32         |                                |                  |                     |                     |
| 33         |                                |                  |                     |                     |
| 34         |                                |                  |                     |                     |
| 35         |                                |                  |                     |                     |
| 36         |                                |                  |                     |                     |
| 37         |                                |                  |                     |                     |
| 38         |                                |                  |                     |                     |
| 39         |                                |                  |                     |                     |
| 40         |                                |                  |                     |                     |
| 41         |                                |                  |                     |                     |
| 42         |                                |                  |                     |                     |

| Line No. | Description                      | 1999      |                    | 2000      |                    | 2001      |                    | 2002      |                    | 2003      |                    | 2004      |                    |
|----------|----------------------------------|-----------|--------------------|-----------|--------------------|-----------|--------------------|-----------|--------------------|-----------|--------------------|-----------|--------------------|
|          |                                  | Additions | Balance 12/31/1999 | 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   | 475,690            | 23,473    | 499,953            | 185,874   | 685,237            | 242,829   | 928,066            | 62,830    | 990,898            | 293,831   | 1,284,727          |
| 6        | Less: Unexpended HUF's           |           | (32,646)           |           | (48,990)           |           | (59,190)           |           | (109,590)          |           | (160,518)          |           | (377,893)          |
| 7        | Amortizable Balance              |           | 443,244            |           | 450,673            |           | 626,047            |           | 818,477            |           | 830,378            |           | 906,835            |
| 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             |           | 16,243             |           | 18,455             |
| 13       | Accumulated Amortization         |           | 187,275            |           | 198,685            |           | 211,310            |           | 227,776            |           | 246,019            |           | 264,473            |
| 14       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 15       | Net CIAC                         | 116,204   | 268,615            | 23,473    | 300,678            | 185,874   | 473,927            | 242,829   | 700,290            | 62,830    | 744,878            | 293,831   | 1,020,254          |
| 16       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 17       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 18       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 19       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 20       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 21       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 22       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 23       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 24       | CIAC                             | 488,618   | 1,773,345          | 90,156    | 1,863,501          | 100,722   | 1,964,223          | 537,706   | 2,501,929          | 212,888   | 2,714,817          | 178,144   | 2,893,761          |
| 25       | Less: Unexpended HUF's           |           | (476,568)          |           | (246,289)          |           | (216,894)          |           | (241,597)          |           | (282,001)          |           | (322,405)          |
| 26       | Amortizable Balance              |           | 1,296,777          |           | 1,617,215          |           | 1,747,338          |           | 2,260,333          |           | 2,432,817          |           | 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   | 1,596,207          | 537,706   | 2,063,420          | 212,888   | 2,238,715          | 178,144   | 2,367,144          |
| 33       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 34       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 35       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 36       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 37       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 38       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 39       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 40       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 41       | CIAC                             | 406,001   | 3,298,762          |           |                    |           |                    |           |                    |           |                    |           |                    |
| 42       | Less: Unexpended HUF's           |           | (369,535)          |           |                    |           |                    |           |                    |           |                    |           |                    |
| 43       | Amortizable Balance              |           | 2,930,228          |           |                    |           |                    |           |                    |           |                    |           |                    |
| 44       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 45       | Amortization Rate                |           | 2.36%              |           |                    |           |                    |           |                    |           |                    |           |                    |
| 46       | Amortization (1/2 yr convention) |           | 69,214             |           |                    |           |                    |           |                    |           |                    |           |                    |
| 47       | Accumulated Amortization         |           | 605,832            |           |                    |           |                    |           |                    |           |                    |           |                    |
| 48       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |
| 49       | Net CIAC                         | 406,001   | 2,693,931          |           |                    |           |                    |           |                    |           |                    |           |                    |
| 50       |                                  |           |                    |           |                    |           |                    |           |                    |           |                    |           |                    |

| 2011      |                    |
|-----------|--------------------|
| Additions | Balance 12/31/2011 |
| 406,001   | 3,298,762          |
|           | (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       |   |                           |                |
| <u>No.</u> |   |                           |                |
| 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>\$</u>                 | <u>120,391</u> |
| 10         |   |                           |                |
| 11         |   |                           |                |
| 12         | Working Capital Requested                 | <u>\$</u>                 | <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>\$</u>                 | <u>823,665</u> |
| 26         | 1/8 of allowable expenses                 | <u>\$</u>                 | <u>102,958</u> |
| 27         |   |                           |                |
| 28         |   |                           |                |
| 29         | <u>SUPPORTING SCHEDULES:</u>              | <u>RECAP SCHEDULES:</u>   |                |
| 30         | E-1                                       | B-1                       |                |
| 31         |   |                           |                |
| 32         |   |                           |                |
| 33         |   |                           |                |
| 34         |   |                           |                |
| 35         |   |                           |                |
| 36         |   |                           |                |
| 37         |   |                           |                |
| 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<br>Book<br>Results | Adjustment         | Test Year<br>Adjusted<br>Results | Proposed<br>Rate<br>Increase | Adjusted<br>with Rate<br>Increase |
|----------|--------------------------------------|------------------------------|--------------------|----------------------------------|------------------------------|-----------------------------------|
| 1        | <b>Revenues</b>                      |                              |                    |                                  |                              |                                   |
| 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        | <b>Operating Expenses</b>            |                              |                    |                                  |                              |                                   |
| 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       | <b>Total Operating Expenses</b>      | <u>\$ 2,115,259</u>          | <u>\$ (92,620)</u> | <u>\$ 2,022,639</u>              | <u>\$ 11,693</u>             | <u>\$ 2,034,332</u>               |
| 36       | <b>Operating Income</b>              | <u>\$ 283,233</u>            | <u>\$ 28,875</u>   | <u>\$ 312,107</u>                | <u>\$ 32,421</u>             | <u>\$ 344,528</u>                 |
| 37       | <b>Other Income (Expense)</b>        |                              |                    |                                  |                              |                                   |
| 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       | <b>Total Other Income (Expense)</b>  | <u>\$ 24,383</u>             | <u>\$ 4,981</u>    | <u>\$ 29,364</u>                 | <u>\$ -</u>                  | <u>\$ 29,364</u>                  |
| 44       | <b>Net Profit (Loss)</b>             | <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. | Test Year Book Results             | 1<br>Depreciation | 2<br>Property Taxes | 3<br>Rate Case Expense | 4<br>Revenue Annualization | 5<br>Annualize Purchased Power | 6<br>Remove CAP Recovery Fee Revenue |
|----------|------------------------------------|-------------------|---------------------|------------------------|----------------------------|--------------------------------|--------------------------------------|
| 1        | Revenues                           |                   |                     |                        |                            |                                |                                      |
| 2        | Metered Water Revenues             | \$ 2,090,185      |                     |                        |                            |                                |                                      |
| 3        | Unmetered Water Revenues           |                   |                     |                        | 29,925                     |                                |                                      |
| 4        | Other Water Revenues               |                   |                     |                        |                            |                                | (93,671)                             |
| 5        |                                    | \$ 2,398,492      | \$ -                | \$ -                   | \$ 29,925                  | \$ -                           | \$ (93,671)                          |
| 6        | Operating Expenses                 |                   |                     |                        |                            |                                |                                      |
| 7        | Salaries and Wages                 | \$ 280,897        |                     |                        |                            |                                |                                      |
| 8        | Employee Benefits                  | 12,757            |                     |                        |                            |                                |                                      |
| 9        | Purchased Water                    | 199,817           |                     |                        |                            |                                |                                      |
| 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       | Confr. 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        |                   |                     | 30,000                 |                            |                                |                                      |
| 29       | Bad Debt Expense                   | 6,856             |                     |                        |                            |                                |                                      |
| 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)                | \$ (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)                | \$ (3,211)                     | \$ (93,671)                          |
| 46       |                                    |                   |                     |                        |                            |                                |                                      |
| 47       | SUPPORTING SCHEDULES:              |                   |                     |                        |                            |                                |                                      |
| 48       | C-2                                |                   |                     |                        |                            |                                |                                      |
| 49       | E-2                                |                   |                     |                        |                            |                                |                                      |

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

Exhibit  
 Schedule C-1  
 Page 2.2  
 Witness: Bourassa

| Line No. | Z                                    | Mgmt Fees    | Move Interest Expense To O.E. | 9           | Wages and Salaries | 10           | Income tax | Test Year Adjusted Results | Proposed Rate Increase | Adjusted with Rate Increase |
|----------|--------------------------------------|--------------|-------------------------------|-------------|--------------------|--------------|------------|----------------------------|------------------------|-----------------------------|
| 1        | Revenues                             |              |                               |             |                    |              |            | \$ 2,120,110               | \$ 44,114              | \$ 2,164,224                |
| 2        | Metered Water Revenues               |              |                               |             |                    |              |            | 214,637                    |                        | 214,637                     |
| 3        | Unmetered Water Revenues             |              |                               |             |                    |              |            | 2,334,747                  | 44,114                 | 2,378,860                   |
| 4        | Other Water Revenues                 |              |                               |             |                    |              |            |                            |                        |                             |
| 5        | Operating Expenses                   |              |                               |             |                    |              |            |                            |                        |                             |
| 6        | Salaries and Wages                   |              |                               | 16,087      |                    |              |            | \$ 276,984                 |                        | \$ 276,984                  |
| 7        | Employee Benefits                    |              |                               |             |                    |              |            | 12,757                     |                        | 12,757                      |
| 8        | Purchased Water                      |              |                               |             |                    |              |            | 199,817                    |                        | 199,817                     |
| 9        | Purchased Power                      |              |                               |             |                    |              |            | 218,584                    |                        | 218,584                     |
| 10       | Chemicals                            |              |                               |             |                    |              |            | 1,732                      |                        | 1,732                       |
| 11       | Materials and Supplies               |              |                               |             |                    |              |            | 14,372                     |                        | 14,372                      |
| 12       | Repairs and Maintenance              |              |                               |             |                    |              |            | 28,876                     |                        | 28,876                      |
| 13       | Office Supplies and Expense          |              |                               |             |                    |              |            | 73,301                     |                        | 73,301                      |
| 14       | Contractual Services - Engineering   |              |                               |             |                    |              |            | 6,270                      |                        | 6,270                       |
| 15       | Contractual Services - Accounting    |              |                               |             |                    |              |            | 10,473                     |                        | 10,473                      |
| 16       | Contractual Services - Legal         |              |                               |             |                    |              |            | 12,933                     |                        | 12,933                      |
| 17       | Contractual Services - Mgmt Fees     | (183,406)    |                               |             |                    |              |            | 211,138                    |                        | 211,138                     |
| 18       | Contractual Services - Other         |              |                               |             |                    |              |            | 15,976                     |                        | 15,976                      |
| 19       | Contractual Services - Water Testing |              |                               |             |                    |              |            | 3,906                      |                        | 3,906                       |
| 20       | Rents - Building/Real Property       |              |                               |             |                    |              |            | 7,920                      |                        | 7,920                       |
| 21       | Rents - Equipment                    |              |                               |             |                    |              |            | 8,314                      |                        | 8,314                       |
| 22       | Transportation Expenses              |              |                               |             |                    |              |            | 33,154                     |                        | 33,154                      |
| 23       | Insurance - Vehicle                  |              |                               |             |                    |              |            | 5,111                      |                        | 5,111                       |
| 24       | Insurance - General Liability        |              |                               |             |                    |              |            | 32,130                     |                        | 32,130                      |
| 25       | Insurance - Worker's Comp            |              |                               |             |                    |              |            | 3,111                      |                        | 3,111                       |
| 26       | Reg. Comm. Exp. - Rate Case          |              |                               |             |                    |              |            | 11,946                     |                        | 11,946                      |
| 27       | Reg. Comm. Exp. - Rate Case          |              |                               |             |                    |              |            | 30,000                     |                        | 30,000                      |
| 28       | Bad Debt Expense                     |              |                               |             |                    |              |            | 6,856                      |                        | 6,856                       |
| 29       | Miscellaneous Expense                |              |                               |             |                    |              |            | 11,424                     |                        | 11,424                      |
| 30       | Depreciation Expense                 |              |                               |             |                    |              |            | 570,649                    |                        | 570,649                     |
| 31       | Taxes Other Than Income              |              |                               |             |                    |              |            |                            |                        |                             |
| 32       | Property Taxes                       |              |                               |             |                    | 106,244      |            | 103,681                    | 656                    | 104,337                     |
| 33       | Income Tax                           |              |                               |             |                    |              |            | 106,244                    | 11,037                 | 117,281                     |
| 34       | Interest on Customer Sec. Dep.       |              |                               |             |                    |              |            | 4,981                      |                        | 4,981                       |
| 35       | Operating Expenses                   | \$ (183,406) | \$ 4,981                      | \$ 16,087   | \$ 106,244         | \$ 2,022,639 | \$ 11,693  | \$ 2,034,332               | \$ 32,421              | \$ 2,066,753                |
| 36       | Operating Income                     | \$ 183,406   | \$ (4,981)                    | \$ (16,087) | \$ (106,244)       | \$ 312,107   | \$ 32,421  | \$ 344,528                 |                        | \$ 376,949                  |
| 37       | Other Income (Expense)               |              |                               |             |                    |              |            |                            |                        |                             |
| 38       | Interest Income                      |              |                               |             |                    |              |            | 33,771                     |                        | 33,771                      |
| 39       | Other Income                         |              |                               |             |                    |              |            | 6,090                      |                        | 6,090                       |
| 40       | Interest Expense                     |              |                               |             |                    |              |            |                            |                        |                             |
| 41       | Other Expense                        |              |                               |             |                    |              |            |                            |                        |                             |
| 42       | Gain (loss) on Disposal of Equip     |              |                               |             |                    |              |            | (10,496)                   |                        | (10,496)                    |
| 43       | Total Other Income (Expense)         | \$ -         | \$ 4,981                      | \$ -        | \$ -               | \$ 29,364    | \$ -       | \$ 29,364                  | \$ -                   | \$ 29,364                   |
| 44       | Net Profit (Loss)                    | \$ 183,406   | \$ -                          | \$ (16,087) | \$ (106,244)       | \$ 341,472   | \$ 32,421  | \$ 373,893                 |                        | \$ 406,317                  |

RECAP 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<br>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</u>                         | <u>Property</u>                             | <u>Rate Case</u>       | <u>Revenue</u>       | <u>Annualize</u>  | <u>Remove CAP</u>   |                 |  |
| 3           | <u>Expense</u>                              | <u>Taxes</u>                                | <u>Expense</u>         | <u>Annualization</u> | <u>Power</u>      | <u>Recovery Fee</u> |                 |  |
| 4           | Revenues                                    |   |                        | 29,925               |                   | (93,671)            | (63,745)        |  |
| 5           |   |   |                        |                      |                   |                     |                 |  |
| 6           | Expenses                                    | (65,303)                                    | (4,434)                | 30,000               | 3,211             |                     | (36,526)        |  |
| 7           |   |   |                        |                      |                   |                     |                 |  |
| 8           | Operating                                   |   |                        |                      |                   |                     |                 |  |
| 9           | Income                                      | 65,303                                      | 4,434                  | (30,000)             | 29,925            | (3,211)             | (93,671)        |  |
| 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          |   |   |                        |                      |                   |                     |                 |  |
| 19          |   |   |                        |                      |                   |                     |                 |  |
| 20          |   | <u>Adjustments to Revenues and Expenses</u> |                        |                      |                   |                     |                 |  |
| 21          |   | <u>7</u>                                    | <u>8</u>               | <u>9</u>             | <u>10</u>         | <u>11</u>           | <u>12</u>       |  |
| 22          |   |   |                        |                      |                   |                     |                 |  |
| 23          |   | <u>Mgmt</u>                                 | <u>Move Interest</u>   | <u>Wages and</u>     | <u>Income tax</u> |                     |                 |  |
| 24          |   | <u>Fees</u>                                 | <u>Expense to O.E.</u> | <u>Salaries</u>      |                   |                     |                 |  |
| 25          | Revenues                                    |   |                        |                      |                   |                     | (63,745)        |  |
| 26          |   |   |                        |                      |                   |                     |                 |  |
| 27          | Expenses                                    | (183,406)                                   | 4,981                  | 16,087               | 106,244           |                     | (92,620)        |  |
| 28          |   |   |                        |                      |                   |                     |                 |  |
| 29          | Operating                                   |   |                        |                      |                   |                     |                 |  |
| 30          | Income                                      | 183,406                                     | (4,981)                | (16,087)             | (106,244)         | -                   | -               |  |
| 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<br>No. | Acct. | Description                                 | Adjusted<br>Original<br>Cost | Proposed<br>Rates  | Depreciation<br>Expense |
|-------------|-------|---|------------------------------|--------------------|-------------------------|
| 1           |       |   |                              |                    |                         |
| 2           |       |   |                              |                    |                         |
| 3           |       |   |                              |                    |                         |
| 4           |       |   |                              |                    |                         |
| 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<br>No. | DESCRIPTION   | Test Year<br>as adjusted | Company<br>Recommended |
|-------------|---|--------------------------|------------------------|
| 1           | Company Adjusted Test Year Revenues   | \$ 2,334,747             | \$ 2,334,747           |
| 2           | Weight Factor   | <u>2</u>                 | <u>2</u>               |
| 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 <sup>1</sup>                                       | -                        | -                      |
| 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)                                    | <u>\$ 103,681</u>        |                        |
| 19          | Test Year Property Taxes  | <u>\$ 108,115</u>        |                        |
| 20          | Adjustment to Test Year Property Taxes (Line 18 - Line 19)                  | <u><u>\$ (4,434)</u></u> |                        |
| 21          |   |                          |                        |
| 22          | Property Tax on Company Recommended Revenue (Line 16 + Line 17)             |                          | <u>\$ 104,337</u>      |
| 23          | Company Test Year Adjusted Property Tax Expense (Line 18)                   |                          | <u>\$ 103,681</u>      |
| 24          | Increase in Property Tax Due to Increase in Revenue Requirement             |                          | <u><u>\$ 656</u></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          | <sup>1</sup> 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

Exhibit  
Schedule C-2  
Page 4  
Witness: Bourassa

Rate Case Expense

Line  
No.

|    |  |                  |
|----|--|------------------|
| 1  |  |                  |
| 2  |  |                  |
| 3  | Estimated Rate Case Expense            | \$ 150,000       |
| 4  |  |                  |
| 5  | Estimated Amortization Period in Years | 5                |
| 6  |  |                  |
| 7  | Annual Rate Case Expense               | <u>\$ 30,000</u> |
| 8  |  |                  |
| 9  | Test Year Rate Case Expense            | \$ -             |
| 10 |  |                  |
| 11 | Increase(decrease) Rate Case Expense   | <u>\$ 30,000</u> |
| 12 |  |                  |
| 13 | Adjustment to Revenue and/or Expense   | <u>\$ 30,000</u> |
| 14 |  |                  |
| 15 |  |                  |
| 16 |  |                  |
| 17 |  |                  |
| 18 |  |                  |
| 19 |  |                  |
| 20 |  |                  |

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

Exhibit  
Schedule C-2  
Page 5  
Witness: Bourassa

Revenue Annualization

Line  
No.

