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7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8 **IN THE MATTER OF THE APPLICATION  
9 OF PINE WATER COMPANY FOR A  
10 DETERMINATION OF THE CURRENT  
11 FAIR VALUE OF ITS UTILITY PLANT AND  
12 PROPERTY, A RATE INCREASE AND FOR  
13 APPROVAL TO INCUR LONG-TERM DEBT.**

DOCKET NO. W-03512A-03-0279  
PINE STRAWBERRY WATER  
IMPROVEMENT DISTRICT'S RESPONSES  
TO THIRD DATA REQUEST OF PINE  
WATER COMPANY

14  
15 THE PINE STRAWBERRY WATER IMPROVEMENT DISTRICT hereby submits its  
16 responses to the Third Data Request of the Pine Water Company.

17 Respectfully submitted this 2<sup>nd</sup> day of February, 2004.

18 LAW OFFICE OF JOHN G. GLIEGE

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John G. Gliege

Arizona Corporation Commission

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25 Original and thirteen copies of the foregoing  
26 sent this 2<sup>nd</sup> day of February, 2004 to:

27 Docket Control Center  
28 Arizona Corporation Commission  
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1 #3.1 No. It is my position that PWCo should only receive rate increases after: (a) accurate rate  
2 applications and records are supplied to the Commission, interveners and ratepayers; (b) all inter-  
3 company and inter-affiliate relationships are fully disclosed and deemed to not be based on conflicts of  
4 interest or non-arms length transactions, and (c) it is determined that adequate water supplies and  
5 services are available to property owners within the certificated service area. If this can be accomplished  
6 using currently available resources without finding new water or making substantial repairs to the  
7 current system, that would be fine.

8  
9 #3.2 That the records of Strawberry Water Company filed with the corporation commission to date do  
10 not show the accumulation of a receivable from Pine Water Company. The records made available from  
11 Pine Water Company show that some payments have been made to Strawberry Water Company.  
12 Insufficient information has been provided by Pine Water Company, Brooke Utilities or Strawberry  
13 Water Company to support any allegations that PWCo is not making payments to SWCo for water  
14 purchased for delivery through Project Magnolia. Only if Pine-Strawberry Water Improvement District  
15 is allowed full access to all of the accounting records of Pine Water Company, Brooke Utilities and  
16 Strawberry Water Company, can the District make any determination that Strawberry is not being paid.

17  
18 #3.3 (a) From the various statements in the rebuttal testimony of Bourassa and Hardcastle, the amount of  
19 \$2.20/1000 can be easily calculated (see (3.3b) below).

20  
21 (b) At Rt.30 4-5, Hardcastle states "annual operating expenses for the pipeline" are "approximately  
22 \$33,000." At the answer to Interrogatory 21 18-19, he details additional information stating that the  
23 "operating costs are approximately \$34,000 annually consisting of electrical power service, operations  
24 labor, repairs and maintenance, water treatment, depreciation." At Rt.30 20-21, Bourassa states that  
25 wheeling charges for 2001 (11 months only) were \$267,780 and for 2002 were \$176,144. The total  
26 charges from Brooke Utilities, Inc. to PWCo for 23 months added together were therefore \$443,934. At  
27 a cost of \$33,000 per 12 months, the monthly cost incurred in running the pipeline is \$2,750 per month.  
28 For 23 months, the cost is \$2,750 times 23, which equals \$63,250. Dividing the \$443,924 total of  
29 charges to PWCo by the \$63,250 total costs for the period equals a markup factor of 6.81 times.

1 Therefore, if wheeling charges are \$15/1000 as they state, and it is based on a 6.81 multiplier over costs,  
2 the cost is determined by dividing the \$15/1000 revenue by 6.81 which equals \$2.20/1000.

3  
4 (c) The \$2.20/1000 covers all the costs per Hardcastle Interrogatory 21 18-19. At the \$2.20/1000 cost,  
5 no return on investment is calculated. At a fair rate of return of 10% above costs (as suggested by  
6 Fernandez at DT 14 19-20), the selling price by Brooke to PWCo for wheeling services would be  
7 \$2.42/1000.

8  
9 #3.4 The cost of SWCo water sold to PWCo, not including transportation or wheeling charges, is  
10 \$3.85/1000 per invoices. Therefore, the \$2.20 wheeling cost as calculated does not include the \$3.85  
11 cost of the water purchased from SWCo.

12  
13 #3.5 See 3.3b.

14  
15 #3.6 (a) See resume, titled Statement of Qualifications, Arizona Hydrosorce, Inc., that was attached to  
16 Harry Jones Surrebuttal Testimony.

17  
18 (b) See contract provided to you with the Interrogatories. Mr. Ploughe is a consultant to the District.

19  
20 #3.7 Mr. Ploughe has billed the District for nine hours through 1-21-04 for a total cost of \$585. See  
21 attached copies of the bills.

22  
23 #3.8 See 3.6.

