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BEFORE THE ARIZONA CORPORATION COMMISSION

8 IN THE MATTER OF THE
 APPLICATION OF PINE WATER
 9 COMPANY FOR A
 DETERMINATION OF THE
 10 CURRENT FAIR VALUE OF ITS
 UTILITY PLANT AND PROPERTY
 11 AND FOR INCREASES IN ITS
 RATES AND CHARGES BASED
 12 THEREON FOR UTILITY SERVICE
 AND FOR APPROVAL TO INCUR
 13 LONG-TERM DEBT

DOCKET NO: W-03512A-03-0279

NOTICE OF FILING REBUTTAL
TESTIMONY, EXHIBITS AND
SCHEDULES

14 Applicant, Pine Water Company, Inc., hereby files the Rebuttal Testimony of
 15 Robert T. Hardcastle and Thomas J. Bourassa, along with supporting exhibits and
 16 schedules, in the above-captioned docket.

RESPECTFULLY SUBMITTED this 1st day of December, 2003.

FENNEMORE CRAIG

Arizona Corporation Commission

DOCKETED

DEC - 1 2003

DOCKETED BY	<i>CM</i>
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By

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1 Original and 13 copies were filed
this 1st day of December, 2003, to:

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4 Arizona Corporation Commission
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Phoenix, Arizona 85007

5 A copy of the foregoing
6 was hand-delivered this
1st day of December, 2003, to:

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A copy of the foregoing was mailed
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19 **REBUTTAL TESTIMONY OF**
20 **PINE WATER COMPANY, INC.**
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HARDCASTLE
Rebuttal Testimony

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19 **REBUTTAL TESTIMONY OF**
20 **ROBERT T. HARDCASTLE**
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1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

4 A. Robert T. Hardcastle, 3101 State Rd., Bakersfield, California 93308.

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

6 A. I am the President of Brooke Utilities, Inc. Brooke Utilities is the sole shareholder
7 of the Applicant, Pine Water Company, Inc. ("Pine Water" or the "Company").

8 **Q. ARE YOU THE SAME ROBERT T. HARDCASTLE WHO FILED**
9 **DIRECT TESTIMONY IN THIS MATTER?**

10 A. Yes.

11 **II. PURPOSE AND SUMMARY OF REBUTTAL TESTIMONY.**

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
13 **PROCEEDING?**

14 A. I have reviewed Staff's direct filing, which includes the testimony of Staff's three
15 witnesses, John S. Thornton, Claudio M. Fernandez, and Marlin Scott, Jr., along
16 with Staff's supporting schedules. I have also reviewed the direct filing by
17 Intervenor Pine/Strawberry Water Improvement District ("District"), which
18 includes the testimony of John F. Nelson, Gila County's Manager, and Harry
19 Jones, the District's "general business" consultant. I have also reviewed the direct
20 testimony submitted by Intervenor John Breninger. The purpose of my rebuttal
21 testimony is to respond to certain issues raised in such testimony. In general, my
22 rebuttal will address issues related to the Company's operations, including
23 discussing water supply and the environment in which we must operate, the
24 Company's request for a Water Exploration Surcharge, Project Magnolia and I will
25 also respond to a number of the baseless and inflammatory comments by District
26 witness, Harry Jones.

1 Q. WOULD YOU PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY?

2 A. Certainly. My rebuttal testimony addresses four major themes: (1) water
3 availability in Pine, Arizona, and the economic realities of pursuing new water
4 sources; (2) Pine Water's efforts to enhance water supply availability for its
5 ratepayers at reasonable and prudent costs; (3) Brooke Utilities' sole ownership
6 interest in Project Magnolia, and the prudence of the Wheeling Agreement between
7 Brooke Utilities and Pine Water needed for water augmentation; and (4) the
8 District's testimony, as well as the District's efforts to expand the scope of this rate
9 proceeding to further its effort to acquire Brooke Utilities' assets in the Pine-
10 Strawberry area.

11 Pine Water is not responsible for the water shortage problems in Pine,
12 Arizona. In fact, the District's own investigative report concludes that the area has
13 been plagued by recurrent water supply shortages since the 1980s. However,
14 despite the report's conclusion that the regional aquifer systems are inadequate to
15 support "existing or future water demands," Gila County continues to work with
16 other "pro-growth" entities to develop the area without addressing the recurring
17 water supply problems in a meaningful way. Further, Pine Water is uncertain
18 whether the costs of exploring for new water supplies that may never materialize
19 are prudent or reasonable.

20 Despite the District's claims, Pine Water has attempted to participate in
21 County efforts to find new sources of water. However, the inherent mistrust of
22 Pine Water and Brooke Utilities continues to undermine any meaningful attempt at
23 addressing the area's water supply problems. Indeed, Pine Water continues to hold
24 that the Commission plays an integral role in formulating a policy that allows for
25 recovery of capital needed to fund new sources of water supply and/or continue
26 Pine Water's water augmentation program.

1 Project Magnolia, which is clearly owned by Brooke Utilities, represents
2 recent efforts to augment Pine Water's water supply in an the most prudent manner
3 available. Due to a lack of real alternatives for water supply, the \$15.00 per 1000
4 gallons charged for "wheeling" water purchased from Strawberry Water to Pine
5 Water represents the most efficient and low-cost alternative for ratepayers.

6 Finally, I discussed the District's filing in this proceeding. On the whole,
7 the District's direct testimony reflects, at best, a significant misunderstanding of
8 the scope of this proceeding and the manner in which rates are established for
9 public service corporations in Arizona. Moreover, the District's filing, and the
10 District's responses to Pine Water's data requests, reflect the District's clear
11 intention to expand the scope of this proceeding to further its efforts to condemn or
12 otherwise acquire the assets of Brooke Utilities in the Pine-Strawberry area,
13 including the assets of Pine Water, at the lowest possible cost. In the end, I believe
14 the District's direct filing as well as its conduct to date in this proceeding reflects
15 that the District, now run by Gila County, is concerned more with furthering its
16 own pro-growth agenda in an area of scarce water resources than with the public
17 health, safety and welfare of the residents of Pine, Arizona which Pine Water
18 serves.

19 **III. WATER SUPPLY AND THE ENVIRONMENT IN WHICH PINE WATER**
20 **OPERATES.**

21 **Q. WHY START WITH WATER SUPPLY ISSUES, MR HARDCASTLE?**

22 **A.** Because everything in Pine, Arizona, every major issue facing this water company,
23 every complaint and criticism of Pine Water essentially begins and ends with the
24 water supply available to serve the residents of Pine, Arizona. In short, we operate
25 in an extremely unfavorable environment due to the inherent limitations on water
26 supply we face every day, and the general misunderstanding of the public

1 regarding the area's chronic water shortages.

2 **Q. CAN YOU BRIEFLY EXPLAIN THE PROBLEM WITH THE WATER**
3 **SUPPLY IN PINE, ARIZONA?**

4 A. Yes. The water supply in and around Pine, Arizona is inadequate to meet the needs
5 of the community. As a result, the area has been plagued by recurrent water supply
6 shortages since the 1980s. *See Investigation of Groundwater Availability for the*
7 *Pine/Strawberry Water Improvement District* ("Investigation of Groundwater
8 *Availability*"), copy attached to Direct Testimony of John O. Breninger ("Breninger
9 Dt.") as Attachment B, at 1. The same is true, although to a somewhat lesser
10 extent, of the area in and around Strawberry, Arizona. *Id.* at 5.

11 **Q. THE INVESTIGATION OF GROUNDWATER AVAILABILITY YOU**
12 **REFERRED TO WAS PREPARED FOR THE DISTRICT?**

13 A. Yes, by geologists with Morrison Maierle, Inc. Intervenor John Breninger
14 participated extensively in this investigative effort and even drafted the Preface to
15 the report. *Id.* at vi-ix. As a result, we now have a recent, extensive and
16 scientific report addressing the availability of groundwater in the area served by
17 Pine Water.

18 **Q. DOES THE DISTRICT'S INVESTIGATION OF GROUNDWATER**
19 **AVAILABILITY REACH ANY CONCLUSIONS REGARDING THE**
20 **REASONS FOR WATER SHORTAGES IN THE PINE-STRAWBERRY**
21 **REGION?**

22 A. Yes, the report concludes that the aquifer systems in the area of the District, which
23 area includes Pine Water's CC&N, are inadequate to support "existing or future
24 water demands." *Investigation of Groundwater Availability* at 9. The report
25 further concludes that the water supply inadequacies result from "the physical
26 properties of the aquifers." *Id.* In other words, the problem is hydrological. Wells

1 in the aquifers underlying both Pine and Strawberry “exhibit decreasing yield in
2 response to increased pumping during periods of increased seasonal demand for
3 water.” *Id.* at 6. From the perspective of Pine Water, the hydrological conclusions
4 described by the District’s report are reasonably consistent with actual operational
5 conditions encountered by Pine Water since we acquired this water system in
6 August 1996.

7 **Q. WHAT DOES THE *INVESTIGATION OF GROUNDWATER AVAILABILITY***
8 **SAY ABOUT DROUGHT OR BELOW AVERAGE PRECIPITATION**
9 **CONDITIONS?**

10 A. That these factors are not the cause of the water supply shortage in Pine, Arizona,
11 but they do make the problem worse. *Id.* at 6, 8.

12 **Q. DOES THE DISTRICT’S INVESTIGATION ADDRESS SURFACE WATER**
13 **SUPPLIES?**

14 A. Not in detail, although the authors conclude that “surface water sources are not
15 physically and legally available for immediate development.” *Investigation of*
16 *Groundwater Availability* at 6.

17 **Q. DOES THE REPORT PREPARED FOR THE DISTRICT CONCLUDE**
18 **THAT BROOKE UTILITIES AND/OR ITS SUBSIDIARY UTILITIES ARE**
19 **A CONTRIBUTING FACTOR TO THE WATER SHORTAGES?**

20 A. No, the report actually supports the opposite conclusion. In finding that the water
21 shortages in the Pine-Strawberry area result from the inherent physical hydrology
22 of the region, the authors specifically discussed and rejected the notion that
23 “improper management, operation and maintenance” was the reason for the water
24 shortages. *Id.* On the other hand, I would note that the report is critical of a
25 number of studies conducted since 1989 by consultants overestimating the
26 availability of water resources available to serve the Pine and Strawberry

1 communities. *Id.* at 7.

2 **Q. WHY WOULD CONSULTANTS OVERESTIMATE THE AVAILABILITY**
3 **OF WATER SUPPLIES?**

4 A. To foster growth. Gila County has been encouraging development of the Pine-
5 Strawberry area for a number of years. Real estate developers in the area have
6 been required to “push the envelope” to justify further homebuilding. It is
7 generally accepted knowledge that only about one-half of the total developable
8 residential parcels in Pine, Arizona have been or are actually being developed. It is
9 also no secret that Gila County has long viewed the development of the rest of
10 these parcels as a means of increasing property tax revenues, but such development
11 is very much dependent upon adequate water supplies. We have been voicing our
12 concern over this pro-growth philosophy, unsupported by adequate water supplies,
13 for a number of years but have received little or no cooperation from Gila County
14 and the real estate development community in and around the Pine-Strawberry
15 area. Instead, development pressures continue and we are constantly criticized as
16 being the reason for the area’s water shortage problems. *See Investigation of*
17 *Groundwater Availability* at 9. In fact, Gila County and the real estate developers
18 in the area actually argued *against* the development of Project Magnolia claiming it
19 was “premature” without further hydrological investigation. One can only imagine
20 what the recent water supply conditions would have been if Project Magnolia had
21 not been developed and not been available to supplement the needs of Pine Water’s
22 customers in recent years.

23 **Q. WHAT CONCLUSIONS DO THE AUTHORS OF THE *INVESTIGATION***
24 ***OF GROUNDWATER AVAILABILITY* REACH REGARDING**
25 **INCREASING THE WATER SUPPLIES AVAILABLE FOR CUSTOMERS**
26 **IN PINE, ARIZONA?**

1 A. The report essentially concludes that further development of water sources in Pine,
2 Arizona is unlikely. *See Investigation of Groundwater Availability* at 9-10.
3 However, the authors further indicate that an alternative aquifer may be available
4 in deeper strata underlying the northwestern corner of the Strawberry Valley.
5 Specifically, the report concludes, “[t]he alternative identified by the investigation
6 is a deep aquifer contained in primarily limestone strata in the Redwall Limestone
7 and Martin Formation.” *Id.* at 9. According to the report, the static water level in
8 these deep aquifers is approximately 1500 feet and such aquifers may continue to a
9 depth of more than 2100 feet. *Id.* at 10.

10 Q. INTERVENOR JOHN BRENINGER CLAIMS THAT *THE*
11 *INVESTIGATION OF GROUNDWATER AVAILABILITY* DEMONSTRATES
12 THAT THESE DEEP AQUIFERS REPRESENT A LONG TERM
13 RELIABLE WATER SUPPLY FOR PINE, ARIZONA. DO YOU AGREE?

14 A. Not entirely, I think Mr. Breninger presents an overly simplistic view of the
15 circumstances. Breninger Dt. at 2-3. The authors of the *Investigation of*
16 *Groundwater Availability* were careful to qualify their conclusions as reflecting a
17 “reasonable expectation” that the limestone formations are fully saturated.
18 *Investigation of Groundwater Availability* at 10-11. Even more importantly, the
19 report reaches the ultimate conclusion that:

20 The new information and concepts provided by this investigation
21 indicate that there is a need for **considerable additional**
22 **investigation** to refine the quantification of groundwater resources
23 in the area as well as to quantify existing and future demand for
24 water. It is anticipated that this report will provide a new framework
25 for effective accomplishment of future investigations of the
26 groundwater resources in the PSWID area. *Id.* at 11(emphasis
supplied).

27 Thus, while making for great media sound bites, I simply cannot agree with
28 Mr. Breninger that this report reaches a definitive conclusion that “We Have the

1 **Water!**” Breninger Dt. at 5 (emphasis original). Instead, we have a report, an
2 investigation based on what appears to be sound scientific analysis, telling us where
3 there is a reasonable expectation that additional water supplies **might** be found, but
4 “considerable” work remains to be done before we know for certain where and how
5 much water is available in the area of the District and Pine Water’s CC&N. *See*
6 *Investigation of Groundwater Availability* at 10-11 Further, knowing where water
7 lies beneath Strawberry does not mean that it is physically, legally or economically
8 deliverable to the Pine Water system and it remains to be seen whether the potential
9 new water resources identified in the District’s investigation represent financially
10 viable water sources for Pine Water’s ratepayers.

11 **Q. WHAT LEGAL AND/OR PHYSICAL LIMITATIONS MIGHT IMPACT**
12 **PINE WATER’S ABILITY TO OBTAIN WATER SUPPLIES FROM DEEP**
13 **WELLS IN THE STRAWBERRY VALLEY?**

14 A. There are a number of concerns. Depending on the ownership of the land where
15 such wells are located, rights-of-way, easements and/or permits may be required.
16 A delivery pipeline would require similar approvals and/or access rights and, after
17 our experience with Project Magnolia, I am frankly not sure another such pipeline
18 could be built from Strawberry to Pine. Also, I do not know much about the
19 validity of such claims, but I suspect Salt River Project might contest any attempts
20 to withdraw groundwater in the Strawberry Valley for delivery to Pine, Arizona. In
21 sum, there remains considerable uncertainty over the physical and legal aspects of
22 such a plan.

23 **Q. DOES THE *INVESTIGATION OF GROUNDWATER AVAILABILITY***
24 **ADDRESS THE COSTS THAT WOULD BE INCURRED TO OBTAIN**
25 **WATER FROM THE LIMESTONE ACQUIFERS UNDER THE**
26 **STRAWBERRY VALLEY FOR DELIVERY INTO THE PINE WATER**

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SYSTEM?

A. To some extent. Appendix C to the *Investigation Of Groundwater Availability* provides some preliminary cost estimates for test/production wells. The authors of the report estimate the total cost of each deep well to be between \$606,830 and \$870,580. *Id.* at C-2. No information regarding the costs that will be incurred to conduct the necessary additional investigation, to obtain required approvals and rights-of-way, to build additional transmission lines, or to pump water from these deep wells and then deliver it from the Strawberry Valley to the Pine Water system is provided. While I suspect these latter costs were beyond the scope of the District's study, they are well within the scope of Pine Water's decision-making as well as that of this Commission.

Q. DO YOU AGREE WITH THE ESTIMATED COSTS FOR DEEP WELL DRILLING PROVIDED IN THE INVESTIGATIVE REPORT?

A. It has been our experience that sub-surface geology always provides hidden challenges that cannot be accurately predicted from the surface. Under perfect conditions and assuming a drilling effort without significant surprises, the upper end of the cost estimate proffered by the District's report may be used as "base" estimate of the drilling costs.

Of course, solving the Pine Water problem, assuming it can be solved at all this way, would require that several such wells be drilled. This may be the basis for Mr. Breninger's estimated \$4.2 million price tag. *See* Breninger Response to Pine Water Data Request No. 1.4, copy attached hereto as Hardcastle Rebuttal Exhibit 1. Mr. Breninger notes, however, that his estimate excludes the costs of "property easements or acquisition, a trunk pipeline beyond the well sites delivery point, project overhead costs, or cost of money." *Id.* In Pine Water's opinion, the "all-in" costs of such a project could easily escalate to more the double Mr.

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Brenniger's estimated cost.

Q. IS MR. BRENINGER REQUESTING THAT THE COMMISSION ORDER PINE WATER TO ATTEMPT TO OBTAIN WATER SUPPLIES FROM THE DEEP AQUIFERS UNDERLYING THE STRAWBERRY VALLEY?

A. I think one can reach that conclusion from his testimony:

Would the Commission please take a new look at the rate structure for water that it has ruled for this Community, and reconsider the need for a significant increase in capital investment on the part of the water utilities that can be justified by the rate base.

* * *

The Commission should rule to facilitate the residents of this Community to use all the water they want to pay for! I say again: **Put enough capital to work where it does the most good.** Breninger Dt. at 5 (emphasis original).

Q. DOES MR. BRENINGER PROVIDE ANY EVIDENCE REGARDING THE RATEMAKING IMPACTS OF ATTEMPTING TO LOCATE AND DELIVER WATER FROM THE DEEP AQUIFERS IDENTIFIED IN THE INVESTIGATION OF GROUNDWATER AVAILABILITY?

A. No, and Mr. Breninger has admitted in data request responses that he is not able to testify regarding the ratemaking impacts of this undertaking. See Breninger Response to Pine Water Data Request Nos. 1.8 and 1.11, copies attached hereto as Hardcastle Rebuttal Exhibit 1. This is unfortunate as Pine Water has, for years, differed with the views of the District in this regard, as such views do not consider that developing a water supply solution to Pine, Arizona's dilemma without a corresponding economic solution that is affordable to Pine Water's ratepayers represents no solution at all. Mr. Breninger's testimony merely furthers this historic shortcoming on the part of the District.

Q. WHAT ABOUT THE DISTRICT? HAS IT PROVIDED ANY EVIDENCE CONCERNING THE COSTS TO PINE WATER'S RATEPAYERS OF

1 **IMPLEMENTING THE DEEP AQUIFER PROJECT IDENTIFIED IN ITS**
2 **REPORT?**

3 A. No. Despite its sweeping criticism of Pine Water's past efforts to address water
4 supply problems in its certificated service area, the District's witnesses do not
5 testify regarding any specific alternatives available to the Company to enhance
6 water supplies, nor do they provide any evidence of the ratemaking impacts that
7 will be realized from efforts such as the drilling of deep wells discussed in the
8 District's *Investigation Of Groundwater Availability*.

9 However, in data request responses, the District claims that deep wells in the
10 Strawberry Valley will cost approximately \$150,000 to drill and that Pine Water
11 should expect to spend \$200,000-\$300,000 annually on water exploration, well
12 drilling and support for other exploration efforts. *See* District Response to Pine
13 Water Data Request No. 1.41, copy attached hereto as Hardcastle Rebuttal Exhibit
14 2. The District's estimates are contradicted by its own study and by the estimates
15 of its own agent, John Breninger, as explained above. *Compare id. with* Appendix
16 C to the *Investigation Of Groundwater Availability* and Breninger Response to Pine
17 Water Data Request No. 1.4, copy attached hereto as Hardcastle Rebuttal Exhibit 1.

