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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL
2013 JUN 26 PM 1 28

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

**STAFF'S SECOND NOTICE OF
FILING AMENDED
SETTLEMENT AGREEMENT
AND AMENDED PLAN OF
ADMINISTRATION**

It has come to Staff's attention that the amended versions of the Settlement Agreement and attendant Plan of Administration docketed on May 9, 2013, herein did not include Exhibit 1 to the Plan of Administration. Staff hereby resubmits that amended Settlement Agreement and Plan of Administration containing Exhibit A.

RESPECTFULLY SUBMITTED this 26th day of June, 2013.

Brian E. Smith
Bridget A. Humphrey
Attorneys, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies
of the foregoing filed this
26th day of June 2013 with:

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

Arizona Corporation Commission
DOCKETED

JUN 26 2013

DOCKETED BY

1 Copy of the foregoing mailed this
26th day of June, 2013 to:

2 Christopher Volpe, Vice President
3 Vail Water Company
1010 North Finance Center Drive
4 Suite 200
Tucson, AZ 85710

5 Michael McNulty
6 Michael Hallam
LEWIS AND ROCA, LLP
7 40 North Central Avenue
Phoenix, AZ 85004

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**AMENDED
SETTLEMENT
AGREEMENT**

VAIL WATER COMPANY

PROPOSED SETTLEMENT AGREEMENT

DOCKET NO. W-01651B-12-0339

April 26, 2013

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**PROPOSED SETTLEMENT AGREEMENT OF
DOCKET NO. W-01651B-12-0339
VAIL WATER COMPANY'S REQUEST FOR RATE ADJUSTMENT**

The purpose of this Settlement Agreement ("Agreement") is to settle disputed issues related to Docket No. W-01651B-12-0339, Vail Water Company's ("Vail" or the "Company") application for a determination of the fair value of its utility plant and property and the setting of rates thereon (the "Rate Case"). This Agreement is entered into between Arizona Corporation Commission Utilities Division ("Staff") and Vail (each a "Party," and collectively, the "Parties").

I. RECITALS

- 1.1 Vail filed the rate application in Docket No. W-01651B-12-0339 on July 27, 2012. Staff found the Application sufficient on August 27, 2012.
- 1.2 No other entity filed to intervene.
- 1.3 A Procedural Order was issued on September 11, 2012, scheduling an evidentiary hearing on May 7, 2013.
- 1.4 This Agreement is a result of the Parties' good faith efforts to settle all of the issues presented in the Rate Case.
- 1.5 The terms of this Agreement will serve the public interest by providing a just and reasonable resolution of the issues presented in the Rate Case, establishing just and reasonable rates for Vail's customers, and promoting the health, welfare, and safety of Vail's customers. Commission approval of this Agreement will further serve the public interest by allowing the Parties to avoid the expense and delay associated with continued litigation.
- 1.6 The Parties agree to ask the Commission to: (1) find that the terms and conditions of this Agreement are just and reasonable and in the public interest, along with any and all other necessary findings, and (2) approve the Agreement and order that the Agreement and the rates contained therein become effective at the earliest practicable date.

TERMS AND CONDITIONS

II. RATE INCREASE

For ratemaking purposes and for the purposes of this Agreement, the Parties agree that:

- 2.1 Vail's adjusted test year revenue was \$2,183,759.
- 2.2 Vail will receive an annual increase in revenue of \$21,480, for an annual revenue requirement of \$2,205,239.
- 2.3 The Company's fair value rate base used to establish the rates agreed to herein is \$3,315,108.
- 2.4 The fair value rate base includes deferred Central Arizona Project ("CAP") recharge credits of \$1,081,028. In addition, the Company agrees that all recharge credits sold by the Company must be priced, at a minimum, to recover the direct costs of the CAP water, including recognition of the Department of Water Resources' ("ADWR") 5% cut to the aquifer.
- 2.5 The schedules attached as **Exhibit A** ("Settlement Schedules") reflect the Parties' agreed upon rate base, operating expenses and operating income, cost of capital and rate design.

III. COST OF CAPITAL

For ratemaking purposes and for the purposes of this Agreement, the Parties agree that:

- 3.1 The Company has a capital structure comprised of 100% common equity.
- 3.2 A return on common equity of 9.1% shall be adopted.

IV. CAP SURCHARGE ADJUSTMENT PROVISIONS

- 4.1 Vail shall implement a CAP Surcharge, the components of which will include (i) CAP Municipal and Industrial (M&I) capital charges, (ii) CAP delivery charges, and (iii) City of Tucson wheeling charges.

- 4.2 The CAP Surcharge will begin at zero and be adjusted annually as described in the Proposed Plan of Administration.
- 4.3 As described in the Proposed Plan of Administration, Vail's CAP capital and delivery cost recovery through the CAP Surcharge will be reduced for any water loss in excess of 10 percent (10%).
- 4.4 The parties shall file the Proposed Plan of Administration prior to the May 7, 2013 hearing.

V. RATE DESIGN

- 5.1 The Company accepts Staff's rate design to generate the settlement revenue requirement as further set forth in the Settlement Schedules.

VI. COMPLIANCE AND OTHER MATTERS

- 6.1 The Company will obtain timesheets for management services from TEM Corp. to support management fees requested for recovery in rates in future rate cases and provide copies of such time records to Staff in future rate cases.
- 6.2 The Company's CAP Hook Up Fee Tariff will be eliminated.

VII. COMMISSION EVALUATION OF PROPOSED SETTLEMENT

- 7.1 This Agreement shall serve as a procedural device by which the Parties will submit their proposed settlement of Vail's pending rate case, Docket No. W-01651B-12-0339, to the Commission.
- 7.2 All currently-filed testimony and exhibits shall be offered into the Commission's record as evidence.
- 7.3 The Parties recognize that the Commission will independently consider and evaluate the terms of this Agreement.
- 7.4 If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute Commission approval of the Agreement. Thereafter, the Parties shall abide by the terms as approved by the Commission.

- 7.5 The Parties agree to support and defend this Agreement, including filing testimony in support of the Agreement and presenting evidence in support of the Agreement at the hearing scheduled to begin on May 7, 2013, and will not oppose any provision of the Agreement in pre-filed or live testimony. The Parties shall take reasonable steps to expedite consideration of the settlement, entry of a decision adopting the settlement, and implementation of the rates anticipated in this Agreement and shall not seek any delay in the schedules set for consideration of the Agreement or for the Administrative Law Judge's or Commission's consideration of the settlement embodied in this Agreement. If the Commission adopts an order approving all material terms of this Agreement, the Parties will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.
- 7.6 Within fifteen (15) days of an order of the Commission issued in this Docket, Vail shall file compliance tariffs for Staff review and approval. Such compliance tariffs, however, will become effective upon the effective date of the rate increase stated in the Commission's order.
- 7.7 If the Commission fails to issue an order adopting all material terms of this Agreement or adds new or different material terms to this Agreement or decides any issue or adopts any position in conflict with any material term of this Agreement, any or all of the Parties may withdraw from this Agreement, and such Party or Parties may pursue without prejudice their respective remedies at law. For purposes of this Agreement, whether a term is material shall be left to the discretion of the Party choosing to withdraw from the Agreement.
- 7.8 Vail recognizes that Staff does not have the power to bind the Commission. For purposes of proposing a settlement agreement, Staff acts in the same manner as any party to a Commission proceeding.

