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Before the Arizona Corporation Commission

Pine Water Company Rate Increase  
(Hearing scheduled March 3, 2004)

Docket No. W-03512A-03-0279

Attached is the information – I as an intervenor – will present at the above mentioned hearing scheduled on March 3, 2004.

Respectfully Submitted February 27, 2004

Robert M. Cassaro

Arizona Corporation Commission

DOCKETED

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March, 2004

Marc Sptizer Chairman  
William A Mundell  
Jeff Hatch-Miller  
Mike Gleason  
Kristin K Mayes

As a customer of Pine Water Co. Inc., I am requesting any rate increase request be denied for the following reasons:

- Incomplete, inaccurate and conflicting data!
- Gross Mismanagement by Brooke/Pine Water Co.
- Management disregard for reporting requirements issued by ACC, which is one of many reasons for lack of accurate data & metrics.

All of the above result in the following:

- Brooke, PWC & SWC do not list all "other water sources/wells" in annual reports as required by ACC.
- Brooke/PWC has a minimum of 30% water loss in its system.
- Cost to truck water from Strawberry to Pine is less than half the cost to use the Brooke owned project Magnolia pipeline.
- Absolutely no incentive for Brooke/PWC to repair leaks, find other sources of water, or otherwise improve its system when all they have to do is have PWC customers pay augmentation surcharge.

Regards,



Bob

Robert M. Cassaro

**BROOKE UTILITIES/PINE WATER CO. INC.  
FACTS AND QUESTIONS**

- **WATER SUPPLY AND LOSS!**
  
- **PROJECT MAGNOLIA PIPELINE WHEELING VS.  
TRUCKING COSTS.**
  
- **PROJECT MAGNOLIA COSTS AND AUGMENTATION  
SURCHARGE**

Attached you will find facts documented by copies of written testimony by Robert Hardcastle, President of Brooke Utilities (Brooke) and Thomas Bourass CPA representing Brooke and Pine Water Co. Brooke is headquartered in Bakersfield; CA. Brooke is the owner of Pine Water Co. (PWC), Strawberry Water Co. (SWC) and Project Magnolia Pipeline (Magnolia). PWC and SWC are regulated by the ACC. Brooke and Magnolia are not regulated by the ACC.

The calculations have been done using the data supplied to the ACC by Brooke, PWC and SWC. This data along with the written testimony generated many questions.

We would be happy to sit down and discuss water issues in general, as well as the information contained in this document.

Bob Cassaro - 476-2891

## PINE WATER COMPANY WATER SUPPLY

In addition to wells identified on attached 2002 annual reports there are a minimum of six additional wells not reported in annual reports of Strawberry and Pine Water Companies.

Hardcastle: Written Testimony:           Rate application filed with AZ  
Corporation Commission May 1, 2003.

Page 7: Lines 10 to 14: {Attachment #1} “Since August, 1996, Brooke Utilities has drilled five new wells in Pine and six wells in Strawberry. Two of the wells in Pine and four in Strawberry were developed under long-term water sharing agreements with local property owners and remain in production.”

Page 9: Lines 24 & 25: {Attachment #2} “Pine Water commenced drilling three new water wells in Strawberry in April 2003. This water can be moved from the far reaches of Strawberry to any area of Pine through Project Magnolia.”

- What is the status of these wells?
- Why was this information not included in the annual report required by the ACC? {Attachment #3 & #3A}
- What is the production capacity of these wells?

# PINE WATER COMPANY WATER SUPPLY

**Gallons Pumped vs. Sold (Thousands)  
Combined totals SWC & PWC  
(Attachment 4 & 4A)**

	<u># Gal Pumped</u>	<u># Gal Sold</u>	<u>Difference</u>	
			<u>Sold Less</u>	<u>Sold More</u>
Jan	6743	5238	1505	
Feb	6244	5072	1172	
Mar	5765	4567	1198	
Apl	8609	5408	3201*	
May	10592	7679	2913*	
June	7860	10670		2810
July	8553	9537		984
Aug	10044	7911	2133	
Sep	7143	7419		276
Oct	8863	7192	1671	
Nov	7166	7927		761
Dec	<u>6283</u>	<u>5837</u>	446	
<b>Totals</b>	<b>93865</b>	<b>84457</b>		

• Storage Capacity PWC = 1,387,250 SWC = 775,085 TTL = 2,162,335

• These #'s Do Not include water delivered to PWC from Solitude Trails.