1

2

3

4

Revenue Annualization

\$ 29,925

5

6

7

8

Total Revenue from Annualization

\$ 29,925

9

10

11

Adjustment to Revenue and/or Expense

\$ 29,925

12

13

SUPPORTING SCHEDULES

14

C-2 pages 5.1 to 5.16

15

H-1

16

17

18

19

20

Vail Water Company

Exhibit  
Schedule C-2

Revenue Annualization to Year End Customers: Residential 5/8x3/4 Inch Meter  
Page 5.1  
Witness: Bourassa

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        | 3,640        | 3,640        | 3,640        | 3,640        | 3,640        | 3,640        | 3,640        |
| 2        | 3,558        | 3,552        | 3,563        | 3,574        | 3,576        | 3,564        | 3,602        |
| 3        | 82           | 88           | 77           | 66           | 64           | 76           | 38           |
| 4        | \$ 35.37     | \$ 39.30     | \$ 35.82     | \$ 41.30     | \$ 44.32     | \$ 45.43     | \$ 45.20     |
| 5        | \$ 2,900     | \$ 3,458     | \$ 2,758     | \$ 2,726     | \$ 2,837     | \$ 3,453     | \$ 1,718     |
| 6        | 82           | 88           | 77           | 66           | 64           | 76           | 38           |
| 7        | \$ 35.88     | \$ 39.81     | \$ 36.34     | \$ 41.81     | \$ 44.84     | \$ 45.94     | \$ 45.72     |
| 8        | \$ 2,943     | \$ 3,504     | \$ 2,798     | \$ 2,760     | \$ 2,870     | \$ 3,492     | \$ 1,737     |
| 9        | 454,866      | 574,592      | 435,835      | 463,925      | 498,305      | 612,718      | 304,188      |
| 10       | Month of Aug | Month of Sep | Month of Oct | Month of Nov | Month of Dec | Total Year   |              |
| 11       | 3,640        | 3,640        | 3,640        | 3,640        | 3,640        | 531          |              |
| 12       | 3,622        | 3,626        | 3,627        | 3,645        | 3,640        |              |              |
| 13       | 18           | 14           | 13           | (5)          | -            |              |              |
| 14       | \$ 41.47     | \$ 40.60     | \$ 37.39     | \$ 39.92     | \$ 34.67     |              |              |
| 15       | \$ 746       | \$ 568       | \$ 486       | \$ (200)     | \$ -         | \$ 21,450    |              |
| 16       | 18           | 14           | 13           | (5)          | -            |              |              |
| 17       | \$ 41.99     | \$ 41.11     | \$ 37.90     | \$ 40.44     | \$ 35.18     |              |              |
| 18       | \$ 746       | \$ 568       | \$ 486       | \$ (200)     | \$ -         | \$ 21,724    |              |
| 19       | 127,313      | 95,966       | 78,678       | (33,426)     | -            | 3,612,962    |              |
| 20       |              |              |              |              |              |              |              |
| 21       |              |              |              |              |              |              |              |
| 22       |              |              |              |              |              |              |              |
| 23       |              |              |              |              |              |              |              |
| 24       |              |              |              |              |              |              |              |

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

Exhibit  
 Schedule  
 Page 5.2  
 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           | 88           | 88           | 88           | 88           | 88           | 88           | 88           |
| 2        | Actual Customers                       | 81           | 83           | 83           | 83           | 84           | 83           | 86           |
| 3        | Increase in Number of Customers/Bills  | 7            | 5            | 5            | 5            | 4            | 5            | 2            |
| 4        | Average Revenue / Present Rates        | \$ 49.74     | \$ 55.00     | \$ 50.66     | \$ 58.40     | \$ 59.22     | \$ 60.47     | \$ 58.93     |
| 5        | Revenue Annualization / Present Rates  | \$ 348       | \$ 275       | \$ 253       | \$ 292       | \$ 237       | \$ 302       | \$ 118       |
| 6        |  |              |              |              |              |              |              |              |
| 7        | Increase in Number of Customers        | 7            | 5            | 5            | 5            | 4            | 5            | 2            |
| 8        | Average Revenue / Proposed Rates       | \$ 51.16     | \$ 56.42     | \$ 52.08     | \$ 59.81     | \$ 60.63     | \$ 61.89     | \$ 60.35     |
| 9        | Revenue Annualization / Proposed Rates | \$ 358       | \$ 282       | \$ 260       | \$ 299       | \$ 243       | \$ 309       | \$ 121       |
| 10       | Additional Gallons to be Produced      | 50,300       | 42,503       | 37,081       | 46,749       | 38,216       | 49,340       | 18,966       |
| 11       |  |              |              |              |              |              |              |              |
| 12       |  |              |              |              |              |              |              |              |
| 13       |  |              |              |              |              |              |              |              |
| 14       |  |              |              |              |              |              |              |              |
| 15       | Year End Number of Customers           | 88           | 88           | 88           | 88           | 88           | 88           | 88           |
| 16       | Actual Customers                       | 89           | 89           | 88           | 88           | 88           | 88           | 88           |
| 17       | Increase in Number of Customers/Bills  | (1)          | (1)          | -            | -            | -            | -            | 31           |
| 18       | Average Revenue / Present Rates        | \$ 54.80     | \$ 55.79     | \$ 50.21     | \$ 52.52     | \$ 47.12     |              |              |
| 19       | Revenue Annualization / Present Rates  | \$ (55)      | \$ (56)      | \$ -         | \$ -         | \$ -         | \$ 1,715     |              |
| 20       |  |              |              |              |              |              |              |              |
| 21       | Increase in Number of Customers        | (1)          | (1)          | -            | -            | -            | -            |              |
| 22       | Average Revenue / Proposed Rates       | \$ 56.21     | \$ 57.20     | \$ 51.62     | \$ 53.94     | \$ 48.53     |              |              |
| 23       | Revenue Annualization / Proposed Rates | \$ (55)      | \$ (56)      | \$ -         | \$ -         | \$ -         | \$ 1,759     |              |
| 24       | Additional Gallons to be Produced      | (8,450)      | (8,697)      | -            | -            | -            | 266,008      |              |

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

Exhibit  
 Schedule C-2  
 Page 5.3  
 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        |              |              |              |              |              |              |              |
| 4        |              |              |              |              |              |              |              |
| 5        |              |              |              |              |              |              |              |
| 6        |              |              |              |              |              |              |              |
| 7        |              |              |              |              |              |              |              |
| 8        |              |              |              |              |              |              |              |
| 9        |              |              |              |              |              |              |              |
| 10       |              |              |              |              |              |              |              |
| 11       |              |              |              |              |              |              |              |
| 12       |              |              |              |              |              |              |              |
| 13       |              |              |              |              |              |              |              |
| 14       |              |              |              |              |              |              |              |
| 15       |              |              |              |              |              |              |              |
| 16       |              |              |              |              |              |              |              |
| 17       |              |              |              |              |              |              |              |
| 18       |              |              |              |              |              |              |              |
| 19       |              |              |              |              |              |              |              |
| 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        | 3            | 3            | 3            | 3            | 3            |            |
| 2        | 3            | 3            | 3            | 3            | 3            |            |
| 3        |              |              |              |              |              |            |
| 4        |              |              |              |              |              |            |
| 5        |              |              |              |              |              |            |
| 6        |              |              |              |              |              |            |
| 7        |              |              |              |              |              |            |
| 8        |              |              |              |              |              |            |
| 9        |              |              |              |              |              |            |
| 10       |              |              |              |              |              |            |
| 11       |              |              |              |              |              |            |
| 12       |              |              |              |              |              |            |
| 13       |              |              |              |              |              |            |
| 14       |              |              |              |              |              |            |
| 15       |              |              |              |              |              |            |
| 16       |              |              |              |              |              |            |
| 17       |              |              |              |              |              |            |
| 18       |              |              |              |              |              |            |
| 19       |              |              |              |              |              |            |
| 20       |              |              |              |              |              |            |
| 21       |              |              |              |              |              |            |
| 22       |              |              |              |              |              |            |
| 23       |              |              |              |              |              |            |
| 24       |              |              |              |              |              |            |

| 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            | 7            | 6            | 6            | 6            | 6            |
| 3        | Increase in Number of Customers/Bills  | (1)          | (1)          | (1)          | -            | -            | -            | -            |
| 4        | Average Revenue / Present Rates        | \$ 37.47     | \$ 44.32     | \$ 50.32     | \$ 70.85     | \$ 55.18     | \$ 43.18     | \$ 65.85     |
| 5        | Revenue Annualization / Present Rates  | \$ (37)      | \$ (44)      | \$ (50)      | \$ -         | \$ -         | \$ -         | \$ -         |
| 6        |  |              |              |              |              |              |              |              |
| 7        | Increase in Number of Customers        | (1)          | (1)          | (1)          | -            | -            | -            | -            |
| 8        | Average Revenue / Proposed Rates       | \$ 38.98     | \$ 45.84     | \$ 51.84     | \$ 72.36     | \$ 56.70     | \$ 44.70     | \$ 67.36     |
| 9        | Revenue Annualization / Proposed Rates | \$ (39)      | \$ (46)      | \$ (52)      | \$ -         | \$ -         | \$ -         | \$ -         |
| 10       | Additional Gallons to be Produced      | (6,072)      | (7,786)      | (9,286)      | -            | -            | -            | -            |
| 11       |  |              |              |              |              |              |              |              |
| 12       |  |              |              |              |              |              |              |              |
| 13       |  |              |              |              |              |              |              |              |
| 14       |  |              |              |              |              |              |              |              |
| 15       | Year End Number of Customers           | 6            | 6            | 6            | 6            | 6            | 6            | 6            |
| 16       | Actual Customers                       | 6            | 6            | 6            | 6            | 6            | 6            | 6            |
| 17       | Increase in Number of Customers/Bills  | -            | -            | -            | -            | -            | -            | (3)          |
| 18       | Average Revenue / Present Rates        | \$ 48.85     | \$ 45.18     | \$ 30.18     | \$ 38.52     | \$ 26.52     | \$ -         | \$ -         |
| 19       | Revenue Annualization / Present Rates  | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ (132)     |
| 20       |  |              |              |              |              |              |              |              |
| 21       | Increase in Number of Customers        | -            | -            | -            | -            | -            | -            | -            |
| 22       | Average Revenue / Proposed Rates       | \$ 50.36     | \$ 46.70     | \$ 31.70     | \$ 40.03     | \$ 28.03     | \$ -         | \$ (137)     |
| 23       | Revenue Annualization / Proposed Rates | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ (23,144)  |
| 24       | Additional Gallons to be Produced      | -            | -            | -            | -            | -            | -            | -            |

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        | -            | -            | -            | (4)          | -            | -            | -            |
| 7        | \$ 49.42     | \$ 56.42     | \$ 53.42     | \$ 38.42     | \$ 72.98     | \$ 104.85    | \$ 116.54    |
| 8        | \$ -         | \$ -         | \$ -         | \$ (154)     | \$ -         | \$ -         | \$ -         |
| 9        | -            | -            | -            | (15,001)     | -            | -            | -            |
| 10       | -            | -            | -            | -            | -            | -            | -            |
| 11       | Month of Aug | Month of Sep | Month of Oct | Month of Nov | Month of Dec | Total Year   |              |
| 12       | 2            | 2            | 2            | 2            | 2            |              |              |
| 13       | 2            | 2            | 2            | 2            | 2            |              |              |
| 14       | -            | -            | -            | -            | -            | (4)          |              |
| 15       | \$ 81.00     | \$ 87.00     | \$ 68.00     | \$ 70.00     | \$ 55.00     | \$ (144)     |              |
| 16       | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ (154)     |              |
| 17       | -            | -            | -            | -            | -            | (15,001)     |              |
| 18       | \$ 84.67     | \$ 91.04     | \$ 70.85     | \$ 72.98     | \$ 57.42     | \$ (154)     |              |
| 19       | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ (15,001)  |              |
| 20       | -            | -            | -            | -            | -            |              |              |
| 21       | -            | -            | -            | -            | -            |              |              |
| 22       | -            | -            | -            | -            | -            |              |              |
| 23       | -            | -            | -            | -            | -            |              |              |
| 24       | -            | -            | -            | -            | -            |              |              |





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        | 27           | 27           | 27           | 27           | 27           | 27           | 27           |
| 2        | 25           | 25           | 25           | 25           | 25           | 25           | 25           |
| 3        | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 4        | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 5        | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 6        | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 7        | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 8        | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 9        | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 10       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 11       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 12       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 13       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 14       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 15       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 16       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 17       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 18       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 19       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 20       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 21       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 22       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 23       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| 24       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |

| Year End Number of Customers           | Month of Jan | Month of Feb | Month of Mar | Month of Apr | Month of May | Month of Jun | Month of Jul |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Actual Customers                       | 27           | 27           | 27           | 27           | 27           | 27           | 27           |
| Increase in Number of Customers/Bills  | 25           | 25           | 25           | 25           | 25           | 25           | 25           |
| Average Revenue / Present Rates        | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| Revenue Annualization / Present Rates  | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| Increase in Number of Customers        | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| Average Revenue / Proposed Rates       | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| Revenue Annualization / Proposed Rates | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| Additional Gallons to be Produced      | 2            | 2            | 2            | 2            | 2            | 2            | 2            |

| Year End Number of Customers           | Month of Aug | Month of Sep | Month of Oct | Month of Nov | Month of Dec | Total Year |
|--|--------------|--------------|--------------|--------------|--------------|------------|
| Actual Customers                       | 27           | 27           | 27           | 27           | 27           | 15         |
| Increase in Number of Customers/Bills  | 26           | 27           | 27           | 27           | 27           | 15         |
| Average Revenue / Present Rates        | 1            | 1            | 1            | 1            | 1            | 15         |
| Revenue Annualization / Present Rates  | 1            | 1            | 1            | 1            | 1            | 15         |
| Increase in Number of Customers        | 1            | 1            | 1            | 1            | 1            | 15         |
| Average Revenue / Proposed Rates       | 1            | 1            | 1            | 1            | 1            | 15         |
| Revenue Annualization / Proposed Rates | 1            | 1            | 1            | 1            | 1            | 15         |
| Additional Gallons to be Produced      | 1            | 1            | 1            | 1            | 1            | 15         |

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        |              |              |              |              |              |              |              |
| 4        |              |              |              |              |              |              |              |
| 5        |              |              |              |              |              |              |              |
| 6        |              |              |              |              |              |              |              |
| 7        |              |              |              |              |              |              |              |
| 8        |              |              |              |              |              |              |              |
| 9        |              |              |              |              |              |              |              |
| 10       |              |              |              |              |              |              |              |
| 11       |              |              |              |              |              |              |              |
| 12       |              |              |              |              |              |              |              |
| 13       |              |              |              |              |              |              |              |
| 14       |              |              |              |              |              |              |              |
| 15       |              |              |              |              |              |              |              |
| 16       |              |              |              |              |              |              |              |
| 17       |              |              |              |              |              |              |              |
| 18       |              |              |              |              |              |              |              |
| 19       |              |              |              |              |              |              |              |
| 20       |              |              |              |              |              |              |              |
| 21       |              |              |              |              |              |              |              |
| 22       |              |              |              |              |              |              |              |
| 23       |              |              |              |              |              |              |              |
| 24       |              |              |              |              |              |              |              |

| Month of Aug | Month of Sep | Month of Oct | Month of Nov | Month of Dec | Total Year |
|--------------|--------------|--------------|--------------|--------------|------------|
| 3            | 3            | 3            | 3            | 3            |            |
| 5            | 3            | 3            | 3            | 3            |            |
| (2)          |              |              |              |              | (2)        |
| \$ 39.18     | \$ 50.51     | \$ 53.18     | \$ 70.52     | \$ 31.18     |            |
| \$ (78)      | \$ -         | \$ -         | \$ -         | \$ -         | \$ (78)    |
| (2)          |              |              |              |              |            |
| \$ 40.70     | \$ 52.03     | \$ 54.70     | \$ 73.11     | \$ 32.70     |            |
| \$ (78)      | \$ -         | \$ -         | \$ -         | \$ -         | \$ (81)    |
| (13,001)     |              |              |              |              | (13,001)   |





Vail Water Company  
 Revenue Annualization to Year End Customers: Irrigation 1 1/2 Inch  
 Test Year Ended December 31, 2011

Exhibit  
 Schedule C-2  
 Page 5.12  
 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           | 6            | 7            | 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            | 7            | 6            | 6            | 6            | 6            | 6            |
| 16       | Actual Customers                       | 7            | 7            | 6            | 7            | 6            | 6            | 6            |
| 17       | Increase in Number of Customers/Bills  | (1)          | (1)          | -            | -            | -            | -            | -            |
| 18       | Average Revenue / Present Rates        | \$ 315.64    | \$ 291.29    | \$ 245.37    | \$ 147.87    | \$ 119.87    |              |              |
| 19       | Revenue Annualization / Present Rates  | \$ (316)     | \$ (291)     | \$ (245)     | \$ -         | \$ -         |              |              |
| 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)     | \$ -         | \$ -         |              |              |
| 24       | Additional Gallons to be Produced      | (56,610)     | (50,524)     | (39,041)     | -            | -            |              |              |

| Month of Aug | Month of Sep | Month of Oct | Month of Nov | Month of Dec | Total Year |
|--------------|--------------|--------------|--------------|--------------|------------|
| 6            | 6            | 6            | 6            | 6            |            |
| 7            | 7            | 7            | 6            | 6            |            |
| (1)          | (1)          | (1)          | -            | -            | (8)        |
| \$ 315.64    | \$ 291.29    | \$ 245.37    | \$ 147.87    | \$ 119.87    |            |
| \$ (316)     | \$ (291)     | \$ (245)     | \$ -         | \$ -         | \$ (1,986) |
| (1)          | (1)          | (1)          | -            | -            |            |
| \$ 327.55    | \$ 301.68    | \$ 255.62    | \$ 158.13    | \$ 130.13    |            |
| \$ (316)     | \$ (291)     | \$ (245)     | \$ -         | \$ -         | \$ (2,073) |
| (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 | Month of Feb | Month of Mar | Month of Apr | Month of May | Month of Jun | Month of 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       | \$ -         | \$ -         |              |              |
| 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    |              |              |
| 23       | Revenue Annualization / Proposed Rates | \$ 1,636     | \$ 979       | \$ 713       | \$ -         | \$ -         |              | \$ 12,075    |
| 24       | Additional Gallons to be Produced      | 335,273      | 207,820      | 141,217      | -            | -            |              | 2,330,549    |

Vail Water Company  
Revenue Annualization to Year End Customers: Standpipe - 5/8x3/4 Inch  
Test Year Ended December 31, 2011

| Line No. |  | Month of Jan 31 | Month of Feb 31 | Month of Mar 31 | Month of Apr 31 | Month of May 31 | Month of Jun 31 | Month of Jul 31 |
|----------|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1        | Year End Number of Customers           | 31              | 31              | 31              | 31              | 31              | 31              | 31              |
| 2        | Actual Customers                       | 30              | 30              | 30              | 30              | 29              | 31              | 31              |
| 3        | Increase in Number of Customers/Bills  | 1               | 1               | 1               | 1               | 2               | -               | -               |
| 4        | Average Revenue / Present Rates        | \$ 30.78        | \$ 37.38        | \$ 31.05        | \$ 34.32        | \$ 39.53        | \$ 40.54        | \$ 41.83        |
| 5        | Revenue Annualization / Present Rates  | \$ 31           | \$ 37           | \$ 31           | \$ 34           | \$ 79           | \$ -            | \$ -            |
| 6        |  |                 |                 |                 |                 |                 |                 |                 |
| 7        | Increase in Number of Customers        | 1               | 1               | 1               | 1               | 2               | -               | -               |
| 8        | Average Revenue / Proposed Rates       | \$ 18.70        | \$ 25.71        | \$ 18.99        | \$ 22.46        | \$ 27.99        | \$ 29.07        | \$ 30.44        |
| 9        | Revenue Annualization / Proposed Rates | \$ 19           | \$ 26           | \$ 19           | \$ 22           | \$ 56           | \$ -            | \$ -            |
| 10       | Additional Gallons to be Produced      | 4,400           | 6,050           | 4,467           | 5,284           | 13,173          | -               | -               |
| 11       |  |                 |                 |                 |                 |                 |                 |                 |
| 12       |  |                 |                 |                 |                 |                 |                 |                 |
| 13       |  |                 |                 |                 |                 |                 |                 |                 |
| 14       |  |                 |                 |                 |                 |                 |                 |                 |
| 15       | Year End Number of Customers           | 31              | 31              | 31              | 31              | 31              | 31              | 31              |
| 16       | Actual Customers                       | 31              | 31              | 31              | 31              | 31              | 31              | 31              |
| 17       | Increase in Number of Customers/Bills  | -               | -               | -               | -               | -               | -               | 6               |
| 18       | Average Revenue / Present Rates        | \$ 37.18        | \$ 35.25        | \$ 32.60        | \$ 34.34        | \$ 28.47        | \$ -            | \$ -            |
| 19       | Revenue Annualization / Present Rates  | \$ -            | \$ -            | \$ -            | \$ -            | \$ -            | \$ -            | \$ 213          |
| 20       |  |                 |                 |                 |                 |                 |                 |                 |
| 21       | Increase in Number of Customers        | -               | -               | -               | -               | -               | -               | -               |
| 22       | Average Revenue / Proposed Rates       | \$ 25.50        | \$ 23.45        | \$ 20.64        | \$ 22.49        | \$ 16.25        | \$ -            | \$ 142          |
| 23       | Revenue Annualization / Proposed Rates | \$ -            | \$ -            | \$ -            | \$ -            | \$ -            | \$ -            | \$ 33,375       |
| 24       | Additional Gallons to be Produced      | -               | -               | -               | -               | -               | -               | -               |



**Vail Water Company**  
 Revenue Annualization to Year End Customers: Construction 3 Inch  
 Test Year Ended December 31, 2011

Exhibit  
 Schedule  
 Page 5.16  
 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           | 3            | 3            | 3            | 3            | 3            | 3            | 3              |
| 2        | Actual Customers                       | 3            | 2            | 2            | 3            | 3            | 5            | 6              |
| 3        | Increase in Number of Customers/Bills  | -            | 1            | 1            | -            | -            | (2)          | (3)            |
| 4        | Average Revenue / Present Rates        | \$ 585.13    | \$ 497.00    | \$ 1,540.40  | \$ 686.07    | \$ 409.54    | \$ 1,527.00  | \$ 747.33      |
| 5        | Revenue Annualization / Present Rates  | \$ -         | \$ 497       | \$ 1,540     | \$ -         | \$ -         | \$ (3,054)   | \$ (2,242)     |
| 6        |  |              |              |              |              |              |              |                |
| 7        | Increase in Number of Customers        | -            | 1            | 1            | -            | -            | (2)          | (3)            |
| 8        | Average Revenue / Proposed Rates       | \$ 319.74    | \$ 226.10    | \$ 1,334.71  | \$ 426.98    | \$ 133.17    | \$ 1,320.48  | \$ 492.08      |
| 9        | Revenue Annualization / Proposed Rates | \$ -         | \$ 226       | \$ 1,335     | \$ -         | \$ -         | \$ (2,641)   | \$ (1,476)     |
| 10       | Additional Gallons to be Produced      | -            | 53,200       | 314,050      | -            | -            | (621,400)    | (347,351)      |
| 11       |  |              |              |              |              |              |              |                |
| 12       |  |              |              |              |              |              |              |                |
| 13       |  |              |              |              |              |              |              |                |
| 14       |  |              |              |              |              |              |              |                |
| 15       | Year End Number of Customers           | 3            | 3            | 3            | 3            | 3            | 3            | 3              |
| 16       | Actual Customers                       | 6            | 5            | 3            | 3            | 3            | 3            | (8)            |
| 17       | Increase in Number of Customers/Bills  | (3)          | (2)          | -            | -            | -            | -            | -              |
| 18       | Average Revenue / Present Rates        | \$ 914.53    | \$ 561.32    | \$ 669.13    | \$ 1,485.93  | \$ 336.20    | \$ -         | \$ -           |
| 19       | Revenue Annualization / Present Rates  | \$ (2,744)   | \$ (1,123)   | \$ -         | \$ -         | \$ -         | \$ -         | \$ (7,125)     |
| 20       |  |              |              |              |              |              |              |                |
| 21       | Increase in Number of Customers        | (3)          | (2)          | -            | -            | -            | -            | -              |
| 22       | Average Revenue / Proposed Rates       | \$ 669.73    | \$ 294.44    | \$ 408.99    | \$ 1,276.84  | \$ 55.25     | \$ -         | \$ (5,154)     |
| 23       | Revenue Annualization / Proposed Rates | \$ (2,744)   | \$ (1,123)   | \$ -         | \$ -         | \$ -         | \$ -         | \$ (1,212,811) |
| 24       | Additional Gallons to be Produced      | (472,750)    | (138,660)    | -            | -            | -            | -            | -              |