18 Put bluntly, the District's witnesses are following a long tradition in Pine,
19 Arizona of criticizing Brooke Utilities for failing to provide an adequate water
20 supply to Pine Water's customers without offering any specific and viable solutions
21 and without acknowledging the severe ratemaking implications of providing
22 additional water into the Pine Water system.

23 **IV. WATER SUPPLY ENHANCEMENT AND PINE WATER'S REQUESTED**
24 **EXPLORATION SURCHARGE.**

25 **Q. DID YOUR DIRECT TESTIMONY ADDRESS PINE WATER'S PAST**
26 **EFFORTS TO AUGMENT AVAILABLE WATER SUPPLIES?**

1 A. Yes, this testimony can be found in my direct testimony (at 7-8) where I describe
2 the Company's substantial investment since 1996 in well drilling, leak repair and
3 additional storage, as well as Brooke Utilities' development of Project Magnolia.
4 Explicitly recognizing the efforts at increasing water available for delivery to Pine
5 Water's customers by the Company and Brooke Utilities, the Commission recently
6 modified the moratorium on new service connections. Decision 64400 (January
7 31, 2002) at 3-4, 6.

8 **Q. DOES THE DISTRICT PROVIDE TESTIMONY REGARDING THE**
9 **COMPANY'S EFFORTS TO DEVELOP NEW WATER RESOURCES?**

10 A. Yes, Mr. Jones is severely critical of our efforts to develop additional water
11 resources as well as additional storage facilities. Direct Testimony of Harry D.
12 Jones ("Jones Dt.") at 16. Again, as with Mr. Breninger, Mr. Jones presents an
13 erroneous and incomplete picture of the situation. To begin with, his claim that
14 there is no public record demonstrating our investment is contradicted by, among
15 other things, Commission Decision No. 64400. Moreover, simply looking at the
16 amount of capital investment in new wells or new storage facilities does little to
17 reflect reality. Our customers cannot drink or bathe in capital investment and
18 punching holes in the ground in an area well known to lack adequate aquifers is
19 hardly the type of reasonable and prudent investment we believe we are obligated
20 to undertake. *See Investigation of Groundwater Availability* at 3, 7 (discussing
21 findings of Arizona Department of Water Resources indicating that since 1973
22 almost all new subdivisions have received statements of inadequate water supply).

23 **Q. WHAT ABOUT MR. JONES' CLAIM THAT PINE WATER AND**
24 **BROOKE UTILITIES HAVE FAILED TO PARTICIPATE OR SUPPORT**
25 **THE SIGNIFICANT EFFORTS BY OTHER GROUPS TO LOCATE**
26 **ALTERNATIVE SOURCES OF NEW WATER?**

1 A. I guess my answer is essentially the same. While we have certainly been aware of
2 these efforts, and in the past have supported and participated in community-wide
3 efforts to locate new water resources, it has been our experience that investing
4 capital as well as time in such efforts does little to produce additional water
5 supplies for our customers. Instead, what such efforts lead to is name calling and
6 finger pointing directed at Brooke Utilities and Pine Water by Gila County, the
7 District and others, and the inevitable conclusion that such efforts no longer
8 provide a benefit to our customers.

9 **Q. MR. JONES REFERS TO EFFORTS BY THE NORTHERN GILA**
10 **COUNTY WATER PROJECT ALLIANCE AND THE MOGOLLION RIM**
11 **WATER RESOURCES MANAGEMENT STUDY FUNDED BY THE**
12 **BUREAU OF RECLAMATION, THE TOWN OF PAYSON AND GILA**
13 **COUNTY. HAVE THESE EFFORTS PRODUCED ADDITIONAL WATER**
14 **SUPPLY AVAILABLE TO PINE WATER?**

15 A. Again, none of these efforts have produced a single gallon of water for
16 consumption by Pine Water's ratepayers. In my opinion, these efforts are
17 politically driven, politically motivated and unfairly offer hope to customers that if
18 we continue to study the problem long enough we will, eventually and after untold
19 expenditures, find some solution. Apparently, local politicians believe that as long
20 as someone is studying the problem the voting constituency will believe progress
21 towards a solution to the water shortage problem is being made. Now, knowing
22 full well they cannot further develop Pine, Arizona without more water, Gila
23 County officials appear willing to delude residents into believing that "all the
24 water we need is located right over there". Ultimately, I believe the community
25 will see the fallacy of this thinking. Again, the District's own report clearly
26 indicates that the water necessary to solve the water demand problem is located

1 somewhere else, a substantial sum of money away from Pine, Arizona.

2 **Q. HAS THE DISTRICT BEEN SUCCESSFUL IN DEVELOPING**
3 **ADDITIONAL WATER SUPPLIES FOR THE BENEFIT OF CUSTOMERS**
4 **IN PINE, ARIZONA?**

5 A. According to the Gila County Manager, John Nelson, who is now running the
6 District, the District was established to locate an “adequate long-run stable source
7 of water for the property owners within the District.” Direct testimony of John
8 Nelson (“Nelson Dt.”) at 2. To my knowledge, however, the District has not
9 increased the water supply available to the Pine-Strawberry region by a single
10 gallon. From our vantage point, this is a pretty significant indictment of the
11 District, especially when one considers the extremely harsh comments of the
12 District’s witnesses regarding our efforts. Nevertheless, as discussed above, we
13 believe that the District’s recent report contains valuable information for the
14 Company’s consideration. However, the report is a long way from a physically,
15 legally and economically viable source of wet water for our ratepayers.

16 **Q. WHAT EFFORTS DOES PINE WATER PLAN TO TAKE IN THE FUTURE**
17 **TO AUGMENT AVAILABLE WATER SUPPLIES?**

18 A. Attached to my direct testimony as Exhibit B is a Water Supply Augmentation Plan
19 for Pine Water. This plan identifies short, mid and long-range options for
20 enhancing the water supply available to Pine Water’s customers. This Commission
21 has already ordered some of these measures, like a more restrictive curtailment
22 tariff and a water hauling surcharge. See Decision No. 65914 (May 16, 2003). In
23 addition, since the filing of this case, we have taken steps to secure a supplemental
24 water supply source of up to 150,000 gallons per day from Starlight Pines Water
25 Company (“Starlight Pines”) located in Coconino County. This water source was
26 extensively used during the high demand summer months of 2003 to augment the

1 declining water supplies in Pine, Arizona. That supplemental water source
2 contributed to Pine Water successfully providing uninterrupted water service to its
3 customers through the high demand summer months of 2003.

4 However, after carefully reviewing the *Investigation Of Groundwater*
5 *Availability* it would appear a number of potential alternatives are not worth
6 pursuing given the physical and legal restrictions on using surface water supplies
7 and the inherent hydrological and physical limitations on the available supplies of
8 groundwater. See *Investigation Of Groundwater Availability* at 6, 9-10. As a
9 result, we are going to have to reevaluate the possible courses of action and
10 hopefully, in cooperation with the Commission and Staff, prioritize and attempt to
11 determine the most prudent courses of action.

12 **Q. HOW DID PINE WATER PROPOSE TO FUND ITS WATER**
13 **AUGMENTATION PLAN?**

14 A. At the time the Company's rate application was filed pursuant to Commission
15 order, we had not yet determined which projects should be funded. Therefore, the
16 manner of funding specific projects was not yet addressed.

17 **Q. BROOKE UTILITIES, AS PINE WATER'S SHAREHOLDER, IS**
18 **OBLIGATED TO INVEST CAPITAL TO ENSURE AN ADEQUATE**
19 **SUPPLY OF WATER FOR THE COMPANY'S RATEPAYERS,**
20 **CORRECT?**

21 A. The short answer is "yes, but..." The "but" is how are we going to define
22 adequate? Does "adequate" mean spending whatever it takes to find water in deep
23 wells a third of a mile below the earth's surface and then deliver it to the Pine
24 Water system? We only have 2000 customers. Is the Commission ready to
25 approve rates sufficient to 1) provide a return of and on a more than \$4 million
26 capital investment (using Mr. Breninger's estimates, or perhaps \$8 million using

1 our potential cost assessment) in drilling wells in the deep aquifers below the
2 Strawberry Valley with no guarantee of success; 2) the costs of pipelines to deliver
3 such water; and 3) significant increases in operating costs, especially purchased
4 power, which costs are going to skyrocket if we have to start pumping a large
5 portion of our water supply from 1500 feet and below? Our customers would be
6 facing rate increases that have never been seen before and, I suspect, are not fully
7 appreciated by the same people that exclaim this is the only viable alternative.

8 Of course, this assumes substantial capital investment actually yields
9 additional water supplies for the Pine Water system. What if it doesn't? Does Pine
10 Water's CC&N obligate Brooke Utilities to spend hundreds of thousands or even
11 millions of dollars looking for water all over Northern Arizona that might not be
12 found, or if found, might not be available for delivery into the Pine Water system?
13 Is the Commission prepared to deem investment that yields no additional water
14 reasonable and prudent? I know one customer, John Breninger, isn't. See
15 Breninger Response to Pine Water Data Request No. 1.9, copy attached hereto as
16 Hardcastle Rebuttal Exhibit 1.

17 In the end it comes down to what is a reasonable and prudent price tag for
18 2000 customers? What solution are all of Pine Water's rate payers, not just the
19 minority of customers that have vested financial interests, truly prepared to accept
20 in the form of increased rates? Is it \$100 per month or maybe \$200 per month or
21 what if it's \$500 per month? Are the 2000 Pine Water ratepayers really prepared to
22 accept the economic impact of what the District wants to do to solve the problem?
23 If they are, then why hasn't such a solution been implemented long before now?
24 Absent support from our ratepayers and the guidance of this Commission, Pine
25 Water and Brooke Utilities is simply not convinced, for example, that investing
26 million of dollars in locating water deep under the Strawberry Valley is reasonable

1 and prudent.

2 **Q. DOES THAT MEAN PINE WATER AND BROOKE UTILITIES DO NOT**
3 **INTEND TO PURSUE ADDITIONAL WATER SUPPLIES?**

4 A. Absolutely not. However, given the conclusions reached in the District's
5 *Investigation Of Groundwater Availability*, and the positions of the other parties to
6 this proceeding, it is clear that we need to reevaluate the situation in order to ensure
7 we pursue the most prudent and financially viable course of action.

8 **Q. WHAT ABOUT THE WATER EXPLORATION SURCHARGE PINE**
9 **WATER REQUESTED IN ITS APPLICATION?**

10 A. Pine Water is withdrawing its request for approval of a Water Exploration
11 Surcharge in this docket.

12 **Q. WHY IS THE COMPANY WITHDRAWING ITS REQUEST FOR**
13 **APPROVAL OF A WATER EXPLORATION SURCHARGE AT THIS**
14 **TIME?**

15 A. Well, for one thing, the District has more or less accused me personally of
16 proposing this surcharge as a means of stealing money from our ratepayers:

17 Obviously, he intends for \$20,000 per month of the rate-payers
18 money to go to Brooke Utilities, which is unregulated and can do
19 what it wants with the money without the scrutiny of the
20 Commission or the rate-payers. Mr. Hardcastle's proposal for such a
21 process for augmenting water supplies is an indication of his
22 personal willingness to continue to operate regardless of the conflicts
of interest he has with the various group that depend on him and his
companies for fair treatment in a monopolistic environment. Putting
this rate-payer money into the hands of an unregulated company that
deals with its subsidiaries on other than an arms-length would be a
poor decision. Jones Dt. at 14.

23 Since the District claims to be representing the interest of all of our customers
24 (Nelson Dt. at 2-3), we can only assume our ratepayers oppose the Water
25 Exploration Surcharge for the reasons voiced by Mr. Jones. Given such
26

1 opposition, why we would we want to collect such a charge?

2 **Q. DOES THIS MEAN THE DISTRICT'S WITNESS WAS CORRECT?**

3 A. Of course not. Mr. Jones's testimony is not only unprofessional, given his baseless
4 personal attacks on me, it is utterly ridiculous. Indeed, I suggest this testimony
5 unmistakably illustrates Mr. Jones' complete ignorance of the ratemaking process.
6 Either that, or he simply failed to read Mr. Bourassa's direct testimony concerning
7 this surcharge. As Mr. Bourassa explained, the Water Exploration Surcharge was
8 intended to provide the Company with a low cost means of financing the upfront
9 costs of exploring additional water supply alternatives. Direct Testimony of
10 Thomas J. Bourassa ("Bourassa Dt.") at 48-49. Ironically, the District's own water
11 supply study makes it clear that additional upfront costs are going to be necessary.
12 *Investigation Of Groundwater Availability* at 11 & Appendix C.

13 **Q. WHAT DID YOU MEAN BY "LOW COST MEANS OF FINANCING"?**

14 A. As Mr. Bourassa explained, amounts collected under the proposed Water
15 Exploration Surcharge were to be booked as contributions-in-aid of construction.
16 Bourassa Dt. at 49-50. Accordingly, there would have been no return of or on the
17 expenditure of these sums by Pine Water, in contrast to any amounts booked as
18 paid in capital from Brooke Utilities. Again, I can only assume Mr. Jones either
19 did not read or did not understand this portion of Mr. Bourassa's testimony.

20 **Q. IS THE SAME THING TRUE WITH RESPECT TO MR. JONES'**
21 **ALLEGATIONS THAT THE EXPENDITURE OF FUNDS COLLECTED**
22 **UNDER THE WATER EXPLORATION SURCHARGE WOULD BE**
23 **WITHOUT COMMISSION SCRUTINY?**

24 A. It would appear so. For one thing, I have no idea where Mr. Jones came up with
25 the idea the ratepayers' money being collected under the surcharge would go to
26 Brooke Utilities. Jones Dt. at 14. I think it is safe to assume that had Pine Water

1 been authorized to collect a Water Exploration Surcharge, the Commission would
2 have required Pine Water, not Brooke Utilities, to spend such funds exploring
3 additional water supplies for Pine Water's ratepayers. In fact, it was for this reason
4 that Pine Water proposed to segregate funds collected under the surcharge in a
5 separate interest bearing account and assumed collection and expenditure would be
6 subject to certain Commission-imposed reporting requirements. Bourassa Dt. at
7 48. In other words, we fully expected and supported Commission scrutiny, as we
8 have in all other regulatory matters involving Pine Water.

9 **Q. WHAT IS STAFF'S POSITION WITH RESPECT TO THE PROPOSED**
10 **WATER EXPLORATION SURCHARGE?**

11 A. Staff recommends that the surcharge not be implemented at this time. Direct
12 Testimony of Claudio M. Fernandez ("Fernandez Dt.") at 16. Instead, Staff
13 recommends bifurcating the request for approval of the Water Exploration
14 Surcharge into a second phase of this proceeding and, in fact, the Company and
15 Staff were discussing this idea informally before the District and Mr. Breninger
16 intervened and filed their direct testimonies. *Id.* Staff's proposal might have some
17 merit, if it were not for the uncertainty over the most prudent course of action and
18 the vehement opposition to such a surcharge from ratepayers. However, Pine
19 Water has no interest in going through another costly proceeding, at further
20 ratepayer expense, to fight for approval of a charge that no one seems to support.
21 Therefore, we believe it best to withdraw our request for the Water Exploration
22 Surcharge at this time.

23 **Q. IN THE MEANTIME, WILL PINE WATER CONTINUE TAKING STEPS**
24 **TO AUGMENT WATER SUPPLIES?**

25 A. Absolutely. The arrangement we have entered into with Starlight Pines is a viable
26 supplemental solution to water shortages in the short-term, exactly what an

1 “augmentation” program is supposed to provide. We have made water
2 transportation arrangements, at the urging of the Commissioners, to deliver this
3 water to customers of Pine Water in a volume and manner that avoids long term
4 water service interruptions. This supplemental water supply solution may not be
5 the best long term solution to the problem but as an augmentation approach to
6 managing available water supplies in the short run, the Commissioners correctly
7 concluded that it is a viable alternative, in part, because rate payers can control
8 their costs of such supplemental water supplies based on their personal
9 consumption. *See* Decision No. 65914 (May 16, 2003). As discussed above, we
10 will also be reevaluating our options in light of the District report and hopefully,
11 specific guidance from the Commission in this proceeding.

12 **V. PROJECT MAGNOLIA.**

13 **Q. WHAT IS PROJECT MAGNOLIA?**

14 **A.** As explained in my direct testimony, Project Magnolia is a 10,800-foot pipeline
15 constructed, owned and operated by Brooke Utilities and connecting the water
16 systems of Pine Water and Strawberry Water Company, also owed by Brooke
17 Utilities (“Strawberry Water”). Direct Testimony of Robert T. Hardcastle
18 (“Hardcastle Dt.”) at 8. Project Magnolia can deliver approximately 700,000
19 gallons per day between the two systems.

20 **Q. WHAT IS THE ISSUE WITH RESPECT TO PROJECT MAGNOLIA IN**
21 **THIS PROCEEDING?**

22 **A.** Pine Water’s test year operating expenses include the costs of transporting water
23 purchased by Pine Water from Strawberry Water through Project Magnolia. The
24 Company purchased 11,643,000 gallons of water from Strawberry Water during
25 the test year, all of which was delivered into Pine Water’s system through Project
26 Magnolia. Nevertheless, Staff has failed to include any of these costs in its

1 recommended expense levels. Fernandez Dt. at 12-13.

2 **Q. WHY DID STAFF REMOVE THE TRANSPORTATION COSTS**
3 **ASSOCIATED WITH PROJECT MAGNOLIA FROM OPERATING**
4 **EXPENSES?**

5 A. According to Mr. Fenandez, Staff removed the transportation costs paid by Pine
6 Water because it believes the costs of Project Magnolia should be recorded on Pine
7 Water's books and records. Fernandez Dt. at 7. In other words, Staff has
8 essentially concluded that Pine Water owns Project Magnolia and therefore, these
9 transportation costs are "not applicable." *Id.*

10 **Q. WHO OWNS PROJECT MAGNOLIA?**

11 A. As I testified in my direct testimony, Project Magnolia is owned by Brooke
12 Utilities. *See* Hardcastle Dt. at 8. All of the permits, rights-of-way and other
13 approvals necessary for the siting and construction of Project Magnolia were paid
14 for by and issued to Brooke Utilities. *See* Hardcastle Rebuttal Exhibit 3. All of the
15 costs for constructing Project Magnolia were paid for by Brooke Utilities. *See*
16 Hardcastle Rebuttal Exhibit 4. Since Project Magnolia became operational in
17 February 2001, Brooke Utilities has paid all of the costs associated with operating
18 and maintaining the pipeline.

19 **Q. DO PINE WATER'S BOOKS AND RECORDS REFLECT ITS**
20 **OWNERSHIP OF PROJECT MAGNOLIA?**

21 A. Nothing in Pine Water's books and records supports Staff's conclusion that the
22 Company owns Project Magnolia.

23 **Q. ON WHAT BASIS THEN DOES STAFF CLAIM THAT PROJECT**
24 **MAGNOLIA IS OWNED BY PINE WATER?**

25 A. Well, first I should point out that the Staff witnesses do not seem to be in
26 agreement on this point. Staff Engineer, Marlin Scott, Jr., has submitted an

1 Engineering Report for Pine Water and this report indicates that Project Magnolia
2 is owned by Brooke Utilities. Direct Testimony of Marlin Scott, Jr. ("Scott Dt.") at
3 Exhibit MSJ, page 3 of 15. In contrast, in his testimony, Mr. Fernandez claims that
4 Pine Water owns Project Magnolia because the pipeline was included in CWIP and
5 listed as a future capital project to be funded with stock in the last rate case.
6 Fernandez Dt. at 7-8.

7 **Q. DO YOU AGREE WITH MR. FERNANDEZ?**

8 A. No. For a number of reasons, Staff's reliance on the generic exhibits in the last rate
9 case is overly simplistic. According to responses to data requests, "the basis for
10 Staff's conclusion that Project Magnolia was included in CWIP" is the Company's
11 application, which included schedules referring to projected capital expenditures,
12 including Project Magnolia. See Staff Response to Pine Water Data Request No.
13 1.13, copy attached hereto as Hardcastle Rebuttal Exhibit 5.

14 The first of these schedules mentioning Project Magnolia is a listing of
15 capital budget items from 1999-2003. *Id.* This schedule simply shows Project
16 Magnolia as one of several projects under consideration at the time. *Id.* However,
17 at that time, final decisions regarding which projects would be undertaken had not
18 been made, let alone how those projects would be financed, owned and operated.