1997 to 2000 = 11,794,000 Average Annual Gallons Delivered

2001 to 2003 = 7,725,000 Average Annual Gallons Delivered

Anyone know when Magnolia came on Line?

• April pumped 3,201,000 gallons more than sold, May pumped 2,913,000 gallons more than sold. Total combined storage capacity is only 2,162,335 gallons. Where did the excess water go?

• If the wells identified on Attachments 1 & 2, as well as Solitude Trails were included in the above chart:

- What would happen to the gallons pumped #'s?
- Why aren't these wells included?
- Would PWC have to haul water from Starlight Pines?

# PINE WATER COMPANY WATER LEAKAGE/LOSS

{Data From 2002 Annual Report}

Page 9: {Attachment #3A}

Other water sources

Strawberry to Pine pipeline = 11,643,000 gal.

Starlight Water Company = 753,000 gal.  
12,396,000 gal.

Page 11 {Attachment #4}

Gallons pumped = 43,711,000 gal.

Gallons sold = 52,006,000 gal.

Bourassa Rebuttal Testimony:

Page 24 Line 11 {Attachment #6}

“Pine water purchased 30,584,000 gal.  
Not 12,396,000 as used by district.”

Line 12 & 13

“Mr. Jones fails to include water  
Purchased from water sources  
Other than Strawberry Water and  
Starlight.”

- Why does PWC report “Other water sources” total of 12,396,000 gals. Yet Mr. Bourassa states PWC purchased 30,584,000 gal. Not 12,396,000 gal?

Calculations:

Gallons Pumped	=	43,711,000	2002 Annual Report
Gallons Purchased	=	<u>30,584,000</u>	Bourassa page 24 line 11
Total Available Water =		74,295,000	
Less water sold =		<u>52,006,000</u>	2002 Annual Report
<b>Water LOST</b>		<b>22,289,000</b>	<b>Equates to 30%+ lost!</b>

- Why does Mr. Hardcastle/PWC {Payson Roundup Feb 6, 2004} state water leakage is 7.3% when data proves it is actually 30%

# PROJECT MAGNOLIA

## WHEELING VS. TRUCKING COSTS

### Hardcastle Testimony: (February 18, 2003 Augmentation)

Page 7: Lines 22 & 23: {Attachment #7} “Pine Water has made arrangements with Starlight Pines Water Company which is located about 40 miles north of Strawberry.

Page 8: Lines 2 & 3: {Attachment #8} “The cost of transporting one load of water (Aprox. 6,500 Gallons) can be almost \$40.00 per thousand gallons.”

$$\$40.00/80 \text{ miles} = \$0.50 \text{ per mile}$$

To truck water from Strawberry to Pine, which could be 10 miles round trip, at the above cost would be \$5.00 per thousand gallons.

### Hardcastle Rebuttal Testimony:

Page 28 Line 4 {Attachment #9} “Brook Utilities charges Pine Water \$15.00 per thousand gallons actually transported”

Page 32 Lines 2 to 5: {Attachment 10} “The terms of the wheeling arrangements between Pine Water and Brooke Utilities have been fully disclosed, the evidence shows them to be fair market priced and no other party has presented evidence that the wheeling charge is unreasonable.”

- Terms of Wheeling arrangements disclosed to?
- Do we {PSC & SWC customers} have to constantly monitor Brooke operations?

**PINE WATER COMPANY  
PROJECT MAGNOLIA  
WHEELING VS. TRUCKING COSTS**

Here is further proof Magnolia Wheeling costs are over twice the cost of hauling water by truck.

**Bourassa Rebuttal Testimony:**

Page 22 Line 16 & 17: {Attachment #10A}      “As explained above, I removed trucking costs of \$39,720 from the test year as these costs are now covered by an adjuster mechanism.”

$\$39,720/753,000 = \$52.75$  per thousand gallons

(753,000 gallons were transported from Starlight Pines to Pine) ¶

$\$52.75/80$  miles = \$0.66 per mile per thousand gallons

Calculating the cost of transporting the same amount of water from Strawberry via truck instead of using Project Magnolia, the cost would be \$6.66 per thousand gallons vs. the \$15.00 identified in the testimony on attachment #9.