24  
25 #3.9 Pine Water would be required to have the minimum storage facilities capable of meeting the criteria  
26 as set fourth under ADEQ regulation R18-4-404. This regulation essentially links storage requirements  
27 to peak demand and well production for water systems. Without such data, I am unable to estimate this  
28 minimum storage value for Pine Water Co. per the defined protocol. Nonetheless, you may refer to my  
29 surrebuttal testimony, dated December 22<sup>nd</sup> 2003, at page 6, lines 4-12, as one example of a way to

1 conscientiously address water storage needs for the area based on reasonable numbers. I suspect that the  
2 ADEQ standard would yield a much lower amount than my example of what is truly needed for the Pine  
3 area as the ADEQ protocol does not have a component to deal with the nature of the water demand  
4 fluctuations that the system is clearly subjected to. Solely relying on a storage calculation formula that  
5 addresses only minimum standards while not considering the realities of the situation, in my opinion, is  
6 an irresponsible water management practice. Further requirements relevant to fire flow are surely  
7 applicable; assuming such an addition to the water system was to provide some form of fire protection.  
8 However, I am not familiar with the Pine/Strawberry Fire District's storage and flow requirements.

9  
10 #3.10

- 11 a) See 3.9 above.  
12 b) See 3.9 above.  
13 c) This is dependent on many factors such as, land acquisition costs, site preparation costs, tank  
14 construction, permitting, and so on. Without a qualified engineer's assessment, the question  
15 cannot accurately address this portion of your question.  
16 d) See 3.10c above.  
17 e) See 3.10c above.  
18

19 # 3.11 In his surrebuttal testimony, Mr. Ploughe referred to the PSWID commissioned Morrison and  
20 Maierle report on several occasions. Though he disagreed with some aspects of the report, it clearly  
21 indicates there is reasonable groundwater potential below Pine, even though the author ultimately  
22 concludes otherwise. Evidence for this is presented where water level data is shown relevant to a well  
23 referred to as the Strawberry Hollow Well in Pine in figure 6-7. The significance of the groundwater  
24 elevation at this site was simply overlooked. This data indicates that a well drilled 900-1,000 feet deep,  
25 in that area of Pine, AZ, would encounter a deep groundwater source. While the Strawberry Hollow  
26 well water level elevation is reported accurately in the report, the subsurface lithology encountered is  
27 not. On this same figure, the Strawberry Hollow Well is presented as drilled approximately 200ft. into  
28 Precambrian rocks. This is not accurate. The well never encountered the Precambrian rocks and  
29

1 therefore penetrates as much as 400ft. of the saturated Redwall/Martin aquifer system. In consequence,  
2 the Redwall and Martin Formations are thicker and deeper than predicted in the report's figure 6-7. To  
3 date, no additional written technical reports have been published with information regarding the  
4 Strawberry Hollow Well.

5  
6 #3.12 In meetings of the Mogollon Rim Water Resources Management Study Technical Committee,  
7 Brooke Utilities Involvement was discussed on several occasions. In particular, a need for water usage  
8 data from Brookes was identified very early. Mr. Ploughe has attached the meeting minutes of the  
9 Technical Committee, where mention of a few of the many attempts to contact Brooke is recorded.  
10 Encouragingly, since the December 16<sup>th</sup> meeting, Ms. Myndi Brogdon of Brooke Utilities has been  
11 present and has indicated a willingness to provide needed information. This is much appreciated. Still,  
12 to his knowledge, no data has been provided as yet, although Myndi has assured the Committee that  
13 some data from Brooke areas other than Pine will be forthcoming.

14  
15 #3.13 The ultimate source of federal funding for any potential water infrastructure and/or development  
16 project is subject to congressional approval and/or action. The BOR Staff is more familiar with the  
17 actual specific potential funding mechanisms and types of funding than Mr. Ploughe. However, he is  
18 aware that there is pending legislation amending the Small Reclamation Projects Act currently before  
19 Congress. It is Mr. Ploughe's understanding that this pending legislation would apply to the region.  
20 Again, the BOR staff is more familiar with such specific funding options. The federal process will  
21 require a demonstration of need and an assessment of options and their acceptability. The challenge is to  
22 identify any large-scale efforts required for presumably viable options such that the needs can be  
23 appropriately defined along with an overall assessment of the potential options. The result of such an  
24 overall assessment could yield the BOR's (federal) interest should it be large enough in scale to justify a  
25 feasibility assessment. This is primarily what the current BOR study will attempt to address. In  
26 addition, once the study demonstrates what the viable options are, non-federal funding sources could  
27 also be pursued. Such as the States Water Infrastructure Financing Authority, WIFA, or the Greater  
28 Arizona Development Authority, GADA. Ultimately, the BOR study is a first step towards potential  
29 federal and even State funding options.

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#3.14 See response to #3.11 above.

#3.15 See previous testimony at page 6 lines 4-12, in Mr. Ploughe's surrebuttal testimony submitted December 22<sup>nd</sup> 2003 and responses to 3.9 and 3.10 above.