VIII. MISCELLANEOUS PROVISIONS

- 8.1 The provisions set forth in this Agreement are made for the purposes of a compromised settlement only and shall not be construed as admissions against interest or waivers of litigation positions of the Parties in this Rate Case or to other or future rate cases.
- 8.2 This Agreement represents the Parties' mutual desire to compromise and settle disputed issues in a manner consistent with the public interest. None of the positions taken in this Agreement by any of the Parties may be

referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except in furtherance of this Agreement.

- 8.3 This case presents a unique set of circumstances and compromises to achieve consensus for settlement. Consequently, participants may be accepting positions that, in other circumstances, they would be unwilling to accept. They are doing so because the Agreement, as a whole, with its various provisions for settling the unique issues presented by this case, is consistent with their long-term interests and the broad public interest. The acceptance by any Party of any specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.
- 8.4 No Party is bound by any position asserted in negotiations, except as expressly stated otherwise in this Agreement. No Party shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, or any other regulatory agency, or any court.
- 8.5 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement shall control.
- 8.6 Each of the terms of this Agreement is in consideration of all other terms of this Agreement. Accordingly, the terms are not severable.
- 8.7 The Parties warrant and represent that each person whose signature appears below is fully authorized and empowered to execute this Agreement.
- 8.8 The Parties acknowledge that they are represented by competent legal counsel and that they understand all of the terms of this Agreement and have had an opportunity to participate in the drafting of this Agreement and to fully review it with their counsel before signing, and that they execute this Agreement with full knowledge of the terms of the Agreement.
- 8.9 This Agreement may be executed in any number of counterparts and by each Party on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

Executed this 26th day of April, 2013.

VAIL WATER COMPANY

By: 

Name: SHELDON J. MANDELL

Its: PRESIDENT

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

By: 

Name: STEVE OUSA

Its: Director, Utilities Division

EXHIBIT A
SETTLEMENT SCHEDULES

Vall Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 3,312,773	\$ 3,315,108
2	Adjusted Operating Income (Loss)	\$ 312,107	\$ 285,069
3	Current Rate of Return (L2 / L1)	9.42%	8.60%
4	Required Rate of Return	10.40%	9.10%
5	Required Operating Income (L4 * L1)	\$ 344,528	\$ 301,675
6	Operating Income Deficiency (L5 - L2)	\$ 32,421	\$ 16,606
7	Commission Tax Allowance Policy - Gross Revenue Conversion Factor	1.3606	1.2935
8	Required Revenue Increase (L7 * L6)	\$ 44,113	\$ 21,480
9	Adjusted Test Year Revenue	\$ 2,334,747	\$ 2,183,759
10	Proposed Annual Revenue	\$ 2,378,860	\$ 2,205,239
11	Required Increase in Revenue (%)	1.89%	0.98%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-2 and JMM-8

COMMISSION TAX ALLOWANCE POLICY - GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<i>Commission Tax Allowance Policy - Calculation of Gross Revenue Conversion Factor:</i>					
1	Commission Tax Allowance Policy - Revenue	100.0000%			
2	Commission Tax Allowance Policy - Uncollectible Factor	0.0000%			
3	Commission Tax Allowance Policy - Revenues (L1 - L2)	100.0000%			
4	Commission Tax Allowance Policy - Combined Federal and State Income Tax and Property Tax Rate (Line 18)	22.6905%			
5	Subtotal (L3 - L4)	77.3095%			
6	Commission Tax Allowance Policy - Revenue Conversion Factor (L1 / L5)	1.293502			
<i>Commission Tax Allowance Policy - Calculation of Effective Tax Rate:</i>					
7	Operating Income Before Commission Tax Allowance Policy (Arizona Taxable Income)	100.0000%			
8	Commission Tax Allowance Policy - Arizona State Income Tax Rate (from worksheet)	2.9627%			
9	Commission Tax Allowance Policy - Income (L7 - L8)	97.0373%			
10	Commission Tax Allowance Policy - Applicable Federal Income Tax Rate (Line 48)	19.1272%			
11	Commission Tax Allowance Policy - Effective Federal Income Tax Rate (L9 x L10)	18.5605%			
12	Commission Tax Allowance Policy - Combined Federal and State Income Tax Rate (L8 + L11)		21.5232%		
<i>Commission Tax Allowance Policy - Calculation of Effective Property Tax Factor</i>					
13	Unity	100.0000%			
14	Commission Tax Allowance Policy - Combined Federal and State Income Tax Rate (L12)	21.5232%			
15	Commission Tax Allowance Policy - One Minus Combined Income Tax Rate (L13-L14)	78.4768%			
16	Commission Tax Allowance Policy - Property Tax Factor (JMM-W14, L27)	1.4874%			
17	Commission Tax Allowance Policy - Effective Property Tax Factor (L15*L16)		1.1673%		
18	Commission Tax Allowance Policy - Combined Federal and State Income Tax and Property Tax Rate (L12+L17)			22.6905%	
19	Commission Tax Allowance Policy - Required Operating Income (Schedule JMM-1, Line 5)	\$ 301,675			
20	Commission Tax Allowance Policy - Adjusted Test Year Operating Income (Loss) (JMM-8, L35)	285,069			
21	Commission Tax Allowance Policy - Required Increase in Operating Income (L19 - L20)		\$ 16,606		
22	Commission Tax Allowance Policy - Income Taxes on Recommended Revenue (Col. [C], L47)	\$ 82,738			
23	Commission Tax Allowance Policy - Income Taxes on Test Year Revenue (Col. [A], L47)	78,184			
24	Commission Tax Allowance Policy - Required Increase in Revenue to Provide for Income Taxes (L22 - L23)		4,554		
25	Commission Tax Allowance Policy - Recommended Revenue Requirement (Schedule JMM-W1, Line 10)	\$ 2,205,239			
26	Commission Tax Allowance Policy - Uncollectible Rate	0.0000%			
27	Commission Tax Allowance Policy - Uncollectible Expense on Recommended Revenue (L25*L26)	\$ -			
28	Commission Tax Allowance Policy - Adjusted Test Year Uncollectible Expense	\$ -			
29	Commission Tax Allowance Policy - Required Increase in Revenue to Provide for Uncollectible Exp. (L27-L28)				
30	Commission Tax Allowance Policy - Property Tax with Recommended Revenue (Schedule JMM-W14, L21)	\$ 97,263			
31	Commission Tax Allowance Policy - Property Tax on Test Year Revenue (Schedule JMM-W14, Line 17)	96,944			
32	Commission Tax Allowance Policy - Increase in Property Tax Due to Increase in Revenue (L30-31)		319		
33	Commission Tax Allowance Policy - Total Required Increase in Revenue (L21 + L24 + L29 + L32)		\$ 21,480		
<i>Commission Tax Allowance Policy Calculation of Income Tax:</i>					
34	Commission Tax Allowance Policy - Revenue (Schedule JMM-1, Col. [B], Line 9 & Sch. JMM-1, Col. [B] Line 10)	\$ 2,183,759	\$ 21,480	\$ 2,205,239	
35	Commission Tax Allowance Policy - Operating Expenses Excluding Income Taxes	\$ 1,820,607		\$ 1,820,826	
36	Commission Tax Allowance Policy - Synchronized Interest (L51)	\$ -		\$ -	
37	Commission Tax Allowance Policy - Arizona Taxable Income (L34 - L35 - L36)	\$ 363,253		\$ 384,413	
38	Commission Tax Allowance Policy - Arizona State Income Tax Rate	2.9627%		2.9627%	
39	Commission Tax Allowance Policy - Arizona Income Tax (L37 x L38)	\$ 10,762		\$ 11,389	
40	Commission Tax Allowance Policy - Federal Taxable Income (L37-L39)	\$ 352,491		\$ 373,024	
41	Commission Tax Allowance Policy - Federal Effective Tax	19.1272%		19.1272%	
42	Commission Tax Allowance Policy - Federal Tax	\$ 67,422		\$ 71,349	
43		\$ -		\$ -	
44		\$ -		\$ -	
45		\$ -		\$ -	
46		\$ 67,422		\$ 71,349	
47	Commission Tax Allowance Policy - Combined Federal and State Income Tax (L39 + L46)	\$ 78,184		\$ 82,738	
48	Commission Tax Allowance Policy - Applicable Federal Income Tax Rate [Col. [C], L46 - Col. [A], L46] / [Col. [C], L40 - Col. [A], L40]				19.1272%
<i>Commission Tax Allowance Policy - Calculation of Interest Synchronization:</i>					
49	Commission Tax Allowance Policy - Rate Base (Schedule JMM-3, Col. (C), Line 17)	\$ 3,315,108			
50	Commission Tax Allowance Policy - Weighted Average Cost of Debt	0.0%			
51	Commission Tax Allowance Policy - Synchronized Interest (L45 X L46)	\$ -			