- Cost to truck water from Strawberry to Pine is either \$5.00 per thousand gallons (Hardcastle Attachment #7 & #8) or \$6.66 per thousand gallons (Bourassa Attachment #8A) vs. \$15.00 per thousand gallons using a pipeline that might be already paid for.

# PROJECT MAGNOLIA COST & AUGMENTATION SURCHARGE

## Hardcastle Rebuttal Testimony:

Page 23: Lines 4 & 5: {Attachment #11} "Project Magnolia has an original price tag of approximately \$450,000.

Page 27: Lines 24 & 25: {Attachment #12} "In addition, Pine Water incurred \$176,144 in transportation or wheeling costs during the year.

## Wheeling Costs: {Cost to move water through a pipeline}

2002 (Test Year) \$176,144

2001 (1<sup>st</sup> Year of Operation) \$267,780

\$443,924

- \$ Unknown at this time!

Total recovered \$443,924 +++ (Plus Wheeling Costs for 2003)

## Augmentation Amended (Copy Attached) {Attachment #13}

Lines 18 & 19

### ORIGINAL AUGMENTATION SURCHARGE

"However, recovery under surcharge tariff is presently limited to the supply & transportation costs of water hauled by truck into the Pine Water System."

Line 19 to 23

"In order for Pine Water to be able to continue to make bulk water purchases for delivery through project Magnolia ("Project") it is necessary to amend the surcharge tariff such that under the tariff includes water purchased and delivered through the project."

- ACC approved a temporary water augmentation surcharge for water hauled by truck – why is PWC now trying to:
  - Make augmentation surcharge permanent? {Filed in Rate Case}
  - Include Project Magnolia is the surcharge? {Attachment #13}
  - What is the incentive for PWC to find other sources of water or repair leaks in the system if we (customers of PWC) continue to pay augmentation surcharge?

1 A permanent water augmentation surcharge, like the interim surcharge currently  
2 pending Commission approval, will send another strong conservation price signal,  
3 especially when coupled with the proposed, revised Curtailment Tariff also  
4 pending before the Commission. Lastly, the Company proposes a Customer  
5 Education Program, as illustrated in Exhibit C attached to my testimony.

6 **IV. PINE WATER'S PAST, PRESENT AND FUTURE EFFORTS TO**  
7 **IMPROVE ITS WATER SYSTEM AND SUPPLIES**

8 **Q. WHAT STEPS HAVE BEEN TAKEN TO AUGMENT THE WATER**  
9 **SUPPLIES AVAILABLE TO SERVE CUSTOMERS SINCE BROOKS**  
10 **UTILITIES ACQUIRED THE PINE WATER SYSTEM?**

11 **A. Since August 1996, Brooke Utilities has drilled five new wells in Pine and six new**  
12 **wells in Strawberry. Two of the wells in Pine and four in Strawberry were**  
13 **developed under long-term water sharing agreements with local property owners**  
14 **and remain in production. Two other existing wells were re-drilled to greater**  
15 **depths where increased sources of water supply were believed to be available.**  
16 **Another well in Strawberry was "straight-bored" to correct an original drilling**  
17 **problem, deepened, and also remains productive. Brooke Utilities' efforts to repair**  
18 **and maintain the existing water system infrastructure as well as new well**  
19 **exploration has produced a dramatic increase in water production as compared to**  
20 **pre-1996 levels.**

21 We have also worked diligently to recapture water from the leaking  
22 infrastructure we inherited from our predecessor. The infrastructure is primarily  
23 comprised of materials used and approved in the 1970's and 1980's that are not  
24 preferred today. This has the same general effect as exploring for new water.  
25 Since 1996, more than 700 leaks have been repaired in the water systems in Pine  
26 and Strawberry, with the majority of these leaks located in Pine. We estimate that

1 non-existent. Since 1996, Pine Water Co. has drilled four wells in Pine that were  
2 economically unproductive.

3 Frankly, another reason for the limited water supply is Gila County's  
4 obsession with increased levels of residential and commercial development in the  
5 area. The County has ignored the fundamental fact that the water supply in Pine is  
6 inherently limited, conditions known and acknowledged by many observers,  
7 including Gila County, for decades. Gila County has nevertheless allowed the  
8 population of Pine, Arizona to increase to a level that exceeds the additional  
9 supplies resulting from the many improvements made by Brooke Utilities. Yet,  
10 the County has never implemented a water conservation program in Northern Gila  
11 County. These acts and omissions by the County have contributed substantially to  
12 the water supply problems.