19 The second schedule Staff provides mentioning Project Magnolia is a plant
20 detail listing from the last rate case. *Id.* This appears to be the document from
21 which Mr. Fernandez concluded the project was included in the Company's CWIP
22 because next to the listing for Project Magnolia is a cost amount equal to \$17,040.
23 However, there is obviously a serious error with respect to that listing.

24 **Q. WHY DO YOU BELIEVE THE LISTING OF PROJECT MAGNOLIA ON**
25 **THAT PLANT LISTING SCHEDULE WAS IN ERROR?**

26 A. Because Project Magnolia is shown as being placed in service June 30, 1998. We

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 A. Only in a generic manner. The request in the last rate case for authority to issue
2 equity to the parent, Brooke Utilities, was not tied to any specific project or
3 projects. *See* Staff Response to Pine Water Data Request No. 1.13, copy attached
4 hereto as Hardcastle Rebuttal Exhibit 5. At the time the application was filed in
5 that case, we were still in the process of making decisions concerning which
6 investments were most prudent. Although we felt it possible we would have to
7 issue additional stock, and therefore sought the necessary authority, we had also
8 not yet decided on the appropriate financing.

9 **Q. DID THE COMMISSION APPROVE THE REQUEST FOR AUTHORITY**
10 **TO ISSUE ADDITIONAL STOCK?**

11 A. Yes, although again, the authority was not tied to any specific facilities or project.
12 *See, generally,* Decision No. 62400. Furthermore, no stock was ever issued under
13 this authority.

14 **Q. DID SOMETHING CHANGE FOLLOWING DECISION NO. 62400?**

15 A. I do not think the situation changed so much as we continued our planning process
16 at both the utility and shareholder level. As I testified earlier, most of the projects
17 listed in the schedules attached to the last application for rate increases were in the
18 future planning stage. Project Magnolia was one of the projects still on the
19 drawing board so to speak and we had not yet decided to build the project when
20 that list was completed. Ultimately, it was decided that Brooke Utilities would
21 finance, construct, own and operate Project Magnolia.

22 **Q. WHY WAS IT DECIDED THAT BROOKE UTILITIES WOULD BUILD,**
23 **OWN AND OPERATE PROJECT MAGNOLIA?**

24 A. Basically, it came down to risk. The construction of Project Magnolia required a
25 number of regulatory approvals and there was no guarantee that Brooke Utilities
26 would succeed in obtaining all of the necessary permits, rights-of-way, easements

1 and environmental clearances. Further, at the time the pipeline project was
2 conceived, Brooke Utilities faced the risk that it would never be used. It faces
3 additional risks every day it owns the project because Pine Water pays only for
4 water actually delivered, there are no standby or other charges. In other words, as a
5 result of the decision that Brooke Utilities would pay for, build, own and operate
6 the pipeline, Brooke Utilities, not Pine Water and/or its ratepayers, has borne and
7 continues to bear the risks associated with Project Magnolia.

8 **Q. BUT ISN'T PINE WATER EXPECTED TO TAKE THESE RISKS?**
9 **AREN'T THE RISKS YOU IDENTIFIED TYPICAL OF MOST**
10 **INVESTMENT DECISIONS BY PUBLIC SERVICE CORPORATIONS?**

11 **A.** Not entirely. I am not saying other water, sewer or electric providers regulated by
12 the Commission do not face serious operational problems, many of which are
13 unique. But how many entities operate in an environment where they are expected
14 to spend millions of dollars hunting for water supplies that have never before been
15 found? What if we take every reasonable step and find no additional water that can
16 actually be provided to the Pine Water system? Or what if we are successful in
17 finding the water but cannot provide it to the Company's ratepayers at a rate that
18 makes financial sense? Does that mean Pine Water would recover nothing for its
19 investment?

20 My point is the Commission, and for that matter our ratepayers, cannot hold
21 Pine Water to some sort of impractical rigid standard. Investment in increasing the
22 water supply to Pine, Arizona is substantially risky because there is never a
23 guarantee that water will be found. Unlike Pine Water, Brooke Water would not
24 have its decision-making second guessed, and if successful, it would have a better
25 opportunity to recover its investment and earn a return that rewarded it for the
26 significant risks it took. As long as the charges to the ratepayers of Pine Water are

1 reasonable, all parties benefit. After all, it should not be forgotten that Brooke
2 Utilities has owned the Company only since August 1996. For decades before, the
3 collective interests in Northern Gila County, including the County, have been
4 unsuccessful in resolving the water shortage problem, or, for that matter, procuring
5 a single gallon of additional water.

6 **Q. THANK YOU. WOULD YOU PLEASE CONTINUE WITH YOUR**
7 **DISCUSSION OF THE REASONS IT WAS DECIDED THAT BROOKE**
8 **WOULD BUILD, OWN AND OPERATE PROJECT MAGNOLIA?**

9 A. As I said, we decided that the risks of Project Magnolia were sufficient enough that
10 they should be borne entirely outside the regulatory arena. In addition, Project
11 Magnolia is a two-way pipeline able to deliver water to Pine Water's system as
12 well as from the Pine Water system to the Strawberry Water system. Since the
13 pipeline is not for the exclusive benefit of Pine Water's customers, ownership by
14 Brooke Utilities avoids complicated allocation problems in the ratemaking process.
15 Finally, but of significant importance to Brooke Utilities, there were also
16 considerations related to Gila County and the District that factored into our final
17 decision.

18 **Q. WHAT DID THE COUNTY AND DISTRICT HAVE TO DO WITH THE**
19 **DECISION CONCERNING WHO WOULD BUILD, OWN AND OPERATE**
20 **PROJECT MAGNOLIA?**

21 A. As I discussed elsewhere in this rebuttal testimony, the County wants Brooke
22 Utilities out of the water business in the Pine-Strawberry region. Certain elements
23 of the District feel the same way, as do a number of real estate developers in the
24 region. See District Responses to Pine Water Data Requests 1.1 and 1.15, copies
25 attached hereto as Hardcastle Rebuttal Exhibit 2. We further believe that these
26 parties will do whatever they can to make it easier to condemn the Pine Water

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

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

1 transaction is not conducted at arms-length, however, does not necessarily mean it
2 is unfair. In this case it is not unfair. In fact, we further agree with Mr. Jones that
3 ratepayers should not view the wheeling charge as a conflict of interest if the terms
4 are fully disclosed and priced at fair market. Jones Dt. at 7-8. We also agree that
5 the reasonableness of the wheeling charge by Brooke Utilities is fairly within the
6 scope of this proceeding.

7 **Q. WOULD YOU PLEASE EXPLAIN WHY PINE WATER BELIEVES THAT**
8 **\$15.00 PER THOUSAND GALLONS IS A REASONABLE WHEELING**
9 **CHARGE?**

10 A. Certainly. Initially, the wheeling charge was determined by a comparison to the
11 costs that would be incurred by Pine Water to haul water. The cost of trucking
12 water into the Pine Water system is approximately \$38 to \$45 per 1000 gallons
13 hauled.

14 **Q. WHY WAS THE COST OF TRUCKING WATER AN APPROPRIATE**
15 **STARTING POINT FOR DETERMINING AN APPROPRIATE**
16 **WHEELING CHARGE?**

17 A. Because there are no other additional viable water supplies readily available to Pine
18 Water, every gallon of water delivered through Project Magnolia is a gallon that
19 does not have to be hauled. *See Investigation of Groundwater Availability* at 3.
20 This means that Pine Water saves at least \$23 on every 1000 gallons delivered
21 through Project Magnolia, a savings of approximately 150%.

22 **Q. HOW DOES THE \$15.00 WHEELING CHARGE COMPARE TO THE**
23 **COSTS TO RATEPAYERS UNDER STAFF'S APPROACH?**

24 A. Well, to begin with, as discussed in Mr. Bourassa's rebuttal testimony, Staff has
25 failed to properly treat Project Magnolia as if Pine Water owned it. *See Rebuttal*
26 *Testimony of Thomas J. Bourassa ("Bourassa Rb.")* at 10-11. Instead, Staff has

1 substantially understated the rate impacts of recording Project Magnolia on Pine
2 Water's books. *Id.*

3 For purposes of illustration though, under a more traditional, cost based
4 analysis, based on the original cost of the pipeline, a 10% rate of return, annual
5 operating expenses for the pipeline of approximately \$33,000, and accounting for
6 depreciation recovery and income taxes, the cost of the water using test year
7 deliveries would be \$12.37 per 1000 gallons.

8 **Q. WHY ISN'T \$12.37 AN APPROPRIATE WHEELING CHARGE?**

9 A. Because I think the rate that would result from a traditional, cost based analysis, as
10 opposed to the calculation offered by Staff, must be further adjusted for two
11 factors. One, I do not believe original cost is applicable here. Assuming Brooke
12 Utilities was to transfer title to Project Magnolia to Pine Water today, as Staff is
13 essentially suggesting, that transfer would have to take place at fair market value.
14 Simply put, Project Magnolia represents a key component to any future water
15 supply resolution in Pine, Arizona and its value should be recognized as such.
16 Thus, with the benefit of hindsight, the fair market value would approximate the
17 amount that a condemning authority would have to pay to acquire the pipeline. We
18 believe that the amount a condemning authority would have to pay for Project
19 Magnolia far exceeds original cost.

20 Furthermore, given the risks that were involved in building the pipeline,
21 10% is far too low a return. Using original cost and a rate of return of 15%, still
22 well below an adequate return given the risk commensurate with the investment,
23 the cost based wheeling charge comes to \$15.43 per 1000. Again, the analysis
24 reflects that the \$15.00 per 1000 wheeling charge paid by Pine Water to Brooke
25 Utilities is fair and reasonable.

26 **Q. HOW DOES THE COSTS OF WATER DELIVERED THROUGH**

1 **PROJECT MAGNOLIA COMPARE TO THE COSTS OF WATER SUPPLY**
2 **ALTERNATIVES?**

3 A. Well, again, I must emphasize that Pine Water is not convinced that there are
4 viable alternatives. However, we could use Mr. Breninger's estimates of pursuing
5 the recommendations in the District's study, at a cost of \$4 million, to illustrate the
6 point, with the caveat that Pine Water questions both the hydrology (availability
7 and reliability of source) and cost estimates in this study. In any case, assuming a
8 \$4 million investment in "deep wells", Pine Water's annual revenue requirement
9 would have to increase by approximately \$833,333 for the Company to recover
10 depreciation expense, pay taxes and earn just a 10% return on its investment. This
11 equates to an additional cost of \$71.57 per 1000 gallons, exclusive of operating
12 expenses (including property taxes, transportation expenses, additional treatment,
13 etc.) and ignoring the likelihood that these so called "deep well" investments will
14 ever yield a viable water source. With Project Magnolia, the owner of the pipeline
15 covers all costs and risk.

16 **Q. ARE THERE ANY OTHER FACTORS THAT SUPPORT THE**
17 **REASONABLENESS OF THE WHEELING CHARGE?**

18 A. Yes, in addition to delivering water at a substantially reduced rate, Project
19 Magnolia delivers water faster and more reliably than hauled water. One water
20 hauling truck can deliver 6,500 gallons per load, a process that takes several hours.
21 In contrast, Project Magnolia delivers some 720,000 gallons per day at a rate of
22 500 gallons per minute. In other words, Project Magnolia is able to respond to
23 Pine Water's demand requirements more quickly and at approximately one-third of
24 the cost of the only sure alternative.

25 **Q. DOES PINE WATER STAND BY ITS REQUEST FOR INCLUSION OF**
26 **TEST YEAR TRANSPORTATION COSTS IN THE APPROVED LEVEL**

1 **OF OPERATING EXPENSES?**

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

8 **VI. RESPONSE TO DISTRICT TESTIMONY.**

9 **Q. DO YOU HAVE AN OPINION REGARDNG THE REASONS FOR THE**
10 **DISTRICT'S INTERVENTION IN THIS RATE CASE?**

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

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

16 A. I believe there are several factors that support my belief. First, it was the County
17 that made the decision to intervene in this rate case. Nelson Dt. at 1. This follows
18 from the fact that the District does not have a Board of Directors, it is being
19 governed by the Gila County Board of Supervisors and administered by the County
20 Manager. *Id.* This case was filed in May, when an elected Board of Directors
21 made up of members and taxpayers was still running the District. Yet, it was only
22 in mid-October, after the County had assumed control of the District, that the
23 motion to intervene was filed. Curiously, however, the authority for the District to
24 intervene was not provided until approximately two weeks later in the form of a
25 County resolution executed by Gila County Supervisor Christenson on November
26 4, 2003. *See* District Response to Pine Water Data Request No. 1.13, copy

1 attached hereto as Hardcastle Rebuttal Exhibit 2. Given the County's previous
2 reluctance to participate in Commission proceedings regarding Pine Water, and to
3 respond to concerns over its actions being voiced by the Commissioners, I find the
4 County's decision to move the District to intervene highly suspect. Though, I guess
5 am not surprised. Supervisor Christensen has made no secret of his desire to
6 control the water delivery and development process in Northern Gila County.
7 Now, he seems to have found an appropriate "Trojan Horse" behind which he can
8 step up his efforts.

9 **Q. HOW WOULD YOU CHARACTERIZE THE RELATIONSHIP BETWEEN**
10 **PINE WATER AND THE DISTRICT?**

11 A. The District and Pine Water have been at odds for many years over the manner in
12 which the Company should address the region's chronic water supply shortages.
13 The District does not provide water utility service, however, and therefore does not
14 seem to appreciate the financial and regulatory constraints we face as an Arizona
15 public service corporation with a very small customer base. In fact, despite the
16 message of its own comprehensive study, i.e., that the availability of additional
17 supplies for Pine, Arizona is possible but not yet certain, that further work needs to
18 be done and that millions of dollars may have to be invested, the District and its
19 agent, Intervenor John Breninger, declare the problem solved. As discussed above,
20 we believe the claim that "**We have the water**" is, at best premature. I am sure,
21 however, we will continue to hear from the District, as well as others, that we
22 should just go out and start drilling deep wells in the Strawberry Valley.

23 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE REASONS**
24 **YOU BELIEVE THE COUNTY HAS INTERVENED TO FURTHER ITS**
25 **DESIRE TO GET PINE WATER AND BROOKE UTILITIES OUT OF THE**
26 **WATER BUSINESS IN THE PINE-STRAWBERRY AREA?**

1 A. Gila County has made no secret of its desire to grow the Pine-Strawberry area and
2 thereby increase the tax base. Towards that end, they have approved the creation
3 of multiple water improvement districts as a means of skirting limitations on
4 growth the Company faces under Commission resolution, a practice Pine Water
5 now knows it has to live with since the County's authority to create new service
6 providers without any consideration of the water supply shortage has been upheld
7 in court. Minute Entry Order (dated October 9 2002); *Pine Water Company v. Gila*
8 *County; Strawberry Hollow Domestic Water Improvement District*, Cause No. CV
9 2001-153. The County's efforts have been supported by local real estate
10 developers and like-minded community interests that seek expansion of the
11 residential, and likely commercial, development of the area. The County and its
12 pro-growth constituency have made outlandish accusations criticizing Pine Water
13 for everything from excessive water loss to excessive expenditures on travel and
14 lodging expenses. More recently, these interests have started to publicly voice a
15 desire to condemn or otherwise acquire Brooke Utilities' assets in the Pine-
16 Strawberry region.

17 **Q. ARE THERE INDICATIONS IN THIS PROCEEDING THAT THE**
18 **COUNTY AND/OR THE DISTRICT ARE USING THIS RATE CASE TO**
19 **FURTHER THEIR DESIRE TO CONDEMN OR OTHERWISE ACQUIRE**
20 **BROOKE UTILITIES' WATER UTILITY SYSTEMS IN THE PINE-**
21 **STRAWBERRY REGION?**

22 A. Yes, several. In fact, the District's witnesses do not even attempt to hide their view
23 that the water utility system serving this area should be taken out of the hands of
24 Brooke Utilities. Mr. Nelson testifies that one of the purposes of his testimony in
25 this rate case is "returning the Pine-Strawberry Water Improvement System back
26 into the hands of its citizens where it justly belongs." Nelson Dt. at 3. Similarly,

1 Mr. Jones testifies "rate-payers will ultimately demand to take full control of the
2 water development, any water treatment, and the distribution of water in the CC&N
3 service areas of both Pine Water Co. and Strawberry Water Co." Jones Dt. at 19.

4 The District's responses to Pine Water's first set of data requests further
5 illustrate the County and/or District's desire to acquire the assets of Brooke
6 Utilities in the Pine-Strawberry region. For example, we were provided an e-mail
7 stream discussing the District's and/or County's retention of financial advisor and
8 bond attorney in connection with its consideration of "buying out" the utilities is
9 discussed. See District Response to Pine Water Data Request No. 1.1, copy
10 attached hereto as Hardcastle Rebuttal Exhibit 2. In another document provided by
11 the District, Mr. Nelson received a "preliminary report on the feasibility of the
12 potential acquisition value of two Brooke Utilities, Inc. subsidiaries -- Pine Water
13 Company and Strawberry Water Company." See District Response to Pine Water
14 Data Request No. 1.15, copy attached hereto as Hardcastle Rebuttal Exhibit 2.
15 Frankly, I do not believe it is a coincidence that shortly after this document dated
16 September 25, 2003 was received by Mr. Nelson the County caused the District to
17 intervene in this rate proceeding. *Id.*

18 **Q. HOW CAN THE COUNTY AND DISTRICT UTILIZE THIS RATE**
19 **PROCEEDING TO FURTHER ITS EFFORTS TO CONDEMN OR**
20 **ACQUIRE BROOKE UTILITIES' WATER UTILITY ASSETS IN THE**
21 **PINE-STRAWBERRY REGION?**

22 A. There are several ways. First, as reflected in the feasibility report mentioned
23 above, some valuation methodologies rely on determinations of asset values and
24 cash flow for regulated utilities. Of course, it is unlikely the District would admit
25 to this, but it seems, again, to be no coincidence that shortly after receiving a report
26 pegging the value of Pine Water Company and Strawberry Water Company at \$3 -

1 4 million, the County caused the District to move to intervene, file testimony
2 challenging numerous aspects of Pine Water's request for rate relief and asserting
3 that rate increases should be denied or at least delayed and subsequently limited.
4 *See, generally,* Jones Dt. Thus, it would appear that if the County has determined
5 that the District's intervention successfully reduces the value of Pine Water's assets
6 and/or its cash flow, it may be able to argue for a lower valuation making it easier
7 to acquire the Company through condemnation.

8 **Q. DO YOU AGREE THAT GILA COUNTY AND/OR THE DISTRICT**
9 **RETAIN THE RIGHT TO CONDEMN THE UTILITY ASSETS OF**
10 **BROOKE UTILITIES?**

11 A. Well, as I have stated earlier in this testimony, I am not in a position to express
12 legal opinions. However, I am generally familiar with the power of eminent
13 domain and we accept that, subject to paying fair market value for our assets, the
14 County and/or the District may choose to condemn our property. The key is what
15 is fair market value? Brooke Utilities believes the fair market value of all of its
16 assets in the Pine-Strawberry region is well in excess of the \$3-4 million reflected
17 in the recent feasibility study prepared for the County. Let's assume, for the
18 purpose of this testimony, the value of these assets is \$10 million. I do not believe
19 that the County is ready to go to the taxpayers in the Pine-Strawberry region to
20 collect \$10 million to acquire assets that are already providing uninterrupted water
21 service utilizing available water resources. In other words, what do the ratepayers
22 in the Pine-Strawberry region get for their money? Not one additional drop of
23 water would be purchased by the costs of condemning Brooke Utilities' assets. It
24 follows that it is in the interest of County and/or the District to drive down the
25 value of Brooke Utilities assets, including Pine Water, by any means available.

26 **Q. THANK YOU MR. HARDCASTLE, WOULD YOU PLEASE CONTINUE**

1 WITH THE DISCUSSION OF THE USE OF THIS PROCEEDING TO
2 FURTHER EFFORTS TO ACQUIRE THE ASSETS OF BROOKE
3 UTILITIES.

4 A. Yes. The District's conduct in discovery further compels our conclusion that this
5 proceeding is being used to further other agendas. Shortly after the District's
6 intervention was granted, the District promulgated over 75 separate discovery
7 requests on Pine Water. A number of these requests plainly support our conclusion
8 that the District is seeking information related, not to the determination of fair
9 value and just and reasonable charges, but to the value of the assets that would be
10 condemned by the County and/or the District. For example, in Request to Produce
11 No. 15, the District sought

12 "[A]ll estimates compiled by Pine Water Company of the
13 value of the certificate of convenience and necessity of Pine
14 Water Company during the past five years, up to and
15 including the day of your answers." See District Request to
16 Produce, excerpts attached hereto as Hardcastle Rebuttal
17 Exhibit 6.