Vall Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-3

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 20,158,710	\$ 20,065,755
2	Less: Accumulated Depreciation	3,722,176	3,601,631
3	Net Plant in Service	<u>\$ 16,436,534</u>	<u>\$ 16,464,124</u>
<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 2,930,228	\$ 2,930,228
5	Less: Accumulated Amortization	605,832	\$ 603,756
6	Net CIAC	<u>2,324,396</u>	<u>\$ 2,326,472</u>
7	Advances in Aid of Construction (AIAC)	11,374,431	11,374,431
8	Customer Deposits	529,140	529,140
9	Deferred CAP Liability	-	-
<u>ADD:</u>			
10	Deferred CAP Charges	1,104,206	1,081,028
11	Deferred Tax Assets	-	-
12	Original Cost Rate Base	<u>\$ 3,312,773</u>	<u>\$ 3,315,108</u>

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Vail Water Company
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SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Retired Plant Ref: Sch JMM-5	[C] ADJ #2 Plant Retired to Wrong Account Ref: Sch JMM-6	[D] ADJ #3 Excess Capacity Ref: Sch JMM-7	[E] ADJ #4 CAP LTSC Ref: Sch JMM-8	[F] STAFF ADJUSTED
1								
2	301	Organization Cost						
3	302	Franchise Cost	17,750					17,750
4	303	Land and Land Rights	399,328	(1,978)				397,350
5	304	Structures and Improvements						
6	305	Collecting and Impounding Res.						
7	306	Lake River and Other Intakes	1,126,979					1,126,979
8	307	Wells and Springs						
9	308	Infiltration Galleries and Tunnels	2,995					2,995
10	309	Supply Mains						
11	310	Power Generation Equipment	1,553,110	(29,479)	1,838			1,525,469
12	311	Electric Pumping Equipment						
13	320.1	Water Treatment Plants						
14	320.2	Solution Chemical Feeders						
15	330	Distribution Reservoirs & Standpipe	1,621,069	(61,499)	25,642			1,585,212
16	330.1	Storage Tanks						
17	330.2	Pressure Tanks	14,023,034					14,023,034
18	331	Transmission and Distribution Mains	12,451					12,451
19	333	Services	923,082					923,082
20	334	Meters	492,908					492,908
21	335	Hydrants	7,901					7,901
22	336	Backflow Prevention Devices	6,553					6,553
23	339	Other Plant and Miscellaneous Equipment	29,683		(27,480)			2,203
24	340	Office Furniture and Fixtures	15,621					15,621
25	340.1	Computers and Software	54,807					54,807
26	341	Transportation Equipment	15,645					15,645
27	343	Tools and Work Equipment						
28	344	Laboratory Equipment						
29	345	Power Operated Equipment	5,190					5,190
30	346	Communications Equipment						
31	347	Miscellaneous Equipment						
32	348	Other Tangible Plant						
33		Total Plant in Service	(149,395)					(149,395)
34		Less: Accumulated Depreciation	20,168,710	(92,956)				20,065,755
35		Net Plant in Service	3,722,176	(92,956)	(27,589)			3,601,631
36			16,436,534		27,589			16,464,124
37								
38								
39								
40								
41								
42								
43								
44								
45								
46								
47								
48								
34		LESS:						
35		Contributions in Aid of Construction (CIAC)	2,930,228					2,930,228
36		Less: Accumulated Amortization	605,832		(2,076)			603,756
37		Net CIAC (L.39 - L.40)	2,324,396		2,076			2,326,472
38		Advances in Aid of Construction (AIAC)	11,374,431					11,374,431
39		Customer Deposits	529,140					529,140
40		Deferred Income Taxes						
41		Deferred CAP Liability						
42								
43								
44		ADD:						
45		Deferred CAP Charges	1,104,206				(23,178)	1,081,028
46		Deferred Tax Assets						
47		Original Cost Rate Base	3,312,773		25,513		(23,178)	3,315,108

Vail Water Company
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Settlement Schedule JMM-5

RATE BASE ADJUSTMENT NO. 1 - RETIRED PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED (Col A + Col B)
1	304	Structures and Improvements	\$ 399,328	\$ (1,978)	\$ 397,350
2	311	Electric Pumping Equipment	1,553,110	(29,479)	1,523,631
3	330	Distribution Reservoirs & Standpipe	1,621,069	(61,499)	1,559,570
4			<u>\$ 3,573,507</u>	<u>\$ (92,956)</u>	<u>\$ 3,480,551</u>
2					
3		Accumulated Depreciation	<u>\$ 3,722,176</u>	<u>\$ (92,956)</u>	<u>\$ 3,629,220</u>

References:

Column [A]: Company Application
 Column [B]: Testimony JMM
 Column [C]: Column [A] + Column [B]

Vail Water Company
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 Test Year Ended: December 31, 2011