13 Q. WHAT STEPS IS PINE WATER CURRENTLY TAKING IN AN EFFORT  
14 TO FURTHER IMPROVE ITS SYSTEM AND ADDRESS THESE WATER  
15 SUPPLY LIMITATIONS?

16 A. The current steps being taken by Pine Water are described in greater detail in the  
17 Augmentation Plan attached to my testimony as Exhibit B. Of course, Pine Water  
18 is in the midst of the proceeding before the Commission concerning the revised  
19 Curtailment Tariff and interim surcharge mechanism to recover costs of water  
20 supply augmentation during periods of critical water supply shortages. These are  
21 two very important steps in the overall plan to address the water supply problems  
22 prevailing in Pine, Arizona because together these measures promote and enforce  
23 conservation as well as protect the Company's financial viability.

24 ~~Additionally, Pine Water commenced drilling three new water wells in~~  
25 ~~Strawberry in April 2003. This water can be moved from the far reaches of~~  
26 ~~Strawberry to any area of Pine through Project Magnolia. The Company has also~~

Company Name Strawberry Water Co., Inc.

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID NO.	PUMP HP	PUMP Yield (GPM)	CASING DEPTH (FT)	CASING DI (INCHES)	METER SIZE (INCHES)	YEAR DRILLED
55-635762	2	11	80'	6"	1"	
55-603962	2	12	250'	6"	1"	
55-616681	5	60	205'	16"	2"	
55-616680	2	5	250'	10"	1"	
55-635776	5	40	60'	6"	2"	
55-635780	2	12	60'	6"	1"	
55-635773	2	19	60'	8"	2"	
55-635774	5	32	40'	6"	2"	
55-635779	3	15	400'	6"	1"	
55-607338	5	25	250'	6"	1"	

10 wells

2316 GPM

OTHER WATER SOURCES

??

Name or Description	Capacity (gpm)	Gallons Purchased
None		

Booster Pumps

Fire Hydrants

Horsepower	Quantity	Capacity	Quantity
5	2		
7.5	7	none	none

COMPANY NAME

Pine Water Co., Inc.

2002

ANNUAL REPORT (TEST YEAR)

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (Gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
		See Page 9A				

SOLITUDE TRAILS ??  
OTHERS  
SALT TRAILS + OTHERS ??

Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
Strawberry-Pine Pipeline	N/A	11,643
Starlight Water Co./Pearson Transportation	N/A	753

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
7.5	1	11	none
5	7		
3	1		
5	1		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
250 & 5,000 5250	1 / 1	2,000	4
10,000 & 12,000 32000	2 / 1	350	2
100,000 & 150,000 550,000	4 / 1	1,000	2
250,000 / 300,000 600,000	2 / 1		

1,347,250

7/18/03 BROOKS UTILITY WATER STATION  
663,000 GAL IN STPS + 15% FULL

= 250,000 GAL ATTACHMENT # 3A

COMPANY NAME: Pine Water Co., Inc.

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2002

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD	GALLON PUMPED (Thousands)
JANUARY n	1,846	3,315,376	3,841
FEBRUARY	1,846	3,294,104	3,047
MARCH	1,853	2,965,012	2,913
APRIL	1,865	3,651,369	4,280
MAY	1,872	5,002,895	4,737
JUNE	1,885	6,605,607	3,585
JULY	1,885	5,156,652	3,478
AUGUST	1,885	4,576,358	4,655
SEPTEMBER	1,885	5,076,021	3,088
OCTOBER	1,885	4,602,227	4,102
NOVEMBER	1,885	4,046,117	2,880
DECEMBER	1,887	3,714,276	3,105
TOTAL		N/A	43,711,000

5266,014  
5200,014

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

( ) Yes (x) No

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

( ) Yes (x) No

If yes, provide the GPCPD amount:

What is the level of arsenic for each well on your system. 0.005 mg/l

(If more than one well, please list each separately)

Note: If you are filing for more than one system, please provide separate data sheets for each system.

Company Name

Strawberry Water Co., Inc.