**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       |   |                     |
| <u>No.</u> |   |                     |
| 1          |   |                     |
| 2          | Number of test year billings                                  | 45,819              |
| 3          | Additional billings from revenue annualization                | <u>585</u>          |
| 4          |   |                     |
| 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                         | <u>\$ 394,545</u>   |
| 13         |   |                     |
| 14         | Increase (decrease) in Contractual Services - Management Fees | <u>\$ (183,406)</u> |
| 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       |   |    |              |
| <u>No.</u> |   |    |              |
| 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       |  |                   |
| <u>No.</u> |  |                   |
| 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<br>No. |  | <u>Test Year<br/>Adjusted<br/>Results</u> | <u>Adjusted<br/>with Rate<br/>Increase</u> |
|-------------|--|---|--|
| 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% <sup>1</sup>                        |   |  |
| 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% <sup>1</sup> | \$ 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          | <sup>1</sup> 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<br>No. | <u>Description</u>                                   | Percentage<br>of<br>Incremental<br>Gross<br><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)   | (B)          | (C)          | (D)     | (E)          | (F)          |
|----------------------------------|---|--------------|--------------|---------|--------------|--------------|
| <i>Calculation of Income Tax</i> |   |              |              |         |              |              |
| 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%      |
| 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 WATER Applicable Federal Income Tax Rate [Col. (E), L51 - Col. (B), L51] / [Col. (E), L45 - Col. (B), L45] 23.0084%

|  |                                   |              |
|--|-----------------------------------|--------------|
| <i>Calculation of Interest Synchronization</i> |                                   |              |
| 56   | Rate Base                         | \$ 3,312,774 |
| 57   | Weighted Average Cost of Debt     | 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<br>No. |  | Test<br>Year<br>Ended<br><u>12/31/2011</u> | Year<br>Ended<br><u>12/31/2010</u> | Year<br>Ended<br><u>12/31/2009</u> |
|-------------|--|--|------------------------------------|------------------------------------|
| 1           | <b><u>ASSETS</u></b>                               |  |                                    |                                    |
| 2           | Plant In Service                                   | \$ 20,308,105                              | \$ 20,065,324                      | \$ 20,043,125                      |
| 3           | Non-Utility Plant                                  | 3,500                                      | 3,500                              | 3,500                              |
| 4           | Construction Work in Progress                      | 69,613                                     | 69,613                             | 69,613                             |
| 5           | Less: Accumulated Depreciation                     | <u>(6,432,277)</u>                         | <u>(5,664,565)</u>                 | <u>(4,899,881)</u>                 |
| 6           | Net Plant  | <u>\$ 13,948,940</u>                       | <u>\$ 14,473,872</u>               | <u>\$ 15,216,357</u>               |
| 7           |  |  |                                    |                                    |
| 8           | <b>CURRENT ASSETS</b>                              |  |                                    |                                    |
| 9           | Cash and Equivalents                               | \$ 596,586                                 | \$ 472,948                         | \$ 777,618                         |
| 10          | Restricted Cash                                    | 2,142,090                                  | 2,253,417                          | 2,500,901                          |
| 11          | Short-term Investments                             | 915,478                                    | 705,471                            | 2,595                              |
| 12          | Accounts Receivable, Net                           | 154,197                                    | 194,348                            | 148,173                            |
| 13          | Other Receivables                                  | 62,420                                     | 62,420                             | 62,420                             |
| 14          | Materials and Supplies                             | -  | -                                  | -                                  |
| 15          | Prepayments  | -  | -                                  | -                                  |
| 16          | Misc Current Assets                                | -  | -                                  | -                                  |
| 17          | Total Current Assets                               | <u>\$ 3,870,770</u>                        | <u>\$ 3,688,604</u>                | <u>\$ 3,491,706</u>                |
| 18          |  |  |                                    |                                    |
| 19          | CAP Water  | \$ 1,104,206                               | \$ 903,150                         | \$ 676,847                         |
| 20          | Total Deferred Debits                              | <u>\$ 1,104,206</u>                        | <u>\$ 903,150</u>                  | <u>\$ 676,847</u>                  |
| 21          |  |  |                                    |                                    |
| 22          | Other Investments & Special Funds                  | \$ -                                       | \$ -                               | \$ -                               |
| 23          |  |  |                                    |                                    |
| 24          | <b>TOTAL ASSETS</b>                                | <u>\$ 18,923,916</u>                       | <u>\$ 19,065,626</u>               | <u>\$ 19,384,909</u>               |
| 25          |  |  |                                    |                                    |
| 26          |  |  |                                    |                                    |
| 27          | <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b> |  |                                    |                                    |
| 28          |  |  |                                    |                                    |
| 29          | Common Equity                                      | \$ 4,373,528                               | \$ 4,453,412                       | \$ 4,414,639                       |
| 30          |  |  |                                    |                                    |
| 31          | Long-Term Debt                                     | \$ -                                       | \$ -                               | \$ -                               |
| 32          |  |  |                                    |                                    |
| 33          | <b>CURRENT LIABILITIES</b>                         |  |                                    |                                    |
| 34          | Accounts Payable                                   | \$ 113,137                                 | \$ 77,335                          | \$ 59,623                          |
| 35          | Current Portion of Long-Term Debt                  | -  | -                                  | -                                  |
| 36          | Payables to Associated Companies                   | -  | -                                  | -                                  |
| 37          | Security Deposits                                  | 83,375                                     | 83,100                             | 75,825                             |
| 38          | Customer Meter Deposits, Current                   | -  | -                                  | -                                  |
| 39          | Accrued Taxes                                      | 3,547                                      | 2,257                              | 69,222                             |
| 40          | Accrued Interest                                   | -  | -                                  | -                                  |
| 41          | Other Current Liabilities                          | -  | -                                  | -                                  |
| 42          | Total Current Liabilities                          | <u>\$ 200,058</u>                          | <u>\$ 162,693</u>                  | <u>\$ 204,670</u>                  |
| 43          | <b>DEFERRED CREDITS</b>                            |  |                                    |                                    |
| 44          | Customer Meter Deposits, less current              | \$ 529,140                                 | \$ 610,807                         | \$ 695,206                         |
| 45          | Advances in Aid of Construction                    | 11,374,431                                 | 11,663,584                         | 11,951,921                         |
| 46          | Accumulated Deferred Income Taxes                  | -  | -                                  | -                                  |
| 47          | Contributions In Aid of Construction               | 3,117,009                                  | 2,711,008                          | 2,531,864                          |
| 48          | Accumulated Amortization                           | <u>(670,251)</u>                           | <u>(535,878)</u>                   | <u>(413,392)</u>                   |
| 49          | Total Deferred Credits                             | <u>\$ 14,350,330</u>                       | <u>\$ 14,449,521</u>               | <u>\$ 14,765,600</u>               |
| 50          |  |  |                                    |                                    |
| 51          | Total Liabilities & Common Equity                  | <u>\$ 18,923,916</u>                       | <u>\$ 19,065,626</u>               | <u>\$ 19,384,909</u>               |
| 52          |  |  |                                    |                                    |
| 53          |  |  |                                    |                                    |
| 54          |  |  |                                    |                                    |
| 55          | <b><u>SUPPORTING SCHEDULES:</u></b>                |  | <b><u>RECAP SCHEDULES:</u></b>     |                                    |
| 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<br>No. |   | Test<br>Year<br>Ended<br>12/31/2011 | Prior<br>Year<br>Ended<br>12/31/2010 | Prior<br>Year<br>Ended<br>12/31/2009 |
|-------------|---|-------------------------------------|--------------------------------------|--------------------------------------|
| 1           | <b>Revenues</b>                           |                                     |                                      |                                      |
| 2           | Metered Water Revenues                    | \$ 2,090,185                        | \$ 2,045,027                         | \$ 2,057,807                         |
| 3           | Unmetered Water Revenues                  | -                                   | -                                    | -                                    |
| 4           | Other Water Revenues                      | 308,307                             | 340,426                              | 312,502                              |
| 5           | <b>Total Revenues</b>                     | <u>\$ 2,398,492</u>                 | <u>\$ 2,385,453</u>                  | <u>\$ 2,370,309</u>                  |
| 6           | <b>Operating Expenses</b>                 |                                     |                                      |                                      |
| 7           | Salaries and Wages                        | \$ 260,897                          | \$ 238,424                           | \$ 250,245                           |
| 8           | Employee Benefits                         | 12,757                              | 16,276                               | 21,389                               |
| 9           | Purchased Water                           | 199,817                             | 172,963                              | 143,003                              |
| 10          | Purchased Power                           | 215,373                             | 211,105                              | 211,964                              |
| 11          | Chemicals                                 | 1,732                               | 1,743                                | 4,184                                |
| 12          | Materials and Supplies                    | 14,372                              | 10,223                               | 10,793                               |
| 13          | Repairs and Maintenance                   | 28,876                              | 13,263                               | 14,059                               |
| 14          | Office Supplies and Expense               | 73,301                              | 65,947                               | 67,225                               |
| 15          | Contractual Services - Engineering        | 6,270                               | 7,035                                | 13,001                               |
| 16          | Contractual Services - Accounting         | 10,473                              | 10,545                               | 10,462                               |
| 17          | Contractual Services - Legal              | 12,933                              | 25                                   | 6,006                                |
| 18          | Contractual Services - Mgmt Fees          | 394,545                             | 387,294                              | 377,315                              |
| 19          | Contractual Services - Other              | 15,976                              | 11,993                               | 10,386                               |
| 20          | Contractual Services - Water Testing      | 3,906                               | 14,220                               | 14,624                               |
| 21          | Rents - Building/Real Property            | 7,920                               | 6,525                                | 6,334                                |
| 22          | Rents - Equipment                         | 8,314                               | 2,470                                | 8,941                                |
| 23          | Transportation Expenses                   | 33,154                              | 24,245                               | 24,247                               |
| 24          | Insurance - Vehicle                       | 5,111                               | 5,111                                | 5,224                                |
| 25          | Insurance - General Liability             | 32,130                              | 32,989                               | 34,629                               |
| 26          | Insurance - Worker's Comp                 | 3,111                               | 2,905                                | 4,799                                |
| 27          | Regulatory Commission Expense             | 11,946                              | 5,475                                | 8,568                                |
| 28          | Regulatory Commission Expense - Rate Case | -                                   | -                                    | -                                    |
| 29          | Bad Debt Expense                          | 6,856                               | 5,124                                | -                                    |
| 30          | Miscellaneous Expense                     | 11,424                              | 14,290                               | 14,019                               |
| 31          | Depreciation Expense                      | 635,952                             | 645,432                              | 660,269                              |
| 32          | Taxes Other Than Income                   | -                                   | -                                    | -                                    |
| 33          | Property Taxes                            | 108,115                             | 121,758                              | 132,021                              |
| 34          | Income Tax                                | -                                   | -                                    | -                                    |
| 35          |   | -                                   | -                                    | -                                    |
| 36          | <b>Total Operating Expenses</b>           | <u>\$ 2,115,259</u>                 | <u>\$ 2,027,381</u>                  | <u>\$ 2,053,707</u>                  |
| 37          | <b>Operating Income</b>                   | <u>\$ 283,233</u>                   | <u>\$ 358,072</u>                    | <u>\$ 316,602</u>                    |
| 38          | <b>Other Income (Expense)</b>             |                                     |                                      |                                      |
| 39          | Interest Income                           | 33,771                              | 36,739                               | 50,089                               |
| 40          | Other Income                              | 6,090                               | 6,434                                | 3,205                                |
| 41          | Interest Expense                          | (4,981)                             | (4,491)                              | (4,229)                              |
| 42          | Other Expense                             | -                                   | -                                    | -                                    |
| 43          | Gain (loss) on Disposal of Equip          | (10,496)                            | (7,981)                              | (8,789)                              |
| 44          | <b>Total Other Income (Expense)</b>       | <u>\$ 24,383</u>                    | <u>\$ 30,701</u>                     | <u>\$ 40,277</u>                     |
| 45          | <b>Net Profit (Loss)</b>                  | <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<br>No. | Test<br>Year<br>Ended                      | Prior<br>Year<br>Ended | Prior<br>Year<br>Ended |
|-------------|--|------------------------|------------------------|
|             | 12/31/2011                                 | 12/31/2010             | 12/31/2009             |
| 1           |  |                        |                        |
| 2           |  |                        |                        |
| 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          | Unbilled Revenues                          |                        |                        |
| 12          | Materials and Supplies Inventory           |                        |                        |
| 13          | Prepaid Expenses                           |                        |                        |
| 14          | (201,056)                                  | (226,303)              | (676,847)              |
| 15          | Notes Receivable                           |                        |                        |
| 16          | 35,802                                     | 17,712                 | 40,268                 |
| 17          | Intercompany payable                       |                        |                        |
| 18          | (81,392)                                   | (77,125)               | (85,166)               |
| 19          | 1,289                                      | (66,965)               | 166                    |
| 20          | Other assets and liabilities               |                        |                        |
| 21          |  |                        |                        |
| 22          | <u>\$ 735,749</u>                          | <u>\$ 632,115</u>      | <u>\$ 285,400</u>      |
| 23          | Cash Flow From Investing Activities:       |                        |                        |
| 24          | (242,781)                                  | (22,199)               | (24,840)               |
| 25          | Plant Held for Future Use                  |                        |                        |
| 26          | -  | -                      | -                      |
| 27          | <u>\$ (242,781)</u>                        | <u>\$ (22,199)</u>     | <u>\$ (24,840)</u>     |
| 28          | Cash Flow From Financing Activities        |                        |                        |
| 29          | 111,327                                    | 247,483                | 521,921                |
| 30          | (210,007)                                  | (702,876)              | -                      |
| 31          | Proceeds from Long-Term Debt               |                        |                        |
| 32          | 406,002                                    | 179,144                | 212,688                |
| 33          | (289,153)                                  | (288,337)              | (326,316)              |
| 34          | Repayments of Long-Term Debt               |                        |                        |
| 35          | (387,500)                                  | (350,000)              | (140,000)              |
| 36          | Deferred Financing Costs                   |                        |                        |
| 37          | Addnl Paid in Capital                      |                        |                        |
| 38          | <u>\$ (369,330)</u>                        | <u>\$ (914,586)</u>    | <u>\$ 268,294</u>      |
| 39          | 123,638                                    | (304,670)              | 528,854                |
| 40          | 472,948                                    | 777,618                | 248,764                |
| 41          | <u>\$ 596,586</u>                          | <u>\$ 472,948</u>      | <u>\$ 777,618</u>      |

42  
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SUPPORTING SCHEDULES:  
Workpapers/cashflow water.xls

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.

|    | <u>Common</u>     | <u>Additional</u>      | <u>Retained</u>     | <u>Total</u>        |
|----|-------------------|------------------------|---------------------|---------------------|
|    | <u>Stock</u>      | <u>Paid-In-Capital</u> | <u>Earnings</u>     |                     |
| 1  |                   |                        |                     |                     |
| 2  |                   |                        |                     |                     |
| 3  |                   |                        |                     |                     |
| 4  | \$ 638,099        | \$ 2,445,314           | \$ 1,114,348        | \$ 4,197,761        |
| 5  |                   |                        |                     | -                   |
| 6  |                   |                        | (140,000)           | (140,000)           |
| 7  |                   |                        |                     | -                   |
| 8  |                   |                        | 356,878             | 356,878             |
| 9  |                   |                        |                     |                     |
| 10 | \$ 638,099        | \$ 2,445,314           | \$ 1,331,226        | \$ 4,414,639        |
| 11 |                   | -                      |                     | -                   |
| 12 |                   |                        | (350,000)           | (350,000)           |
| 13 |                   |                        |                     | -                   |
| 14 |                   |                        | 388,773             | 388,773             |
| 15 |                   |                        |                     |                     |
| 16 | \$ 638,099        | \$ 2,445,314           | \$ 1,369,999        | \$ 4,453,412        |
| 17 |                   |                        |                     | -                   |
| 18 |                   |                        | (387,500)           | (387,500)           |
| 19 |                   |                        |                     | -                   |
| 20 |                   |                        | 307,616             | 307,616             |
| 21 |                   |                        |                     |                     |
| 22 | <u>\$ 638,099</u> | <u>\$ 2,445,314</u>    | <u>\$ 1,290,115</u> | <u>\$ 4,373,528</u> |

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SUPPORTING SCHEDULES:

RECAP SCHEDULES:

E-1

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

Exhibit  
 Schedule E-5  
 Page 1  
 Witness: Bourassa

| Line<br>No. | Acct.<br>No. | Plant Description                    | Plant<br>Balance<br>at<br>12/31/2010 | Plant<br>Additions,<br>Reclass-<br>ifications or<br>or<br>Retirements | Plant<br>Balance<br>at<br>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                    | <u>\$ 19,915,925</u>                 | <u>\$ 242,785</u>   | <u>\$ 20,158,709</u>                 |

39  
 40 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<br>No. |  | Test<br>Year<br>Ended<br><u>12/31/2011</u> | Prior<br>Year<br>Ended<br><u>12/31/2010</u> | Prior<br>Year<br>Ended<br><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<br>No. | Description          | Test<br>Year<br>Ended<br>12/31/2011 | Prior<br>Year<br>Ended<br>12/31/2010 | Prior<br>Year<br>Ended<br>12/31/2009 |
|-------------|----------------------|-------------------------------------|--------------------------------------|--------------------------------------|
| 1           | <u>Description</u>   |                                     |                                      |                                      |
| 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           |                      |                                     |                                      |                                      |
| 10          |                      |                                     |                                      |                                      |
| 11          |                      |                                     |                                      |                                      |
| 12          |                      |                                     |                                      |                                      |
| 13          |                      |                                     |                                      |                                      |
| 14          |                      |                                     |                                      |                                      |
| 15          |                      |                                     |                                      |                                      |
| 16          |                      |                                     |                                      |                                      |
| 17          |                      |                                     |                                      |                                      |
| 18          |                      |                                     |                                      |                                      |
| 19          |                      |                                     |                                      |                                      |
| 20          |                      |                                     |                                      |                                      |
| 21          |                      |                                     |                                      |                                      |
| 22          |                      |                                     |                                      |                                      |
| 23          |                      |                                     |                                      |                                      |
| 24          |                      |                                     |                                      |                                      |
| 25          |                      |                                     |                                      |                                      |
| 26          |                      |                                     |                                      |                                      |
| 27          |                      |                                     |                                      |                                      |
| 28          |                      |                                     |                                      |                                      |
| 29          |                      |                                     |                                      |                                      |
| 30          |                      |                                     |                                      |                                      |
| 31          |                      |                                     |                                      |                                      |
| 32          |                      |                                     |                                      |                                      |
| 33          |                      |                                     |                                      |                                      |
| 34          |                      |                                     |                                      |                                      |
| 35          |                      |                                     |                                      |                                      |
| 36          |                      |                                     |                                      |                                      |
| 37          |                      |                                     |                                      |                                      |
| 38          |                      |                                     |                                      |                                      |
| 39          |                      |                                     |                                      |                                      |
| 40          |                      |                                     |                                      |                                      |

**Vail Water Company**  
Test Year Ended December 31, 2011  
Notes To Financial Statements

Exhibit  
Schedule E-9  
Page 1  
Witness: Bourassa

Line

No.

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See attached audited financial statements.