Settlement Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - PLANT RETIRED TO THE WRONG ACCOUNT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	311	Electric Pumping Equipment	\$ 1,553,110	\$ 1,838	\$ 1,554,948
2	330	Distribution Reservoirs & Standpipe	1,621,069	25,642	1,646,711
3	340	Office Furniture and Fixtures	29,683	(27,480)	2,203
4			\$ 3,203,862	\$ -	\$ 3,203,862
5		Accumulated Depreciation	\$ 3,722,176	\$ (27,589)	\$ 3,694,587
		Adjustment to CIAC Amortization	\$ 2,930,228	\$ (2,076)	\$ 2,928,152

References:

Column [A]: Company Application
 Column [B]: Testimony JMM
 Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - EXCESS CAPACITY

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	307	Wells and Springs	\$ 1,126,979	\$ -	\$ 1,126,979
2					
3		Accumulated Depreciation	\$ 3,722,176	\$ -	\$ 3,722,176
4					
5					
6					

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Vall Water Company
 Docket No. W-01651B-12-0339
 Test Year Ended: December 31, 2011

Settlement Schedule JMM-8

RATE BASE ADJUSTMENT NO. 4 - CAP Long-Term Storage Credits

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			Plant in Service Per Company	Adjustment to Long-Term Storage Credits	Plant in Service Per Staff (Col A + Col B)
1		Deferred CAP Charges	\$ 1,104,206	\$ (23,178)	\$ 1,081,028
2					
3		Deferred CAP Liability	\$ -	\$ -	\$ -
4					

References:

Column [A]: Company Application
 Column [B]: Testimony JMM
 Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	(A) COMPANY ADJUSTED TEST YEAR AS FILED	(B) STAFF TEST YEAR ADJUSTMENTS	(C) STAFF TEST YEAR AS ADJUSTED	(D) STAFF PROPOSED CHANGES	(E) STAFF RECOMMENDED
1	<u>REVENUES:</u>					
2	Metered Water Sales	\$ 2,120,110	\$ -	\$ 2,120,110	\$ 21,480	\$ 2,141,590
3	Water Sales-Untmetered	-	-	-	-	-
4	Other Water Revenue	214,637	(150,988)	63,649	-	63,649
5	Intentionally Left Blank	-	-	-	-	-
6	Total Operating Revenues	\$ 2,334,747	\$ -	\$ 2,183,759	\$ 21,480	\$ 2,205,239
7						
8	<u>OPERATING EXPENSES:</u>					
9	Salaries and Wages	\$ 276,984	\$ -	\$ 276,984	\$ -	\$ 276,984
10	Employee Benefits	12,757	-	12,757	-	12,757
11	Purchased Water	199,817	-	199,817	-	199,817
12	Purchased Power	218,584	-	218,584	-	218,584
13	Chemicals	1,732	-	1,732	-	1,732
14	Materials and Supplies	14,372	-	14,372	-	14,372
15	Repairs and Maintenance	28,876	-	28,876	-	28,876
16	Office Supplies and Expense	73,301	-	73,301	-	73,301
17	Contractual Services - Engineering	6,270	-	6,270	-	6,270
18	Contractual Services - Accounting	10,473	-	10,473	-	10,473
19	Contractual Services - Legal	12,933	-	12,933	-	12,933
20	Contractual Services - Management Fees	211,138	(91,901)	119,237	-	119,237
21	Contractual Services - Other	15,976	-	15,976	-	15,976
22	Contractual Services - Water Testing	3,906	9,761	13,667	-	13,667
23	Rents - Building/Real Property	7,920	-	7,920	-	7,920
24	Rents - Equipment	8,314	-	8,314	-	8,314
25	Transportation Expenses	33,154	-	33,154	-	33,154
26	Insurance - Vehicle	5,111	-	5,111	-	5,111
27	Insurance - General Liability	32,130	-	32,130	-	32,130
28	Insurance - Worker's Comp	3,111	-	3,111	-	3,111
29	Regulatory Commission Expense	11,946	-	11,946	-	11,946
30	Regulatory Commission Expense - Rate Case	30,000	-	30,000	-	30,000
31	Bad Debt Expense	6,856	-	6,856	-	6,856
32	Miscellaneous Expense	11,424	(1,311)	10,113	-	10,113
33	Depreciation Expense	570,649	(5,701)	564,948	-	564,948
34	Taxes Other than Income	-	-	-	-	-
35	Property Taxes	103,681	(6,737)	96,944	319	97,263
36	Income Taxes	106,244	(28,060)	78,184	4,554	82,738
37	Interest on Customer Deposits	4,981	-	4,981	-	4,981
38	Total Operating Expenses	\$ 2,022,640	\$ (123,949)	\$ 1,898,691	\$ 4,874	\$ 1,903,564
39	Operating Income (Loss)	\$ 312,107	\$ 123,949	\$ 285,069	\$ 16,606	\$ 301,675

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule JMM-10
- Column (C): Column (A) + Column (B)
- Column (D): Schedules JMM-1, and JMM-14
- Column (E): Column (C) + Column (D)

OPERATING ADJUSTMENT NO. 1 - PURCHASED WATER EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Purchased Water	\$ 198,817	\$ -	\$ 199,817

Staff's Calculation to Increase CAP M&I Charges

Future CAP Charge 1,857 (a.f.) x \$146 (average of five years 129 + 138 + 149 + 155 + 159)	\$ 271,122
Current CAP Charge 1,857 (a.f.) x \$122	\$ 226,554
Increase	\$ 44,568

Staff's Calculation to Increase CAP Capital Charges

Future CAP Charge 1,857 (a.f.) x \$16.80 (average of five years 15 + 16 + 17 + 18 + 18)	\$ 31,198
Current CAP Charge 1,857 (a.f.) x \$15	\$ 27,855
	\$ 3,343

References:

- Column [A]: Company Application
- Column [B]: Testimony JMM
- Column [C]: Column [A] + Column [B]

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-12

OPERATING ADJUSTMENT NO. 2 - WATER TESTING EXPENSE AND MANAGEMENT FEES EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Water Testing Fee	\$ 3,906	\$ 9,761	\$ 13,667

References:

Column [A]: Company Application

Column [B]: Testimony JMM

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

OPERATING ADJUSTMENT NO. 3 - MISCELLANEOUS EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Miscellaneous Expense	\$ 11,424	\$ (1,311)	\$ 10,113

References:

- Column [A]: Company Application
- Column [B]: Testimony JMM
- Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)
			PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated Plant	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ -	\$ -	\$ -	0.00%	\$ -
2	302	Franchise Cost	\$ -	\$ -	\$ -	0.00%	\$ -
3	303	Land and Land Rights	\$ 17,750	\$ 17,750	\$ -	0.00%	\$ -
4	304	Structures and Improvements	\$ 397,350	\$ -	\$ 397,350	3.33%	\$ 13,232
5	305	Collecting and Impounding Res.	\$ -	\$ -	\$ -	2.50%	\$ -
6	306	Lake River and Other Intakes	\$ -	\$ -	\$ -	2.50%	\$ -
7	307	Wells and Springs	\$ 1,126,979	\$ -	\$ 1,126,979	3.33%	\$ 37,528
8	308	Infiltration Galleries and Tunnels	\$ -	\$ -	\$ -	6.67%	\$ -
9	309	Supply Mains	\$ 2,995	\$ -	\$ 2,995	2.00%	\$ 60
10	310	Power Generation Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
11	311	Electric Pumping Equipment	\$ 1,525,469	\$ -	\$ 1,525,469	12.50%	\$ 190,684
12	320	Water Treatment Equipment	\$ -	\$ -	\$ -	3.33%	\$ -
13	320	Water Treatment Plant	\$ -	\$ -	\$ -	20.00%	\$ -
14	330	Distribution Reservoirs & Standpipe	\$ 1,585,212	\$ -	\$ 1,585,212	2.22%	\$ 35,192
15	330.1	Storage Tanks	\$ -	\$ -	\$ -	2.22%	\$ -
16	330.2	Pressure Tanks	\$ -	\$ -	\$ -	5.00%	\$ -
17	331	Transmission and Distribution Mains	\$ 14,023,034	\$ -	\$ 14,023,034	2.00%	\$ 280,461
18	333	Services	\$ 12,451	\$ -	\$ 12,451	3.33%	\$ 415
19	334	Meters	\$ 923,082	\$ -	\$ 923,082	8.33%	\$ 76,893
20	335	Hydrants	\$ 492,908	\$ -	\$ 492,908	2.00%	\$ 9,858
21	336	Backflow Prevention Devices	\$ 7,901	\$ -	\$ 7,901	6.67%	\$ 527
22	339	Other Plant and Miscellaneous Equipment	\$ 6,553	\$ -	\$ 6,553	6.67%	\$ 437
23	340	Office Furniture and Fixtures	\$ 2,203	\$ -	\$ 2,203	6.67%	\$ 147
24	341	Computers and Software	\$ 15,621	\$ -	\$ 15,621	20.00%	\$ 3,124
25	342	Transportation Equipment	\$ 54,807	\$ -	\$ 54,807	20.00%	\$ 10,961
26	343	Tools and Work Equipment	\$ 15,645	\$ -	\$ 15,645	5.00%	\$ 782
27	344	Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
28	345	Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
29	346	Communications Equipment	\$ 5,190	\$ -	\$ 5,190	10.00%	\$ 519
30	347	Miscellaneous Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
31	348	Other Tangible Plant	\$ (149,395)	\$ (149,395)	\$ -	10.00%	\$ -
32		Total Plant	\$ 20,065,755	\$ (131,645)	\$ 20,197,400		\$ 680,819
33							
34		Composite Depreciation Rate:		3.27%			
35		CIAC:	\$ 2,930,228				
36		Amortization of CIAC (Line 35 x Line 34):	\$ 95,871				
37							
38		Depreciation Expense Before Amortization of CIAC:	\$ 680,819				
39		Less Amortization of CIAC:	\$ 95,871				
40		Test Year Depreciation Expense - Staff:	\$ 584,948				
41		Depreciation Expense - Company:	\$ 570,649				
42		Staff's Total Adjustment:	\$ (5,701)				
43							

References:
Column [A]: Schedule JMM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 2,183,759	\$ 2,183,759
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	4,367,519	\$ 4,367,519
4	Staff Recommended Revenue, Per Schedule JMM-1	2,183,759	\$ 2,205,239
5	Subtotal (Line 4 + Line 5)	6,551,278	6,572,758
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,183,759	\$ 2,190,919
8	Department of Revenue Mutlplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	4,367,519	\$ 4,381,839
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	22,449	\$ 22,449
12	Full Cash Value (Line 9 + Line 10 - Line 11)	4,345,070	\$ 4,359,390
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	869,014	\$ 871,878
15	Composite Property Tax Rate (Per Company Schedule)	11.1556%	11.1556%
16			\$ -
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 96,944	
18	Company Proposed Property Tax	103,681	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ (6,737)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 97,263
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 96,944
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 319
24			
25	Increase to Property Tax Expense		\$ 319
26	Increase in Revenue Requirement		21,480
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.487411%

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-16

OPERATING INCOME ADJUSTMENT NO. 6 - COMMISSION TAX ALLOWANCE POLICY - TEST YEAR INCOME TAXE EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Income Tax Expense	\$ 106,244	\$ (28,060)	\$ 78,184

References:

Column (A), Company Schedule C-1
Column (B): Column [C] - Column [A]
Column (C): Schedule JMM-2

Vali Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-17

OPERATING ADJUSTMENT NO. 7 - COMPANY REBUTTAL ADJUSTMENTS THAT STAFF ACCEPTS

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	CAP Hook-up Fees	\$ 2,120,110	\$ (150,988)	\$ 1,969,122
2	Contractual Services - Management Fees	\$ 211,138	\$ (91,901)	\$ 119,237

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes)			
5/8 x 3/4 inch	\$ 13.18	\$ 14.70	\$ 14.70
3/4 inch	21.00	23.42	22.50
1 inch	40.50	45.16	37.50
1 1/2 inch	89.20	99.46	75.00
2 inch	147.70	164.89	120.00
3 inch	294.20	318.89	240.00
4 inch	478.20	534.31	375.00
6 inch	968.52	1,078.12	750.00
8 inch	N/A	N/A	1,200.00
10 inch	N/A	N/A	1,725.00
12 inch	N/A	N/A	3,225.00
Commodity Charge - Per 1,000 Gallons			
5/8" x 3/4" Meter (Residential)			
All Gallons	\$ 4,000	N/A	N/A
First 4,000 gallons	N/A	\$ 3,750	N/A
4,001 to 10,000 gallons	N/A	4,000	N/A
Over 10,000 gallons	N/A	4,250	N/A
First 3,000 gallons	N/A	N/A	\$ 2,940
3,001 to 10,000 gallons	N/A	N/A	4,150
Over 10,000 gallons	N/A	N/A	5,280
5/8" x 3/4" Meter (Commercial, Industrial, Irrigation)			
All Gallons	\$ 4,000	N/A	N/A
First 10,000 gallons	N/A	3,750	N/A
Over 10,000 gallons	N/A	4,000	N/A
First 10,000 gallons	N/A	N/A	4,150
Over 10,000 gallons	N/A	N/A	5,280
3/4" Meter (Residential)			
All Gallons	4,000	N/A	N/A
First 4,000 gallons	N/A	\$ 3,750	N/A
4,001 to 10,000 gallons	N/A	4,000	N/A
Over 10,000 gallons	N/A	4,250	N/A
First 3,000 gallons	N/A	N/A	2,940
3,001 to 10,000 gallons	N/A	N/A	4,150
Over 10,000 gallons	N/A	N/A	5,280
3/4" Meter (Commercial, Industrial, Irrigation)			
All Gallons	4,000	N/A	N/A
First 10,000 gallons	N/A	3,750	N/A
Over 10,000 gallons	N/A	4,000	N/A
First 10,000 gallons	N/A	N/A	4,150
Over 10,000 gallons	N/A	N/A	5,280
1" Meter (All Classes Including Standbys and Construction)			
All Gallons	4,000	N/A	N/A
First 25,000 gallons	N/A	4,000	N/A
Over 25,000 gallons	N/A	4,250	N/A
First 22,000 gallons	N/A	N/A	4,150
Over 22,000 gallons	N/A	N/A	5,280
1 1/2" Meter (All Classes Including Standbys and Construction)			
All Gallons	4,000	N/A	N/A
First 50,000 gallons	N/A	4,000	N/A
Over 50,000 gallons	N/A	4,250	N/A
First 50,000 gallons	N/A	N/A	4,150
Over 50,000 gallons	N/A	N/A	5,280
2" Meter (All Classes Including Standbys and Construction)			
All Gallons	4,000	N/A	N/A
First 80,000 gallons	N/A	4,000	N/A
Over 80,000 gallons	N/A	4,250	N/A
First 80,000 gallons	N/A	N/A	4,150
Over 80,000 gallons	N/A	N/A	5,280
2 1/2" Meter (All Classes Including Standbys and Construction)			
All Gallons	4,000	N/A	N/A
First 160,000 gallons	N/A	4,000	N/A
Over 160,000 gallons	N/A	4,250	N/A
First 160,000 gallons	N/A	N/A	4,150
Over 160,000 gallons	N/A	N/A	5,280
3" Meter (All Classes Including Standbys and Construction)			
All Gallons	4,000	N/A	N/A
First 250,000 gallons	N/A	4,000	N/A
Over 250,000 gallons	N/A	4,250	N/A
First 250,000 gallons	N/A	N/A	4,150
Over 250,000 gallons	N/A	N/A	5,280
3 1/2" Meter (All Classes Except Standbys and Construction)			
All Gallons	4,000	N/A	N/A
First 500,000 gallons	N/A	4,000	N/A
Over 500,000 gallons	N/A	4,250	N/A
First 500,000 gallons	N/A	N/A	4,150
Over 500,000 gallons	N/A	N/A	5,280