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID NO.	PUMP HP	PUMP Yield (GPM)	CASING DEPTH (FT)	CASING DI (INCHES)	METER SIZE (INCHES)	YEAR DRILLED
55-635762	2	11	80'	6"	1"	
55-603962	2	12	250'	6"	1"	
55-616681	5	60	205'	16"	2"	
55-616680	2	5	250'	10"	1"	
55-635776	5	40	60'	6"	2"	
55-635780	2	12	60'	6"	1"	
55-635773	2	19	60'	8"	2"	
55-635774	5	32	40'	6"	2"	
55-635779	3	15	400'	6"	1"	
55-607338	5	25	250'	6"	1"	

10 wells

2316PM

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased
None		

Booster Pumps

Fire Hydrants

Horsepower	Quantity	Capacity	Quantity
5	2		
7.5	7	none	none

BOURAJA REBUTTAL

1            Thus, the District's calculation overstates the level of transportation  
2            expense. I cannot be certain whether this mistake is intentional or just a math  
3            error.

4            Q.    HOW DO YOU RESPOND TO THE DISTRICT'S ASSERTION THAT  
5            PURCHASED WATER COSTS ARE \$10.08 PER THOUSAND GALLONS?

6            A.    The District also uses this calculation to support its allegations of massive mark-  
7            ups. *See Jones Dt. at 10.* Again, either the District does not understand the facts or  
8            it is intentionally overstating the cost in its effort to deprive Pine Water of needed  
9            rate relief.

10           For starters, the number for the purchased gallons is grossly understated. In  
11           2002, Pine Water purchased 30,584,000 gallons, not ~~12,396,000~~ gallons as used by  
12           the District. *See Jones Dt. at 10.* Mr. Jones fails to include water purchased from  
13           water sources other than Strawberry Water and Starlight. Furthermore, the  
14           \$125,033 cost he includes is for trucking expenses and CAWCD costs. Adjusted  
15           test year purchased water cost is actually \$64,262 translating to a cost of \$2.10 per  
16           thousand gallons.

17           Q.    WHAT IS THE COST OF TRUCKING WATER COMPARED TO THE  
18           WHEELING FEE?

19           A.    Trucking can cost up to 3 times more than the cost of water delivered through  
20           Project Magnolia. *See Hardcastle Rb. at 29.* Without Project Magnolia, ratepayers  
21           would be paying significantly higher rates.

22           Q.    YOU MENTIONED THAT STAFF HAS AUDITED THE PURCHASED  
23           WATER EXPENSE. WHAT TESTIMONY DID STAFF PROVIDE WITH  
24           RESPECT TO THE PRICES THE COMPANY PAYS FOR PURCHASED  
25           WATER FROM PRIVATE WELL OWNERS OR TERMS AND  
26           CONDITIONS IN AGREEMENTS?

HARD CASTLE WRITTEN TESTIMONY  
(AUGMENTATION SURCHARGE)

1 months of 2003. This water can be moved from the far reaches of Strawberry  
2 any area of Pine through Project Magnolia. Also, Pine Water Co. has recently  
3 installed telemetry tank monitoring devices on all critical water storage tanks in  
4 Pine and Strawberry to allow for more accurate, timely, and regular reporting of  
5 water storage levels. This information will assist Pine Water in forecasting future  
6 water storage levels, monitoring conservation stages, and managing the available  
7 water supplies in Pine and Strawberry.

8 In addition, pursuant to Commission orders, Pine Water is concurrently  
9 filing a revised Curtailment Tariff that implements strict conservation measures  
10 and is preparing a rate case to be filed later this year with a new rate design  
11 intended to promote conservation as well as fund the exploration and possible  
12 development of enhanced water supplies.

13 Q. YET, YOU STILL ANTICIPATE THAT THE COMPANY WILL BE  
14 REQUIRED TO SUPPLEMENT SUPPLIES IN 2003 IF THE COMPANY IS  
15 GOING TO MEET CUSTOMER DEMAND CUSTOMERS ARE TO HAVE  
16 ADEQUATE SUPPLIES OF WATER?

17 A. Yes. As I testified earlier, without significant levels of precipitation before May 1  
18 2003, it is highly likely that Pine Water will have to supplement water supplies in  
19 Pine to even come close to meeting customer demand.

20 Q. HOW WILL PINE WATER BRING IN WATER SUPPLIES FROM  
21 OUTSIDE THE PINE, ARIZONA AREA?

22 A. Pine Water has made arrangements with Starlight Pines Water Co., approximately  
23 40 miles north of Strawberry, to buy supplemental wholesale water. Starlight Pines  
24 has limited this supply to not more than 150,000 gallons per day. Pine Water is  
25 aware of no other local sources of wholesale water that could supplement the  
26 Company's supply.