18 Similarly, in interrogatories the District asks:

19 Has the internal management, or any of its creditors in
20 discussions with management of the Company, had
21 discussion of the option of bankruptcy of Pine Water
22 Company?

23 See *id.*, Interrogatory No. 45. In addition, a substantial number of the District's
24 discovery requests seek financial and other unrelated information concerning
25 Strawberry Water, Brooke Utilities, as well as additional unregulated entities
26 owning interests in Brooke Utilities. See, e.g., *id.* at Interrogatory Nos. 4, 10, 41.
Yet, no connection between the information sought for these unregulated entities
and this rate proceeding has been established by the District to justify this fishing
expedition. One thing is clear though, Pine Water's customers are now being
burdened by the County and District's efforts to expand this rate case because, at a

1 minimum, the District's expansion of the scope of this proceeding is likely to result
2 in an increase in the Company's rate case expense.

3 **Q. DO YOU HAVE ANY OTHER COMMENTS IN RESPONSE TO THE**
4 **TESTIMONY OF THE DISTRICT'S WITNESSES?**

5 A. Yes, unfortunately, the District' direct testimony, particularly the testimony of Mr.
6 Jones, is of such an inflammatory nature that we are compelled to respond to set
7 the record straight. Let me give you an example.

8 Throughout his testimony, Mr. Jones claims that Pine Water's application is
9 based on inadequate and inaccurate information. *E.g.*, Jones Dt. at 2. Mr. Jones
10 goes on to testify that substantial critical information has been left out, misstated or
11 presented in a confusing manner. *Id.* Based on this testimony, Mr. Jones
12 recommends the Commission "suspend the current rate application, delay the
13 application process, or dramatically minimize any increases until (1) accurate data
14 is supplied and prior reports and with a new rate application." Jones Dt. at 4.
15 Obviously, the Company's application is subject to the Commission's rules and
16 regulations governing rate filings. As reflected in the record in this case, on June 2,
17 2003, Staff issued its finding that the Company's rate application "met the
18 sufficiency requirements as outlined in Arizona Administrative Code R14-2-103."
19 *See* Staff Sufficiency Letter dated June 2, 2003. Thus, Staff, the party charged with
20 the responsibility to determine whether Pine Water has provided all of the
21 necessary information, has made that determination. Further, with the exception of
22 the Water Expiration Surcharge discussed above, Staff's direct presentation does
23 not indicate that the Company's application suffers from any material missing or
24 inaccurate information. As a result, I can only conclude that Mr. Jones' allegations
25 reflect either his lack of understanding of the requirements imposed upon Pine
26 Water in this proceeding, or the District's single-minded focus on depriving the

1 Company of necessary rate relief, or both.

2 **Q. HOW DO YOU RESPOND TO MR. JONES' TESTIMONY REGARDING**
3 **THE RELATIONSHIP BETWEEN PINE WATER AND BROOKE**
4 **UTILITIES AND PINE WATER AND STRAWBERRY WATER?**

5 A. Like much of Mr. Jones' testimony, his comments in this regard are unsupported
6 and unsupportable. For example, with respect to the three entities, Mr. Jones
7 testifies that by the Commission "choosing not to regulate Brooke Utilities, the two
8 firms and their parent company are able to allocate costs and revenues in an
9 unjustified, manipulative manner." Jones Dt. at 3. Of course, Mr. Jones is wrong
10 that the Commission has chosen not to regulate Brooke Utilities because that entity
11 is not a public service corporation and therefore, falls outside the Commission's
12 jurisdiction under the Arizona Constitution. *See* Arizona Constitution, Article 15,
13 Section 2. Nor has Mr. Jones presented any evidence demonstrating improper
14 allocation of costs and revenues between affiliated entities. In fact, we can only
15 conclude that they have no such evidence. When the District was asked to provide
16 supporting information for Mr. Jones' claims concerning misapplication of
17 expenses and revenues, the District responded by directing Pine Water to the very
18 pages in Mr. Jones' direct testimony containing his baseless accusations. *See*
19 District Response to Pine Water Data Request 1.27, copy attached hereto as
20 Hardcastle Rebuttal Exhibit 2. When asked to supplement its response, the District
21 refused to do so in a timely manner, providing a supplemental response mere hours
22 before this rebuttal filing was due. Although we were unable to conduct a proper
23 analysis of the District's supplemental response to 1.27, a cursory review
24 demonstrates it is little more than speculation on the part of the District's witness,
25 as opposed to evidence to support his earlier unsupported testimony. I guess it is
26 one thing to make a claim but another to prove it.

1 Q. IS MR. JONES SUGGESTING THAT BROOKE UTILITIES SHOULD
2 OPERATE STRAWBERRY WATER AND PINE WATER SEPARATELY?

3 A. Frankly, I do not know what he is suggesting but Strawberry Water and Pine Water
4 are essentially separate regulated entities with distinct books and records. That is
5 not to say, however, that common ownership by Brooke Utilities does not allow
6 Pine Water and Strawberry Water to benefit from certain overlapping
7 administration, management and operations, which ultimately results in economies
8 of scale and reduced operating expenses. I am merely pointing out that despite
9 such common ownership, Strawberry Water, Pine Water and their shareholder,
10 Brooke Utilities, are distinct and separate entities.

11 Q. TO THE BEST OF YOUR KNOWLEDGE, MR. HARDCASTLE, IS THERE
12 ANYTHING IMPROPER ABOUT BROOKE UTILITIES' COMMON
13 OWNERSHIP OF STRAWBERRY WATER AND PINE WATER?

14 A. I am not aware of any rule, regulation or other authority that precludes or otherwise
15 impacts common ownership of Pine Water and Strawberry Water by Brooke
16 Utilities. Apparently, the District is not aware of any authority either. *See* District
17 Response to Pine Water Data Request 1.25, copy attached hereto as Hardcastle
18 Rebuttal Exhibit 2.

19 Q. WOULD YOU AGREE THAT TRANSACTIONS BETWEEN
20 STRAWBERRY WATER AND PINE WATER OR BETWEEN BROOKE
21 UTILITIES AND PINE WATER ARE SUBJECT TO COMMISSION
22 SCRUTINY?

23 A. Absolutely, I would even agree that such transactions require a higher level of
24 scrutiny than transactions between Pine Water and unaffiliated entities, as I have
25 discussed above with respect to Project Magnolia. This does not mean that these
26 types of transactions are prohibited or inappropriate. It means that the Commission

1 should ensure that such transactions take place in a manner that reflects the fair
2 value of the goods or services being provided without unduly impacting the
3 ratepayers. Despite Mr. Jones' sweeping allegations, the District has presented no
4 evidence that any transaction between Pine Water and Strawberry Water or
5 between Pine Water and Brooke Utilities cannot withstand Commission scrutiny.

6 **Q. MR. JONES ALSO CLAIMS THAT THE COMPANY'S**
7 **IMPLEMENTATION OF ITS CURTAILMENT TARIFF IS AN**
8 **ADMISSION THAT PINE WATER CANNOT PROVIDE ADEQUATE**
9 **WATER SERVICE. HOW DO YOU RESPOND?**

10 **A.** This testimony by Mr. Jones is the height of absurdity. In Decision No. 65435, the
11 Commission ordered Pine Water, on Staff's recommendation, to file a revised
12 curtailment tariff by February 15, 2003 and a full-blown rate case by May 1, 2003.
13 Decision No. 65435 (December 9, 2002) at 8. Which we did. In Decision No.
14 65914, the Commission ordered Pine Water to implement the new current
15 curtailment tariff. Decision No. 65914 (May 16, 2003). Which we did. Now, the
16 District claims that this curtailment tariff is "an admission that [Pine Water] cannot
17 provide adequate water service in the area." Jones Dt at 14. Likewise, Intervenor
18 John Breninger claims that to rely on the curtailment on a "continuing basis
19 without developing an adequate supply is an interaction of the regulatory process
20 that violates the public trust." See Breninger Response to Pine Water Data Request
21 No. 1.1, copy attached hereto as Hardcastle Rebuttal Exhibit 1.

22 In other words, Staff recommends a more stringent curtailment tariff, the
23 Commission orders it, Pine Water implements it and our customers and Gila
24 County proclaim that we are a bad service provider. This is the environment we
25 operate in, one in which parties with differing points of view throw around baseless
26

1 accusations that seemingly lead to the suggestion we should simply disregard
2 Commission direction.

3 **Q. MR. JONES ALSO TESTIFIES REGARDING THE COMPANY'S**
4 **EFFORTS TO REDUCE WATER LOSS. HOW DOES PINE WATER**
5 **RESPOND TO SUCH TESTIMONY?**

6 A. Mr. Jones testifies that:

7 [I]f a leak reduction program was far more successful and
8 more aggressively pursued, less water would need to be
9 purchase [sic] pumping costs would be reduced, hauling costs
10 might be completely eliminated, purchases from private wells
11 might be greatly reduced, exorbitant wheeling charges from
12 Brooke Utilities Magnolia Project could be reduced, and
13 ultimately less new water would need to be discovered."
14 Jones Dt. at 18.

15 The starting point for discussing water loss in this proceeding is the Engineering
16 Report for Pine Water Company prepared by the Staff Engineer, Marlin Scott, Jr.
17 In his report, Mr. Scott concludes that the Company has a water loss of 7.3%,
18 which level is "acceptable to Staff." Scott Dt. at Exhibit MSJ, page 5 of 15.
19 Frankly, between Mr. Scott, a Staff Engineer who has analyzed more than 350
20 utility companies for the Commission's Utilities Division and testified in 39 rate
21 proceedings, and Mr. Jones, the general manager of a cabinet company with no
22 water utility experience whatsoever, I think it is clear whose testimony the
23 Commission should follow with respect to the issue of Pine Water's water loss. In
24 fact, it appears Mr. Jones is testifying based on someone else's analysis, and I do
25 not see how that third person is much more qualified than Mr. Jones is to address
26 the issue of water loss.

27 **Q. EXCUSE ME MR. HARDCASTLE, WHAT DO YOU MEAN?**

28 A In response to data requests, the District identified Dan Jackson from
29 Economists.com in Plano, Texas as providing "research into the actual water losses
30

1 incurred" by Pine Water. *See* District Response to Pine Water Data Request 1.15,
2 copy attached hereto as Hardcastle Rebuttal Exhibit 2. Mr. Jackson is the same
3 person that prepared the September 2003 feasibility study regarding the acquisition
4 of Brooke Utilities I mentioned above. In addition, the Company requested copies
5 of the District's work papers and in those papers we found Mr. Jackson's water
6 loss calculations. *See* District Response to Pine Water Data Request 1.1, copy
7 attached hereto as Hardcastle Rebuttal Exhibit 2. Although Mr. Jackson's work
8 papers are essentially incomprehensible, it seems clear that it was Mr. Jackson, not
9 Mr. Jones, that came up with the District's water loss calculations for Pine Water.
10 Based on the name of his company and his valuation of Brooke Utilities, I would
11 assume Mr. Jackson is some sort of economist or valuation expert, so I am not sure
12 is qualified to address the issue of water loss. Of course since he is not testifying,
13 we have no chance to challenge his qualifications or the performance of his
14 analysis. However, it is clear to me now that Mr. Jones is not only unqualified to
15 address this issue based on his lack of any utility expertise, he is not competent to
16 testify on the subject because the analysis is not his.

17 **Q. ISN'T MR. JONES CLAIMING, HOWEVER, THAT STAFF'S**
18 **DETERMINATION OF WATER LOSS IS BASED ON ERRONEOUS OR**
19 **INCOMPLETE INFORMATION PROVIDED TO STAFF BY PINE**
20 **WATER?**

21 **A.** This certainly seems to be the gist of Mr. Jones' testimony. *See* Jones Dt. at 17-18.
22 Apparently, in addition to testifying to Mr. Jackson's analysis, Mr. Jones is
23 testifying regarding information he claims to have obtained from a third party
24 selling water to Pine Water. Jones Dt. at 17. However, Mr. Jones has not provided
25 anything beyond his testimony to support his position. In short, until the District
26 demonstrates that our water loss is a problem, based on competent evidence by

1 someone qualified to testify on the subject, we stand by the information we have
2 provided Staff and by Mr. Scott's determination of 7.3% water loss.

3 **Q. MR. JONES ALSO TESTIFIES REGARDING THE COMPANY'S**
4 **FINANCIAL CONDITION. HOW DO YOU RESPOND TO THIS**
5 **TESTIMONY BY MR. JONES?**

6 **A.** Once again, I have to confess to being puzzled by Mr. Jones' testimony. First, Mr.
7 Jones testifies that "if Pine Water Co. cannot survive economically, the public
8 health, safety, and welfare is in jeopardy." Jones Dt. at 4. In the very next
9 paragraph, Mr. Jones recommends "the Commission should suspend the current
10 Rate Application, delay the application process, or dramatically minimize any
11 increases." *Id.* Then, later in his direct testimony, Mr. Jones testifies:

12 I believe the Applicant is being presented to show a poor
13 financial condition in hopes of a large rate increase. I do
14 believe the Company is probably in deep trouble and could
15 possible cease operations. If it does not survive financially,
16 the public health, safety and welfare is in jeopardy. Jones Dt.
17 at 15.

18 To begin with, Mr. Jones' claim that Pine Water is being presented to show
19 a poor financial condition seems to imply a conscious effort by Pine Water to
20 misstate the Company's financial condition. As with the overwhelming majority of
21 the District's contentions, no supporting evidence is provided. Perhaps more
22 importantly, for the reasons explained in our direct filing, the Company doesn't
23 need to do anything to enhance the picture of its poor financial condition; Pine
24 Water's poor financial condition speaks for itself.

25 In the end, though, what is most troubling is the inconsistency reflected in
26 Mr. Jones' testimony. Mr. Jones seemingly admits that Pine Water is in financial
trouble. Yet, Mr. Jones recommends that the Commission deprive Pine Water of
rate relief that would indisputably improve its financial condition. Again, it is hard

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to escape the conclusion that the District cares less about the health, safety and welfare of our ratepayers by ensuring that Pine Water can continue to operate than it does about driving down the value of the Pine Water system to further its desire to condemn or otherwise acquire Brooke Utilities' assets in the Pine-Strawberry region.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, except I wish to reiterate that our failure to specifically address a specific portion of the testimony of any other party's witnesses does not necessarily reflect our agreement with such testimony.

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HARDCASTLE
Rebuttal Exhibits

HARDCASTLE

REBUTTAL EXHIBIT 1

**FIRST SET OF DATA REQUESTS
FROM PINE WATER COMPANY, INC.,
TO INTERVENER JOHN BRENINGER
(Docket No. W-03412A-03-0279)**

REQUEST:

- 1.1 Admit that restrictions on water use in Pine Water's CC&N are imposed pursuant to Commission order and/or a Commission approved Curtailment Tariff.

RESPONSE:

I deny this admission because the premise of the Commission's allowing the Pine Water Co. to continue rely upon restrictions to curb water demand on a continuing basis without developing an adequate supply is an interaction of the regulatory process that violates the public trust. When Pine Water posts the restriction Stages 2 through 5, that is prima facie evidence of failure to supply an adequate quantity when the residential aggregate per meter usage is below the 375 gallons per day level. [This Intervener requests Pine Water to provide the data identifying the actual amounts of water delivered and billed against individual meters for the months April through September for each of the preceding years, 1999-2003, and to provide a meaningful analysis showing the constraint on water consumption while under water the restriction stages at the time.]

REQUEST:

- 1.4 State in detail how you suggest Pine Water "service the Community's normal demand for domestic water year round" as you reference in your direct testimony. In support of your response, please state the estimated cost to undertake such efforts and the impact of such cost expenditures on Pine Water's ratepayers.

RESPONSE:

Intervener Testimony by J. Breninger, page 2, and Attachment "B" discloses the proposed source of groundwater that could be developed to meet the supplemental water demand of the entire Pine & Strawberry community, presently served by three regulated water companies, including Pine Water Co., and four domestic water improvement districts. An estimated cost to implement this supplemental water supply may be found in the document, "Concept/Proposal for PSWID as Supplier of Supplemental Water May 8, 2003 Revised in consideration of Project PS 2002-01 Final Report Findings and Cost Estimates 10-1-03, by PSWID Agent for Project" at an initial implementation cost of \$4.2 million. This estimate does not provide for property easements or acquisition, a trunk pipeline beyond the well sites delivery point, project overhead costs, or cost of money. This Concept/Proposal document, in the original May 8 version, was adopted by

the PSWID Board in the July 2003 meeting, is a public document, and a copy is provided herewith. The spreadsheet analysis referenced below demonstrates the viability of the tentative wholesale price of water. The initial wholesale cost of water produced by this system at the delivery point could be \$6.00 per thousand gallons (ptg) and driving to below \$3.00 ptg after 7-10 years. This cost estimate requires the repayment of the initial investment and interest along with adequate reserves for depletions and replacements, and provides for the system operations into perpetuity, all to be funded from water delivery revenues. [See spreadsheet entitled, "PSWID Supplemental Water System, compiled by John Breninger, - estimated costs are preliminary and not supported by detailed analysis and quotations against firm requirements. The revenue forecasts are based upon the PSWID Supply and Demand Study... as found in the Intervener Direct Testimony, Attachment "A". Also see the revised chart of "Supplemental Water Requirements"]

REQUEST:

- 1.8 Regarding your claim that "a better solution to solving the water shortage problem seems to lie in tapping the R-Aquifer," please explain how this would occur, what facilities would be necessary to provide water from this aquifer to Pine Water's customers, the cost of such an undertaking, and the impact of the recovery of such cost on Pine Water's ratepayers.

RESPONSE:

The answer to Data Request 1.4 above addresses the "how" and the implementation cost is estimated for the undertaking as conceived for the PSWID as a supplier of supplemental water to serve all the purveyors in the local area. Pine Water Co., in conjunction with its sister company Strawberry Water Co., and parent, Brooke Utilities Inc., may be able to implement this project more efficiently and with less capital investment to serve their needs than the PSWID. The assumptions necessary to structure this project and the resulting cost impact upon the ratepayers are dependent upon how the Companies above would proceed and how the Commission would administer the Rate Structure and Rate Base. These are beyond the purview of this Intervener at this time. Therefore, I cannot respond to the issue of impact upon the ratepayers in a meaningful way.

REQUEST:

- 1.9 Would you agree to allowing Pine Water to earn a return on capital investment in exploring water supplies in the R-Aquifer, even if the Company is unable to locate supplies that ultimately can be delivered to customers in Pine Water's CC&N?

RESPONSE:

The "Risk" in this case, of exploring the R-Aquifer from the locations defined in the Attachment "B" Report, has a greater impact from deficient well drilling and development techniques than of the issue of finding water. As I understand the Utility Rate Base system of regulation, the ratepayers would not be subject to costs from an investment that did not produce consumable water. Neither an improperly managed drilling project nor failing to find the water qualify for a subsidy from the ratepayers. But, yes, a successful project should earn a return on the capital investment when adequate water is supplied to the ratepayers.

REQUEST:

1.11 What would be the cost per gallon to pump and deliver water to Pine Water's CC&N if supplies were found in the R-Aquifer? In responding, please provide a detailed breakdown of such costs.

RESPONSE:

See the answer to Data Request 1.4 above. These costs are again subject to the same wide range of assumptions and constraints of 1.8 above.

1487520.1/75206.006

HARDCASTLE
REBUTTAL EXHIBIT 2

**FIRST SET OF DATA REQUESTS
FROM PINE WATER COMPANY, INC.,
TO PINE/STRAWBERRY WATER IMPROVEMENT DISTRICT
(Docket No. W-03412A-03-0279)**

REQUEST:

- 1.1 Please provide a complete set of work papers in support of the testimony and exhibits filed by the District on October 31, 2003, in this Docket. In responding to this request, to the extent available, please provide electronic versions of all schedules and work papers provided in response to this data request.

ANSWER: # 1.1 See Exhibit 1.1 for all work papers.

REQUEST:

- 1.13 Please identify the Gila County Supervisor elected to represent the citizens of the Pine/Strawberry, Arizona region, on the Gila County Board of Supervisors, and please identify any and all discussion or meeting held between Mr. Nelson and said supervisor regarding Pine Water, Brooke Utilities, and/or this rate proceeding. In responding to this data request, please provide copies of any and all documents evidencing such discussions and/or meetings.