8" Meter (All Classes Except Standpipe and Construction)			
All Gallons	4.0000	N/A	N/A
First 720,000 gallons	N/A	N/A	4.1500
Over 720,000 gallons	N/A	N/A	5.2800
10" Meter (All Classes Except Standpipe and Construction)			
All Gallons	4.0000	N/A	N/A
First 1,035,000 gallons	N/A	N/A	4.1500
Over 1,035,000 gallons	N/A	N/A	5.2800
12" Meter (All Classes Except Standpipe and Construction)			
All Gallons	4.0000	N/A	N/A
First 1,835,000 gallons	N/A	N/A	4.1500
Over 1,835,000 gallons	N/A	N/A	5.2800
Construction/Standpipe			
All Gallons	4.0000	4.2500	5.2800
CAP Recovery Surcharge (per 1,000 gallons)	0.3200	N/A	N/A
CAP Water Surcharge (per 1,000 gallons)	N/A	See Testimony	See Testimony
Other Service Charges			
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 50.00	Remove from Tariff	Remove from Tariff
Reestablishment (within 12 months)	(a)	Remove from Tariff (a)	Remove from Tariff (a)
Reestablishment (within 12 months after hours)	(b)	\$ 30.00	\$ 30.00
Renovation (Delinquent)	\$ 30.00	\$ 30.00	\$ 30.00
Renovation (Delinquent) - After Hours	\$ 30.00	\$ 30.00	\$ 30.00
Meter Test (If Correct)	\$ 20.00	\$ 20.00	\$ 20.00
Deposit	(c)	(c)	(c)
Deposit Interest	(c)	(c)	(c)
NSF Check	\$ 25.00	\$ 25.00	\$ 25.00
Deferred Payment (per month)	1.5% per month	1.5% per month	1.5% per month
Late Payment Fee (per month)	1.5% per month	1.5% per month	1.5% per month
Moving Customer Meter (Customer Request)	At Cost	At Cost	At Cost
Legal Hook-up	(d)	(d)	(d)
Transfer Fee	\$ 25.00	\$ 25.00	\$ 25.00
After Hour Service Charge (at customer's request)	N/A	\$ 50.00	\$ 50.00

(a) Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).
 (b) Number of months off the system times the monthly minimum per A.A.C.
 (c) Per Rule R14-2-403(B).
 (d) Estimated billings from the time legal connection was made to date.

In addition to the collection of regular rates, the Utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-400(B).

Service and Meter Installation Charges

Service Size	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Installation Charge	Total Recommended Charge
5/8 x 3/4 inch	\$ 400.00	\$ 445.00	\$ 306.00	\$ 750.00	\$ 445.00	\$ 305.00	\$ 750.00
3/4 inch	\$ 440.00	\$ 445.00	\$ 405.00	\$ 850.00	\$ 445.00	\$ 405.00	\$ 850.00
1 inch	\$ 500.00	\$ 495.00	\$ 465.00	\$ 960.00	\$ 495.00	\$ 465.00	\$ 960.00
1 1/2 inch	\$ 675.00	\$ 650.00	\$ 675.00	\$ 1,225.00	\$ 650.00	\$ 675.00	\$ 1,225.00
2 inch Turbo	N/A	\$ 830.00	\$ 1,195.00	\$ 2,025.00	\$ 830.00	\$ 1,195.00	\$ 2,025.00
2 inch Compound	\$ 1,680.00	\$ 830.00	\$ 2,040.00	\$ 2,870.00	\$ 830.00	\$ 2,040.00	\$ 2,870.00
3 inch Turbo	N/A	\$ 1,045.00	\$ 1,820.00	\$ 2,865.00	\$ 1,045.00	\$ 1,820.00	\$ 2,865.00
3 inch Compound	\$ 2,150.00	\$ 1,165.00	\$ 2,604.00	\$ 3,789.00	\$ 1,165.00	\$ 2,604.00	\$ 3,789.00
4 inch Turbo	N/A	\$ 1,490.00	\$ 2,820.00	\$ 4,310.00	\$ 1,490.00	\$ 2,820.00	\$ 4,310.00
4 inch Compound	\$ 3,135.00	\$ 1,670.00	\$ 3,795.00	\$ 6,465.00	\$ 1,670.00	\$ 3,795.00	\$ 5,465.00
6 inch Turbo	N/A	\$ 2,210.00	\$ 5,175.00	\$ 7,385.00	\$ 2,210.00	\$ 5,175.00	\$ 7,385.00
6 inch Compound	\$ 6,190.00	\$ 2,330.00	\$ 7,070.00	\$ 9,400.00	\$ 2,330.00	\$ 7,070.00	\$ 9,400.00