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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

TABLE OF CONTENTS

|   | <u>PAGE</u> |
|---|-------------|
| Independent Auditors' Report . . . . .  | 1           |
| 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

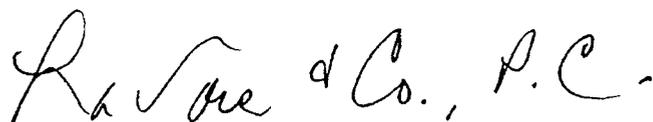
Board of Directors  
Vail Water Company  
Tucson, Arizona

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

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

|   | December 31,         |                      |
|---|----------------------|----------------------|
|   | <u>2011</u>          | <u>2010</u>          |
| <b>CAPITALIZATION &amp; LIABILITIES</b>   |                      |                      |
| Capitalization:   |                      |                      |
| Common stock (\$10 par value; 1,000,000 shares<br>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   | <u>13,821,191</u>    | <u>13,838,715</u>    |
| 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<br>Useful<br>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<br>in aid of construction | <u>(134,373)</u> | <u>(122,486)</u> |
|   | <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 Statements of Changes in Financial Position  
Present and Proposed Rates

Exhibit  
Schedule F-2  
Page 1  
Witness: Bourassa

| Line<br>No. |  | Test Year<br>Ended<br>12/31/2011 | At Present<br>Rates<br>Year<br>Ended<br>12/31/2012 | At Proposed<br>Rates<br>Year<br>Ended<br>12/31/2012 |
|-------------|--|----------------------------------|--|---|
| 5           | Cash Flows from Operating Activities               |                                  |  |   |
| 6           | Net Income   | \$ 307,616                       | \$ 341,472   | \$ 373,893  |
| 7           | Adjustments to reconcile net income to net cash    | (2,613)                          |  |   |
| 8           | provided by operating activities:                  |                                  |  |   |
| 9           | Depreciation and Amortization                      | 635,952                          | 570,649  | 570,649   |
| 10          | Other  | -                                |  |   |
| 11          | Changes in Certain Assets and Liabilities:         |                                  |  |   |
| 12          | Accounts Receivable                                | 40,151                           |  |   |
| 13          | Unbilled Revenues                                  | -                                |  |   |
| 14          | Materials and Supplies Inventory                   | -                                |  |   |
| 15          | Prepaid Expenses                                   | -                                |  |   |
| 16          | Deferred Charges                                   | (201,056)                        |  |   |
| 17          | Notes Receivable                                   | -                                |  |   |
| 18          | Accounts Payable                                   | 35,802                           |  |   |
| 19          | Intercompany payable                               | -                                |  |   |
| 20          | Customer Meter Deposits                            | (81,392)                         |  |   |
| 21          | Taxes Payable                                      | 1,289                            |  |   |
| 22          | Other assets and liabilities                       | -                                |  |   |
| 23          | Net Cash Flow provided by Operating Activities     | <u>\$ 735,749</u>                | <u>\$ 912,121</u>                                  | <u>\$ 944,541</u>                                   |
| 24          | Cash Flow From Investing Activities:               |                                  |  |   |
| 25          | Capital Expenditures                               | (242,781)                        | (118,052)  | (118,052)   |
| 26          | Plant Held for Future Use                          | -                                |  |   |
| 27          | Changes in debt reserve fund                       | -                                |  |   |
| 28          | Net Cash Flows from Investing Activities           | <u>\$ (242,781)</u>              | <u>\$ (118,052)</u>                                | <u>\$ (118,052)</u>                                 |
| 29          | Cash Flow From Financing Activities                |                                  |  |   |
| 30          | Change in Restricted Cash                          | 111,327                          |  |   |
| 31          | Change in Short-term Investments                   | (210,007)                        |  |   |
| 32          | Change in net amounts due to parent and affiliates | -                                |  |   |
| 33          | Net Receipt contributions in aid of construction   | 406,002                          | 406,002  | 406,002   |
| 34          | Net receipts of advances in aid of construction    | (289,153)                        | (289,153)  | (289,153)   |
| 35          | Repayments of Long-Term Debt                       | -                                | -  | -   |
| 36          | Dividends Paid                                     | (387,500)                        | (239,030)  | (239,030)   |
| 37          | Deferred Financing Costs                           | -                                | -  | -   |
| 38          | Paid in Capital                                    | -                                | -  | -   |
| 39          | Net Cash Flows Provided by Financing Activities    | <u>\$ (369,330)</u>              | <u>\$ (122,181)</u>                                | <u>\$ (122,181)</u>                                 |
| 40          | Increase(decrease) in Cash and Cash Equivalents    | 123,638                          | 671,887  | 704,308   |
| 41          | Cash and Cash Equivalents at Beginning of Year     | 472,948                          | 596,586  | 596,586   |
| 42          | Cash and Cash Equivalents at End of Year           | <u>\$ 596,586</u>                | <u>\$ 1,268,473</u>                                | <u>\$ 1,300,894</u>                                 |

SUPPORTING SCHEDULES:

E-3

43  
44  
45  
46  
47  
48  
49  
50  
51

**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 |
|---------------------------|-------------------------------|--|---|
| <b>Revenues</b>           |                               |  |   |
| 1                         |                               |  |   |
| 2                         | \$ 2,090,185                  | \$ 2,120,110                           | \$ 2,164,224                            |
| 3                         | -                             | -                                      | -                                       |
| 4                         | 308,307                       | 214,637                                | 214,637                                 |
| 5                         | <u>\$ 2,398,492</u>           | <u>\$ 2,334,747</u>                    | <u>\$ 2,378,860</u>                     |
| <b>Operating Expenses</b> |                               |  |   |
| 7                         | \$ 260,897                    | \$ 276,984                             | \$ 276,984                              |
| 8                         | 12,757                        | 12,757                                 | 12,757                                  |
| 9                         | 199,817                       | 199,817                                | 199,817                                 |
| 10                        | 215,373                       | 218,584                                | 218,584                                 |
| 11                        | 1,732                         | 1,732                                  | 1,732                                   |
| 12                        | 14,372                        | 14,372                                 | 14,372                                  |
| 13                        | 28,876                        | 28,876                                 | 28,876                                  |
| 14                        | 73,301                        | 73,301                                 | 73,301                                  |
| 15                        | 6,270                         | 6,270                                  | 6,270                                   |
| 16                        | 10,473                        | 10,473                                 | 10,473                                  |
| 17                        | 12,933                        | 12,933                                 | 12,933                                  |
| 18                        | 394,545                       | 211,138                                | 211,138                                 |
| 19                        | 15,976                        | 15,976                                 | 15,976                                  |
| 20                        | 3,906                         | 3,906                                  | 3,906                                   |
| 21                        | 7,920                         | 7,920                                  | 7,920                                   |
| 22                        | 8,314                         | 8,314                                  | 8,314                                   |
| 23                        | 33,154                        | 33,154                                 | 33,154                                  |
| 24                        | 5,111                         | 5,111                                  | 5,111                                   |
| 25                        | 32,130                        | 32,130                                 | 32,130                                  |
| 26                        | 3,111                         | 3,111                                  | 3,111                                   |
| 27                        | 11,946                        | 11,946                                 | 11,946                                  |
| 28                        | -                             | 30,000                                 | 30,000                                  |
| 29                        | 6,856                         | 6,856                                  | 6,856                                   |
| 30                        | 11,424                        | 11,424                                 | 11,424                                  |
| 31                        | 635,952                       | 570,649                                | 570,649                                 |
| 32                        | -                             | -                                      | -                                       |
| 33                        | 108,115                       | 103,681                                | 104,337                                 |
| 34                        | -                             | 106,244                                | 117,281                                 |
| 35                        |                               |  |   |
| 36                        | <u>\$ 2,115,259</u>           | <u>\$ 2,017,658</u>                    | <u>\$ 2,029,351</u>                     |
| 37                        | <u>\$ 283,233</u>             | <u>\$ 317,088</u>                      | <u>\$ 349,509</u>                       |
| 38                        | <b>Other Income (Expense)</b> |  |   |
| 39                        | 33,771                        | 33,771                                 | 33,771                                  |
| 40                        | 6,090                         | 6,090                                  | 6,090                                   |
| 41                        | (4,981)                       | -                                      | -                                       |
| 42                        | -                             | -                                      | -                                       |
| 43                        | (10,496)                      | (10,496)                               | (10,496)                                |
| 44                        | <u>\$ 24,383</u>              | <u>\$ 29,364</u>                       | <u>\$ 29,364</u>                        |
| 45                        | <u>\$ 307,616</u>             | <u>\$ 346,453</u>                      | <u>\$ 378,874</u>                       |

48 SUPPORTING SCHEDULES:

49 C-1

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 52

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

Exhibit  
 Schedule F-3  
 Page 1  
 Witness: Bourassa

| Line No. | Account                                | Test Year  | 2012       | 2013       | 2014         |
|----------|--|------------|------------|------------|--------------|
| 1        |  |            |            |            |              |
| 2        |  |            |            |            |              |
| 3        | <u>Number</u> <u>Plant Asset:</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                                  | \$ 242,785 | \$ 118,052 | \$ 529,277 | \$ 1,813,907 |
| 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 |                         |                           |
|----------|--|----------------|---------------------------------|----------------------------------|------------------|-----------------|-----------------------------------|------------------------------------|-------------------------|---------------------------|
| 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     | 17,246                          | 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       | <b>Subtotals of Revenues</b>           |                | <b>\$ 2,089,481</b>             | <b>\$ 2,131,861</b>              | <b>\$ 42,380</b> | <b>2.03%</b>    | <b>89.50%</b>                     | <b>89.62%</b>                      | <b>Additional Bills</b> | <b>Additional Gallons</b> |
| 22       | <b>Revenue Annualizations:</b>         |                |                                 |                                  |                  |                 |                                   |                                    |                         |                           |
| 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       | <b>Subtotal Revenue Annualization</b>  |                | <b>29,925</b>                   | <b>32,890</b>                    | <b>2,965</b>     | <b>9.91%</b>    | <b>1.28%</b>                      | <b>1.41%</b>                       | <b>585</b>              | <b>5,096,919</b>          |
| 44       |  |                |                                 |                                  |                  |                 |                                   |                                    |                         |                           |
| 45       | <b>Total Revenues w/ Annualization</b> |                | <b>\$ 2,119,407</b>             | <b>\$ 2,164,752</b>              | <b>\$ 45,345</b> | <b>2.14%</b>    | <b>90.78%</b>                     | <b>91.00%</b>                      |                         |                           |
| 46       | <b>Adjusted Misc Revenues</b>          |                | <b>214,637</b>                  | <b>214,637</b>                   | <b>-</b>         | <b>0.00%</b>    | <b>9.19%</b>                      | <b>9.02%</b>                       |                         |                           |
| 47       | <b>Reconciling Amount</b>              |                | <b>703</b>                      | <b>(528)</b>                     | <b>(1,231)</b>   | <b>-175.11%</b> | <b>0.03%</b>                      | <b>-0.02%</b>                      |                         |                           |
| 48       | <b>Total Revenues</b>                  |                | <b>\$ 2,334,746</b>             | <b>\$ 2,378,860</b>              | <b>\$ 44,114</b> | <b>1.89%</b>    | <b>100.00%</b>                    | <b>100.00%</b>                     |                         |                           |
| 49       |  |                |                                 |                                  |                  |                 |                                   |                                    |                         |                           |
| 50       |  |                |                                 |                                  |                  |                 |                                   |                                    |                         |                           |
| 51       | <b>Reconciliation to GL Revenues</b>   |                |                                 |                                  |                  |                 |                                   |                                    |                         |                           |
| 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  
 Analysis of Revenue by Detailed Class  
 Test Year Ended December 31, 2011

Exhibit  
 Schedule H-2  
 Page 1  
 Witness: Bourassa

| Line No. | Customer Classification and/or Meter Size | (a)<br>Average Number of Customers at 12/31/2011 | Average Bill  |                | Proposed Increase |                | Percent of Customers |
|----------|---|--|---------------|----------------|-------------------|----------------|----------------------|
|          |   |  | Present Rates | Proposed Rates | Dollar Amount     | Percent Amount |                      |
| 1        | 5/8x3/4 Inch Residential                  | 3,596  | 40.06 \$      | 40.58 \$       | 0.52              | 1.29%          | 96.33%               |
| 2        | 3/4 Inch Residential                      | -  | 54.38         | 55.79          | 1.42              | 2.60%          | 0.00%                |
| 3        | 1 Inch Residential                        | 3  | 59.22         | 63.88          | 4.66              | 7.86%          | 0.08%                |
| 4        |   |  |               |                |                   |                |                      |
| 5        | 5/8x3/4 Inch Commercial                   | 6  | 46.28         | 47.79          | 1.52              | 3.28%          | 0.17%                |
| 6        | 3/4 Inch Commercial                       | 2  | 64.43         | 67.06          | 2.63              | 4.08%          | 0.06%                |
| 7        | 1 Inch Commercial                         | 3  | 115.89        | 120.55         | 4.66              | 4.02%          | 0.08%                |
| 8        | 1/12 Inch Commercial                      | 14   | 107.65        | 117.90         | 10.26             | 9.53%          | 0.37%                |
| 9        | 2 Inch Commercial                         | 26   | 219.72        | 236.71         | 16.99             | 7.73%          | 0.69%                |
| 10       |   |  |               |                |                   |                |                      |
| 11       | 5/8x3/4 Inch Irrigation                   | 3  | 54.55         | 56.15          | 1.60              | 2.94%          | 0.08%                |
| 12       | 3/4 Inch Irrigation                       | 11   | 38.85         | 41.26          | 2.41              | 6.22%          | 0.29%                |
| 13       | 1 Inch Irrigation                         | 15   | 96.37         | 101.03         | 4.66              | 4.83%          | 0.41%                |
| 14       | 1/12 Inch Irrigation                      | 7  | 215.57        | 225.83         | 10.26             | 4.76%          | 0.18%                |
| 15       | 2 Inch Irrigation                         | 12   | 805.51        | 843.61         | 38.10             | 4.73%          | 0.31%                |
| 16       |   |  |               |                |                   |                |                      |
| 17       | 5/8x3/4 Inch Standpipe                    | 31   | 35.27         | 23.47          | (11.80)           | -33.46%        | 0.82%                |
| 18       | 1 Inch Standpipe                          | 1  | 188.00        | 156.72         | (31.28)           | -16.64%        | 0.03%                |
| 19       | 3 Inch Construction                       | 4  | 840.99        | 591.59         | (249.40)          | -29.66%        | 0.10%                |
| 20       |   |  |               |                |                   |                |                      |
| 21       |   |  |               |                |                   |                |                      |
| 22       |   |  |               |                |                   |                |                      |
| 23       |   |  |               |                |                   |                |                      |
| 24       | Totals                                    | 3,733  |               |                |                   |                | 100.00%              |
| 25       |   |  |               |                |                   |                |                      |
| 26       | Actual Year End Number                    | 3,867  |               |                |                   |                |                      |
| 27       | of Customers:                             |  |               |                |                   |                |                      |
| 28       |   |  |               |                |                   |                |                      |
| 29       |   |  |               |                |                   |                |                      |
| 30       |   |  |               |                |                   |                |                      |
| 31       |   |  |               |                |                   |                |                      |



| Line No. | Monthly Usage Charge for:<br>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        | WFA Surcharge   | 6.92          | -                                   | (6.92)        | -100.00%       |
| 10       | Standpipe   | by meter size | -                                   | -             | -              |
| 11       |   | (a)           | (a)                                 |               |                |
| 12       | Fire Sprinkler  |               |                                     |               |                |
| 13       |   |               |                                     |               |                |
| 14       |   |               |                                     |               |                |
| 15       | Gallons in Minimum (All Classes)                                      | -             | -                                   |               |                |
| 16       |   |               |                                     |               |                |
| 17       |   |               |                                     |               |                |
| 18       |   |               |                                     |               |                |
| 19       | <u>Commodity Rates</u>  |               |                                     |               |                |
| 20       |   |               |                                     |               |                |
| 21       | 5/8x3/4 inch (all classes, including standpipe and construction)      |               | (Per 1,000 gallons)<br>Present Rate | Proposed Rate |                |
| 22       |   |               | \$ 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

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



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

Exhibit  
 Schedule H-3  
 Page 4  
 Witness: Bourassa

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

| Line No. | Offsite Facilities Hook-Up Fee <sup>2</sup> | Present Charge | Proposed Charge |
|----------|---|----------------|-----------------|
| 19       |   |                |                 |
| 20       |   |                |                 |
| 21       |   |                |                 |
| 22       |   |                |                 |
| 23       | 5/8 x 3/4 Inch                              | 420.00         | 420.00          |
| 24       | 3/4 Inch                                    | 504.00         | 504.00          |
| 25       | 1 Inch                                      | 840.00         | 840.00          |
| 26       | 1 1/2 Inch                                  | 1,680.00       | 1,680.00        |
| 27       | 2 Inch                                      | 2,690.00       | 2,690.00        |
| 28       | 3 Inch                                      | 5,040.00       | 5,040.00        |
| 29       | 4 Inch                                      | 8,400.00       | 8,400.00        |
| 30       | 6 Inch or larger                            | 16,800.00      | 16,800.00       |
| 31       |   |                |                 |
| 32       |   |                |                 |

<sup>1</sup> Treated as revenue.  
<sup>2</sup> 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 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               | 18.45                | \$ 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 Bill</u> | <u>Proposed Bill</u> | <u>Dollar Increase</u> | <u>Percent 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%                   |
| <b>Average Usage</b> |                     |                      |                        |                         |
| 4,681                | \$ 59.22            | \$ 63.88             | \$ 4.66                | 7.86%                   |
| <b>Median Usage</b>  |                     |                      |                        |                         |
| 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**  
**Page 4**  
**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> |                          |          |
| -                    | \$ 13.18       | \$ 14.70        | \$ 1.52         | 11.50%          |                          |          |
| 1,000                | 17.18          | 18.70           | \$ 1.52         | 8.82%           | <b>Present Rates:</b>    |          |
| 2,000                | 21.18          | 22.70           | \$ 1.52         | 7.16%           | Monthly Minimum:         | \$ 13.18 |
| 3,000                | 25.18          | 26.70           | \$ 1.52         | 6.02%           | Gallons in Minimum       | -        |
| 4,000                | 29.18          | 30.70           | \$ 1.52         | 5.19%           | Charge Per 1,000 Gallons |          |
| 5,000                | 33.18          | 34.70           | \$ 1.52         | 4.57%           | All Gallons              | \$ 4.00  |
| 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%           | <b>Proposed Rates:</b>   |          |
| 14,000               | 69.18          | 70.70           | \$ 1.52         | 2.19%           | Monthly Minimum:         | \$ 14.70 |
| 16,000               | 77.18          | 78.70           | \$ 1.52         | 1.96%           | Gallons in Minimum       | -        |
| 18,000               | 85.18          | 86.70           | \$ 1.52         | 1.78%           | Charge Per 1,000 Gallons |          |
| 20,000               | 93.18          | 94.70           | \$ 1.52         | 1.63%           | Up to 50,000             | \$ 4.00  |
| 25,000               | 113.18         | 114.70          | \$ 1.52         | 1.34%           | Over 50,000              | \$ 4.25  |
| 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%           |                          |          |
| <b>Average Usage</b> |                |                 |                 |                 |                          |          |
| 8,274                | \$ 46.28       | \$ 47.79        | \$ 1.52         | 3.28%           |                          |          |
| <b>Median Usage</b>  |                |                 |                 |                 |                          |          |
| 4,500                | \$ 31.18       | \$ 32.70        | \$ 1.52         | 4.86%           |                          |          |

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  
 Page 5  
 Witness: Bourassa

| <u>Usage</u>            | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><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<br>10,858 | \$ 64.43                      | \$ 67.06                       | \$ 2.63                          | 4.08%                             |
| Median Usage<br>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

Exhibit  
 Schedule H-4  
 Page 6  
 Witness: Bourassa

| <u>Usage</u>            | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><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<br>18,848 | \$ 115.89                     | \$ 120.55                      | \$ 4.66                          | 4.02%                             |
| Median Usage<br>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  
 Page 7  
 Witness: Bourassa

| <u>Usage</u> | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><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 Commerical 2 Inch Meter  
 Test Year Ended December 31, 2011

Exhibit  
 Schedule H-4  
 Page 8  
 Witness: Bourassa

| <u>Usage</u>            | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>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<br>18,005 | \$ 219.72                     | \$ 236.71                      | \$ 16.99                         | 7.73%                             |
| Median Usage<br>8,500   | \$ 181.70                     | \$ 198.69                      | \$ 16.99                         | 9.35%                             |

**Present Rates:**

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

**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)

Exhibit  
 Schedule H-4  
 Page 9  
 Witness: Bourassa

| Usage         | Present<br>Bill | Proposed<br>Bill | Dollar<br>Increase | Percent<br>Increase |                          |          |
|---------------|-----------------|------------------|--------------------|---------------------|--------------------------|----------|
| -             | \$ 13.18        | \$ 14.70         | \$ 1.52            | 11.50%              |                          |          |
| 1,000         | 17.18           | 18.70            | \$ 1.52            | 8.82%               | <b>Present Rates:</b>    |          |
| 2,000         | 21.18           | 22.70            | \$ 1.52            | 7.16%               | Monthly Minimum:         | \$ 13.18 |
| 3,000         | 25.18           | 26.70            | \$ 1.52            | 6.02%               | Gallons in Minimum       | -        |
| 4,000         | 29.18           | 30.70            | \$ 1.52            | 5.19%               | Charge Per 1,000 Gallons |          |
| 5,000         | 33.18           | 34.70            | \$ 1.52            | 4.57%               | All Gallons              | \$ 4.00  |
| 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%               | <b>Proposed Rates:</b>   |          |
| 14,000        | 69.18           | 71.70            | \$ 2.52            | 3.64%               | Monthly Minimum:         | \$ 14.70 |
| 16,000        | 77.18           | 80.20            | \$ 3.02            | 3.91%               | Gallons in Minimum       | -        |
| 18,000        | 85.18           | 88.70            | \$ 3.52            | 4.13%               | Charge Per 1,000 Gallons |          |
| 20,000        | 93.18           | 97.20            | \$ 4.02            | 4.31%               | Up to 10,000             | \$ 4.00  |
| 25,000        | 113.18          | 118.45           | \$ 5.27            | 4.65%               | Over 10,000              | \$ 4.25  |
| 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%               |                          |          |

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  
 Page 10  
 Witness: Bourassa

| <u>Usage</u>  | <u>Present Bill</u> | <u>Proposed Bill</u> | <u>Dollar Increase</u> | <u>Percent 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%                   |  |

| <b>Present Rates:</b>    |        |       |      |
|--------------------------|--------|-------|------|
| Monthly Minimum:         | \$     | 21.00 |      |
| Gallons in Minimum       |        | -     |      |
| Charge Per 1,000 Gallons | \$     | 4.00  |      |
| <b>Proposed Rates:</b>   |        |       |      |
| 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  
 Page 11  
 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%                  | <b>Present Rates:</b>     |
| 2,000         | 48.50               | 53.16                | \$ 4.66                | 9.60%                   | Monthly Minimum: \$ 40.50 |
| 3,000         | 52.50               | 57.16                | \$ 4.66                | 8.87%                   | Gallons in Minimum -      |
| 4,000         | 56.50               | 61.16                | \$ 4.66                | 8.24%                   | Charge Per 1,000 Gallons  |
| 5,000         | 60.50               | 65.16                | \$ 4.66                | 7.70%                   | All Gallons \$ 4.00       |
| 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%                   | <b>Proposed Rates:</b>    |
| 14,000        | 96.50               | 101.16               | \$ 4.66                | 4.83%                   | Monthly Minimum: \$ 45.16 |
| 16,000        | 104.50              | 109.16               | \$ 4.66                | 4.46%                   | Gallons in Minimum -      |
| 18,000        | 112.50              | 117.16               | \$ 4.66                | 4.14%                   | Charge Per 1,000 Gallons  |
| 20,000        | 120.50              | 125.16               | \$ 4.66                | 3.87%                   | Up to 25,000 \$ 4.00      |
| 25,000        | 140.50              | 145.16               | \$ 4.66                | 3.31%                   | Over 25,000 \$ 4.25       |
| 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%                   |                           |

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

Exhibit  
 Schedule H-4  
 Page 12  
 Witness: Bourassa

| <u>Usage</u>  | <u>Present</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><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</u><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><u>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><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><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%                             |

**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 |

|               |    |       |    |       |                    |
|---------------|----|-------|----|-------|--------------------|
| Average Usage |    |       |    |       |                    |
| 5,522         | \$ | 35.27 | \$ | 23.47 | \$ (11.80) -33.46% |
| Median Usage  |    |       |    |       |                    |
| 4,500         | \$ | 31.18 | \$ | 19.13 | \$ (12.06) -38.66% |