ANSWER attached.

REQUEST:

- 1.15 In his Direct Testimony, Mr. Nelson identifies Don Jackson as one of the individuals that has assisted him in his efforts with respect to the District. Please identify any and all efforts undertaken by Mr. Jackson on behalf of the District, including identifying any efforts Mr. Jackson has made in connection Pine Water's pending application for rate increases, and provide copies of any documents prepared by Mr. Jackson related to either his efforts on behalf of the District and/or in connection with this rate proceeding.

ANSWER; #1.15 Dan V. Jackson as the Managing Director of Economists.com provided the PSWID with report entitled "Preliminary Report to Pine-Strawberry Improvement District, Financial Feasibility of Acquiring Utility Assets". As a result of Mr. Jackson familiarity with Pine Water he has been contracted by the District to support Dr. Jones in his analysis of the financial position of Pine Water Co. See Exhibit 1.15 Mr. Jackson has provided research into the actual water losses incurred within the Pine Water Co. area of service and into contents of the Annual Reports provided by Pine Water Co. and Strawberry Water Co. to the Commission.

REQUEST:

- 1.25 Referring to the Direct Testimony of Harry Jones at pages 5-6, please state whether Harry Jones or the District are aware of any Arizona law, Commission decision, rule, or regulation that prohibits or otherwise impacts common ownership of Pine Water and Strawberry Water by Brooke Utilities.

ANSWER: Without performing legal services for Pine Water Company, the District asserts that the dissertation of the law could be substantial, but, without this list being exhaustive or limiting, among the statute statutes one may find information from the following statutes and all rules and regulations reasonably promulgated hereunder may have an impact upon common ownership issues and interaffiliate transfers. Arizona Revised Statutes Section 10-202; 10-842, 40-201 et seq. 40-221 et seq., 40-241 et seq. 40-321 et seq., 40 361 et seq. This does not include any reference to applicable federal law or applicable common law

REQUEST:

- 1.27 Regarding the Direct Testimony of Harry Jones at pages 5-6, please provide any evidence of any "confusion or miss-application [sic] or expenses or revenues" related to Pine Water or Strawberry Water. In support of response to this data request, please provide any documents or other evidence supporting the District's response.

ANSWER: #1.27 See p. 8 of Harry Jones' testimony related to property taxes that are mis-allocated. See p. 8-9 of testimony related to repair and maintenance expenses. See p. 9 of testimony related to confusion concerning costs of hauling water. See p.10 of testimony related to confusion in determining cost of purchased water by Pine Water Co. See p. 11 of testimony related to confusion concerning level of outside services costs. See p. 11-12 of testimony related to questionable legal fees included in the test year calculations. See p. 12 of testimony related to the wheeling costs that are not clearly applied. See p. 12 of testimony about miscellaneous expenses that excessively lumped together. See p. 13 of testimony related to large unexplained sources of revenue. See p. 13 of testimony related to differences in financial statement amounts for transportation when comparing statements that are presented in the rate application vs. in the annual report presented to the Commission. See all supporting documents referred to and supplied with the direct testimony of Harry Jones.

REQUEST:

- 1.41 Referring to the Direct Testimony of Harry Jones at page 13, wherein he expresses the District's position that the "budgeted amount should be many times the \$75,000 proposed," please state the amount the District believes Pine Water should spend on increasing water supply shortages. In responding to this date request, please identify the manner in which such amounts should be spend, as well as the impact of such expenditures on Pine Water ratepayers.

ANSWER: #1.41 Taking the severity of the water shortage problems faced by the ratepayers, I believe, until the problem is solved, the Applicant should expect to spend \$200,000-\$300,000 per year on water exploration, well drilling (including all related turn-key costs to make wells operational), and support of other reasonable alternative programs like the Alliance, Bureau of Reclamation, and the District are currently pursuing. It is likely that the new water would be found in the formations that are below the aquifers now being mined, and the cost of reaching those strata (1500 feet plus) is over \$100 per foot. The impact of such costs on the ratepayers should not be calculated until the financial records, support documents, and reports to the Commission are revised, corrected, made consistent, made not misleading, and are brought up to the standards required by the Commission, and all test year transactions can be verified as being made on an arms-length basis. Costs of finding the new water should be born by both the current users and the landowners who would become future water users.

**PINE STRAWBERRY WATER IMPROVEMENT DISTRICT'S RESPONSE TO
PINE WATER COMPANY REQUEST FOR SUPPLEMENTATION OF
RESPONSES TO FIRST DATA REQUEST**

3. Response to 1.27. This answer is non-responsive. This data request asks the District to identify evidence supporting Jones' explicit testimony that Pine Water and/or Broke Utilities has misapplied revenues or expenses. Instead of providing such evidence the District merely references other portions of Jones' direct testimony. Such testimony is not evidence, it has not been admitted in this proceeding yet in any capacity and if the District does not have evidence to support Jones' testimony, except for that testimony itself, it should so state. This concern also relates to the District's responses to data requests 1.33

RESPONSE:

1.27.1 The evidence supporting Mr. Jones' testimony related to misapplied revenues or expenses is clearly stated in the referenced paragraphs of his direct testimony, . . . (all in direct conflict to the accuracy, clarity, and necessity requirements of the National Association of Regulatory Utility Commissioners requirements for Water, Class C-1996, as required under the Arizona Administrative Code and to the Cost of Service definition provisions covering application of logical and generally accepted cost analysis and allocation techniques as stated in Section A. 3c of R14-2-103) . however it can be restated here:

- The Pine system serves about twice as many customers and has about twice as many assets as the Strawberry system, therefore I would expected to see the property tax expense at Pine Water Co. only about twice as high (67% verses 33%) as Strawberry Water Co. However, from 2000-2002 property taxes are about 25 times higher at Pine Water when compared to Strawberry Water. For the 2002 Test Year on which the Applicant's 41% Rate Application increase is based, \$51,177 was reported to be charged to Pine Water Co. and only \$1,627 was reported to be charged to Strawberry Water Co. The actual tax bill amounts are \$34,559.80 and \$18,224.22, respectively, which shows a severe misrepresentation in the Application. Thus, 96.9 % of the total property taxes for the two companies were charged to Pine Water Co., when in actuality, only 65.4% should have been allocated to the Pine System (see actual tax bills attached as an Exhibit to the initial written testimony of Harry Jones). This inaccurate allocation of costs added an extra \$16,617 to the Pine Water Co. expenses in the Test Year, with such amount increasing property tax expense by 48% and total operating costs in that all-important base year by over 1.8%. Are extra costs being deliberately charged to Pine Water Co., or is this just another slip? The fact the bills are clearly marked with the correct "Pine" and "Strawberry" names, the total of the bills together is accurate to the correct dollar amount, and the fact it happened to nearly the same degree in the prior two years (even \$1,212 negative taxes for Strawberry Water in the year 2000), may be an indication that this is not a simple clerical

error made year after year. Why management would certify this in their Annual Report as being accurate is beyond me.

- The repair and maintenance expenses vary dramatically (see Exhibits to the initial written testimony of Harry Jones), with \$-0- expense in 1999, \$11,261 in 2000, \$-0- in 2001, and \$59,423 in 2002. To have two years of \$-0- expense in a system with almost 2000 customers is near impossible. More likely the expense is in some other category or some other company, or is just wrong or misleading. Since this expense in 2002 is up from -0- percent of sales in 2001 to 8.8 % in 2002 (the year being used as the test case), I don't believe we have accurate information for the ratepayers to properly analyze this case. Besides, the repairs and maintenance costs for Strawberry Water, with almost 1000 users were \$77 in 2000, \$157 in 2001, and only \$2,414 in 2002.
- During the test year, costs of hauling water were apparently combined with costs of purchased water because the Applicant's current Rate Increase Request adjusted out \$39,270 to arrive at an "adjusted test year cost (see Schedule C-2, page 1 of the Rate Application). Whether this was all or just a part of the cost of hauling water is unknown. If it was all the cost, and only related to the 753,000 gallons purchased from Starlight Water Co. (see 2002 Annual Report to Commission, attached to the initial written testimony of Harry Jones), the transport cost was an amazing \$.052 per gallon.
- The Pine Water Co. 2002 Annual Report to the Commission (Exhibit attached to the initial written testimony of Harry Jones) indicates on page 9 that 11,643,000 gallons were purchased through the "Strawberry-Pine Pipeline" and 753,000 gallons were purchased from Starlight Water Co., for a total volume of purchased water of 12,396,000 gallons. Purchased water costs in the same report on p. 7 are \$125,033, indicating an average cost of \$10.08 per 1000 gallons (\$.010 per gallon). From the data, how much of this cost is paid to whom (Strawberry Water, Brooke Utilities, Starlight Pines Water) cannot be determined, however the average is over 10 times what was paid to Fumosa, the largest supplier of which I am aware, and over 20 times what is paid to McKnight whose well is a major supplement to the Strawberry well field so the Strawberry system has production capacity to help support the Pine System. Justification for such massive mark-ups by the inter-related companies is unknown.
- Legal fees seem exorbitant in every sense when compared to total revenues (see Exhibits attached to the initial written testimony of Harry Jones). They were 25.5% of revenues in the year 2000, 18.8% in 2001, and 24.1% in 2002, the test year. With few details provided and some comment available in the Direct Testimony of Hardcastle and Bourassa, inadequate data is available for the Commission or the rate-payers to be able to fully analyze the meaning of these expenses. However, from the information available, it is apparent legal fees and rate-hearing costs are way out of line with what a firm this size should spend. For tens of thousands of dollars (probably over \$100,000), Pine Water recovered only \$6,914 from Strawberry Hollows Domestic Water Improvement District during their legal dispute related to excluding that development from the CC & N service area of Pine Water Co. It is possible that some of this cost may be for services

Brooke Utilities provides to Pine Water Co, which services are not apparently done at arm's length.

- In Schedule E-2 of the Application, the Company indicated legal expenses of \$7,448 in 2000 and \$104,161 in 2002. Yet the Company wants to set the test year at \$60,000 based on the fact fees were incurred, whether the money was spent on a reasonable basis or not. Only much smaller fees that are based on reasonable business decisions should be allowed into the test year base expenses.
- Other than the fact Mr. Bourassa explained on p.11 of his testimony that the \$533,599 inter-company payable on 12-31-02 was for "wheeling charges owed to Brooke Utilities for deliveries of water through Project Magnolia, the water transmission project owned and operated by Brooke Utilities", the true basis for this massive charge cannot be determined. As stated previously, if the total revenues for 2001 and 2002 were added together (a total of \$1,355,680), the wheeling charge of \$533,599 would amount to at least 40.8% of sales, a staggering percentage that cannot be confirmed since the pipeline was not in full operation during all of 2001. The fact this expense is charged to the Applicant by an unregulated firm (Brooke Utilities, Inc.) that fully controls Pine Water Co. makes that large payable highly suspect.
- Those expenses (generally a catch-all category for relatively small expenses not categorized elsewhere) should not total large amounts. However, from 1999-2000 (see Exhibits attached to the initial written testimony of Harry Jones) these expenses are as high as 23% of revenue, with total expenses of \$55,761 to \$124,658. Revenues during these years were \$534,627 to \$685,233. Again, no one can tell what is occurring financially with large unexplained items like this in the financial statements.
- There is a non-utility income item of \$494,709 (with no offsetting expenses) shown in the year 2000 (see Exhibit attached to the initial written testimony of Harry Jones). This greatly boosted the reported net worth of Pine Water Co. I have no idea of the source of this income that greatly changed the reported status of their financial condition over the last three years.
- There are differences in the financial statements presented yearly to the Commission then compared to the supposed same financial statements presented in the Rate Application. The Schedule E-2, page in the Rate Application has line items such as "transportation" that vary by \$132,000 (year 2000) and items like "Purchased Water" that vary by 20%-25% in the 2001 and 2002 years. Since these are categories with significant cost totals (\$87,000 to \$132,000), I'm not sure what is wrong or why the data is different than previously reported in the Exhibits attached to the initial written testimony of Harry Jones.

PINE-STRAWBERRY WATER
IMPROVEMENT DISTRICT RESPONSE TO
PINE WATER COMPANY, INC. DATA
REQUESTS

(Docket No. W-03412A-03-0279)

Attachment to Response No. 1.1

From: Dan V. Jackson
To: Harry Jones
Date: 10/28/03 12:51:46 PM
Subject: Pine Water Loss

Per our conversation.

Dan V. Jackson
Managing Director
Economists.com LLC
5500 Democracy Drive Ste. 130
Plano TX 75024
(972) 378-6588
(972) 378-6988 fax
djackson@economists.com
www.economists.com

**WATER LOSS ANALYSIS
FY 2002**

	Pine 2002	Strawberry 2002	Total 2002
Sources:			
Water Pumped	43,711,000	50,151,790	93,862,790
Delivered through Magnolia Starlight Water Co.	11,643,000 753,000	(11,643,000)	753,000
	56,107,000	38,508,790	94,615,790
Total Consumed	52,006,014	32,451,257	84,457,271
Percent Loss	7.3%	15.7%	10.7%

8,402,440 FROM ATRC
+ 56,107,000

64,509,440 TOTAL

753,000 Starlight Pine
8,402,440 from truck 7.

9,155,440 total purchased

9,155,440 - 64,509,440 = 14.1% of with purchased
assuming Bill 720 Knight

10-24-63

per Dec.

Callers Purchased from Furnish

2002	8,402,440
2003	6,546,060

Customer

Copy

2000	12,859,240
2001	6,666,929
2002	8,402,440
2003, TO DATE (SEPT)	6,546,060

Who said to bill? 2 well.

Ownership of well? - Medowview Inc.
 Who pays for operation? Med. ^{Inc.}
 You are paid by P.W.C., Brooke, ^{Inc.}

107/1000

From

PO-27-03
10-29-03
10-29-03

We are concerned about reliability of their #'s related to ~~total~~ available and total bill.

Revenue

\$ 43M pumped
12 mi (2400 gal) of gasoline from Stranberg and purchased
1 million purchased - Study 2.7 & 2.8

From:
Subcontract
report to
annual account

56 million gallons TOTAL
52 consumed - 2 things
this # was 43M
= 7.3% loss

Stranberg - 15% losses.

= 10.7% of average
system loss between
both engines.

- wells in total they own.
- 23 WPM is best one.

**WATER LOSS ANALYSIS
FY 2002**

	Pine 2002	Strawberry 2002	Total 2002
Sources:			
Water Pumped	43,711,000	50,151,790	93,862,790
Delivered through Magnolia Starlight Water Co.	11,643,000	(11,643,000)	-
	<u>753,000</u>	<u>-</u>	<u>753,000</u>
	56,107,000	38,508,790	94,615,790
Total Consumed	52,006,014	32,451,257	84,457,271
Percent Loss	7.3%	15.7%	10.7%

Source of data
See ~~attached~~ 10/10/03
Total Consumed, Sided
- See letter water
services on p. 9.
Further 11,643,753

Purchased water for P.W.C. in 2002 was \$125,033

They reported purchased water from two sources.

- Strawberry Pipeline	=	11,643,000
- Shiloh Pipeline		753,000
TOTAL PURCHASED	=	12,396,000 GAL.

$\frac{\$125,033 \text{ COST}}{12,396,000 \text{ GAL}} = \$.0100865$ AVERAGE COST per gallon, based on purchased water they have reported.

Amount paid to Furness is \$100 per 1000 gallons pumped and put into P.W.C. lines.

$$\frac{\$100}{1000} = \$.001 \text{ per gallon.}$$

Amount paid to McKnight is 50¢ per 1000 gallons

$$= \frac{.50}{1000} = \$.0005$$

For Strawberry Water they show other water revenue of \$50,283 and # of gallons sent down the pipeline as 11,643,000. Therefore revenue per gallon is

$$\frac{\$50,283}{11,643,000} = .0043 \text{ per gallon on water}$$

part of which they pay McKnight .0005 per gal

Pine - Strawberry gallonage

	Year	Gallons Purchased	Gallons Sold		
Strawberry Water Co., Inc. (owned by Brooke Utilities)	2000	25,821,000	23,102,903		
Strawberry Water Co., Inc. (owned by Brooke Utilities)	2001	47,341,000	28,158,454		
Strawberry Water Co., (not owned by Brooke)	2000	?	?		
Not known, flat rate, unmetered - but they did purchase 30,000 gal. From Brooke Utilities					
Pine Water Co. (owned by Brooke Utilities)	2000	54,590,000	42,344,302		
Pine Water Co., (owned by Brooke Utilities)	2001	40,117,000	82,256,454		
Note: Project Magnolia (Strawberry -Pine pipeline purchased or obtained 17,000 (or 17,000,000 if this is correct) gallons for Pine Water Co.)					
Brooke Water, LLC	2000	135,373,000	105,729,869		
Brooke Water, LLC	2001	131,782,000	108,492,287		

STATISTICAL INFORMATION

SYSID SYSNAME
 04006 E & R WATER CO-STRAWBERRY
 04018 PINE WATER ASSOCIATION
 04020 STRAWBERRY WATER COMPANY
 04034 PINE WATER CO-PINE
 04043 PINE WATER CO-PINE
 04044 PINE CREEK CANYON DWID
 04233 SOLITUDE TRAILS DWID

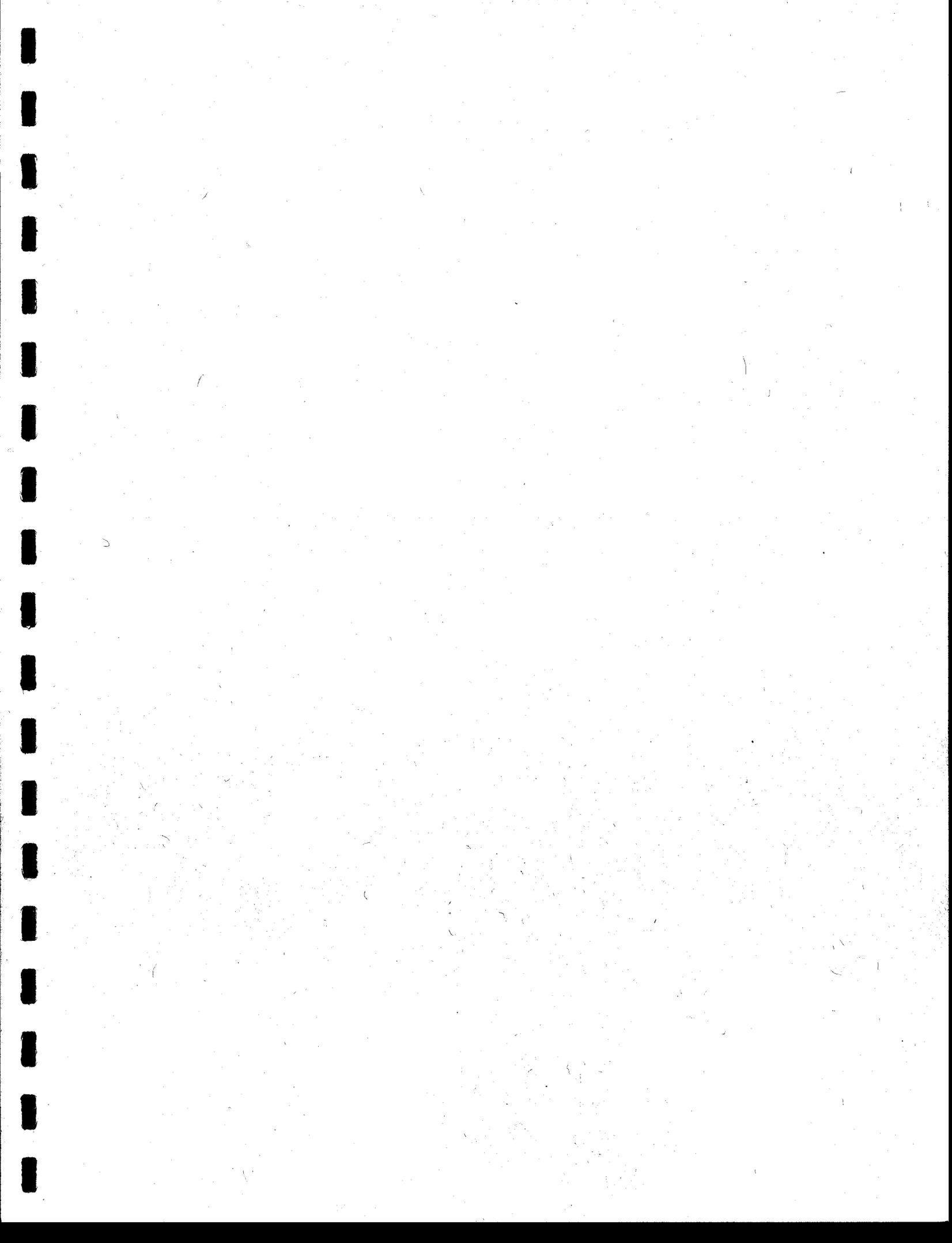
SYSID	SYSNAME	Population Served	Service Connections	gallons per day			Emergency Capacity	Storage Capacity
				Avg Production	Max Production	Design Capacity		
04006	E & R WATER CO-STRAWBERRY	2949	983	181440	0	43200	0	130000
04018	PINE WATER ASSOCIATION	200	44	9000	43200	0	0	20000
04020	STRAWBERRY WATER COMPANY	92	43	0	0	0	0	15000
04034	PINE WATER CO-PINE	4512	1504	58000	0	0	0	815000
04043	PINE WATER CO-PINE	1080	360	72000	144000	43000	0	250000
04044	PINE CREEK CANYON DWID	16	65			43000		
04233	SOLITUDE TRAILS DWID	40	60					

Active community systems Pine/Strawberry

Info provided by AD30

10/29/2003 16:03 9723796988
 10/28/2003 08:54 9803428139

EODN THACKER



From: Nelson, John
To: harryjoneshdj@earthlink.net
Date: 11/11/03 6:36:08 AM
Subject: FW: Pine Strawberry Water Improvement District

Mark has agreed to be our financial advisor. He's been working with Dan Jackson, so this appears to be a good fit. He suggested we start with a meeting in Phoenix, I told him you would be contacting him (his contact information is below). I'm in Phoenix monday thru wend. next week so any time during those three days would work fine for me.