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-19

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,720	\$ 40.06	\$ 40.58	\$ 0.52	1.30%
Median Usage	5,500	35.18	35.70	\$ 0.52	1.48%
Staff Recommended					
Average Usage	6,720	\$ 40.06	\$ 38.96	\$ (1.10)	-2.75%
Median Usage	5,500	35.18	33.90	\$ (1.29)	-3.65%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 13.18	\$ 14.70	11.53%	\$ 14.70	11.53%
1,000	17.18	18.45	7.39%	17.64	2.68%
2,000	21.18	22.20	4.82%	20.58	-2.83%
3,000	25.18	25.95	3.06%	23.52	-6.59%
4,000	29.18	29.70	1.78%	27.67	-5.17%
5,000	33.18	33.70	1.57%	31.82	-4.10%
6,000	37.18	37.70	1.40%	35.97	-3.25%
7,000	41.18	41.70	1.26%	40.12	-2.57%
8,000	45.18	45.70	1.15%	44.27	-2.01%
9,000	49.18	49.70	1.06%	48.42	-1.55%
10,000	53.18	53.70	0.98%	52.57	-1.15%
11,000	57.18	57.95	1.35%	57.85	1.17%
12,000	61.18	62.20	1.67%	63.13	3.19%
13,000	65.18	66.45	1.95%	68.41	4.96%
14,000	69.18	70.70	2.20%	73.69	6.52%
15,000	73.18	74.95	2.42%	78.97	7.91%
16,000	77.18	79.20	2.62%	84.25	9.16%
17,000	81.18	83.45	2.80%	89.53	10.29%
18,000	85.18	87.70	2.96%	94.81	11.31%
19,000	89.18	91.95	3.11%	100.09	12.23%
20,000	93.18	96.20	3.24%	105.37	13.08%
25,000	113.18	117.45	3.77%	131.77	16.43%
30,000	133.18	138.70	4.14%	158.17	18.76%
35,000	153.18	159.95	4.42%	184.57	20.49%
40,000	173.18	181.20	4.63%	210.97	21.82%
45,000	193.18	202.45	4.80%	237.37	22.88%
50,000	213.18	223.70	4.93%	263.77	23.73%
75,000	313.18	329.95	5.35%	395.77	26.37%
100,000	413.18	436.20	5.57%	527.77	27.73%

AMENDED
PLAN
OF
ADMINISTRATION

CAP Surcharge and Long-Term Storage Credit Balance Plan of Administration

This Plan of Administration ("POA") relates to the administration of Vail Water Company's ("Vail" or the "Company") CAP Surcharge and Long-Term Storage Balance. The purpose of the POA is to describe how Vail will administer its CAP Surcharge and Long-Term Storage Balance if approved by the Arizona Corporation Commission in Docket No. W-01651B-12-0339.

I. Overview

Vail 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. As described in Decision Nos. 62450 and 73218, Vail is currently pursuing a CAP project that will allow for the direct delivery of CAP water in Vail's service territory.

II. General Description - Surcharge

The purpose of the CAP surcharge mechanism is to recover the costs of CAP water and delivery of CAP water to the Company's service territory not included in base rates once the CAP project is complete and water is being delivered. Under the Company's proposed CAP surcharge mechanism, the Company would be required to make a separate filing for Commission consideration before the first surcharge becomes effective. The Company shall file its first surcharge request prior to taking delivery of CAP water through the CAP project. The amount of the initial surcharge will be determined and submitted for approval by the Commission. The CAP surcharge will be based on gallons sold similar to a commodity rate. The CAP surcharge will appear on customers' bills as a separate line item labeled "CAP Water Surcharge." Thereafter, the Company shall make annual filings prior to the anniversary of the effective date of the initial CAP surcharge.

III. Components of CAP Surcharge

The CAP surcharge will include the following components as further described in Exhibit 1:

- Component 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges included in Base Rates – This component is based upon variances between the combined CAP M&I capital and CAP delivery charges in effect for the applicable year and the combined amount of those rates (\$105.87 per acre-foot) included in base rates.

- Component 2 - Tucson Water Wheeling Fees – This component is based upon the fees set forth in the final Wheeling Agreement between Vail and Tucson Water and the volume of water delivered to Vail’s service territory as defined by the Wheeling Agreement.
- Component 3 - Periodic Unrecovered Recharge Credits – This component applies the rate variance calculated in Component 1 to any excess of the total CAP allocation (in acre-feet) over the total water wheeled to customers. It is an asset that represents the CAP costs included in long term storage credits reserved for future use.
- Component 4 - Prior Year Under/(Over) Recovery – This component represents the under/(over) recovery of the prior year’s costs through the surcharge.
- Component 5 - Long Term Storage Credit Recovery – This component reflects the value of Long Term Storage Credits to be recovered from ratepayers and used to offset CAGR fees. The amount for recovery from ratepayers is calculated using average inventory cost. Vail will provide documentation to support these amounts.
- Component 6 - Gain on Sale of Long Term Storage Credits – This component reflects the customers’ share (50 percent) of any profit resulting from the sale of Long Term Storage Credits to third parties.
- Component 7 - Excess Water Loss Disallowance – This component is a disallowance of charges based on unaccounted for water loss in Vail’s system in excess of 10 percent. If Vail’s unaccounted for water loss for the 12 months prior to the date of filing for a new surcharge exceeds 10 percent, the total amounts of the other components will be reduced by the percentage the unaccounted for water loss is in excess of 10 percent.

IV. Calculation of the CAP Surcharge

Once the total of the component costs have been determined, the CAP surcharge (per 1,000 gallons) will be calculated by dividing the total costs by the prior year’s gallons sold (in 1,000s). An illustrative exhibit is attached as Exhibit 1 showing the components of the calculation.

The Company will track the surcharge collections during the year and identify any under/(over) recovery. Any under/(over) recovery of the prior year’s surcharge will be considered in the subsequent year’s computation of the surcharge.

V. CAP Long-Term Storage Balance

The Company will maintain a CAP long-term storage balance. The balance will be calculated beginning with the \$1,081,028 amount adopted as a component of rate base and reflect additions for CAP M&I capital and CAP delivery charges incurred in the period beginning January 1, 2012, and ending the day before rates become effective in this case and

Periodic Unrecovered Recharge Credits (Component 3) and deductions for Long-Term Storage Credit Recovery (Component 5) and Total Cost of Long-Term Storage Credits Sold (Exhibit 1, Line 22).

VI. Reporting

The Company shall file its first surcharge request prior to taking delivery of CAP water through the CAP project.

On or before February 1st of each year thereafter Vail will submit to the Commission as a compliance item an annual report showing its collections under the CAP Surcharge that includes a calculation of any under/(over) recovery and a calculation of the CAP Long-Term Storage Balance with detail showing each component's contribution to the change in balance from the prior year.

VII. CAP Surcharge Implementation

Vail will submit annually a schedule showing the computation of each year's surcharge along with supporting documentation of the underlying costs. Except for the first year, which may be a partial year, each surcharge shall remain in effect for a period of 12 months. The first surcharge calculation shall require Commission approval prior to going into effect. Thereafter, each surcharge shall be approved administratively by Commission Staff and shall become effective on April 1st, unless Commission Staff files an objection to such surcharge calculation prior to April 1st. Notwithstanding the foregoing, if any annual surcharge proposed by Vail represents an increase greater than \$1.00 per 1,000 gallons over the CAP surcharge then in effect, such surcharge shall require Commission approval prior to going into effect.