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

Exhibit  
 Schedule H-4  
 Page 15  
 Witness: Bourassa

| <u>Usage</u>  | <u>Present Bill</u> | <u>Proposed Bill</u> | <u>Dollar Increase</u> | <u>Percent Increase</u> |
|---------------|---------------------|----------------------|------------------------|-------------------------|
| -             | \$ 40.50            | \$ -                 | \$ (40.50)             | 0.00%                   |
| 1,000         | 44.50               | 4.25                 | (40.25)                | -90.45%                 |
| 2,000         | 48.50               | 8.50                 | (40.00)                | -82.47%                 |
| 3,000         | 52.50               | 12.75                | (39.75)                | -75.71%                 |
| 4,000         | 56.50               | 17.00                | (39.50)                | -69.91%                 |
| 5,000         | 60.50               | 21.25                | (39.25)                | -64.88%                 |
| 6,000         | 64.50               | 25.50                | (39.00)                | -60.47%                 |
| 7,000         | 68.50               | 29.75                | (38.75)                | -56.57%                 |
| 8,000         | 72.50               | 34.00                | (38.50)                | -53.10%                 |
| 9,000         | 76.50               | 38.25                | (38.25)                | -50.00%                 |
| 10,000        | 80.50               | 42.50                | (38.00)                | -47.20%                 |
| 12,000        | 88.50               | 51.00                | (37.50)                | -42.37%                 |
| 14,000        | 96.50               | 59.50                | (37.00)                | -38.34%                 |
| 16,000        | 104.50              | 68.00                | (36.50)                | -34.93%                 |
| 18,000        | 112.50              | 76.50                | (36.00)                | -32.00%                 |
| 20,000        | 120.50              | 85.00                | (35.50)                | -29.46%                 |
| 25,000        | 140.50              | 106.25               | (34.25)                | -24.38%                 |
| 30,000        | 160.50              | 127.50               | (33.00)                | -20.56%                 |
| 35,000        | 180.50              | 148.75               | (31.75)                | -17.59%                 |
| 40,000        | 200.50              | 170.00               | (30.50)                | -15.21%                 |
| 45,000        | 220.50              | 191.25               | (29.25)                | -13.27%                 |
| 50,000        | 240.50              | 212.50               | (28.00)                | -11.64%                 |
| 60,000        | 280.50              | 255.00               | (25.50)                | -9.09%                  |
| 70,000        | 320.50              | 297.50               | (23.00)                | -7.18%                  |
| 80,000        | 360.50              | 340.00               | (20.50)                | -5.69%                  |
| 90,000        | 400.50              | 382.50               | (18.00)                | -4.49%                  |
| 100,000       | 440.50              | 425.00               | (15.50)                | -3.52%                  |
| Average Usage |                     |                      |                        |                         |
| 36,876        | \$ 188.00           | \$ 156.72            | \$ (31.28)             | -16.64%                 |
| Median Usage  |                     |                      |                        |                         |
| 37,500        | \$ 190.50           | \$ 159.38            | \$ (31.13)             | -16.34%                 |

**Present Rates:**  
 Monthly Minimum: \$ 40.50  
 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><br><u>Bill</u> | <u>Proposed</u><br><u>Bill</u> | <u>Dollar</u><br><u>Increase</u> | <u>Percent</u><br><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  
Residential 5/8x3/4 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           | 1,000     | 29           | 17           | 36           | 37           | 35           | 26           | 33           | 30           | 42           | 28           | 43           | 38           | 394        | 394                | 1,123                    |
| 1,001       | 2,000     | 187          | 142          | 176          | 158          | 162          | 180          | 171          | 223          | 198          | 240          | 190          | 217          | 2,244      | 2,638              | 5,041                    |
| 2,001       | 3,000     | 238          | 175          | 248          | 189          | 182          | 188          | 234          | 212          | 229          | 265          | 208          | 243          | 2,611      | 5,249              | 14,840                   |
| 3,001       | 4,000     | 403          | 306          | 403          | 262          | 273          | 265          | 314          | 314          | 307          | 387          | 312          | 434          | 3,919      | 9,168              | 32,658                   |
| 4,001       | 5,000     | 501          | 402          | 531          | 415          | 310          | 366          | 366          | 362          | 425          | 505          | 398          | 532          | 5,090      | 14,258             | 56,259                   |
| 5,001       | 6,000     | 505          | 487          | 493          | 424          | 378          | 363          | 344          | 420          | 395          | 454          | 455          | 526          | 5,244      | 19,502             | 82,952                   |
| 6,001       | 7,000     | 460          | 441          | 455          | 412          | 353          | 332          | 355          | 386          | 397          | 400          | 408          | 457          | 4,853      | 24,355             | 131,343                  |
| 7,001       | 8,000     | 351          | 373          | 328          | 333          | 330          | 275          | 296          | 324          | 302          | 304          | 337          | 354          | 3,910      | 28,265             | 152,085                  |
| 8,001       | 9,000     | 258          | 315          | 236          | 287          | 283          | 238          | 245          | 245          | 253          | 226          | 261          | 216          | 3,063      | 31,328             | 169,661                  |
| 9,001       | 10,000    | 184          | 209          | 156          | 206          | 212          | 234          | 217          | 212          | 237          | 194          | 219          | 160          | 2,440      | 33,768             | 198,031                  |
| 10,001      | 12,000    | 109          | 176          | 128          | 180          | 167          | 182          | 168          | 179          | 145          | 113          | 180          | 123          | 1,850      | 35,618             | 233,838                  |
| 12,001      | 14,000    | 149          | 215          | 158          | 234          | 293          | 267          | 238          | 220          | 240          | 181          | 230          | 154          | 2,579      | 38,197             | 218,793                  |
| 14,001      | 16,000    | 65           | 97           | 77           | 161          | 179          | 189          | 186          | 168          | 153          | 116          | 126          | 80           | 1,597      | 39,794             | 233,838                  |
| 16,001      | 18,000    | 39           | 64           | 31           | 76           | 130          | 134          | 137          | 101          | 94           | 67           | 98           | 32           | 1,003      | 40,797             | 244,753                  |
| 18,001      | 20,000    | 27           | 38           | 34           | 54           | 79           | 86           | 97           | 61           | 55           | 32           | 50           | 29           | 642        | 41,439             | 252,847                  |
| 20,001      | 25,000    | 13           | 29           | 20           | 34           | 52           | 72           | 58           | 30           | 39           | 30           | 31           | 18           | 426        | 41,865             | 267,202                  |
| 25,001      | 30,000    | 15           | 36           | 29           | 51           | 73           | 87           | 99           | 59           | 62           | 51           | 60           | 16           | 638        | 42,503             | 274,682                  |
| 30,001      | 35,000    | 7            | 7            | 9            | 25           | 35           | 45           | 46           | 24           | 24           | 16           | 18           | 4            | 272        | 42,775             | 280,012                  |
| 35,001      | 40,000    | 1            | 5            | 6            | 12           | 21           | 20           | 24           | 10           | 5            | 6            | 12           | 6            | 164        | 43,027             | 283,312                  |
| 40,001      | 45,000    | 1            | 1            | 4            | 7            | 12           | 16           | 16           | 5            | 3            | 2            | 3            | -            | 88         | 43,059             | 286,240                  |
| 45,001      | 50,000    | 2            | 1            | 2            | 6            | 6            | 4            | 3            | 4            | 1            | 3            | 1            | -            | 32         | 43,082             | 288,110                  |
| 50,001      | 60,000    | -            | 2            | -            | 7            | 1            | 2            | 8            | 6            | 5            | 1            | 2            | -            | 34         | 43,126             | 289,155                  |
| 60,001      | 70,000    | -            | -            | 2            | -            | 1            | -            | 3            | 1            | -            | -            | 1            | -            | 8          | 43,134             | 289,410                  |
| 70,001      | 80,000    | -            | -            | -            | -            | 2            | -            | 1            | -            | -            | -            | -            | -            | 7          | 43,141             | 289,695                  |
| 80,001      | 90,000    | -            | -            | -            | -            | -            | -            | 1            | -            | -            | -            | -            | 1            | 3          | 43,144             | 289,831                  |
| 90,001      | 100,000   | -            | -            | -            | -            | -            | -            | -            | -            | -            | 2            | -            | -            | 3          | 43,147             | 289,975                  |
| 136,202     | 136,202   | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 43,148             | 289,975                  |
| 143,671     | 143,671   | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 43,149             | 289,975                  |

|        |       |       |       |       |       |       |       |       |       |       |       |       |        |        |         |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|---------|
| Totals | 3,558 | 3,552 | 3,563 | 3,574 | 3,576 | 3,564 | 3,602 | 3,622 | 3,626 | 3,627 | 3,645 | 3,640 | 43,149 | 43,149 | 289,975 |
|        |       |       |       |       |       |       |       |       |       |       |       |       | 6,720  | 6,720  | 5,500   |
|        |       |       |       |       |       |       |       |       |       |       |       |       |        |        | 3,596   |
|        |       |       |       |       |       |       |       |       |       |       |       |       |        |        | 82      |

Average Usage  
Median Usage  
Average # Customers  
Change in Number of Customers





| 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          | 2                  | -                        |
| 1,001       | 2,000     | -            | 1            | -            | 1            | -            | 1            | -            | -            | -            | -            | -            | 1            | 5          | 7                  | 3                        |
| 2,001       | 3,000     | -            | 2            | 2            | 1            | 2            | 1            | -            | -            | -            | -            | -            | 2            | 12         | 19                 | 21                       |
| 3,001       | 4,000     | -            | 1            | 2            | 1            | 1            | -            | -            | 1            | -            | -            | -            | 1            | 8          | 27                 | 41                       |
| 4,001       | 5,000     | -            | -            | 1            | 1            | 1            | 2            | -            | -            | -            | -            | -            | -            | 8          | 35                 | 69                       |
| 5,001       | 6,000     | -            | -            | -            | 1            | 1            | -            | -            | 2            | -            | -            | -            | -            | 6          | 41                 | 96                       |
| 6,001       | 7,000     | -            | 2            | -            | -            | -            | -            | 1            | -            | -            | -            | -            | -            | 2          | 43                 | 107                      |
| 7,001       | 8,000     | -            | -            | -            | -            | -            | 2            | -            | -            | -            | -            | -            | 1            | 6          | 49                 | 146                      |
| 8,001       | 9,000     | -            | 2            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1            | 2          | 51                 | 161                      |
| 9,001       | 10,000    | -            | -            | 1            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | 4          | 55                 | 195                      |
| 10,001      | 12,000    | -            | -            | -            | 1            | -            | -            | 1            | -            | -            | -            | -            | -            | 6          | 61                 | 252                      |
| 12,001      | 14,000    | 1            | -            | -            | -            | -            | -            | 1            | -            | -            | -            | -            | -            | 5          | 66                 | 307                      |
| 14,001      | 16,000    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 67                 | 320                      |
| 16,001      | 18,000    | -            | -            | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -          | 67                 | 320                      |
| 18,001      | 20,000    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 68                 | 337                      |
| 20,001      | 25,000    | -            | -            | -            | -            | -            | -            | -            | -            | 1            | -            | -            | -            | 1          | 69                 | 356                      |
| 25,001      | 30,000    | -            | 1            | -            | -            | -            | -            | -            | 1            | -            | -            | -            | -            | 2          | 71                 | 411                      |
| 30,001      | 35,000    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -          | 71                 | 411                      |
| 35,001      | 40,000    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -          | 71                 | 411                      |
| 40,001      | 45,000    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 72                 | 453                      |
| 45,001      | 50,000    | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 73                 | 501                      |
| 50,001      | 60,000    | -            | -            | -            | -            | -            | -            | 1            | -            | -            | -            | -            | -            | 1          | 74                 | 556                      |
| 60,001      | 70,000    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 75                 | 621                      |
| 70,001      | 80,000    | -            | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -          | 75                 | 621                      |
| 80,001      | 90,000    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -          | 75                 | 621                      |
| 90,001      | 100,000   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -          | 75                 | 621                      |
| Totals      |           | 7            | 7            | 7            | 6            | 6            | 6            | 6            | 6            | 6            | 6            | 6            | 6            | 75         |                    |                          |
|             |           |              |              |              |              |              |              |              |              |              |              |              |              | 8,274      |                    |                          |
|             |           |              |              |              |              |              |              |              |              |              |              |              |              | 4,500      |                    |                          |
|             |           |              |              |              |              |              |              |              |              |              |              |              |              | 6          |                    |                          |
|             |           |              |              |              |              |              |              |              |              |              |              |              |              | (1)        |                    |                          |

Average Usage 8,274  
 Median Usage 4,500  
 Average # Customers 6  
 Change in Number of Customers (1)





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

Exhibit  
 Schedule H-5  
 Page 7  
 Witness: Bourassa

| Usage From: | Usage To: | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total Year | Cumulative Billing | Cumulative Gals (1,000s) |
|-------------|-----------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------------|--------------------|--------------------------|
| 1,000       | 1,000     | 2   | 4   | 1   | -   | 1   | 1   | 1   | 1   | 1   | 1   | -   | 1   | 9          | 9                  | 15                       |
| 1,001       | 2,000     | 4   | 2   | 4   | 2   | 4   | 3   | 4   | 3   | 1   | 2   | 1   | -   | 30         | 39                 | 63                       |
| 2,001       | 3,000     | 5   | 2   | 3   | 2   | 2   | 3   | 5   | 3   | -   | 2   | 2   | 6   | 32         | 71                 | 146                      |
| 3,001       | 4,000     | -   | 3   | 2   | 5   | 3   | 2   | 2   | 2   | 3   | 4   | 3   | 3   | 33         | 104                | 191                      |
| 4,001       | 5,000     | 2   | 3   | -   | 2   | 2   | 1   | -   | -   | 2   | -   | 1   | -   | 13         | 117                | 196                      |
| 5,001       | 6,000     | -   | -   | -   | -   | -   | -   | -   | 1   | -   | -   | -   | -   | 1          | 118                | 196                      |
| 6,001       | 7,000     | -   | -   | -   | -   | -   | -   | -   | -   | 2   | -   | 1   | -   | 3          | 121                | 212                      |
| 7,001       | 8,000     | -   | -   | -   | -   | -   | -   | -   | -   | -   | 1   | -   | -   | 5          | 126                | 245                      |
| 8,001       | 9,000     | -   | -   | -   | -   | -   | -   | -   | 2   | 1   | 2   | -   | -   | 6          | 132                | 280                      |
| 9,001       | 10,000    | -   | 1   | 1   | -   | 1   | -   | -   | 2   | 2   | 1   | -   | 1   | 7          | 139                | 349                      |
| 10,001      | 12,000    | -   | -   | -   | -   | -   | -   | -   | -   | 1   | -   | -   | -   | 8          | 145                | 406                      |
| 12,001      | 14,000    | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 1   | -   | 9          | 150                | 461                      |
| 14,001      | 16,000    | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 3   | -   | 12         | 156                | 539                      |
| 16,001      | 18,000    | -   | -   | -   | -   | -   | -   | -   | -   | 1   | -   | 1   | -   | 13         | 158                | 569                      |
| 18,001      | 20,000    | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 14         | 160                | 603                      |
| 20,001      | 25,000    | -   | 1   | 2   | -   | 1   | -   | -   | -   | 1   | 1   | -   | -   | 16         | 163                | 660                      |
| 25,001      | 30,000    | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 17         | 164                | 683                      |
| 30,001      | 35,000    | 1   | -   | -   | -   | -   | -   | -   | 1   | -   | -   | -   | -   | 18         | 166                | 738                      |
| 35,001      | 40,000    | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 19         | 167                | 770                      |
| 40,001      | 45,000    | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 20         | 167                | 770                      |
| 45,001      | 50,000    | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 21         | 167                | 770                      |
| 50,001      | 60,000    | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 22         | 167                | 770                      |
| 60,001      | 70,000    | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 23         | 167                | 770                      |
| 70,001      | 80,000    | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 24         | 167                | 770                      |
| 80,001      | 90,000    | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 25         | 167                | 770                      |
| 90,001      | 100,000   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | -   | 26         | 167                | 770                      |
| Totals      |           | 14  | 14  | 14  | 13  | 14  | 14  | 14  | 14  | 14  | 14  | 14  | 14  | 167        | 167                | 770                      |

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

| 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       | 1,000     | 3                             | 2            | 2            | 2            | 1            | 1            | 1            | 1            | 1            | 1            | 2            | 1            | 14         | 14                 | 5                        |
| 1,001       | 2,000     | -                             | -            | -            | -            | 1            | 1            | 1            | 1            | 2            | 1            | 2            | 1            | 10         | 24                 | 14                       |
| 2,001       | 3,000     | 4                             | 1            | 1            | 1            | 3            | 4            | 7            | 2            | 2            | 3            | 1            | -            | 6          | 30                 | 14                       |
| 3,001       | 4,000     | 4                             | 1            | 2            | 3            | 2            | 2            | 2            | 3            | -            | 3            | 1            | -            | 27         | 57                 | 82                       |
| 4,001       | 5,000     | 1                             | 3            | 2            | 2            | 2            | 2            | -            | 3            | -            | 2            | 1            | 2            | 25         | 82                 | 169                      |
| 5,001       | 6,000     | -                             | 3            | 2            | 2            | 1            | 1            | -            | 2            | 1            | 2            | 2            | 3            | 20         | 102                | 259                      |
| 6,001       | 7,000     | 2                             | 2            | 2            | 1            | 1            | 1            | 1            | 1            | 2            | 2            | 2            | 1            | 19         | 121                | 364                      |
| 7,001       | 8,000     | -                             | 1            | 1            | -            | 2            | -            | 1            | -            | -            | 1            | 1            | 2            | 16         | 137                | 468                      |
| 8,001       | 9,000     | 1                             | -            | 1            | 1            | 1            | 2            | 1            | 2            | 1            | -            | 1            | 1            | 12         | 158                | 637                      |
| 9,001       | 10,000    | 2                             | 1            | 1            | 1            | -            | 1            | -            | -            | 1            | 1            | -            | -            | 9          | 167                | 723                      |
| 10,001      | 12,000    | 1                             | 2            | -            | 1            | 2            | 3            | 1            | 1            | 2            | 2            | 2            | 2            | 19         | 186                | 932                      |
| 12,001      | 14,000    | 1                             | -            | 4            | 2            | 1            | -            | 4            | 1            | 1            | 1            | -            | -            | 14         | 200                | 1,114                    |
| 14,001      | 16,000    | -                             | -            | -            | 1            | -            | 2            | -            | -            | 1            | -            | 1            | 6            | 10         | 210                | 1,264                    |
| 16,001      | 18,000    | 1                             | -            | -            | -            | 4            | -            | -            | -            | 1            | -            | 1            | -            | 9          | 219                | 1,417                    |
| 18,001      | 20,000    | -                             | 2            | -            | -            | -            | -            | 2            | -            | 2            | -            | 2            | -            | 6          | 225                | 1,531                    |
| 20,001      | 25,000    | -                             | -            | -            | 2            | -            | 1            | -            | 3            | 1            | 1            | 2            | -            | 10         | 235                | 1,756                    |
| 25,001      | 30,000    | 1                             | 1            | 2            | -            | 1            | 2            | -            | -            | 1            | 1            | 1            | -            | 9          | 244                | 2,003                    |
| 30,001      | 35,000    | 2                             | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 2            | 7          | 251                | 2,231                    |
| 35,001      | 40,000    | -                             | 1            | -            | -            | -            | 2            | 1            | -            | -            | 1            | 1            | 2            | 7          | 258                | 2,493                    |
| 40,001      | 45,000    | -                             | 1            | 1            | 1            | 1            | -            | 1            | 2            | -            | 3            | 3            | -            | 13         | 271                | 3,046                    |
| 45,001      | 50,000    | -                             | -            | 1            | -            | 3            | -            | -            | -            | 3            | -            | 1            | -            | 8          | 279                | 3,426                    |
| 50,001      | 60,000    | 2                             | -            | -            | -            | 1            | 1            | -            | 2            | -            | -            | -            | 1            | 5          | 284                | 3,701                    |
| 60,001      | 70,000    | -                             | 2            | 1            | 3            | 1            | -            | 2            | -            | 2            | 1            | -            | -            | 14         | 298                | 4,611                    |
| 70,001      | 80,000    | -                             | 1            | 1            | 2            | -            | 1            | -            | 1            | -            | -            | -            | -            | 6          | 304                | 5,061                    |
| 80,001      | 90,000    | -                             | -            | -            | -            | 1            | -            | -            | -            | -            | -            | 1            | -            | 2          | 306                | 5,231                    |
| 90,001      | 100,000   | -                             | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 307                | 5,326                    |
| 122,884     | 122,884   | -                             | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 308                | 5,449                    |
| 115,009     | 115,009   | -                             | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 309                | 5,564                    |
| -           | -         | -                             | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -          | 309                | 5,564                    |
| -           | -         | -                             | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -          | 309                | 5,564                    |
| -           | -         | -                             | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -          | 309                | 5,564                    |
| Totals      |           | 25                            | 25           | 25           | 25           | 25           | 25           | 25           | 26           | 27           | 27           | 27           | 27           | 309        |                    |                          |
|             |           | Average Usage                 |              |              |              |              |              |              |              |              |              |              |              | 18,005     |                    |                          |
|             |           | Median Usage                  |              |              |              |              |              |              |              |              |              |              |              | 8,500      |                    |                          |
|             |           | Average # Customers           |              |              |              |              |              |              |              |              |              |              |              | 26         |                    |                          |
|             |           | Change in Number of Customers |              |              |              |              |              |              |              |              |              |              |              | 2          |                    |                          |