Concerning the Bond Attorney, my experience has been only the financial consultant work on contingency fee, the Bond Attorney wants to be paid regardless if the financing is ever issued. Let's discuss with Mark, if we need a Bond Attorney now, I'd rather get one that Mark has a good working relationship with.

Today is a holiday so I'll be home today. I have a new cell # 928-200-1266.

John

From: Mark Reader [mailto:mreader@syllc.com]
Sent: Mon 11/10/2003 3:18 PM
To: Nelson, John
Cc: Grant Hamill
Subject: RE: Pine Strawberry Water Improvement District

John,
Per our discussion, the following represents our new contact information. As always, nice visiting with you and I look forward to seeing you soon.

Mark Reader

 **Mark Reader**
Director
Stone & Youngberg LLC

2555 East Camelback Road
Suite 280
Phoenix, Arizona 85016
602-794-4011 tel
602-432-4889 tel
602-794-4046 fax
mreader@syllc.com
www.syllc.com

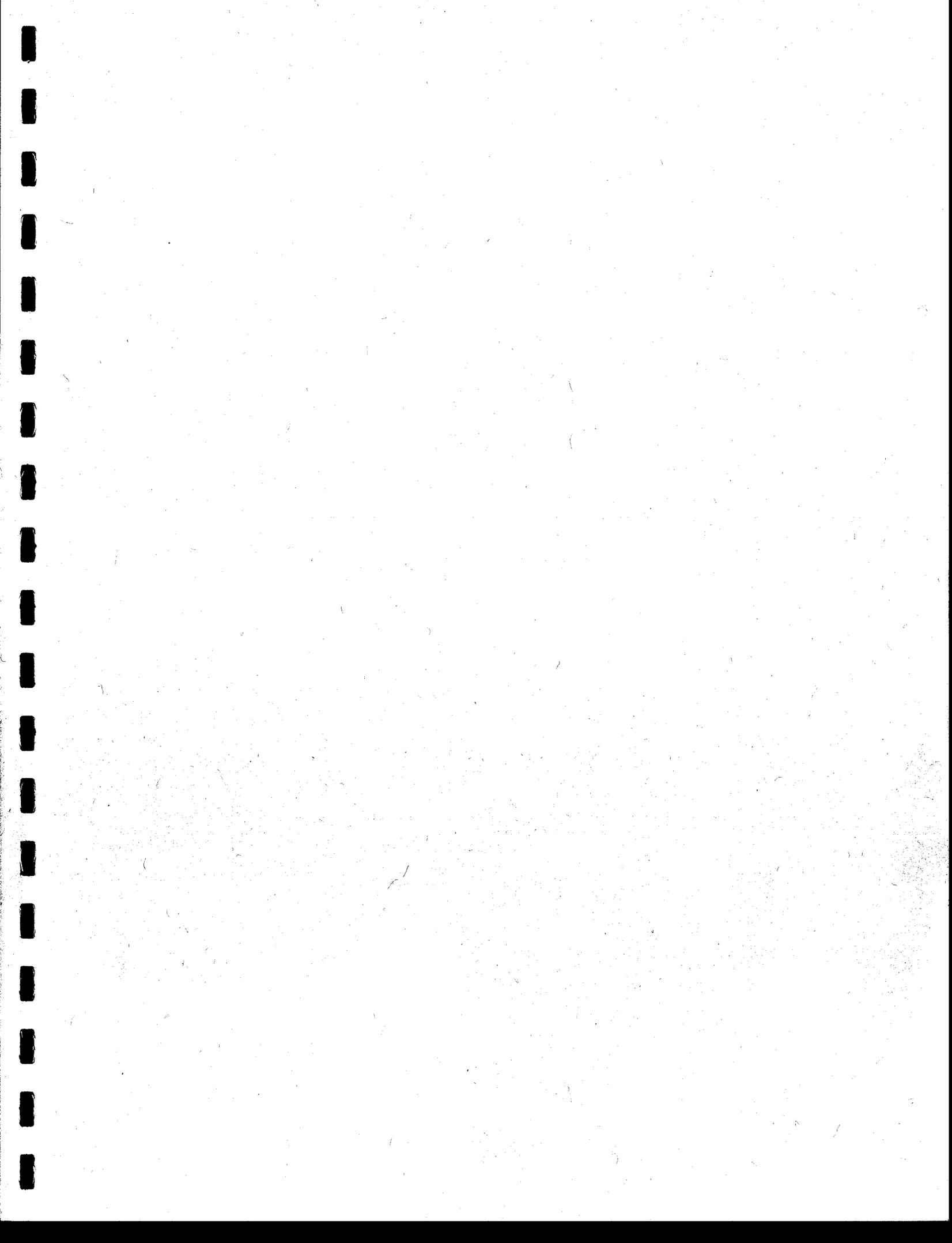


-----Original Message-----

From: Nelson, John [mailto:jnelson@co.gila.az.us]
Sent: Monday, November 10, 2003 2:04 PM
To: Mark Reader
Subject: Pine Strawberry Water Improvement District

Mark,

file://C:\WINDOWS\TEMP\D31476A9-1481-11D8-A1F5-444553540000\ELP4130.TMP 11/11/03



The Pine Strawberry Water Improvement District is seriously considering 1 of 2 options (if not both).

1. Buy out of Brooke Utilities (3-4 million per cost study)
2. Drilling a deep production well and selling the water to Brooke Utilities (cost unknown at this time)

They (I) are looking for a financial advisor, and was wondering if you would be interested.

I tried to call today but apparently I have the wrong number in my contact list.

My numbers are Globe 928-425-3231 ext 8754, Cell 928-200-1266, and Home 928-476-5980.

Thanks
John Nelson

ATTENTION: All e-mail sent to or from this address will be received or otherwise recorded by the Stone & Youngberg LLC e-mail system and is subject to archival, monitoring or review by, and/or disclosure to, someone other than the recipient.

PINE-STRAWBERRY WATER
IMPROVEMENT DISTRICT RESPONSE TO
PINE WATER COMPANY, INC. DATA
REQUESTS

(Docket No. W-03412A-03-0279)

Attachment to Response No. 1.13

RESOLUTION NO. 03-11-01

A RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF GILA, ARIZONA, ACTING AS THE BOARD OF DIRECTORS FOR THE PINE/STRAWBERRY WATER IMPROVEMENT DISTRICT (PSWID) AUTHORIZING JOHN F. NELSON, PSWID ADMINISTRATOR, TO INTERVENE ON BEHALF OF THE PSWID AT THE HEARING BEFORE THE ARIZONA CORPORATION COMMISSION IN THE MATTER OF ~~BROOKS UTILITIES, INC.'S~~ *Pine Water Company's* PROPOSAL FOR A RATE INCREASE.

WHEREAS, on August 18, 2003, the Gila County Board of Supervisors unanimously voted to revoke the authority of the Board of Directors of the PSWID pursuant to A.R.S. §48-1016 in order to protect the residents of the PSWID on account of the Board lacking a quorum for more than 30 days; and

WHEREAS, on September 9, 2003, the Gila County Board of Supervisors acting as the Board of Directors for the PSWID appointed John F. Nelson, County Manager/Clerk, as the Administrator of the PSWID to oversee all administrative and financial functions of the PSWID until such time as a new Board of Directors is elected; and

WHEREAS, the PSWID was established to locate an adequate, long-running, and stable source of water for the property owners within the PSWID; and

WHEREAS, the PSWID and the property owners and members that make up the PSWID have a vital interest in the rate case of Brooke Utilities, Inc. since approximately two-thirds of the members of the PSWID are customers of Pine Water Company and approximately two-thirds of the water supplied to Pine Water Company comes from wells in the Strawberry portion of the PSWID, and the fact that significant water is wheeled by pipeline from the Strawberry area to Pine Water Company from several major wells in Strawberry owned by private citizens and from some wells owned directly by Strawberry Water Company; and,

WHEREAS, the Administrator of the PSWID is faced with finding solutions to the long-run water availability and service issues faced by the current rate-payers connected to the water system; the property owners who are not yet connected to the water system; the Gila County government who is constantly pressured by property owners to help with highly emotional and technical water issues in the Pine and Strawberry areas; and, the Arizona Corporation Commission that has been faced with numerous issues related to this matter.

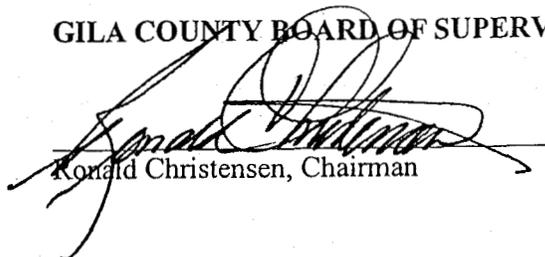
NOW, THEREFORE, BE IT RESOLVED by the Board of Supervisors of Gila County acting as the Board of Directors for the PSWID as follows:

1. John F. Nelson is hereby authorized and requested to intervene on behalf of the PSWID at the hearing before the Arizona Corporation Commission against the proposed rate increase by ~~Brooke Utilities, Inc.~~ *Pine Water Company* for its customers residing within the boundaries of the PSWID.
2. John F. Nelson is hereby authorized to call upon other individuals during the hearing before the Arizona Corporation Commission to testify on the inappropriateness of the

proposed rates based on the inadequacy and inaccuracy of basic rate justification information that is currently being, and has in the past, been supplied to the Arizona Corporation Commission.

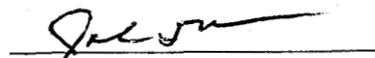
PASSED AND ADOPTED this 4th day of November 2003.

GILA COUNTY BOARD OF SUPERVISORS



Ronald Christensen, Chairman

Attest:



John F. Nelson, Clerk

PINE-STRAWBERRY WATER
IMPROVEMENT DISTRICT RESPONSE TO
PINE WATER COMPANY, INC. DATA
REQUESTS

(Docket No. W-03412A-03-0279)

Attachment to Response No. 1.15

ECON. COM

economists.com

Economic & Financial Consulting

Date: September 25, 2003
To: John Nelson – Pine-Strawberry Water Improvement District
From: Dan V. Jackson – Managing Director, Economists.com
Re: PRELIMINARY FEASIBILITY STUDY

Enclosed is a preliminary report on the feasibility of the potential acquisition value of two Brooke Utilities, Inc. subsidiaries - - Pine Water Company and Strawberry Water Company.

Please note that the Economists.com valuation approaches are employed under a "going concern" premise. Three valuation approaches are described in the report:

ASSET VALUATION METHOD

CASH FLOW VALUATION METHOD

SUBSCRIBER VALUATION METHOD

Together these analytical approaches give an expected range of value for a potential purchase transaction.

Please review the enclosed report. I am available to review these findings with the Board at your convenience. Please advise me on your availability.

**PINE WATER COMPANY
STRAWBERRY WATER COMPANY
Subsidiaries of Brooke Utilities, Inc.**

**PRELIMINARY REPORT TO
PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**

Financial Feasibility of Acquiring Utility Assets

economists.com

Prepared by:

Dan V. Jackson, Managing Director
Economists.com, LLC
5500 Democracy Drive, Suite 130
Plano, TX 75024
Tel: 972-378-6588
Fax: 972-378-6988

Email: djackson@economists.com

Web Site: www.economists.com

HARDCASTLE
REBUTTAL EXHIBIT 3

ASL Consulting Engineers

431 South Durango Highway
Payson, Arizona 85541
520/474-1636
Fax 520/474-4867
www.aslce.com



PROFESSIONAL SERVICES AGREEMENT

Date February 14, 2000 Project No. _____

Brooke Utilities, Inc. Previous Project No. _____
(Client) Dean Shaffer
1011 South Stover Road (Client Representative)
(Mailing Address) Phone No. (800) 792-7665
Payson, AZ 85541 FAX No. (520) 474-1695

Scope of Services Additional Engineering Services for watermain between Pine and Strawberry in accordance with Exhibit "C".

Project Location: _____ 1/4, Section 22, 23, & 26, Township 12 N, Range 8 E
Subdivision, Lot No. _____
Tax Parcel No. _____ H.E.S. _____
Title Insurance Company _____ Escrow No. _____

Estimated May 30, 2000 Estimated June 9, 2000
Starting Date: February 14, 2000 Completion Date: May 12, 2000

Estimated \$7350.00 Not To Exceed
Professional Fee: \$24,650.00 Not To Exceed for Truck Retainer Fee: \$ -0-
Hourly Rates to be 90% of Standard Hourly Rates (Exhibit "A") Only Retainer applied to final invoice.

This is a confirmation of the scope of services to be performed in accordance with the Standard Conditions of Service attached as Exhibit "B". Additional services, if desired, shall be provided per the fee schedule attached as Exhibit "A" or per a mutually agreed upon fee. If any of the information shown is not in accordance with your understanding, please advise us immediately. Verbal instructions are not acceptable. ASL Consulting Engineers will not be responsible for any errors or misunderstandings which may arise from a lack of proper notification.

ASL CONSULTING ENGINEERS

By Ralph Bossert
Ralph O.
Title Ralph O. Bossert, PE
Date 2-14-00

CLIENT: Brook Utilities, Inc
By [Signature]
Title President
Date 5/24/00

c:\wep\00V-020reh.wpd

ASL Consulting Engineers

ATTACHMENT "C"
SCOPE OF SERVICES

PINE/STRAWBERRY WATERMAIN

5/24/00 Requires

*June 9 ADEQ
submital date.*

BA

Task 5 - ADEQ and ADOT Permits

We will resubmit the plans and application to ADOT to secure a new Right-of-Way Permit. We will also revise the existing Prefinal Plans to address ADEQ Comment received in February 1998, to secure the ADEQ "Approval to Construct" Permit.

Estimated Fee \$ 7,350.00

Task 6 - Final Plans and Specifications

We will perform field surveys to identify and detail existing improvements in conflict with the watermain. Additional work required to resolve conflicts with existing improvements will be detailed on the plans to allow prospective contractors to bid the work.

Estimated Fee \$15,000.00

Task 7 - Bid Documents and Bidding Assistance

If requested, we will prepare bid documents in a format approved by Brooke Utilities, and submit the plans and bid documents to the selected list of contractors during the Bidding Phase. We will assist Brooke Utilities in conducting a pre-bid conference, and answer any questions which may arise during the Bidding Phase of the project. Upon receipt of the bids, we will tabulate them and submit them to Brooke Utilities with recommendations.

Estimated Fee \$ 2,300.00

TOTAL ESTIMATED FEE NOT TO EXCEED \$24,650.00

Bob Hardcastle

From: Bob Hardcastle
Sent: Wednesday, May 24, 2000 2:14 PM
To: 'Bossert, Ralph'
Cc: Dean Shaffer; Mistie Jared
Subject: RE: Project Magnolia

By means of this message you are approved to complete all aspects of Task 5 of Attachment "C" as described by your February 14, 2000 Professional Services Agreement. As a condition thereof, ASL Consulting Engineers agrees to prepare amended plans necessary for the subject water line in a completely responsive form to meet all requirements of the Arizona Department of Environmental Quality and the Right-of-Way permit requirements of the Arizona Department of Transportation by not later than June 9, 2000.

A further condition of this acceptance is that the nature, subject matter, and scope of ASL's work on this project shall remain confidential and shall not be discussed with any members of the media, individuals, government officials, other any other parties which are not directly involved in the subject project without the expressed written prior permission of Brooke Utilities, Inc.

Please confirm your receipt and understanding of this message. I will execute the ASL Agreement with the appropriate attachments including hereof and return to you in the next day or so. Upon receipt of same please initial changes made to the Agreement and return to me.

Thank you.

RTH
Brooke Utilities, Inc.

—Original Message—

From: Bossert, Ralph [SMTP:RBossert@aslce.com]
Sent: Wednesday, May 24, 2000 11:50 AM
To: Bob Hardcastle
Subject: Project Magnolia

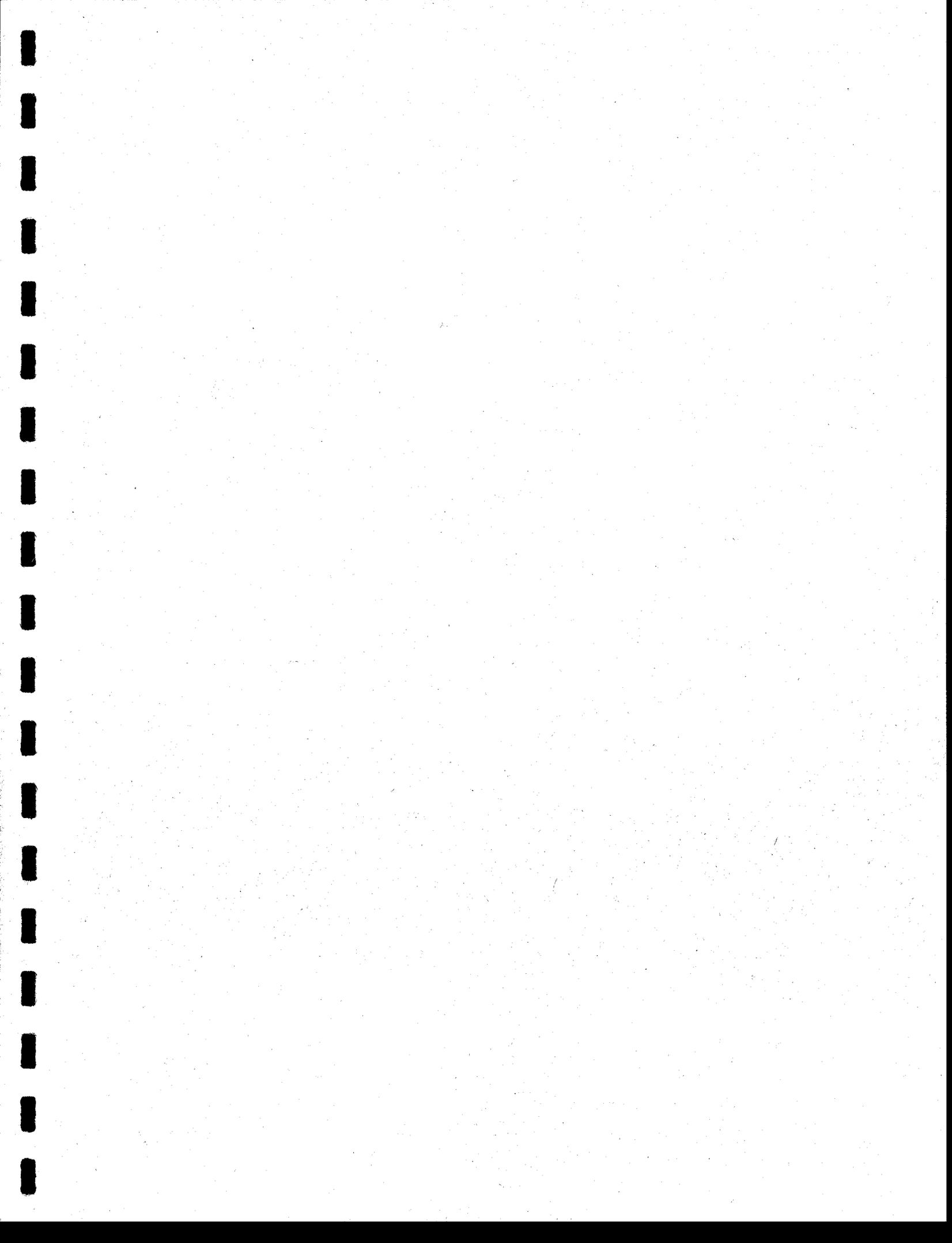
I reviewed the 2/25/98 letter that noted T&M NTE \$6,000 would get us through ADEQ approval. The difference between that figure and the \$7350 now is for 2 reasons:

1. Our fees have risen since 2/98 which adds \$650.
2. We had overspent the budget by \$700 before we stopped work. We are now looking to be able to get paid for that also.