HARDCASTLE WRITTEN TESTIMONY  
(AGGMENTATION SURCHARGE)

(15)

1 Q. THIS SOUNDS LIKE A VERY COSTLY UNDERTAKING. IS IT?

2 A. Very much so. The cost of transporting one load of water (approximately 6,500  
3 gallons) can be almost \$40.00 per thousand gallons. Thus, a truck loaded with  
4 water can cost \$260.00 plus the cost of the water.

5 Q. HOW DO THESE COSTS COMPARE WITH THE TYPICAL COSTS OF  
6 PRODUCING WATER IN THE PINE WATER CC&N?

7 A. They are much greater. The retail price of the same water to Pine Water's  
8 customers is \$3.85 per thousand gallons, less than one-tenth (1/10) the cost to haul  
9 water in this manner.

10 Q. ARE THERE ANY OTHER ALTERNATIVES AVAILABLE TO PINE  
11 WATER TO AVOID INCURRING THE SUBSTANTIAL COSTS OF  
12 WATER HAULING WHEN SUMMER SUPPLIES RUN SHORT?

13 A. None that we are aware of.

14 IV. REQUEST FOR INTERIM RATE RELIEF

15 Q. ARE THE COSTS OF HAULING WATER IN FROM OUTSIDE SOURCES  
16 IN TIMES OF EMERGENCY SHORTAGE INCLUDED IN PINE WATER'S  
17 CURRENT RATES?

18 A. No.

19 Q. YOU TESTIFIED EARLIER THAT PINE WATER HAS HAULED WATER  
20 TO PINE, ARIZONA ON SEVERAL OCCASIONS AT SIGNIFICANT  
21 EXPENSE. ARE YOU SAYING THAT PINE WATER HAS NEVER  
22 RECOVERED ANY OF THOSE COSTS?

23 A. That is correct. Pine Water has incurred all prior water transport costs, literally  
24 hundreds of thousands of dollars, without any recovery.

25 Q. HOW CAN PINE WATER CONTINUE TO INCUR THESE ADDITIONAL  
26 OPERATING EXPENSES WITHOUT RECOVERING SUCH COSTS?

# HARDCASTLE REBUTTAL TESTIMONY

1 Commission approved tariffs, although this cost is recorded elsewhere.

2 Q. WHAT IS THE RATE PAID BY PINE WATER TO BROOKE UTILITIES  
3 FOR TRANSPORTING WATER THROUGH PROJECT MAGNOLIA?

4 A. Brooke Utilities charges Pine Water \$15.00 per 1000 gallons actually transported.

5 There are no access, stand by, or resource reservation charges related to Project  
6 Magnolia.

7 Q. WHAT POSITION HAS STAFF TAKEN WITH RESPECT TO THE  
8 REASONABLENESS OF THIS WHEELING CHARGE?

9 A. None. Because Staff erroneously concluded that Pine Water owns Project  
10 Magnolia, Staff provided no testimony regarding the reasonableness of the  
11 wheeling charge by Brooke Utilities. Fernandez Dt. at 12-13 ("wheeling charges  
12 are inapplicable.") If the Commission rejects Staff's position, which it must since  
13 Pine Water does not own Project Magnolia, it would appear that Staff does not  
14 oppose the reasonableness of the wheeling charge or the test year level of  
15 transportation costs.

16 Q. WHAT POSITION DOES THE DISTRICT TAKE REGARDING THE  
17 TRANSPORTATION COSTS CHARGED TO PINE WATER BY BROOKE  
18 UTILITIES?

19 A. The District declares the wheeling charge "completely unregulated and excessive."  
20 Jones Dt. at 3. In essence, the District does not trust Pine Water or Brooke  
21 Utilities, calling the wheeling charge "highly suspect" and alleging that  
22 transactions between the Company and its shareholder are "conflicts of interest."  
23 *Id.* at 7-8, 12.

24 Q. IS THE WHEELING CHARGE BASED ON ARMS-LENGTH  
25 NEGOTIATIONS BETWEEN BROOKE UTILITIES AND PINE WATER?

26 A. No, I agree with Mr. Jones that this is not an arms-length transaction. Because a

# HARDCASTLE REBUTTAL TESTIMONY

## OF OPERATING EXPENSES?

A. Yes. Brooke Utilities owns the pipeline. The terms of the wheeling arrangements between Pine Water and Brooke Utilities have been fully disclosed, the evidence shows them to be fair market priced and no other party has presented evidence that the wheeling charge is unreasonable. Pine Water must have the supply delivered through Project Magnolia and Pine Water must be given the ability to pay for that service.