Vall 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                  | 4                        |
| 1,001       | 2,000     | -            | -            | -            | 1            | 1            | -            | -            | 1            | -            | -            | -            | -            | 3          | 16                 | 8                        |
| 2,001       | 3,000     | 1            | -            | -            | -            | 1            | -            | -            | -            | -            | -            | 1            | -            | 3          | 19                 | 16                       |
| 3,001       | 4,000     | -            | -            | -            | -            | -            | -            | -            | 2            | -            | -            | -            | -            | 2          | 22                 | 23                       |
| 4,001       | 5,000     | 1            | -            | -            | -            | 1            | -            | -            | -            | -            | -            | -            | 2            | 4          | 28                 | 41                       |
| 5,001       | 6,000     | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -          | 28                 | 41                       |
| 6,001       | 7,000     | -            | -            | -            | -            | -            | 1            | -            | 1            | -            | -            | -            | -            | 2          | 30                 | 54                       |
| 7,001       | 8,000     | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 2          | 32                 | 69                       |
| 8,001       | 9,000     | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1            | 2          | 34                 | 86                       |
| 9,001       | 10,000    | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 2          | 36                 | 105                      |
| 10,001      | 12,000    | -            | -            | 1            | -            | -            | -            | -            | -            | -            | 2            | -            | 1            | 4          | 40                 | 149                      |
| 12,001      | 14,000    | -            | -            | 1            | 1            | -            | 1            | -            | 1            | -            | 1            | 2            | -            | 10         | 50                 | 279                      |
| 14,001      | 16,000    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -          | 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    | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1            | -            | -            | 1          | 53                 | 361                      |
| 45,001      | 50,000    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 54                 | 404                      |
| 50,001      | 60,000    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1            | 1          | 55                 | 459                      |
| 60,001      | 70,000    | -            | 2            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 2          | 57                 | 589                      |
| 70,001      | 80,000    | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -          | 57                 | 589                      |
| 80,001      | 90,000    | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 58                 | 674                      |
| 90,001      | 100,000   | -            | -            | 1            | -            | -            | 2            | -            | -            | -            | -            | -            | -            | 4          | 62                 | 1,054                    |
| 112,812     | 112,812   | -            | -            | -            | 1            | -            | 1            | -            | -            | -            | -            | -            | -            | 1          | 63                 | 1,166                    |
| 115,868     | 115,868   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1            | 1          | 64                 | 1,282                    |
| 118,744     | 118,744   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 65                 | 1,401                    |
| 124,632     | 124,632   | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 66                 | 1,526                    |
| 128,315     | 128,315   | -            | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 67                 | 1,654                    |
| 129,508     | 129,508   | -            | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 68                 | 1,783                    |
| 129,770     | 129,770   | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 69                 | 1,913                    |
| 132,624     | 132,624   | -            | -            | -            | -            | -            | 1            | -            | -            | -            | -            | -            | -            | 1          | 70                 | 2,046                    |
| 133,880     | 133,880   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1            | 1          | 71                 | 2,180                    |
| 134,078     | 134,078   | -            | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 72                 | 2,314                    |
| 140,814     | 140,814   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 73                 | 2,455                    |
| 143,456     | 143,456   | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 75                 | 2,742                    |
| 144,174     | 144,174   | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 76                 | 2,889                    |
| 146,551     | 146,551   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1            | -            | 1          | 77                 | 3,037                    |
| 148,577     | 148,577   | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 78                 | 3,190                    |
| 153,055     | 153,055   | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 79                 | 3,347                    |
| 156,876     | 156,876   | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | 1            | 1          | 80                 | 3,506                    |
| 159,085     | 159,085   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 81                 | 3,666                    |
| 159,973     | 159,973   | -            | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 82                 | 3,828                    |
| 161,751     | 161,751   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 83                 | 3,999                    |
| 171,422     | 171,422   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 84                 | 4,173                    |
| 173,073     | 173,073   | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1            | -            | -            | 1          | 85                 | 4,348                    |
| 175,144     | 175,144   | -            | -            | -            | -            | -            | -            | -            | 1            | -            | -            | -            | -            | 1          | 86                 | 4,524                    |
| 175,823     | 175,823   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 86                 | 4,524                    |

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

Exhibit  
 Schedule H-5  
 Page 13  
 Witness: Bourassa

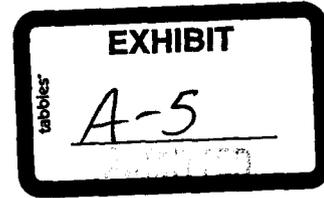
| Usage From: | Usage To: | Month of Jan | Month of Feb | Month of Mar | Month of Apr | Month of May | Month of Jun | Month of Jul | Month of Aug | Month of Sep | Month of Oct | Month of Nov | Month of Dec | Total Year | Cumulative Billing | Cumulative Gals (1,000s) |
|-------------|-----------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|--------------------|--------------------------|
| 178,769     | 178,769   | -            | -            | -            | -            | -            | -            | -            | -            | 1            | -            | -            | -            | 1          | 87                 | 4,702                    |
| 179,147     | 179,147   | -            | -            | 1            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 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          | 95                 | 6,210                    |
| 202,910     | 202,910   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 96                 | 6,413                    |
| 204,685     | 204,685   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 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            | -            | -            | -            | -            | -            | -            | -            | 1          | 105                | 8,453                    |
| 249,559     | 249,559   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 106                | 8,703                    |
| 255,660     | 255,660   | -            | -            | -            | -            | -            | -            | -            | -            | 1            | -            | -            | -            | 1          | 107                | 8,958                    |
| 270,579     | 270,579   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 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          | 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            | -            | 1          | 115                | 11,268                   |
| 313,675     | 313,675   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 116                | 11,581                   |
| 314,428     | 314,428   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1          | 117                | 11,896                   |
| 319,613     | 319,613   | -            | -            | -            | -            | -            | 1            | -            | -            | -            | -            | -            | -            | 1          | 118                | 12,215                   |
| 320,010     | 320,010   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            | 1            | 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          | 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            | -            | -            | -            | -            | -            | -            | -            | 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            | -            | -            | -            | -            | -            | -            | -            | 1          | 133                | 18,435                   |
| 544,174     | 544,174   | -            | -            | -            | -            | -            | 1            | -            | -            | -            | -            | -            | -            | 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                   |











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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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TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS..... 1

I. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY..... 1

II. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE EXPECTED RETURN ON AN INVESTMENT ..... 4

III. THE MEANING OF “JUST AND REASONABLE” RATE OF RETURN..... 14

IV. THE ESTIMATED COST OF EQUITY FOR VWC ..... 16

    A. The Publicly Traded Utilities That Comprise the Sample Group Used to Estimate the Company’s Cost of Equity. .... 16

    B. Overview of the DCF and CAPM Methodologies ..... 25

    C. Explanation of the DCF Model and Its Inputs ..... 26

    D. Explanation of the CAPM and Its Inputs ..... 32

    E. Explanation of the Build-Up Method and Its Inputs ..... 37

    F. Financial Risk Adjustment ..... 39

    G. Company Specific Risk Premium ..... 40

    H. Summary and Conclusions ..... 42

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”) models and the capital asset pricing model (“CAPM”) for the sample group of  
6 publicly traded utilities, (ii) my review of the economic conditions expected to  
7 prevail during the period in which new rates will be in effect, (iii) my judgments  
8 about the risks associated with relatively small utilities like VWC that are not  
9 captured by the market data for publicly-traded water utilities used in my DCF and  
10 CAPM models, (iv) the financial risk associated with the level of debt in VWC’s  
11 capital structure, and (v) additional specific business and operational risks faced by  
12 VWC.  
13

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**

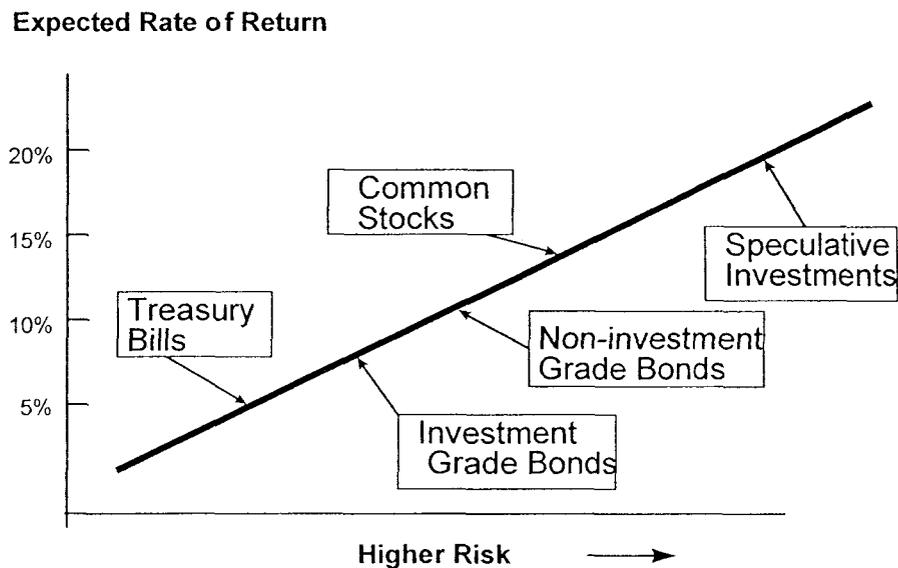
**Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?**

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.

## 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”) growth<sup>1</sup>  
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 <sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> 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 <sup>2</sup> Bourassa Dt. at 14-15.

26 <sup>3</sup> *Morin* at 400,

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

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.<sup>5</sup>

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 <sup>4</sup> *Id.*

26 <sup>5</sup> *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

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

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

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

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

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

(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.

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

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

A. These two broad approaches:

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

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

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

The Build-up Risk Premium method ("Build-up Method") is another example of a method falling into the second general approach. I will explain the Build-up Method in more detail later. For now, the Build-up method, like the CAPM, is a risk-return relationship. The Build-up Method is the sum of a risk-free 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 
$$[2] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + CF_n/(1+k)^n$$

23 where k is the cost of equity; n is a very large number;  $P_0$  is the current stock price;  
24 and,  $CF_1, CF_2, \dots, CF_n$  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 ( $P_0$ ) 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*<sup>6</sup>, 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.<sup>7</sup> 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 <sup>6</sup> Yahoo Finance analyst estimates provided by Thompson Financial.

23 <sup>7</sup> 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 either, 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.

1           **D.    Explanation of the CAPM and Its Inputs**

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

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

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

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

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

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

18   **Q.    WHAT IS THE RISK-FREE RATE?**

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

26   **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).<sup>8</sup>

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 \_\_\_\_\_  
26 <sup>8</sup> Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and 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.<sup>9</sup> 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 <sup>9</sup> 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.<sup>10</sup> *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.’<sup>11</sup>

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           <sup>10</sup> Duff & Phelps LLC, *Risk Premium Report 2012*.

26           <sup>11</sup> 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

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

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

26 <sup>12</sup> 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.<sup>13</sup> Even the California PUC conducted a study that  
14 showed smaller water utilities are more risky than larger ones.<sup>14</sup> 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 <sup>13</sup> 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 <sup>14</sup> Staff Report on Issues Related to Small Water Utilities, June 10, 1991 and CVWC Decision 92-03-093.

1           **FOR VWC?**

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

4           **H.    Summary and Conclusions**

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

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

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

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

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

25                 In the fourth part of my analysis, I reviewed the financial literature on the  
26                 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 percent<sup>15</sup>, the equity risk premium would be 6.6 percent<sup>16</sup>, the small company risk  
20 premium of 6.1 percent<sup>17</sup>) 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 <sup>15</sup> Long-term (20 year) U.S. Treasury Bond Yield as of July 10, 2012.

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

26 <sup>17</sup> 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 10<sup>th</sup> decile, the indicated cost of equity would be  
6 13.8 percent for VWC.<sup>18</sup>

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.<sup>19</sup>

15 The results are as follows<sup>20</sup>:

16

| 17 | <u>Stock</u>  |                                 | <u>Cost of</u> |
|----|---------------|---------------------------------|----------------|
| 18 | <u>Symbol</u> | <u>Company</u>                  | <u>Equity</u>  |
| 19 | AWR           | American States Water Co.       | 10.23%         |
| 20 | WTR           | Aqua America                    | 8.22%          |
| 21 | CWT           | California Water Services Group | 10.55%         |

22 <sup>18</sup> *Morningstar* splits the 10<sup>th</sup> 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  
premium of 9.8 percent (see Appendix C). Substituting the 9.8 percent size premium for the 6.1  
percent in the build-up formula the result would be 13.8 percent (2.2%+6.6%+9.8%-4.8%).

25 <sup>19</sup> 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.

26 <sup>20</sup> 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<br>(Millions) |                             |                   |            |                              |                         |                                  |          |          |          |         |         |          |
|----------------------|--------------------------------|-----------------------------|-------------------|------------|------------------------------|-------------------------|----------------------------------|----------|----------|----------|---------|---------|----------|
|                      | MV<br>Equity <sup>1</sup>      | Book<br>Equity <sup>1</sup> | MVIC <sup>1</sup> | Net Income | Total<br>Assets <sup>2</sup> | 5 Yr Avg.<br>Net Income | 5 Yr Avg.<br>EBITDA <sup>3</sup> | 2011     | 2010     | 2009     | 2008    | 2007    | Average  |
| 1. American States   | \$ 684                         | \$ 408                      | \$ 1,024          | \$ 32      | \$ 1,192                     | \$ 32                   | \$ 120                           | \$ 45.9  | \$ 33.2  | \$ 29.5  | \$ 22.0 | \$ 28.0 | \$ 31.7  |
| 2. Aqua America      | \$ 3,088                       | \$ 1,251                    | \$ 4,483          | \$ 113     | \$ 4,072                     | \$ 113                  | \$ 407                           | \$ 143.1 | \$ 124.0 | \$ 104.4 | \$ 97.9 | \$ 95.0 | \$ 112.9 |
| 3. California Water  | \$ 750                         | \$ 450                      | \$ 1,231          | \$ 37      | \$ 1,692                     | \$ 37                   | \$ 128                           | \$ 37.7  | \$ 37.7  | \$ 40.6  | \$ 39.8 | \$ 31.2 | \$ 37.4  |
| 4. Connecticut Water | \$ 248                         | \$ 119                      | \$ 384            | \$ 10      | \$ 425                       | \$ 10                   | \$ 23                            | \$ 11.3  | \$ 9.8   | \$ 10.2  | \$ 9.4  | \$ 8.8  | \$ 9.9   |
| 5. Middlesex         | \$ 290                         | \$ 177                      | \$ 423            | \$ 12      | \$ 489                       | \$ 12                   | \$ 38                            | \$ 13.4  | \$ 14.3  | \$ 10.0  | \$ 12.2 | \$ 11.8 | \$ 12.4  |
| 6. SJW Corp.         | \$ 452                         | \$ 264                      | \$ 796            | \$ 20      | \$ 935                       | \$ 20                   | \$ 87                            | \$ 20.9  | \$ 24.4  | \$ 15.2  | \$ 21.5 | \$ 19.3 | \$ 20.2  |
| Vail Water Company   | NA                             | \$ 7.1                      | NA                | \$ 0.6     | \$ 13.0                      | \$ 0.6                  | \$ 1.1                           | \$ 0.6   | \$ 0.7   | \$ 0.7   | \$ 0.5  | \$ 0.6  | \$ 0.6   |

| 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   |

| 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   |

<sup>1</sup> From Value Line data

<sup>2</sup> From Zacks Investment Research. From D-1 for subject utility.

<sup>3</sup> Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data<sup>4</sup>

| 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   |

<sup>4</sup> Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

EBITDA Data<sup>5</sup>

| 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   |

<sup>5</sup> EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

<sup>6</sup> EBITDA data for subject utility from E-1 and/or ACC reports

<sup>7</sup> 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

MRP<sub>ms</sub> Estimates Using Duff & Phelps Study (Unlevered)

Assumes 100% Equity and 0% debt  
 Data Smoothing with Regression Analysis

$$\text{Smoothed Premium (RP}_{ms}) = \text{Constant} + X \text{ Coefficients} * \text{Log(Relevant Metric)}$$

$$RP_{unlevered} = RP_{levered} - W_d/W_e * (\beta_u - \beta_d) * RP_{market}$$

Where  $\beta_u$  = unlevered portfolio beta

$\beta_d$  = debt beta, assumed to be 0.1

$W_d$  = percentage of debt in capital structure

$W_e$  = percentage of equity in capital structure

$RP_{levered}$  = levered realized risk premium

TABLE 2

|   | MV<br>Equity<br>(Table C-1)   | Book<br>Equity<br>(Table C-2) | MVIC<br>(Table C-4) | 5 Yr Avg.<br>Net Income<br>(Table C-3) | Total<br>Assets<br>(Table C-5) | 5 Yr Avg.<br>EBITDA<br>(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 <sub>ms</sub> (unlevered) |                               |                     |  |                                |                                    |
|   | MV<br>Equity                  | Book<br>Equity                | MVIC                | 5 Yr Avg.<br>Net Income                | Total<br>Assets                | 5 Yr Avg.<br>EBITDA                |
| 1. American States  | 9.29%                         | 8.70%                         | 9.03%               | 9.30%                                  | 8.62%                          | 9.08%                              |
| 2. Aqua America   | 7.17%                         | 7.45%                         | 6.97%               | 7.85%                                  | 7.12%                          | 7.63%                              |
| 3. California Water   | 9.16%                         | 8.59%                         | 8.77%               | 9.11%                                  | 8.19%                          | 8.99%                              |
| 4. Connecticut Water  | 10.72%                        | 10.07%                        | 10.39%              | 10.62%                                 | 9.88%                          | 11.02%                             |
| 5. Middlesex  | 10.50%                        | 9.62%                         | 10.26%              | 10.37%                                 | 9.71%                          | 10.45%                             |
| 6. SJW Corp.  | 9.87%                         | 9.18%                         | 9.37%               | 9.81%                                  | 8.92%                          | 9.46%                              |
| Average (unlevered)   | 9.45%                         | 8.93%                         | 9.13%               | 9.51%                                  | 8.74%                          | 9.20%                              |
| Vail Water Company  | NA                            | 13.19%                        | NA                  | 13.78%                                 | 14.14%                         | 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 ( $\beta_u$ ) |             |             |             |             |             |         |      |
|----|--------------------|--------|--|-------------|-------------|-------------|-------------|-------------|---------|------|
|    |                    |        | (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        | 0.94        | 0.97    | 0.96 |
| 2. | Aqua America       | WTR    | 0.87                                   | 0.86        | 0.81        | 0.88        | 0.83        | 0.84        | 0.84    | 0.85 |
| 3. | California Water   | CWT    | 0.98                                   | 0.95        | 0.95        | 0.94        | 0.92        | 0.97        | 0.97    | 0.95 |
| 4. | Connecticut Water  | CTWS   | 0.96                                   | 1.00        | 0.97        | 0.97        | 0.99        | 1.03        | 0.99    | 0.99 |
| 5. | Middlesex          | MSEX   | 0.96                                   | 0.98        | 0.97        | 0.97        | 0.99        | 0.99        | 0.99    | 0.98 |
| 6. | SJW Corp.          | SJW    | 0.95                                   | 0.97        | 0.97        | 0.96        | 0.97        | 0.95        | 0.95    | 0.96 |
|    | Average            |        | 0.95                                   | 0.95        | 0.94        | 0.94        | 0.94        | 0.96        | 0.96    | 0.95 |
|    | Vail Water Company |        | 0.95                                   | 0.98        | 1.00        | 1.01        | 1.05        | 1.03        | 1.03    | 1.00 |

Vail Water Company  
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD

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  $\beta_u$  = unlevered portfolio beta

$\beta_d$  = 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

$RP_{\text{market}}$  = general equity risk premium for the market since 1963 (4.4%)

TABLE 4

|    | Symbol                  | Company  | MRP <sub>mts</sub> (Relevered) |           |             |        |                      |              |                  |         |  |  |
|----|-------------------------|----------|--------------------------------|-----------|-------------|--------|----------------------|--------------|------------------|---------|--|--|
|    |                         |          | W <sub>d</sub> /W <sub>e</sub> | MV Equity | Book Equity | MVIC   | 5 Yr Avg. Net Income | Total Assets | 5 Yr Avg. EBITDA | Average |  |  |
| 1. | American States         |          | 49.8%                          | 11.11%    | 10.54%      | 10.91% | 11.10%               | 10.42%       | 10.94%           | 10.84%  |  |  |
| 2. | Aqua America            |          | 45.2%                          | 8.67%     | 8.92%       | 8.35%  | 9.37%                | 8.54%        | 9.07%            | 8.82%   |  |  |
| 3. | California Water        |          | 64.2%                          | 11.59%    | 10.93%      | 11.12% | 11.43%               | 10.46%       | 11.40%           | 11.15%  |  |  |
| 4. | Connecticut Water       |          | 54.5%                          | 12.73%    | 12.17%      | 12.43% | 12.66%               | 11.97%       | 13.20%           | 12.53%  |  |  |
| 5. | Middlesex               |          | 45.5%                          | 12.18%    | 11.35%      | 11.96% | 12.07%               | 11.45%       | 12.19%           | 11.87%  |  |  |
| 6. | SJW Corp.               |          | 76.0%                          | 12.65%    | 12.02%      | 12.22% | 12.62%               | 11.76%       | 12.24%           | 12.25%  |  |  |
|    | Average MRP (Relevered) |          | 55.87%                         | 11.49%    | 10.99%      | 11.16% | 11.54%               | 10.77%       | 11.50%           | 11.24%  |  |  |
|    | Vail Water Company      | Proforma | 0.00%                          | NA        | 13.19%      | NA     | 13.78%               | 14.14%       | 14.64%           | 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) <sup>1</sup>              | 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 ( $RP_{m+s}$ ) ([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 ( $RP_{m+s}$ ) ([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%) <sup>1</sup>             | 0.8333 |
| [11] Adjusted Industry Risk Premium ( $R_i$ ) ([9] x [10])                            | -4.03% |
| [12] Risk Free Rate ( $R_f$ ) <sup>2</sup>  | 2.22%  |

<sup>1</sup> From Duff and Phelps Risk Premium Report, 2012.

<sup>2</sup> 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

TABLE 6

$$E(R_i) = R_f + RP_{m+s} + RP_i + RP_u$$

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.

$RP_i$  = Industry risk premium (adjusted) See Table 5.