In looking at the ADEQ comments from the previous review the only one that didn't involve a spec or detail change was a request to "describe how the pumps in Strawberry will be controlled as well as the tank fill controls in Pine. Also include the capacity that is required for the current proposed design." The tank system is presently designed with a float controlled hytrol valve in combination with a surge protection valve. The valve would close when the tank is full activating a pressure switch to stop the pumps. I'll need some help from Dean to work out the operation sequence.

Easement will need to be obtained for the waterline through the private parcels. The recorded document for the existing roadway does not include a utility easement. We are also planning to cross the north parcel in the old road alignment for which there is no easement.

Ralph





United States
Department of
Agriculture

Forest
Service

Payson
Ranger
District

1009 E. Hwy. 260
Payson, AZ 85541

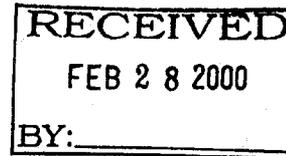
File Code: 1950/2720
Date: February 23, 2000

Dear Interested Citizen:

Brooke Utilities, Inc. submitted a proposal to the Tonto National Forest to install an 8 inch diameter waterline between the communities of Pine and Strawberry, Arizona. After completion of an environmental analysis of that proposal was completed Charles Bazan, Tonto Forest Supervisor, made a decision to proceed with issuance of a special use permit for that pipeline. A copy of that decision notice is enclosed. This decision is subject to appeal. The procedures for appeal are outlined in the Decision Notice. Any appeals must be filed no later than March 31, 2000.

Sincerely,

DAVID P. CUMMINGS
District Ranger



Caring for the Land and Serving People

Printed on Recycled Paper



FEB 22 2000

DECISION NOTICE
and
FINDING OF NO SIGNIFICANT IMPACT
for the
Issuance of a Special Use Permit
for the Construction and Maintenance of
the Strawberry - Pine Water Line

RECEIVED
FEB 28 2000
BY:

USDA Forest Service
Tonto National Forest
Payson Ranger District
Gila County, Arizona

Brooke Utilities has made application for a special use permit for construction and maintenance of a water transmission line between the communities of Strawberry and Pine Arizona. The proposed line would cross approximately one and a half miles of National Forest land located in Township 12 North, Range 8 East, Sections 22, 23 and 26, G&SRBM. An Environmental Assessment (EA) that discusses the proposed water transmission line has been completed. The authority to issue this type permit is founded in Public Law 94-579, 90 Stat. 2743.

Based on the analysis documented in the EA, it is my decision to implement Alternative 1. This alternative provides for a route to construct a pipeline parallel to State Highway 87. This waterline will allow the transmission of water pumped from wells on the privately owned lands within the communities of Strawberry and Pine to be moved between those two communities as needed to be used as domestic water. It is recognized that most of the water would be moved from Strawberry to Pine. The majority of this pipeline route lies within an existing abandoned roadbed that provides easy access for construction and minimal disturbance of vegetation. Best management practices for construction and maintenance of the line will be incorporated into the special use permit, assuring minimal soil erosion and vegetation removal. The permit administrator will be responsible for seeing that the project is implemented on the ground according to the design specifications to be included in the permit.

Scoping began on October 1, 1998 with a letter being sent to 98 individuals, State and local agencies, special interest groups, local water users and American Indian tribes. A public meeting was sponsored jointly between the Forest Service and Arizona Corporation Commission on October 15, 1998 and a news release was published in the Payson Roundup on October 20, 1998 to solicit any issues associated with this proposal. Comments were synopsisized in a scoping report which is a part of the project record.

There was minimal public interest or concern expressed regarding impacts to physical resources. The issues that were identified through both public and internal Forest Service reviews were: 1) possible effects of well pumping on springs and surface water flow, 2) visual quality impacts, 3) Socioeconomic effects (increase in development and water demand in Pine and private well impacts in Strawberry effecting property values) 4) Potential effects on biological resources, and 5) potential effects on archeological resources. These issues are discussed in detail in Chapter 2 of the EA. An addendum was prepared following the release of the EA for public review to clarify points raised in six comment letters that were received. Two issues raised by the public were eliminated from evaluation in the EA. The real controversy over this pipeline proposal are in regards to the potential impacts of removing water from the Strawberry community and sending it to the Pine community. In brief, most Pine residents favor a pipeline that will help alleviate the perennial water shortage and most Strawberry residents oppose any measure that would facilitate removing ground water that could conceivably affect their private well water levels. However, well drilling and pumping are outside the jurisdiction of the Forest Service and outside the scope of this EA. State agencies that do have that jurisdictional responsibility will make the decisions regarding appropriate use of the water regardless of the delivery system that may be used. The second issue that was dropped from the evaluation was the potential effects of pipeline on future widening of Highway 87. The Arizona Department of Transportation (ADOT) will issue their own concurring permit after review of construction plans for any segments of this pipeline that lie within the existing ADOT highway easement. It is not within the Forest Service purview to make that determination for ADOT.

Any permit issued by the Forest Service will require a permit from ADOT be attached to it before it is valid. All the comments received throughout the analysis were given consideration in this decision.

Five alternatives were considered; Three of the alternatives were eliminated due to high costs with a very minimal chance of addressing the need for an effective water delivery system. One of those alternatives that was eliminated was the continuation of hauling water by truck due to extraordinary costs that would be passed on to the consumers. A second alternative was drilling more wells in Pine. Four of five new wells drilled in Pine for the community system were unproductive, therefore, this alternative was also eliminated. A third alternative was to conserve water which is a management principle already implemented and offers limited opportunity to improve water supplies. The only practical action alternative was to provide a route parallel to the State Highway for a pipeline.

The no action alternative and one possible pipeline route were considered in detail.

No Action Alternative - Deny a special use permit for a pipeline across National Forest land. The No Action Alternative was evaluated and would effectively mean that one or a combination of the three alternatives that had been eliminated would have to be implemented regardless of cost or effectiveness. There were no significant impacts to Forest lands that would be created by a pipeline and the Forest Service does not have the authority to regulate water use on private lands; therefore this alternative was rejected.

Alternative 1 would not impact wilderness values, vegetative cover, soil, water or air significantly. Threatened or endangered plant or animal habitat is not an issue as the Biological Assessment and Evaluation rendered a "no effect" determination for the analysis area. The only archeological feature that would be affected is an historical roadbed that will not suffer any significant loss of integrity with a pipeline placed under it. This alternative would allow the pipeline to be built without significant impact on any Forest resource.

A Biological Assessment and Evaluation (BA&E) is included in the project record for this decision. A "no effect" determination was made in this BA&E.

The cultural resource survey has been completed. Clearance, with concurrence from the State Historic Preservation Officer, has been completed.

This project is located within Management Area 4F as described in the Tonto National Forest Land and Resource Management Plan and is consistent with the management standards and guidelines of that Plan.

I have determined that this project is not a major federal action, individually or cumulatively, and will not significantly affect the quality of the human environment. Therefore an environmental impact statement is not needed. This determination is based on the following factors:

This project is similar in context and intensity to other water pipelines on the Forest which have been found to not have a significant effect on the environment.

The physical and biological effects are insignificant and are limited to the project area and the immediately surrounding areas;

Public health and safety are minimally affected by the proposed action.

There are no known cultural resources adversely affected and the project is not in the proximity of any unique resources that would be affected.

Based on public participation, the effects on the quality of the human environment are not likely to be highly controversial;

There are no known effects on the human environment that are highly uncertain or involve unique or unknown risks;

This project does not set a precedent for other projects that may be implemented to meet the goals and objectives of the Forest Land and Resource Management Plan;

There are no known significant cumulative effects between this project and other projects implemented or planned on areas separated from the affected area of this project;

All proposed or currently listed endangered, threatened or sensitive species will not be affected; The actions do not threaten a violation of Federal, State, or local law or requirements imposed for the protection of the environment;

This project will not be implemented sooner than five business days following the close of the appeal filing period established in the legal notice of decision published in the Mesa Tribune newspaper. If an appeal is filed, implementation will not begin sooner than 15 calendar days following a final decision on the appeal. This decision is subject to appeal in accordance with 36 CFR 215.7. Appeals must be filed with Regional Forester, Southwest Region, 517 Gold SW, Albuquerque, NM 87102-0084 within 45 days of the date of the legal notice in the Mesa Tribune.

The appeal must:

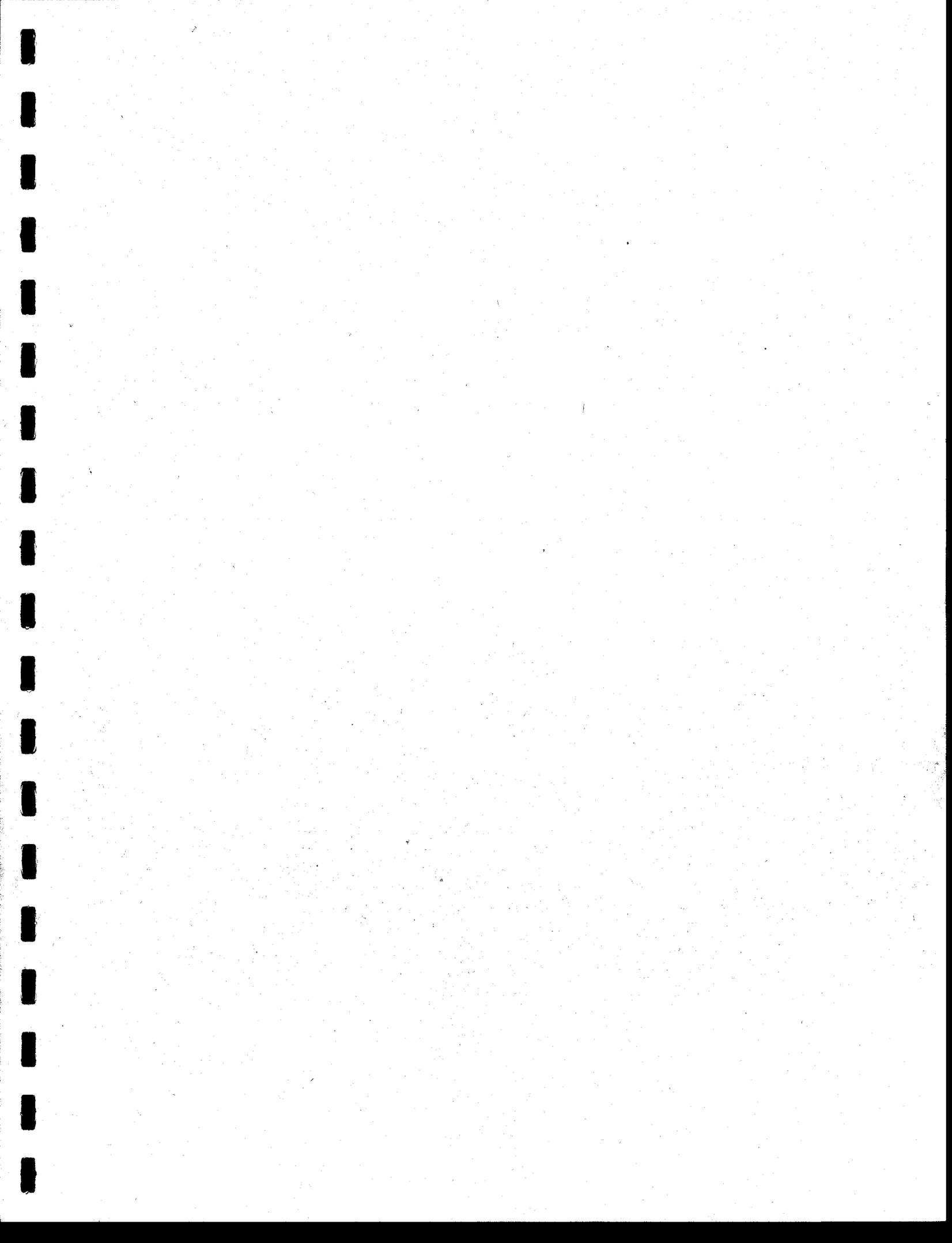
- * state that the document is an appeal filed pursuant to 36 CFR 215;
- * list the name and address of the appellant, and if possible, a telephone number;
- * identify the decision document by title and subject, date of decision, and name of the Responsible Official;
- * identify the specific change(s) in the decision that the appellant seeks or portion of the decision to which the appellant objects;
- * state how the Responsible Official's decision fails to consider comments provided and, if applicable, how the appellant believes the decision violates law regulation, or policy.

For additional information concerning this decision or the Forest Service appeal process, contact Carl Taylor, Tonto National Forest, 2324 E. McDowell Rd., Phoenix, AZ 85006 (602) 225-5200 or District Ranger, Rodney E. Byers, Payson Ranger District, 1009 E. Hwy 260, Payson, AZ 85541, (520) 474-7900.



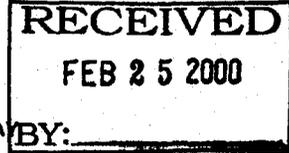
CHARLES R. BAZAN, Forest Supervisor

2/9/00
Date



ARIZONA DEPARTMENT OF TRANSPORTATION

District Permits Office
1210 E. Sheldon Street
Prescott, AZ 86301-3230



APPLICATION FOR PERMIT TO USE STATE HIGHWAY RIGHT OF WAY BY: _____
(PRINT OR TYPE)

Application is hereby made to enter in upon and use a portion of the State Highway.

Name of Encroachment Owner Brooke Utilities Phone (520) 474-1337

Address of Owner 1011 South Stover Road

City Payson State AZ Zip 85541

Signature of Owner [Signature] Dean Shaffer

Name of Applicant ASL Consulting Engineers Legal Relationship to Owner Engineer
TYPE OR PRINT NAME

Mailing Address 431 S. Beeline Highway Suite A

City Payson State AZ Zip 85541

Phone (520) 474-4636

Signature of Applicant [Signature] Ralph Basset / ASL Cons.
TYPE OR PRINT NAME

(Applicant and Owner are responsible for conditions on permit)

City (in or near) Pine AZ PROJECT NO. FH9-F/F.H. 10-02

Highway Route No. SR 87 Approximately 1320/1980 Feet NW/SE of Milepost No. 269.25/270.62

Side of Highway (N S) E W (circle one) Highway Station 947+50 to 1020+00

Purpose Construct 8" watermain from Strawberry to Pine to connect Brooke Utility Systems

FOR DEPARTMENT USE ONLY

THIS APPLICATION is approved with the following directions, requirements and specifications indicated on the back of this form. WITH THE ACCEPTANCE OF THIS PERMIT, THE PERMITTEE AGREES TO ALL THE CONDITIONS AS DESCRIBED HEREIN. NO WORK WILL BE ALLOWED TO TAKE PLACE INSIDE THE RIGHT OF WAY WITHOUT A VALID PERMIT ON SITE.

Date 2-23-00

PERMIT AND LICENSE

Permit No. 85165-U (7953)

A permit and license is hereby issued to the foregoing licensee for the purpose contained in the application and upon the expressed condition that every agreement and covenant therein contained is faithfully performed, and said work to be performed in accordance with final approved plans and specifications. Construction is authorized only for period indicated below.

Date Issued 2-23-2000

Construction to be completed by: _____

Date 8-23-2000

ARIZONA DEPARTMENT OF TRANSPORTATION

By [Signature] 2-23-00

District Maintenance Engineer Date

HARDCASTLE
REBUTTAL EXHIBIT 4

Brooke Utilities, Inc. * Bakersfield, CA
1106 GLENN HALE

11009

Nov 21 00

412 Nov 16 00 2,590.00 0.00 2,590.00

NOT NEGOTIABLE

2,590.00 0.00 2,590.00



Brooke Utilities, Inc.
P.O. Box 82218
Bakersfield, CA 93380-2218

BANK OF AMERICA
1440 TRUXTON AVENUE
BAKERSFIELD, CA 93301

11962

18-66
1220

CHECK NO.

***** Two Thousand Five Hundred Ninety and 00/100 *****

DATE AMOUNT
Nov 21 00 \$2,590.00

PAY
TO THE
ORDER
OF

GLENN HALE
805 N COLCORD ROAD
PAYSON, AZ 85541

~~NOT NEGOTIABLE~~

NOV 21 2000 11 00 AM

INVOICE
©1997 WEPFORM 7L724

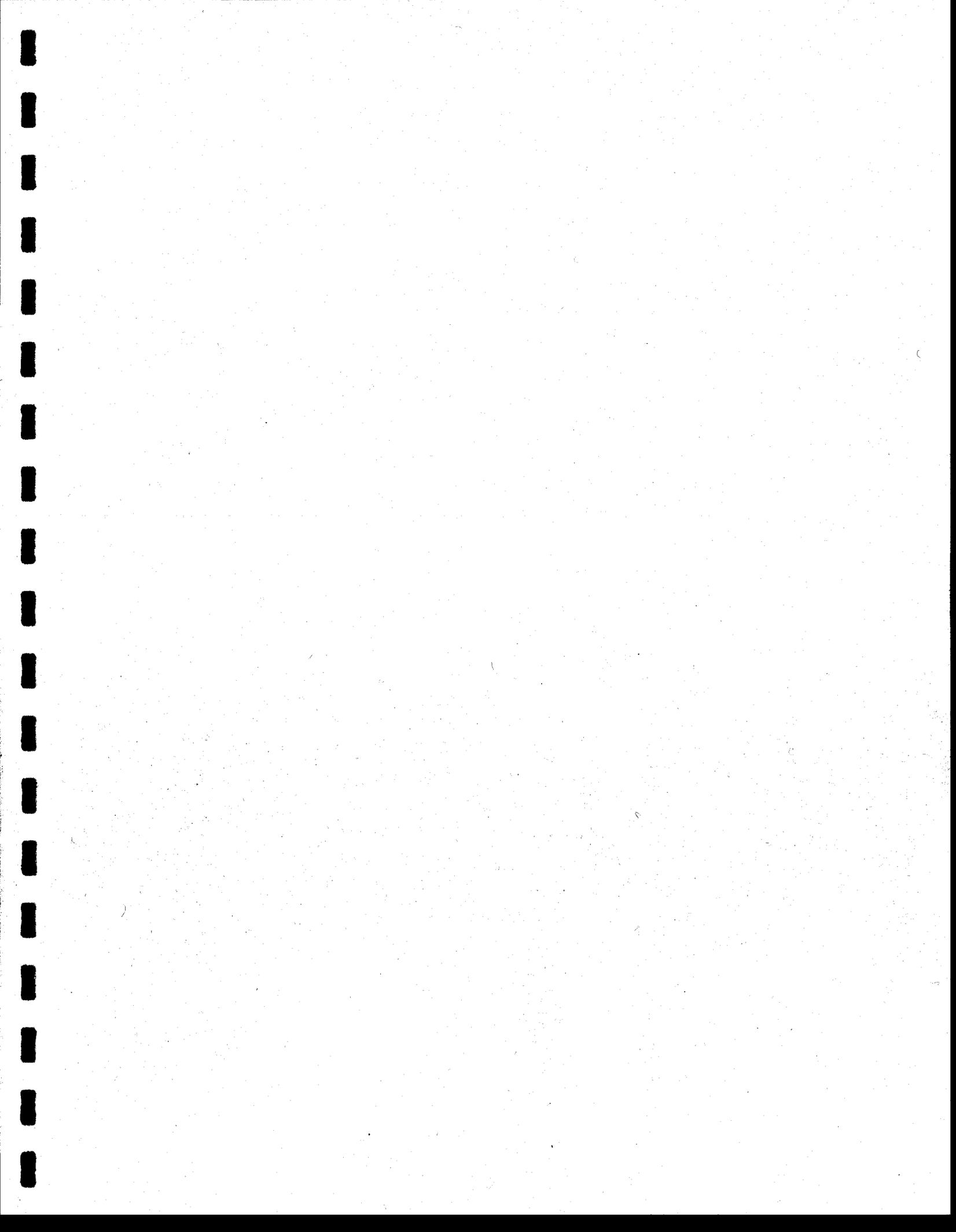
INVOICE NO. 0412

SOLD TO: Brooke Utilities
ADDRESS: 1010 S. Goodfellow
CITY, STATE, ZIP: PAYSON AZ 85541

SHIP TO: Glenn Hale
ADDRESS: 802 N. Colcord Rd
CITY, STATE, ZIP: PAYSON AZ 85541

CUSTOMER'S ORDER:	SOLD BY:	TERMS:	F.O.B.:	DATE: 11-16-00
--------------------------	-----------------	---------------	----------------	-----------------------

QUANTITY	DESCRIPTION	PRICE	AMOUNT
1			
2			
3	99-2000		2590 00
4			
5			
6			
7			
8	ACCT # 105.00 DIV # 99 \$ 2590 -		
9	ACCT # _____ \$ _____		
10	ACCT # _____ \$ _____		
11	ACCT # _____ \$ _____		
12	APPROVED BY: DS		
13	DATE: 11/17/00		2590 00
14			
15	Project Magnum		
16	Project Manager		
17			
18			
19			



12127

Brooke Utilities, Inc. * Bakerfield, CA
K. JONES SUPPLY CO.