## VI. RESPONSE TO DISTRICT TESTIMONY.

Q. DO YOU HAVE AN OPINION REGARDING THE REASONS FOR THE DISTRICT'S INTERVENTION IN THIS RATE CASE?

A. I do. It is my belief that Gila County is using the District's intervention in this ratemaking proceeding to further its desire to run Pine Water and Brooke Utilities out of the water business in Northern Gila County.

Q. THAT IS A VERY SERIOUS ACCUSATION MR. HARDCASTLE. WHY DO YOU BELIEVE IT TO BE TRUE?

A. I believe there are several factors that support my belief. First, it was the County that made the decision to intervene in this rate case. Nelson Dt. at 1. This follows from the fact that the District does not have a Board of Directors, it is being governed by the Gila County Board of Supervisors and administered by the County Manager. *Id.* This case was filed in May, when an elected Board of Directors made up of members and taxpayers was still running the District. Yet, it was only in mid-October, after the County had assumed control of the District, that the motion to intervene was filed. Curiously, however, the authority for the District to intervene was not provided until approximately two weeks later in the form of a County resolution executed by Gila County Supervisor Christenson on November 4, 2003. See District Response to Pine Water Data Request No. 1.13, copy

# BOURASSA REBUTTAL TESTIMONY

1 incorrectly appeared on Pine Water's books. In 1999, there is insufficient  
2 information to determine the amount attributed to Strawberry Water in Pine  
3 Water's book.

4 I have learned that these were booking errors primarily caused by the fact  
5 that the property tax bills are addressed to Brooke Utilities and not specifically  
6 addressed to Pine Water or to Strawberry Water. The accounting clerk responsible  
7 did not realize the bills represented amounts for both entities and incorrectly  
8 booked them all to Pine Water.

9 **Q. DOES THIS ERROR IMPACT THE REVENUE REQUIREMENT THE**  
10 **COMPANY IS SEEKING?**

11 **A.** No. Again, the Company and Staff's proposed property tax expense levels are  
12 based on proposed rates using the ADOR methodology. Prior property tax  
13 payments are entirely irrelevant to the calculation.

14 **Q. HAS PURCHASED WATER EXPENSE BEEN MATERIALLY**  
15 **MISSTATED?**

16 **A.** No. As explained above, I removed trucking costs of \$39,720 from the test year as  
17 these costs are now covered by an adjuster mechanism. During Staff's audit, Staff  
18 found additional invoices totaling approximately \$2,183 relating to trucking costs  
19 and proposed an adjustment to further reduce purchased water expense. The  
20 Company has accepted this adjustment in rebuttal and has adjusted its proposed  
21 revenue requirement accordingly.

22 **Q. HAVE THE WHEELING FEES IN TRANSPORTATION EXPENSES BEEN**  
23 **MATERIALLY MISSTATED?**

24 **A.** No. During the test year, approximately 11,643,000 gallons of water were  
25 delivered to Pine Water through the pipeline. At a cost of \$15.00 per thousand  
26 gallons, transportation expenses calculate to be \$174,645. See Hardcastle Rb. at 29

1 did not even obtain the permit to build Project Magnolia until February 2000 and  
2 the project was completed and placed in service in February 2001, as I have  
3 already testified. See Hardcastle Rebuttal Exhibit 3. In addition, this schedule  
4 shows the cost being \$17,040, yet Project Magnolia has an original cost price tag of  
5 approximately \$450,000. In other words, our plant detail schedule in the last rate  
6 case was mistaken, at least with respect to Project Magnolia.

7 Q. YOU TESTIFIED THAT THIS IS THE COMPANY'S MISTAKE.  
8 WOULDN'T YOU AGREE, THEN, THAT IT IS NOT REALLY MR.  
9 FERNANDEZ' FAULT THAT HE RELIED ON THIS SCHEDULE?