$RP_u$  = Company-specific risk premium

Sample  
 Publicly Traded  
 Water

Utilities  
 Vail Water Company

$R_f$  = 2.22%

$RP_{m+s}$  = See Table 4

$RP_i$  = -4.03%

$RP_u$  = 0.00%

|                      | Indicated COE E(R <sub>i</sub> ) |                |        |                         |                 |                     |         |
|----------------------|----------------------------------|----------------|--------|-------------------------|-----------------|---------------------|---------|
|                      | MV<br>Equity                     | Book<br>Equity | MVIC   | 5 Yr Avg.<br>Net Income | Total<br>Assets | 5 Yr Avg.<br>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%         | 11.61% | 12.01%                  | 11.16%          | 11.63%              | 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%  |

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           | Percent of Total | Weighted Cost Rate | Dollar Amount             | Percent of Total | Weighted Cost Rate | Dollar Amount         | Percent of Total | Weighted Cost Rate |
| 1        | Long-Term Debt       | -                       | 0.00%            | 0.00%              | -                         | 0.00%            | 0.00%              | -                     | 0.00%            | 0.00%              |
| 2        | Stockholder's Equity | 4,373,528               | 100.00%          | 10.40%             | 7,148,049 <sup>1,2</sup>  | 100.00%          | 10.40%             | 7,489,520             | 100.00%          | 10.40%             |
| 3        | Totals               | 4,373,528               | 100.00%          | 10.40%             | 7,148,049                 | 100.00%          | 10.40%             | 7,489,520             | 100.00%          | 10.40%             |

<sup>1</sup> Adjustment for Equity for A/D Adj. B-2, p. 4 \$ 2,710,101

<sup>2</sup> Adjustment for Equity for CIAC amortization Adj. B-2, p. 5 \$ 64,419

SUPPORTING SCHEDULES:

- D-1
- D-3
- D-4
- E-1

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
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
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- 30
- 31
- 32
- 33
- 34
- 35
- 36
- 37
- 38
- 39
- 40

End of Test Year

End of Projected Year

| Description<br>of Issue | Shares<br>Outstanding | Dividend<br>Amount | Dividend<br>Requirement | Shares<br>Outstanding | Dividend<br>Amount | Dividend<br>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.

1

2

The Company is proposing a cost of common equity of 10.40% .

3

4

5

6

7

8

9

10

11

12

13

14

15

16

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 <sup>1</sup> | 9.1%  | 10.3% | 9.7%     |
| 7        |  |       |       |          |
| 8        | Range of CAPM Estimates <sup>2</sup>             | 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 <sup>3</sup>           | -1.2% | -1.2% | -1.2%    |
| 15       |  |       |       |          |
| 16       | Small Company Risk Premium <sup>4</sup>          | 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       |  |       |       |          |

<sup>1</sup> See Schedule D-4-8

<sup>2</sup> See Schedule D-4.12

<sup>3</sup> See Schedule D-4.13, Testimony

<sup>4</sup> 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 <sup>1</sup>               | % 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       |
| 11       | Vail Water Company                 | 100% Water       | \$ 2.3                        | \$ 16.4              | NR              | NR                  |             |
| 12       | (adjusted as of December 31, 2011) |                  |                               |                      |                 |                     |             |

<sup>1</sup>AUS Utility Reports (July 2012).

Vail Water Company  
Capital Structures

Exhibit  
Schedule D-4.3  
Witness: Bourassa

| No. | Company                                      | Book Value <sup>1</sup> |                  | Market Value <sup>1</sup> |                  |
|-----|--|-------------------------|------------------|---------------------------|------------------|
|     |  | Long-Term<br>Debt       | Common<br>Equity | Long-Term<br>Debt         | Common<br>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) |                         |                  |                           |                  |
| 10  |  |                         |                  |                           |                  |
| 11  |  |                         |                  |                           |                  |
| 12  |  |                         |                  |                           |                  |
| 13  |  |                         |                  |                           |                  |
| 14  |  |                         |                  |                           |                  |
| 15  |  |                         |                  |                           |                  |
| 16  |  |                         |                  |                           |                  |
| 17  |  |                         |                  |                           |                  |
| 18  | 1 Value Line Analyzer Data (Jul 10, 2012)    |                         |                  |                           |                  |
| 19  | 2 Adjusted Per Schedule D-1                  |                         |                  |                           |                  |
| 20  |  |                         |                  |                           |                  |
| 21  |  |                         |                  |                           |                  |
| 22  |  |                         |                  |                           |                  |
| 23  |  |                         |                  |                           |                  |
| 24  |  |                         |                  |                           |                  |
| 25  |  |                         |                  |                           |                  |
| 26  |  |                         |                  |                           |                  |
| 27  |  |                         |                  |                           |                  |
| 28  |  |                         |                  |                           |                  |

Vail Water Company  
Comparisons of Past and Future Estimates of Growth

| Line No. | [1] | [2] | [3] | [4] | [5] | [6] | [7] |
|----------|-----|-----|-----|-----|-----|-----|-----|
| 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       |     |     |     |     |     |     |     |
| 29       |     |     |     |     |     |     |     |

Five-year historical average annual changes

| Company              | Price <sup>1</sup> | Book Value <sup>2</sup> | EPS <sup>2</sup> | DPS <sup>2</sup> | Average Col. 1-4 | Average Future Growth <sup>3</sup> | Average of Future and Historical Growth Col. 5-6 |
|----------------------|--------------------|-------------------------|------------------|------------------|------------------|------------------------------------|--|
| 1. American States   | 5.86%              | 5.50%                   | 10.50%           | 3.00%            | 6.21%            | 6.05%                              | 6.13%  |
| 2. Aqua America      | 0.38%              | 6.00%                   | 6.00%            | 8.00%            | 5.10%            | 7.00%                              | 6.05%  |
| 3. California Water  | NMF                | 5.00%                   | 5.00%            | 1.00%            | 3.67%            | 5.33%                              | 4.50%  |
| 4. Connecticut Water | 3.43%              | 3.00%                   | 4.00%            | 1.50%            | 2.98%            | 7.05%                              | 5.02%  |
| 5. Middlesex         | 7.10%              | 5.00%                   | 2.00%            | 1.50%            | 3.90%            | 4.10%                              | 4.00%  |
| 6. SJW Corp.         | NMF                | 4.50%                   | NMF              | 5.00%            | 4.75%            | 11.67%                             | 8.21%  |
| GROUP AVERAGE        | 4.19%              | 4.83%                   | 5.50%            | 3.33%            | 4.43%            | 6.87%                              | 5.65%  |
| GROUP MEDIAN         | 4.64%              | 5.00%                   | 5.00%            | 2.25%            | 4.33%            | 6.52%                              | 5.53%  |

<sup>1</sup> Average of changes in annual stock prices ending on December 31 through 2011. Data from Yahoo Finance website.

<sup>2</sup> Value Line Analyzer Data, July 10, 2012

<sup>3</sup> See Schedule D-4.6.

Vail Water Company  
Comparisons of Past and Future Estimates of Growth

| Line No.      | [1]                | [2]                | [3]              | [4]   | [5]     | [6]                        | [7]                                     |
|---------------|--------------------|--------------------|------------------|---|---------|----------------------------|---|
|               |                    |                    |                  | <u>Ten-year historical average annual changes</u> |         |                            | Average of Future and Historical Growth |
|               |                    | Book               |                  |   | Average | Average                    |   |
|               |                    | Value <sup>2</sup> | EPS <sup>2</sup> | DPS <sup>2</sup>                                  | Col 1-4 | Future Growth <sup>3</sup> | Col 5-6                                 |
| 1.            | Price <sup>1</sup> | 5.00%              | 5.00%            | 2.00%   | 4.63%   | 6.05%                      | 5.34%                                   |
| 2.            | 6.51%              | 8.50%              | 7.00%            | 7.50%   | 7.66%   | 7.00%                      | 7.33%                                   |
| 3.            | 7.63%              | 5.00%              | 4.00%            | 1.00%   | 3.49%   | 5.33%                      | 4.41%                                   |
| 4.            | 3.95%              | 4.00%              | 0.50%            | 1.50%   | 2.75%   | 7.05%                      | 4.90%                                   |
| 5.            | 5.00%              | 4.50%              | 2.50%            | 1.50%   | 3.58%   | 4.10%                      | 3.84%                                   |
| 6.            | 5.84%              | 5.50%              | 2.00%            | 5.00%   | 3.80%   | 11.67%                     | 7.73%                                   |
| 6.            | 2.69%              |                    |                  |   |         |                            |   |
| GROUP AVERAGE | 5.27%              | 5.42%              | 3.50%            | 3.08%   | 4.32%   | 6.87%                      | 5.59%                                   |
| GROUP MEDIAN  | 5.42%              | 5.00%              | 3.25%            | 1.75%   | 3.69%   | 6.52%                      | 5.12%                                   |

<sup>1</sup> Average of changes in annual stock prices ending December 31, 2011. Data from Yahoo Finance website.

<sup>2</sup> Value Line Analyzer Data, July 10, 2012.

<sup>3</sup> See Rejoinder Schedule D-4.6.

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  
 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> <sup>1</sup> | <u>Reuters</u> <sup>1</sup> | <u>Yahoo</u> <sup>1</sup> | <u>Value Line</u> <sup>1</sup>                |
| 1        | 1. American States                  | 6.40%                     | 7.65%                       | 4.00%                     | 6.50%   |
| 2        | 2. Aqua America                     |                           | 7.16%                       | 5.93%                     | 8.50%   |
| 3        | 3. California Water                 |                           | 5.00%                       | 5.00%                     | 6.00%   |
| 4        | 4. Connecticut Water                |                           | 8.00%                       | 6.10%                     | 7.05%   |
| 5        | 5. Middlesex                        |                           | neg                         | 2.70%                     | 5.50%   |
| 6        | 6. SJW Corp.                        |                           | 14.00%                      | 14.00%                    | 7.00%   |
| 7        |                                     |                           |                             |                           | Average Growth (G)<br>(Cols 1-4) <sup>2</sup> |
| 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%   |

<sup>1</sup> Data as of July 10, 2012. See testimony.

<sup>2</sup> 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

Line No. 1  
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| Company              | Current Stock Price (P <sub>0</sub> ) <sup>1</sup> | Current Dividend (D <sub>0</sub> ) <sup>1</sup> | Current Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1</sup> | Average Annual Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1,2</sup> |
|----------------------|--|---|---|--|
| 1. American States   | \$ 36.36   | \$ 1.10   | 3.03%   | 2.98%  |
| 2. Aqua America      | \$ 22.23   | \$ 0.63   | 2.83%   | 3.11%  |
| 3. California Water  | \$ 17.94   | \$ 0.62   | 3.46%   | 3.24%  |
| 4. Connecticut Water | \$ 28.23   | \$ 0.94   | 3.33%   | 3.62%  |
| 5. Middlesex         | \$ 18.50   | \$ 0.73   | 3.95%   | 4.23%  |
| 6. SJW Corp.         | \$ 24.32   | \$ 0.69   | 2.84%   | 2.78%  |
| <b>Average</b>       |  |   | <b>3.24%</b>  | <b>3.33%</b>   |
| <b>Median</b>        |  |   | <b>3.18%</b>  | <b>3.18%</b>   |

<sup>1</sup> Value Line Analyzer Data. Stock prices as of July 10, 2012.  
<sup>2</sup> 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.

Vail Water Company  
 Discounted Cash Flow Analysis  
 DCF Constant Growth

Exhibit  
 Schedule D-4.8  
 Witness: Bourassa

| Line No. | [1]<br>Average Spot Dividend Yield $(D_0/P_0)^1$ | [2]<br>Expected Dividend Yield $(D_1/P_0)^2$ | [3]<br>Growth (g)  | [4]<br>Indicated Cost of Equity $k = \text{Div Yld} + g$<br>(Cols 2+3) |
|----------|--|--|--------------------|--|
| 8        | 3.24%  | 3.42%  | 5.65% <sup>3</sup> | 9.1%   |
| 10       | 3.24%  | 3.46%  | 6.87% <sup>4</sup> | 10.3%  |
| Average  | 3.24%  | 3.44%  | 6.26%              | 9.7%   |

<sup>1</sup> Spot Dividend Yield =  $D_0/P_0$ . See Schedule D-4.7.

<sup>2</sup> Expected Dividend Yield =  $D_1/P_0 = D_0/P_0 * (1+g)$ .

<sup>3</sup> Growth rate (g). Average of Past and Future Growth. See Schedule D-4.4, column 7

<sup>4</sup> 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  
No.

| <u>Company</u>       | <u>Beta (<math>\beta</math>)<sup>1</sup></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              | <b>0.72</b>                                  |

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<br>2012 Q-2 | 2012 | 2013 | Average |
|----------|--|--------------------|------|------|---------|
| 6        | Blue Chip Consensus Forecasts <sup>1</sup> | 2.9%               | 2.9% | 3.4% | 3.1%    |
| 8        | Value Line <sup>2</sup>                    | 2.9%               | 3.2% | 3.7% | 3.3%    |
| 10       | Average                                    |                    |      |      | 3.2%    |

<sup>1</sup> July 2012 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

<sup>2</sup> Value Line Quarterly forecast, dated May 25, 2012, Long-term Treasury

Vail Water Company  
Computation of Current Market Risk Premium

| Line No. | Month                    | Dividend Yield ( $D_t/P_t$ ) <sup>1</sup> | Expected Dividend Yield ( $D_t/P_t$ ) <sup>2</sup> | + Growth (g) <sup>3</sup> | = Expected Market Return (k) | - Monthly Average 30 Year Treasury Rate <sup>4</sup> | = Market Risk Premium (MRP) |
|----------|--------------------------|---|--|---------------------------|------------------------------|--|-----------------------------|
| 1        | Jan 2011                 | 2.34%                                     | 2.60%  | + 11.10%                  | = 13.70%                     | = 4.52%  | = 9.18%                     |
| 2        | Feb                      | 2.41%                                     | 2.73%  | + 13.16%                  | = 15.89%                     | = 4.65%  | = 11.24%                    |
| 3        | Mar                      | 2.35%                                     | 2.64%  | + 12.33%                  | = 14.97%                     | = 4.51%  | = 10.46%                    |
| 4        | April                    | 1.83%                                     | 2.02%  | + 10.30%                  | = 12.32%                     | = 4.50%  | = 7.82%                     |
| 5        | May                      | 1.95%                                     | 2.18%  | + 11.76%                  | = 13.94%                     | = 4.29%  | = 9.65%                     |
| 6        | June                     | 1.97%                                     | 2.21%  | + 12.11%                  | = 14.32%                     | = 4.23%  | = 10.09%                    |
| 7        | July                     | 2.23%                                     | 2.58%  | + 15.51%                  | = 18.09%                     | = 4.27%  | = 13.82%                    |
| 8        | Aug                      | 2.73%                                     | 3.24%  | + 18.51%                  | = 21.75%                     | = 3.65%  | = 18.10%                    |
| 9        | Sept                     | 2.88%                                     | 3.47%  | + 20.40%                  | = 23.87%                     | = 3.18%  | = 20.69%                    |
| 10       | Oct                      | 2.60%                                     | 3.03%  | + 16.35%                  | = 19.38%                     | = 3.13%  | = 16.25%                    |
| 11       | Nov                      | 2.75%                                     | 3.24%  | + 17.89%                  | = 21.13%                     | = 3.02%  | = 18.11%                    |
| 12       | Dec 2011                 | 2.70%                                     | 3.17%  | + 17.41%                  | = 20.58%                     | = 2.98%  | = 17.60%                    |
| 13       | Jan 2012                 | 2.61%                                     | 2.98%  | + 14.18%                  | = 17.16%                     | = 3.03%  | = 14.13%                    |
| 14       | Feb                      | 2.60%                                     | 2.99%  | + 15.01%                  | = 18.00%                     | = 3.11%  | = 14.89%                    |
| 15       | Mar                      | 2.36%                                     | 2.65%  | + 12.33%                  | = 14.98%                     | = 3.28%  | = 11.70%                    |
| 16       | April                    | 2.62%                                     | 3.02%  | + 15.22%                  | = 18.24%                     | = 3.18%  | = 15.06%                    |
| 17       | May                      | 2.86%                                     | 3.38%  | + 18.12%                  | = 21.50%                     | = 2.93%  | = 18.57%                    |
| 18       | June                     | 2.73%                                     | 3.18%  | + 16.59%                  | = 19.77%                     | = 2.70%  | = 17.07%                    |
| 19       | Recommended              | 2.74%                                     | 3.19%  | + 16.64%                  | = 19.84%                     | = 2.94%  | = 16.33%                    |
| 20       | Short-term Trends        |   |  |                           |                              |  |                             |
| 21       | Recent Twelve Months Avg | 2.64%                                     | 3.08%  | + 16.46%                  | = 19.54%                     | = 3.21%  | = 16.33%                    |
| 22       | Recent Nine Months Avg   | 2.65%                                     | 3.07%  | + 15.90%                  | = 18.97%                     | = 3.04%  | = 15.93%                    |
| 23       | Recent Six Months Avg    | 2.63%                                     | 3.03%  | + 15.24%                  | = 18.28%                     | = 3.04%  | = 15.24%                    |
| 24       | Recent Three Months Avg  | 2.74%                                     | 3.19%  | + 16.64%                  | = 19.84%                     | = 2.94%  | = 16.90%                    |

<sup>1</sup> Average Current Dividend Yield ( $D_t/P_t$ ) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>2</sup> Expected Dividend Yield ( $D_t/P_t$ ) equals average current dividend yield ( $D_0/P_0$ ) times one plus growth rate(g).

<sup>3</sup> Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>4</sup> 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 <sup>1</sup> | + | beta <sup>3</sup> | x | Rp    | = | k     |
| 1        |                 |   |                   |   |       |   |       |
| 2        |                 |   |                   |   |       |   |       |
| 3        | 3.2%            | + | 0.72              | x | 6.6%  | = | 8.0%  |
| 4        |                 |   |                   |   |       |   |       |
| 5        | 3.2%            | + | 0.72              | x | 16.3% | = | 15.0% |
| 6        |                 |   |                   |   |       |   |       |
| 7        |                 |   |                   |   |       |   | 11.5% |
| 8        |                 |   |                   |   |       |   |       |
| 9        |                 |   |                   |   |       |   |       |
| 10       |                 |   |                   |   |       |   |       |
| 11       |                 |   |                   |   |       |   |       |
| 12       |                 |   |                   |   |       |   |       |
| 13       |                 |   |                   |   |       |   |       |
| 14       |                 |   |                   |   |       |   |       |
| 15       |                 |   |                   |   |       |   |       |
| 16       |                 |   |                   |   |       |   |       |
| 17       |                 |   |                   |   |       |   |       |
| 18       |                 |   |                   |   |       |   |       |
| 19       |                 |   |                   |   |       |   |       |
| 20       |                 |   |                   |   |       |   |       |

<sup>1</sup> Forecasts of long-term treasury yields. See Schedule D-4.10.

<sup>2</sup> Value Line Investment Analyzer data. See Schedule D-4.9.

<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar S&P 500 2012 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2011.

<sup>4</sup> 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.

Vail Water Company  
Financial Risk Computation

Exhibit  
Schedule D-4.13  
Witness: Bourassa

|          |  |  |  |  |  |  |  |  |  |
|----------|--|--|--|--|--|--|--|--|--|
| 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       |  |  |  |  |  |  |  |  |  |

CAPM

|                                |      |   |      |   |       |   |       |
|--------------------------------|------|---|------|---|-------|---|-------|
| Historical Market Risk Premium | Rf   | + | B    | x | (Rp)  | = | K     |
| Current Market Risk Premium    | 3.2% | 1 | 0.72 | 2 | 6.6%  | 3 | 8.0%  |
|                                | 3.2% | 1 | 0.72 | 2 | 16.3% | 4 | 15.0% |
| Average                        |      |   |      |   |       |   | 11.5% |

CAPM Relevered Beta

|                                |      |   |      |   |       |   |       |
|--------------------------------|------|---|------|---|-------|---|-------|
| Historical Market Risk Premium | Rf   | + | B    | x | (Rp)  | = | K     |
| Current Market Risk Premium    | 3.2% | 1 | 0.62 | 5 | 6.6%  | 3 | 7.3%  |
|                                | 3.2% | 1 | 0.62 | 5 | 16.3% | 4 | 13.3% |
| Average                        |      |   |      |   |       |   | 10.3% |

Financial Risk Adjustment

-1.2%

<sup>1</sup> Forecast of long-term treasury yields. See Schedule D-4.10  
<sup>2</sup> Value Line Investment Analyzer data. See Schedule D-4.9  
<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar SBB1 2012 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2011  
<sup>4</sup> 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  
<sup>5</sup> Relevered beta found on Schedule D-4.15

Vail Water Company  
Financial Risk Computation  
Unlevered Beta

Exhibit  
Schedule D-4.14  
Witness: Bourassa

| Line No. | Company                 | VL Beta $\beta_L^1$ | Raw Beta $\frac{Raw \beta_L^2}{D^4}$ | Tax Rate $t^3$ | MV Debt $D^4$ | MV Equity $E^4$ | Unlevered Raw Beta $\beta_{UL}^5$ |
|----------|-------------------------|---------------------|--------------------------------------|----------------|---------------|-----------------|-----------------------------------|
| 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 Utilities: | 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       |                         |                     |                                      |                |               |                 |                                   |

<sup>1</sup> Value Line Investment Analyzer data. See Schedule D-4.13  
<sup>2</sup> 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  
<sup>3</sup> Raw Beta = (VL beta - .33)/(.67)  
<sup>4</sup> Effective tax rates for year ended December 31, 2011.  
<sup>5</sup> See Schedule D-4.3  
<sup>6</sup> Raw  $\beta_L = Raw \beta_L / (1 + (1-t)^*D/E)$

Vail Water Company  
Financial Risk Computation  
Relevered Beta

| Line No. | Unlevered Raw Beta $\beta_{UL}^1$ | MV Book Debt $BD^2$ | MV Equity Capital $EC^2$ | Tax Rate $t^3$ | Relevered Raw Beta $\beta_{RL} = \beta_U (1 + (1-t)BD/EC)$ | Adjusted Relevered Beta $\beta_{RL}$ |
|----------|-----------------------------------|---------------------|--------------------------|----------------|--|--------------------------------------|
| 1        | 0.43                              | 0.0%                | 100.0%                   | 24.14%         | 0.43   | 0.62                                 |
| 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       |                                   |                     |                          |                |  |                                      |

<sup>1</sup> Unlevered Beta from Schedule D-4.14.