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

Exhibit 1
Page 1 of 2

Component 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges included in Base Rates

[1]	CAP Allocation (a.f.)		1,857
[2]	CAP M&I Capital and Delivery Charges (per a.f.) using base year (test year CAP rate)	\$	105.87
[3]	CAP M&I Capital and Delivery Charges (per a.f.) using next year's firm rate	\$	144.00
[4]	CAP Rate Increase (decrease) [3]-[2]	\$	38.13
[5]	Total CAP M&I Capital and Delivery Charges Increase(decrease) [4]x[5]	\$	<u>70,807</u>

Component 2 - Tucson Water Wheeling Fees

[6]	CAP Water Delivered to Vail Service Territory (a.f.)		1,100
[7]	Wheeling fee (per a.f.)	\$	650.00
[8]	Total Wheeling Fees	\$	<u>715,000</u>

Component 3 - Periodic Unrecovered Recharge Credits

[9]	CAP Water Recharged (a.f.) [1]-[6]		757
[10]	CAP Rate Increase (per a.f.) = [4]	\$	38.13
[11]	Total Recharge Credits for Future Use [9]x[10]	\$	<u>(28,864)</u>

Component 4 - Prior Year Under/(Over) Recovery (Not applicable in Year 1)

[12]	Total amount to be recovered via surcharge =[38] from prior year calc	\$	-
[13]	Gallons sold in previous 12 months (in 1,000s) (provide support)		-
[14]	Prior year surcharge rate (per 1,000 gallons) = [40] from prior year	\$	-
[15]	Amounts recovered via surcharge [13]x[14]	\$	-
[16]	Prior Year Under (Over) recovery [12]-[15]	\$	<u>-</u>

Component 5 - Long-Term Storage Credit Recovery

[17]	Long-term Storage Credits Used (a.f.) (provide support)		100
[18]	Average Cost (provide support)	\$	125
[19]	Total Cost [17]x[18]	\$	<u>12,500</u>

Component 6 - Gain on Sale of Long-Term Storage Credits

[20]	Long-term Storage Credits Sold (a.f.) (provide support)		100
[21]	Average Cost per a.f. (provide support)	\$	125
[22]	Total Cost of Long-term Storage Credits Sold [20]x[21]	\$	15,625
[23]	Total Sales of Long-term Storage Credits	\$	15,625
[24]	Gain on Sale of Storage Credits [23]-[22]	\$	-
[25]	Shared with Ratepayers (%)		50.00%
[26]	Credit for Rate Payer's Share of Gain [24]x[25]x(-1)	\$	<u>-</u>

Component 7 - Excess Water Loss Disallowance

[27]	Gallons Sold in Prior Year (in 1,000's) (provide support)		344,500
[28]	Accounted for Water Not Sold (in 1,000's) (provide support)		10,000
[29]	Total Gallons Sold and Accounted For (in 1,000's) [27] + [28]		354,500
[30]	Total Gallons Allowed (in 1,000s) [29]/0.90		393,889
[31]	Gallons Pumped in Prior Year (in 1,000's) (provide support)		420,000
[32]	Water Loss (in 1,000's) [31] - [30]		26,111
[33]	Percent Water Loss [32]/[31]x100		6.22%
[34]	Allowed Water Loss Percentage		10.00%
[35]	Percent Reduction in Total Costs Recovered [34]-[33] (if positive then 0%)		0.00%
[36]	Total Base Costs [5]+[8]+[11]+[16]+[19]+[26]	\$	769,443
[37]	Water Loss Credit [35]x[36]	\$	<u>-</u>

Computation of Commodity Surcharge

[38]	Total Net Costs to be Recovered [36]+[37]	\$	769,443
[39]	Gallons sold in prior year (in 1,000's)		340,000
[40]	Cost per 1,000 gallons [38]/[39]	\$	<u><u>2.26</u></u>

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

Exhibit 1
Page 2 of 2

Component 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges included in Base Rates

[1]	CAP Allocation (a.f.)	1,857
[2]	CAP M&I Capital and Delivery Charges (per a.f.) using base year (test year CAP rate)	\$ 105.87
[3]	CAP M&I Capital and Delivery Charges (per a.f.) using next year's firm rate	\$ 154.00
[4]	CAP Rate Increase (decrease) [3]-[2]	\$ 48.13
[5]	Total CAP M&I Capital and Delivery Charges Increase(decrease) [4]x[5]	\$ 89,377

Component 2 - Tucson Water Wheeling Fees

[6]	CAP Water Delivered to Vail Service Territory (a.f.)	1,300
[7]	Wheeling fee (per a.f.)	\$ 650.00
[8]	Total Wheeling Fees	\$ 845,000

Component 3 - Periodic Unrecovered Recharge Credits

[9]	CAP Water Recharged (a.f.) [1]-[6]	557
[10]	CAP Rate Increase (per a.f.) = [4]	\$ 48.13
[11]	Total Recharge Credits for Future Use [9]x[10]	\$ (26,808)

Component 4 - Prior Year Under/(Over) Recovery

[12]	Total amount to be recovered via surcharge =[38] from prior year calc	\$ 769,443
[13]	Gallons sold in previous 12 months (in 1,000s) (provide support)	352,000
[14]	Prior year surcharge rate (per 1,000 gallons) = [40] from prior year	\$ 2.26
[15]	Amounts recovered via surcharge [13]x[14]	\$ 796,600
[16]	Prior Year Under (Over) recovery [12]-[15]	\$ (27,157)

Component 5 - Long-Term Storage Credit Recovery

[17]	Long-term Storage Credits Used (a.f.) (provide support)	100
[18]	Average Cost (provide support)	\$ 125
[19]	Total Cost [17]x[18]	\$ 12,500

Component 6 - Gain on Sale of Long-Term Storage Credits

[20]	Long-term Storage Credits Sold (a.f.) (provide support)	150
[21]	Average Cost per a.f. (provide support)	\$ 125
[22]	Total Cost of Long-term Storage Credits Sold [20]x[21]	\$ 15,625
[23]	Total Sales of Long-term Storage Credits	\$ 15,625
[24]	Gain on Sale of Storage Credits [23]-[22]	\$ -
[25]	Shared with Ratepayers (%)	50.00%
[26]	Credit for Rate Payer's Share of Gain [24]x[25]x(-1)	\$ -

Component 7 - Excess Water Loss Disallowance

[27]	Gallons sold in previous 12 months (in 1,000s) (provide support)	352,000
[28]	Accounted for Water Not Sold (in 1,000's) (provide support)	10,000
[29]	Total Gallons Sold and Accounted For (in 1,000's) [27] + [28]	362,000
[30]	Total Gallons Allowed (in 1,000s) [29]/0.90	402,222
[31]	Gallons Pumped in Prior Year (in 1,000's) (provide support)	420,000
[32]	Water Loss (in 1,000's) [31] - [30]	17,778
[33]	Percent Water Loss [32]/[31]x100	4.23%
[34]	Allowed Water Loss Percentage	10.00%
[35]	Percent Reduction in Total Costs Recovered [34]-[33] (if positive then 0%)	0.00%
[36]	Total Base Costs [5]+[8]+[11]+[16]+[19]+[26]	\$ 892,912
[37]	Water Loss Credit [35]x[36]	\$ -

Computation of Commodity Surcharge

[38]	Total Net Costs to be Recovered [36]+[37]	\$ 892,912
[39]	Gallons sold in previous 12 months (in 1,000s) =[13]	352,000
[40]	Cost per 1,000 gallons [38]/[39]	<u>\$ 2.54</u>