10 A. Not entirely. Certainly the inclusion of a project that was still years away from  
11 being undertaken on a plant listing in that last rate case is our fault. However, Mr.  
12 Fernandez was certainly aware of evidence in this case that Project Magnolia was  
13 placed in service much later and the cost of Project Magnolia. See Fernandez Dt.  
14 at 7-8, 13-14. From there, he could have, in fact should have, questioned the  
15 accuracy of the schedule from the last case if he was relying on it for his  
16 recommendations in this case.

17 Q. WAS PROJECT MAGNOLIA PART OF CWIP INCLUDED IN RATE  
18 BASE IN THE LAST RATE CASE?

19 A. No, based on Staff's recommendation, the Commission declined to include any  
20 CWIP in rate base in the last proceeding. See, generally, Decision No. 62400  
21 (March 31, 2000). Frankly, in this light, I find Staff's position somewhat  
22 incredible. After recommending in the last rate case that the Commission exclude  
23 all CWIP from rate base, Staff now argues that the pipeline was included in the  
24 Company's CWIP, meaning it must be owned by Pine Water.

25 Q. WAS PROJECT MAGNOLIA LISTED AS A PROJECT TO BE FUNDED  
26 BY THE SALE OF STOCK IN THE LAST RATE CASE?

1 system, including using this proceeding to lower the Company's value by depriving  
2 it of necessary rate relief, also discussed later in this testimony. Candidly, Brooke  
3 Utilities was not willing to make the risky investment associated with Project  
4 Magnolia only to have the pipeline subject to the County and/or District's powers  
5 of eminent domain as well as the uncertainty of adequate cost recovery and rate of  
6 return.

7 Q. HAS THE DISTRICT TAKEN A POSITION REGARDING THE  
8 OWNERSHIP OF PROJECT MAGNOLIA?

9 A. The District recognizes that Project Magnolia is owned by Brooke Utilities. See  
10 Jones Dt. at 6; *Investigation of Groundwater Availability* at 3.

11 Q. IS THE OWNERSHIP OF PROJECT MAGNOLIA EVEN BEFORE THE  
12 COMMISSION IN THIS PROCEEDING?

13 A. I do not think so. I am not legally qualified to express an opinion, but I do not see  
14 how the Commission can order Brooke Utilities, an unregulated entity, to divest  
15 itself of ownership of Project Magnolia. As a result, I believe Staff's testimony  
16 must be rejected.

17 Q. WHAT DO YOU BELIEVE IS THE COMMISSION'S ROLE REGARDING  
18 PROJECT MAGNOLIA?

19 A. To determine the appropriate expense level associated with Pine Water's costs of  
20 having water transported into the Pine Water system through the pipeline.

21 Q. WHAT IS THE APPROPRIATE EXPENSE LEVEL FOR THESE  
22 TRANSPORTATION COSTS?

23 A. As discussed in Mr. Bourassa's direct and rebuttal testimonies, and as shown in  
24 both direct and rebuttal schedule C-1, Pine Water incurred \$176,144 in  
25 transportation or wheeling costs during the test year. In addition, Pine Water paid  
26 Strawberry Water for water purchased according to Strawberry Water's

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5  
6

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 IN THE MATTER OF THE  
APPLICATION OF PINE WATER  
10 COMPANY, INC., AN ARIZONA  
CORPORATION, FOR  
11 ADJUSTMENTS TO ITS RATES AND  
CHARGES FOR WATER UTILITY  
12 SERVICE.

DOCKET NO: W-03512A-03-0106

**NOTICE OF FILING AMENDED WATER  
AUGMENTATION SURCHARGE TARIFF**

13 Pursuant to A.R.S. § 40-367, Pine Water Company ("Pine Water" or "Company"),  
14 hereby gives notice of filing an amended Water Augmentation Surcharge Tariff  
15 ("Surcharge Tariff"), attached hereto as Exhibit 1. In accordance with Decision No.  
16 65914 (May 16, 2003), Pine Water is authorized to make monthly adjustments to its rates  
17 and charges for water service to recover costs incurred for bulk water purchases and  
18 transportation. However, recovery under the Surcharge Tariff is presently limited to the  
19 supply and transportation costs of water hauled by truck into the Pine Water system. In  
20 order for Pine Water to be able to continue to make bulk water purchases for delivery  
21 through Project Magnolia ("Project") it is necessary to amend the Surcharge Tariff such  
22 that the definition of Water Hauling Costs under the tariff includes water purchased and  
23 delivered through the Project.

24 ...  
25 ...  
26 ...

ATTACHMENT # 13