<sup>2</sup> Capital Structure of Company.

|                 | BV             | MV             | MV %    |
|-----------------|----------------|----------------|---------|
|                 | (in Thousands) | (in Thousands) | %       |
| Long-term Debt  | \$ -           | \$ -           | 0.00%   |
| Preferred Stock | \$ -           | \$ -           | 0.00%   |
| Common Stock    | \$ 7,148       | \$ 13,411 (a)  | 100.00% |
| Total Capital   | \$ 7,148       | \$ 13,411      | 100.00% |

(a) Current market-to-book ratio of sample water utilities. See work papers.

<sup>3</sup> Current Tax rate based on test year ending 12/31/2011. See Schedule D-1.

Vail Water Company  
Size Premium<sup>1</sup>

Exhibit  
Schedule D-4.16  
Witness: Bourassa

| Line No. | Beta( $\beta$ ) | Size Premium | Risk Premium for Small Water Utilities <sup>7</sup> |
|----------|-----------------|--------------|---|
| 6        | 1.12            | 1.14%        |   |
| 8        | 1.23            | 1.88%        |   |
| 10       | 1.36            | 3.89%        |   |
| 12       | 1.7             | 6.10%        | 3.86%   |

Estimated Risk Premium for small water utilities<sup>6</sup>

Risk Premium for Small Water Utilities

0.99%

Estimated Risk Premium for small water utilities<sup>6</sup>

<sup>1</sup> Data from Table 7-8 of Morningstar, *Ibbotson SBB/ 2012 Valuation Yearbook*.

<sup>2</sup> Mid-Cap companies includes companies with market capitalization between \$1,621 million and \$6,896 million.

<sup>3</sup> Low-Cap companies includes companies with market capitalization between \$422 million and \$1,620 million.

<sup>4</sup> Micro-Cap companies includes companies with market capitalization less than \$422 million.

<sup>5</sup> Decile 10 includes companies with market capitalization between \$1.0 million and \$206 million.

<sup>6</sup> From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.

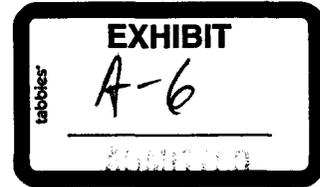
<sup>7</sup> Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

| Market Cap. (Millions)                    | Class     | Size Premium | Difference to Decile 10 | Weight    | Weighted Size Premium |
|---|-----------|--------------|-------------------------|-----------|-----------------------|
| \$ 684                                    | Low-Cap   | 1.88%        | 4.22%                   | 0.1666667 | 0.70%                 |
| \$ 3,088                                  | Mid-Cap   | 1.14%        | 4.96%                   | 0.1666667 | 0.83%                 |
| \$ 750                                    | Low-Cap   | 1.88%        | 4.22%                   | 0.1666667 | 0.70%                 |
| \$ 248                                    | Decile 9  | 2.80%        | 3.30%                   | 0.1666667 | 0.55%                 |
| \$ 290                                    | Micro-Cap | 3.89%        | 2.21%                   | 0.1666667 | 0.37%                 |
| \$ 452                                    | Low-Cap   | 1.88%        | 4.22%                   | 0.1666667 | 0.70%                 |
| Weighted Size Premium for Small Companies |           |              |                         |           | 3.86%                 |

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman  
GARY PIERCE  
BRENDA BURNS  
SUSAN BITTER SMITH  
BOB 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-12-0339

REBUTTAL TESTIMONY OF  
CHRISTOPHER VOLPE  
ON BEHALF OF VAIL WATER COMPANY  
MARCH 25, 2013

REBUTTAL TESTIMONY OF  
CHRISTOPHER VOLPE  
ON BEHALF OF  
VAIL WATER COMPANY  
MARCH 25, 2013

TABLE OF CONTENTS

|   |                                      |   |
|---|--------------------------------------|---|
| 1 | INTRODUCTION AND QUALIFICATIONS..... | 1 |
| 2 | I. MANAGEMENT SERVICES.....          | 2 |
| 3 | II. CAP SURCHARGE.....               | 6 |
| 4 | III. CONCLUSION.....                 | 7 |

1 **INTRODUCTION AND QUALIFICATIONS**

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

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

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

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

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

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

13 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**  
14 **INSTANT CASE?**

15 **A.** Yes, my direct testimony was submitted in support of the initial application in this  
16 docket.

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

18 **A.** The purpose of this rebuttal testimony is to respond to specific issues from Staff’s Direct  
19 Testimony filed on February 25, 2013. Specifically, I will respond to Staff’s proposed  
20 conditions in relation to management service and the use of TEM Corp. and will address  
21 the Company’s proposed CAP surcharge. Some of these issues are also addressed in the  
22 rebuttal testimony of Mr. Tom Bourassa.

1 **I. MANAGEMENT SERVICES**

2 **Q. WHAT HAS STAFF RECOMMENDED WITH RESPECT TO THE FEES VAIL**  
3 **PAYS TO TEM CORP. FOR MANAGEMENT SERVICES?**

4 **A.** Staff has made several recommendations with respect to these management fees. First,  
5 Staff recommends that Vail seek competitive bids for these services from at least five  
6 vendors at least every three years.<sup>1</sup> Second, Staff recommends that TEM's employees  
7 track their time in units no larger than hourly and use this data in allocating Vail's share  
8 of TEM's salary expenses.<sup>2</sup> Third, Staff recommends that the Commission order Vail to  
9 provide TEM's general ledger and other accounting records as needed by Staff to verify  
10 costs included in the management fee.<sup>3</sup>

11 **Q. WHAT IS STAFF'S REASON FOR MAKING THESE RECOMMENDATIONS?**

12 **A.** Because Staff has determined that Vail and TEM Corp. are related companies (through  
13 common ownership), Staff believes that their contract for management services merits  
14 higher scrutiny than a contract between unrelated entities. Staff wants to ensure that  
15 Vail's ratepayers are not paying more than they should for TEM's management services.

16 **Q. DO YOU BELIEVE THESE CONDITIONS ARE WARRANTED?**

17 **A.** For the reasons below, they are not necessary nor warranted. More importantly, Staff  
18 accepted the Company's proposed fee. In fact, Staff accepted the Company's initial  
19 proposal of \$4.55 per customer per month even though the Company has now reduced it  
20 to \$2.73 per customer per month.

---

<sup>1</sup> JMM testimony at 20-21.

<sup>2</sup> *Id.* at 23.

<sup>3</sup> *Id.* at 24.

1 **Q. WHY DOES VAIL USE TEM CORP. TO PROVIDE MANAGEMENT**  
2 **SERVICES?**

3 **A.** TEM Corp. is the most efficient way for Vail to obtain these services. It would cost Vail  
4 considerably more to hire full-time employees to perform comparable services. As  
5 discussed below, there are very few third-party vendors that could provide these services  
6 and they would almost certainly be more expensive than TEM Corp. In addition, TEM  
7 Corp. provides a high level of expertise in water issues and is familiar with Vail's  
8 operations and finances, having assisted the Company in prior rate cases.

9 **Q. IS THE FEE CHARGED BY TEM CORP. FOR THESE SERVICES**  
10 **REASONABLE?**

11 **A.** Yes, it's very reasonable. Vail only has to pay for the costs incurred by TEM on Vail's  
12 account and is able to share the salary expense of TEM's employees with TEM's other  
13 clients. There is no evidence that the fee is unreasonable. In fact, in its testimony Staff  
14 accepted the Company's original proposal of \$4.55 per customer per month. Vail later  
15 discovered a formula error in the spreadsheet used to calculate the fee and is now  
16 proposing the corrected amount of \$2.73 per customer per month.

17 **Q. DID THE COMPANY COOPERATE WITH STAFF IN PROVIDING SUPPORT**  
18 **FOR THE AMOUNT OF THE MANAGEMENT FEE?**

19 **A.** Yes, Vail provided support for every component of TEM's fee. This included salary and  
20 benefits information about TEM's employees; vendor reports showing general ledger  
21 entries for all indirect costs such as rent, insurance, and travel expenses; supporting  
22 documentation for all these indirect costs; and a cost allocation worksheet.

1 **Q. WHY DIDN'T THE COMPANY PROVIDE TEM'S GENERAL LEDGER FOR**  
2 **2011 AS REQUESTED BY STAFF?**

3 **A.** We provided all of the information from TEM's general ledger that is relevant to Vail  
4 Water Company. The rest of the general ledger is not relevant to the management fees  
5 TEM collects from Vail and has no effect on Vail's ratepayers. Although I am not an  
6 attorney, it is my understanding that the Affiliated Interest Rules, which might be a basis  
7 to provide the Commission with access to Vail's affiliates' records, only apply to Class A  
8 entities. As the Commission Staff knows, Vail is not a Class A entity. Furthermore,  
9 Staff itself seems uncertain as to whether TEM Corp. would qualify as an "affiliate" of  
10 Vail, and therefore, uses an analysis based on GAAP rules for related entities.

11 **Q. SHOULD THE COMMISSION INCLUDE A REQUIREMENT AS STAFF**  
12 **SUGGESTS THAT THE COMPANY SEEK COMPETITIVE BIDS FOR ITS**  
13 **MANAGEMENT SERVICES NO LESS FREQUENTLY THAN EVERY THREE**  
14 **YEARS AND FILE THE BID DOCUMENTATION WITH COMMISSION**  
15 **STAFF?**

16 **A.** No. As explained below, this requirement would be extremely impractical. It is also  
17 unnecessary considering the reasonableness of the management fee for which Vail seeks  
18 approval.

19 **Q. IN HIS TESTIMONY, MR. MICHLIK RAISES A CONCERN ABOUT THE**  
20 **LACK OF A COMPETITIVE BIDDING PROCESS BASED ON A 1996 BID**  
21 **FROM TEM CORP. SHOULD THIS BE A CONCERN?**

1 A. No. This bid from TEM Corp. preceded two rates cases in which the Commission  
2 accepted the Company's management fees as reasonable. Certainly, if there was a  
3 concern about the relationship between TEM Corp. and Vail, the Commission would  
4 have addressed it in those cases.

5 **Q. IS IT PRACTICAL FOR VAIL TO CONDUCT A VIABLE BIDDING PROCESS**  
6 **FOR THESE SERVICES AS RECOMMENDED BY STAFF?**

7 A. No. I am not even aware of five viable bidders for these services.

8 **Q. TO SUPPORT THESE CONCLUSIONS, HAVE YOU CONTACTED THIRD-**  
9 **PARTY VENDORS TO DISCUSS THEIR SERVICES?**

10 A. Yes, I have contacted four companies: LaVoie & Company, P.C.; YL Technologies;  
11 Southwestern Utility Management; and Smyth Utility Management.

12 **Q. WHAT RESPONSES DID YOU RECEIVE FROM THESE FOUR COMPANIES?**

13 A. I received a bid from LaVoie for \$170,165 annually. See Exhibit A. This company has  
14 conducted Vail's audits for over ten years and is familiar with the Company's operations  
15 and financials. YL Technologies declined to prepare a response. I had a meeting with  
16 Smyth, but am still waiting for a formal response from them. I have not yet received a  
17 formal response from Southwestern either, but intend to meet with them to discuss their  
18 services.

19 **Q. SHOULD THE COMMISSION INCLUDE A REQUIREMENT AS STAFF**  
20 **SUGGESTS THAT VAIL DIRECTLY TRACK SALARY COSTS FROM ITS**  
21 **AFFILIATE TO THE MAXIMUM EXTENT PRACTICAL BY USE OF**  
22 **TIMESHEETS IN UNITS NO LARGER THAN HOURLY?**

23 A. No. TEM Corp. could adopt a new time tracking system but it would be an unnecessary  
24 administrative burden. TEM assigns salary expenses to its various clients based on  
25 employees' estimates of the percentage of their time spent on each account. This is an

1 acceptable method of apportioning TEM's salary expenses. Requiring every employee to  
2 keep hourly timesheets would impose a significant operational requirement on TEM  
3 Corp. – an unregulated company – for little benefit. This is especially true considering  
4 that Staff has not raised any concerns about the actual amount of the fee Vail pays to  
5 TEM.

6 **Q. SHOULD THE COMMISSION INCLUDE A REQUIREMENT AS STAFF**  
7 **SUGGESTS THAT THE COMPANY COOPERATE WITH STAFF AND**  
8 **PROVIDE INFORMATION STAFF MAY NEED IN THE COMPANY'S**  
9 **AFFILIATE GENERAL LEDGER AND OTHER ACCOUNTING RECORDS?**

10 **A.** No, that requirement is not necessary nor warranted. First, as noted above, the Company  
11 strongly believes that it did provide all information necessary for Staff to verify the costs,  
12 including the general ledger entries for all applicable accounts. TEM Corp. provides  
13 management services for many other entities and providing proprietary information  
14 relating to those services would be a violation of TEM Corp's obligations to those  
15 entities. Second, although I am not an attorney, it is my understanding that the  
16 Commission does not have the jurisdiction to require these entities to provide all of their  
17 records to the Commission. In this case, Vail has cooperated with Commission Staff in  
18 providing all records necessary for the Staff to verify the costs. Vail should not be  
19 required to provide additional records that are not related to Vail.

20 **II. CAP SURCHARGE**

21 **Q. WHAT IS THE CURRENT STATUS OF THE CAP PROJECT?**

22 **A.** We have agreed on a base rate for the wheeling between Tucson Water and Vail Water  
23 Co. Their original proposal was \$705 and we agreed on \$601.77. See Exhibit B. I  
24 expect to receive a draft contract within 30 days. Once we negotiate a final version, it  
25 will take six to eight weeks for it to be approved by the City Council.

1 **Q. HAVE YOU DISCUSSED THE MAJOR TERMS OF THE CONTRACT?**

2 **A.** Yes. Subject to approval by the City Council, the contract with Tucson Water will have a  
3 five-year term with multiple five-year extensions, at a fixed price of \$601.77 plus an  
4 inflator for power and O&M. It will also address Vail owning the booster designed by  
5 Tucson Water and may incorporate a land lease for the site it sits on for a nominal  
6 amount of rent. Vail will maintain the booster.

7 **III. CONCLUSION**

8 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 **A.** Yes.

EXHIBIT A

# LaVoie & Co., P.C.

Certified Public Accountants

March 7, 2013

Mr. Christopher Volpe, CPA  
Vice President and Treasurer  
TEM Corp  
1010 N. Finance Center Drive, Ste. 200  
Tucson, AZ 85710

Dear Kip,

We are pleased to present our proposal to serve Vail Water Company with accounting and bookkeeping services.

We would like to suggest that we may be the most qualified firm to perform accounting and bookkeeping services for Vail Water Company. Our firm has been the Company's audit firm for over ten years. Even still, in order to properly to properly understand the other operational, compliance and reporting areas of the Company not touched by the audit, we will need to perform an initial review. Those hours are listed separately below.

We have identified the services as follows. If you identify additional services we missed please let us know and we will adjust our proposal.

Billing and Cash Receipts – billing and cash receipts are performed by the Vail office. We will obtain month end reports from the Vail office and journalize in the monthly activity into the Vail Water QuickBooks. We will reconcile those reports to the cash activity posted to the bank accounts. We will work on-site at the Vail office one day a month to perform these tasks.

Property Replacement – we will obtain and record property replacements during the year.

Payroll – we will run payroll twice a month. We will prepare the quarterly and year-end payroll reports for federal and State. We will timely deposit the required payroll taxes.

Accounts Payable and Cash Disbursements – we will process accounts payable only if approved by the appropriate Vail Water Company official. That official must understand the correct general ledger account coding and approve the coding.

General Ledger - we will prepare the proper monthly bookkeeping. All data will be entered and reviewed for correctness.

Bank Reconciliations – you currently have 28 active bank accounts. We will perform the monthly bank reconciliations.

Mr. Christopher Volpe, CPA  
 Vail Water Company Proposal  
 March 7, 2013  
 Page 2

Monthly Financial Statements – we will issue monthly compiled financial statements.

Monitor Compliance Issues – we will monitor compliance issues and notify and follow up on issues that come up.

Quarterly Reports to ACC – we will prepare the quarterly ACC Reports.

Annual Audit – we will prepare schedules and workpapers as required by the outside auditors. We anticipate a maximum of sixteen hours preparing the requested schedules and workpapers. If the auditor’s requests cause us to exceed sixteen hours, that time will be an additional billing.

Annual Filings - we will prepare the various annual filings.

Initial Transfer of Existing Computer Files – we will obtain the current QuickBooks electronic file and install it onto our system.

We propose the following pricing for the services noted above:

|  | <u>Monthly Hours</u> |              |             |
|--|----------------------|--------------|-------------|
|  | CPA                  | Accountant   | Bookkeeper  |
| Billing and Cash Receipts                  |                      | 12           |             |
| Property Replacement                       |                      | 1            |             |
| Payroll, reports, deposits                 |                      | 2            | 10          |
| Accounts Payable and<br>Cash Disbursements |                      | 8            | 24          |
| General Ledger                             | 2                    | 12           | 8           |
| Bank Reconciliations                       |                      |              | 10          |
| Monthly Financial Statements               | 2                    | 2            |             |
| Monitor Compliance Issues                  |                      | 4            | 4           |
|  | <u>4</u>             | <u>41</u>    | <u>56</u>   |
| Billing Rate                               | <u>\$185</u>         | <u>\$124</u> | <u>\$92</u> |
|  | \$740                | \$5,084      | \$5,152     |
| Total monthly billing                      | <u>\$10,976</u>      |              |             |

LaVoie & Co., P.C.

Mr. Christopher Volpe, CPA  
 Vail Water Company Proposal  
 March 7, 2013  
 Page 3

|  | <u>One Time Hours</u> |              |             |
|--|-----------------------|--------------|-------------|
|  | CPA                   | Accountant   | Bookkeeper  |
| Initial Review of All<br>Company Files         | 100                   |              |             |
| Initial Transfer of Existing<br>Computer Files |                       | 8            |             |
| Billing Rate                                   | <u>\$185</u>          | <u>\$124</u> | <u>\$92</u> |
|  | \$18,500              | \$992        |             |
| One-time billing                               | <u>\$19,492</u>       |              |             |

|                   | <u>Quarterly Hours</u> |              |             |
|-------------------|------------------------|--------------|-------------|
|                   | CPA                    | Accountant   | Bookkeeper  |
| ACC Filings       | 4                      | 8            | 8           |
| Billing Rate      | <u>\$185</u>           | <u>\$124</u> | <u>\$92</u> |
|                   | \$740                  | \$992        | \$736       |
| Quarterly billing | <u>\$2,468</u>         |              |             |

|                | <u>Once A Year Annual Hours</u> |              |             |
|----------------|---------------------------------|--------------|-------------|
|                | CPA                             | Accountant   | Bookkeeper  |
| Filings:       |                                 |              |             |
| ADWR           | 1                               | 7            |             |
| ACC            | 8                               |              |             |
| CAGR           | 1                               | 7            |             |
| ADEQ           | 1                               | 7            |             |
| Pima County    | 1                               | 7            |             |
| PDEQ           | 1                               | 7            |             |
| Annual Audit   | <u>8</u>                        | <u>4</u>     | <u>4</u>    |
|                | 21                              | 39           | 4           |
| Billing Rate   | <u>\$185</u>                    | <u>\$124</u> | <u>\$92</u> |
|                | \$3,885                         | \$4,836      | \$368       |
| Annual billing | <u>\$9,089</u>                  |              |             |

LaVoie & Co., P.C.

Mr. Christopher Volpe, CPA  
Vail Water Company Proposal  
March 7, 2013  
Page 4

Anticipated fees are summarized as follows:

|                       |                 | <u>Total</u>     |
|-----------------------|-----------------|------------------|
| Total monthly billing | <u>\$10,976</u> | \$131,712        |
| One-time billing      |                 | 19,492           |
| Quarterly billing     | <u>\$2,468</u>  | 9,872            |
| Annual billing        |                 | <u>9,089</u>     |
|                       |                 | <u>\$170,165</u> |

The accountant and bookkeeper will be fully cross-trained to provide uninterrupted service.

We look forward to the opportunity to serve Vail Water Company and can assure you of our commitment to quality services and client satisfaction.

Sincerely,



LaVoie & Company, P.C.  
TRLmf

LaVoie & Co., P.C.

**EXHIBIT B**

**Table 1**

VWC Water Wheeling Study

Summary of Wheeling Costs and Rates

| Description                         | Preliminary (2012)  |                 | Revised (2012)      |                 |
|-------------------------------------|---------------------|-----------------|---------------------|-----------------|
|                                     | Wheeling \$         | \$/AF           | Wheeling \$         | \$/AF           |
| Operation & Maintenance             | \$15,943,300        | \$166.49        | \$15,943,300        | \$166.49        |
| Taxes                               | \$512,942           | \$5.36          | \$512,942           | \$5.36          |
| Capital Requirements <sup>1</sup>   | \$31,378,135        | \$327.68        | \$22,383,500        | \$233.75        |
| <b>Total</b>                        | <b>\$47,834,377</b> | <b>\$499.53</b> | <b>\$38,839,741</b> | <b>\$405.60</b> |
| Potable Water Sales (Ccf)           | 41,018,347          |                 | 41,018,347          |                 |
| Potable Water Sales (AF)            | 94,159              |                 | 94,159              |                 |
| Oro Valley Water Sales (AF)         | 1,600               |                 | 1,600               |                 |
| Total Water Sales (AF) <sup>2</sup> | 95,759              |                 | 95,759              |                 |
| Base Usage Rate                     |                     | \$499.53        |                     | \$405.60        |
| Estimated Power Rate <sup>3</sup>   |                     | \$196.17        |                     | \$196.17        |
| <b>Total usage rate</b>             |                     | <b>\$695.70</b> |                     | <b>\$601.77</b> |

<sup>1</sup> Preliminary based on rate of return of 6.61%; revised based on rate of return of 3.79%

<sup>2</sup> AF = Ccf X 100 X 7.48 / 325851

<sup>3</sup> From CH2M HILL