Dec 27 00

190425	Dec	5 00	1,250.17	0.00	1,250.17
192426	Dec	5 00	216.07	0.00	216.07
190427	Dec	5 00	56.60	0.00	56.60
200308	Dec	4 00	108.94	0.00	108.94
200932	Dec	7 00	35,469.92	0.00	35,469.92
200134	Dec	15 00	15.48	0.00	15.48

NOT NEGOTIABLE

57,120.18 0.00 57,120.18



Brooke Utilities, Inc.
P.O. Box 92218
Bakerfield, CA 93380-2218

BANK OF AMERICA
1440 TRUXTON AVENUE
BAKERFIELD, CA 93301

12127

16-66
1220

CHECK NO.

***** Thirty-Seven Thousand One Hundred Twenty and 18/100 *****

Project Manager

DATE Dec 27 00 AMOUNT \$57,120.18

PAY TO THE ORDER OF

HUGHES SUPPLY CO.
1493 N. TECH BLVD.
GILBERT, AZ
85233

NOT NEGOTIABLE

⑆012127⑆ ⑆12000066⑆ ⑆14709⑆01525⑆



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
12/05/00	198425	1

LAKESIDE - 7761
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-597-5788

SOLD TO:

SHIPPED TO:

1 3 11779 MC **7096
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

BROOKE UTILITIES
 GENERAL

CUSTOMER NO	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE		
10809!7761	PO# 2921	0001	MDR	135			
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE				
125669	OUR TRUCK	12/05/00	12/04/00				
OUR CODE NO	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT
UFR1500-C	8" RESTRAINT F/C900 (MEGALUG)	8	0	8	32.791	EA	262.33
UFR1400-D	8" RESTRAINT F/DIP (MEGALUG)	4	0	4	26.751	EA	107.00
6BLINFLAN	6" BLIND FLANGE 129967	1	0	1	35.919	EA	35.92
6GASK116	6" FULL FACE CL INS GASK 1/16"	6	0	6	2.370	EA	14.22
MP60CADM	6" CAD PLTD BOLT W/NUT	6	0	6	9.360	EA	56.16
1ST LEFT IN PINE. OLD COUNTY RD. TAKE 1ST RIGHT. FOLLOW TO MATERIAL YARD JUST PAST CREEK ON LEFT SIDE OF ROAD. PAYSON CONCRETE YARD.							
A-2360-6-8TJGASK	GLEN HALE 520-978-3777 6" FLANGED GATE VALVE (MUEL) 8" TYTON JOINT GASKET	3 5	0 5	3 0	267.706 3.159	EA EA	803.12 0.00
HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY.					NET AMOUNT	1278.75	
NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.					FREIGHT	0.00	
					TAX	0.00	
Amount Due <u>01/10/01</u>					INVOICE AMOUNT	1278.75	

*105.00
Project Mgr*

J. M.



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
12/05/00	198426	1

LAKESIDE - 7781
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

SHIPPED TO:


 2 3 11780 MC
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

BROOKE UTILITIES
 GENERAL

CUSTOMER NO.	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE				
1080917761	PO# 2921	0001	MDR	135					
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE						
125831	OUR TRUCK	12/05/00	12/04/00						
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT		
8MJ90	8" MJ 90 L/ACC 072249	5	0	4	55.120	EA	220.48		
<p style="text-align: center; font-size: 2em; font-family: cursive;">105.00 Project Wagon</p>							NET AMOUNT	220.48	
							FREIGHT	0.00	
							TAX	0.00	
							INVOICE AMOUNT	220.48	
<p>*HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY.*</p> <p>NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.</p>								<p>Amount Due <u>01/10/01</u></p>	

Terms and Conditions / MSDS Information On Reverse



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
12/05/00	198427	1

LAKESIDE - 7761
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

SHIPPED TO:

3 3 11781 MC
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

BROOKE UTILITIES
 GENERAL

CUSTOMER NO.	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE		
1080917761	PO# 2921	0001	MDR	135			
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE				
125847	OUR TRUCK	12/05/00	12/04/00				
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT
6X2TAPPBL	6X2 TAPP BLIN FLANGE	1	0	1	57.759	EA	57.76
<p>*HUGHES SUPPLY STOCKS OVER \$5,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY.*</p> <p>NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION.</p> <p>ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.</p>					NET AMOUNT		57.76
					FREIGHT		0.00
					TAX		0.00
					INVOICE AMOUNT		57.76

Project 105 00

Amount Due 01/10/01

Terms and Conditions / MSDS Information On Reverse



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
12/04/00	200308	1

LAKESIDE - 7761
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

1 2 11272 MC **6798
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

SHIPPED TO:

BROOKE UTILITIES
 GENERAL

HSI PO# 460145

CUSTOMER NO.	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE			
1080917761	PO# 2921	0001	MDR	135				
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE					
114018	DIRECT SHIPMENT	12/04/00	11/21/00					
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT	
6X6FLSPOO	6" X 6" FLXFL DIP SPOOL FLANGE	1	0	1	99.157	EA	99.16	
WF	WATERWORKS FREIGHT CHARGE	1	0	1	12.000	EA	12.00	
SHIP TO: BROOKE UTILITIES 1011 SOUTH STOVER RD. PAYSON, AZ 85541								
HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY. NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.					NET AMOUNT		111.16	
					FREIGHT		0.00	
					TAX		0.00	
					INVOICE AMOUNT		111.16	

105.00 Project Upgrade

Amount Due 01/10/01

Terms and Conditions / MSDS Information On Reverse



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
12/07/00	200982	1

LAKESIDE - 7781
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

SHIPPED TO:

2 2 11273 MC
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

**BROOKE UTILITIES
 PROJECT MAGNOLIA
 HWY 87**

CUSTOMER NO.	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE		
1080917761	JOB# 11-00-37873	0002	MDR	135			
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE				
128980	DIRECT SHIPMENT	12/07/00	12/06/00				
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT
8PVCC900C	8" PVC R/T C-900 200PSI DR14 DELIVER TO PINE, AZ TAKE 1ST LEFT IN TOWN (OLD COUNTY RD.) TAKE 1ST RIGHT. FOLLOW DIRT RD. TO MATERIAL YARD JUST PAST CREEK. MATERIAL YARD IS ON LEFT. GLEN HALE 520-978-3777 TODD RALLS 520-970-0194	6740	0	6740	5.370	FT	36193.80
HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY. NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.					NET AMOUNT		36193.80
					FREIGHT		0.00
					TAX		0.00
Amount Due 01/10/01					INVOICE AMOUNT		36193.80

Chop Project



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
12/15/00	209134	1

LAKESIDE - 7761
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

1 1 10721 MC **6488
 BROOKE UTILITIES-MASTER
 P O BOX 4907
 BAKERSFIELD CA 93303-1807

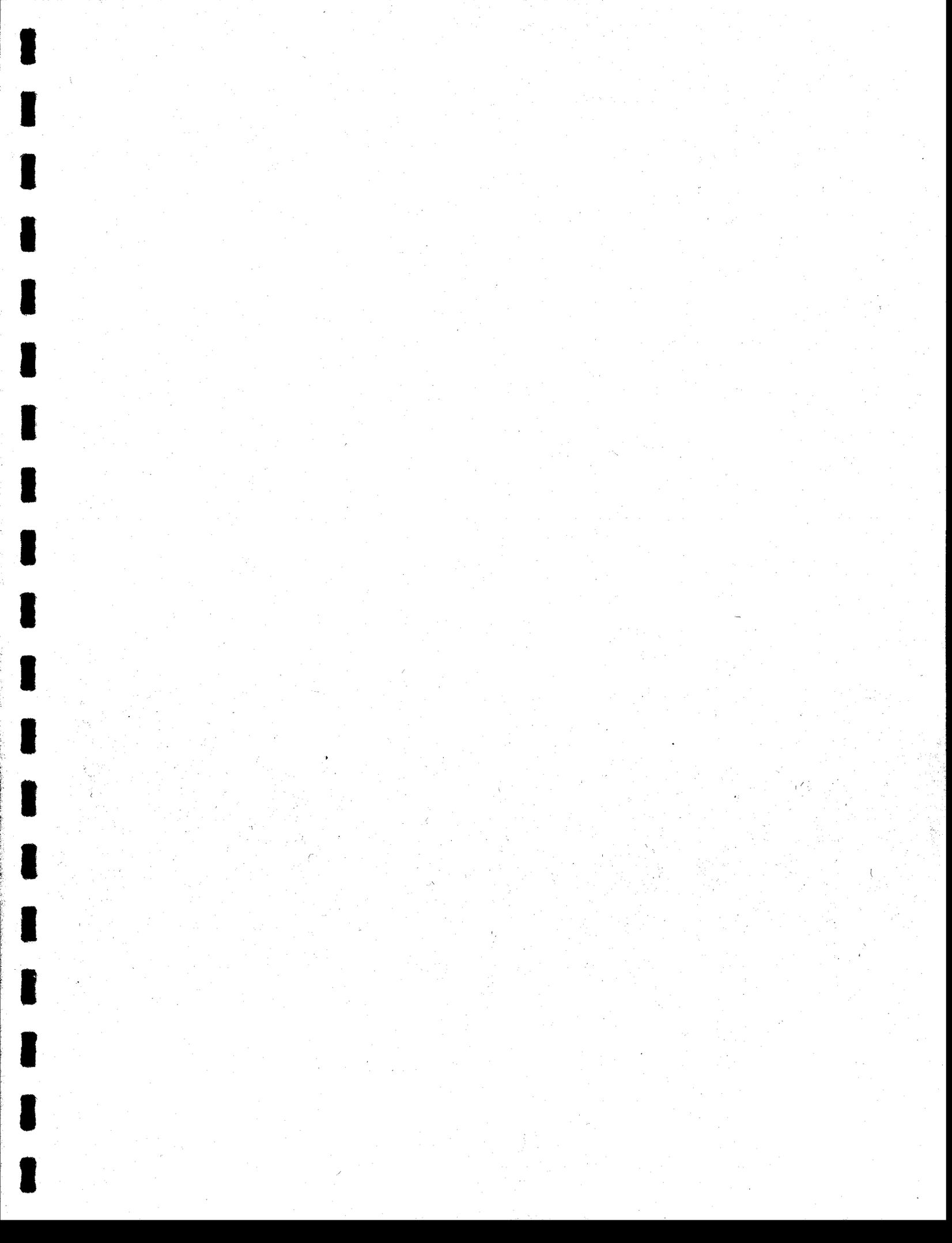
93380

POBOY 8728

SHIPPED TO:

Project Magdalena

CUSTOMER NO.	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE		
1080917761	PO# 2921	0001	MDR	135			
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE				
125669-2	OUR TRUCK	12/15/00	12/04/00				
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT
8TJGASK	8" TYTON JOINT GASKET	5	0	5	3.159		15.80
<i>Brooke Utilities</i>							
<i>105.0</i>							
<i>[Signature]</i>							
HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY. NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.					NET AMOUNT		15.80
					FREIGHT		0.00
					TAX		0.00
Amount Due 01/10/01					INVOICE AMOUNT		15.80



Brooke Utilities, Inc * Bakersfield, CA
P.O. Box 82218 HUGHES SUPPLY INC

Nov 28 00

174778	Nov	9	00	36,193.80	0.00	36,193.80
157781	Nov	1	00	55,505.12	0.00	55,505.12
171443	Nov	7	00	792.52	0.00	792.52
174777	Nov	8	00	33.75	0.00	33.75
175677	Nov	10	00	31.10	0.00	31.10
175678	Nov	10	00	61.53	0.00	61.53
175679	Nov	10	00	672.57	0.00	672.57
175680	Nov	10	00	31.10	0.00	31.10
175681	Nov	10	00	122.47	0.00	122.47

NOT NEGOTIABLE

21,056.36

0.00

21,056.36



Brooke Utilities, Inc.
P.O. Box 82218
Bakersfield, CA 93380-2218

BANK OF AMERICA
1440 TRUXTON AVENUE
BAKERSFIELD, CA 93301

11994

16-66
1220

CHECK NO.

***** Twenty-One Thousand Fifty-Six and 36/100 *****

DATE
Nov 28 00

AMOUNT
\$21,056.36

PAY
TO THE
ORDER
OF

HUGHES SUPPLY INC
1493 N. TECH BLVD.
GILBERT, AZ
85233

~~NOT NEGOTIABLE~~

⑆011994⑆ ⑆100000000⑆ ⑆2105636⑆



STATEMENT

HUGHES SUPPLY INC.
1493 N. TECH BLVD.
GILBERT, AZ 85233
520-537-5788

STATEMENT DATE	DUE DATE
11/25/00	12/10/00

CUSTOMER	JOB #	PAGE
10809!7761	0002	1
JOB NAME		
PROJECT MAGNOLIA		

MAIL REMITTANCE TO:
HUGHES SUPPLY, INC.
1493 NORTH TECH BLVD
GILBERT, AZ 85233

PLEASE EXPLAIN ANY DIFFERENCES BETWEEN
TOTAL AMOUNT DUE AND AMOUNT REMITTED
ON THE BACK OF THIS STUB.

3 3 2501 MC
BROOKE UTILITIES-MASTER
P O BOX 1807
BAKERSFIELD CA 93303-1807

CUSTOMER	JOB #	PAGE
10809!7761	0002	1
TELEPHONE NO.	DATE	
805-393-7000	11/25/00	

DATE MO. BY YR.	INVOICE NUMBER	PYMT CODE	BR. NO.	AMOUNT DUE
10/25/00	157781		1	55,505.12
11/02/00	167454		1	209.55
11/07/00	171443		1	792.52
11/08/00	174777		1	33.75
11/09/00	174778		1	-36,193.80
11/10/00	175677		1	31.10
11/10/00	175680		1	31.10
11/25/00	188485		1	1,110.10
90 DAYS	60 DAYS	30 DAYS	CURRENT/FUTURE	
		55,505.12	-33,985.68	21,519.44
TERMS AND CONDITIONS ON THE REVERSE SIDE				

INVOICE NUMBER	DISPUTED ITEMS	AMOUNT DUE
157781		55,505.12
167454		209.55
171443		792.52
174777		33.75
174778		-36,193.80
175677		31.10
175680		31.10
188485		1,110.10
* = FUTURE		
AMOUNT DUE		21,519.44
AMOUNT REMITTED		

TO INSURE PROPER CREDIT, PLEASE
RETURN THIS STUB WITH YOUR PAYMENT



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
11/09/00	174778	1

LAKESIDE - 7761
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

SHIPPED TO:

2 2 10992 MC
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

**BROOKE UTILITIES
 PROJECT MAGNOLIA
 HWY 87
 PINE, AZ**

15.0

CUSTOMER NO.	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE		
1080917761	JOB# 11-00-37873	0002	MDR	135			
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE				
101535	DIRECT SHIPMENT	11/09/00	11/09/00				
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT
8PVCC900C	8" PVC R/T C-900 200PSI DR14	-6740		-6740	5.370	FT	-36193.80
<i>credit - tube delivered</i>					<i>Sh M</i>		
"HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY." NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.					NET AMOUNT		-36193.80
					FREIGHT		0.00
					TAX		0.00
					INVOICE AMOUNT		-36193.80
Amount Due 12/10/00							

Terms and Conditions / MSDS Information On Reverse



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
11/07/00	171443	1

LAKESIDE - 7761
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

SHIPPED TO:

1 1 11582 MC **8920
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

BROOKE UTILITIES
 PINE, AZ

CUSTOMER NO.	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE			
1080917761	JOB# 11-00-37873	0002	MDR	135				
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE					
097663	OUR TRUCK	11/07/00	11/06/00					
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT	
UFR1400-D	6" RESTRAINT F/DIP (MEGALUG)	1	0	1	17.338	EA	17.34	
6MJACCE	6" MJ ACCESSORY SET L/B 085805	1	0	1	12.283	EA	12.28	
6GASK116	6" FULL FACE CL INS GASK 1/16"	5	0	5	2.365	EA	11.83	
MP60CADM	6" CAD PLTD BOLT W/NUT	5	0	5	9.224	EA	46.12	
T580-70-3	3 FIP BALL VALVE R/PORT T58070	2	0	2	152.942	EA	305.88	
DELIVER TO OFFICE IN PAYSON								
6FLTEE	6" FLANGE TEE 124238	1	0	1	106.218	EA	106.22	
6MJXFLADA	6" MJXFL ADAPTER L/ACC 083818	1	0	1	44.960	EA	44.96	
A-2360-6-	6" FLANGED GATE VALVE (MUEL)	1	0	1	247.893	EA	247.89	
<p>105.00</p> <p>ACCT # <u>311.00</u> DIV. # <u>15</u></p> <p>ACCT # _____ \$ _____</p> <p>APPROVED BY <u>DS</u></p> <p>DATE <u>11/22/00</u></p> <p><u>WOM 99-15-2002</u></p>								
<p>"HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY."</p> <p>NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.</p>					NET AMOUNT		792.52	
					FREIGHT		0.00	
					TAX			
							0.00	
Amount Due 12/10/00					INVOICE AMOUNT		792.52	



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
11/08/00	174777	1

LAKESIDE - 7761
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

SHIPPED TO:

1 2 10981 MC **6721
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

105.0
 BROOKE UTILITIES
 PROJECT MAGNOLIA
 HWY 87
 PINE, AZ

CUSTOMER NO.	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE		
1080917761	JOB# 11-00-37873	0002	MDR	135			
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE				
097762	DIRECT SHIPMENT	11/08/00	11/06/00				
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT
9767088# WF	200 PSI OIL FILLED GUAGE WATERWORKS FREIGHT CHARGE	2 1	0 0	2 1	14.000 5.750	EA EA	28.00 5.75
SHIP TO: BROOKE UTILITIES 1011 SOUTH STOVER PAYSON, AZ 85541							
"HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY." NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.					NET AMOUNT		33.75
					FREIGHT		0.00
					TAX		0.00
					INVOICE AMOUNT		33.75
Amount Due 12/10/00							

Terms and Conditions / MSDS Information On Reverse



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
11/10/00	175678	1

LAKESIDE - 7761
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

SHIPPED TO:



1 5 3620 MC **569
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

BROOKE UTILITIES
 GENERAL

CUSTOMER NO.	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE			
1080917761	PO# 2921	0001	MDR	135				
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE					
100674	VIA SALESMAN	11/10/00	11/08/00					
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT	
4GALV45	4" GALVANIZED 45	1	0	1	61.534	EA	61.53	
HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY. NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.					NET AMOUNT		61.53	
					FREIGHT		0.00	
					TAX		0.00	
					INVOICE AMOUNT		61.53	
Amount Due 12/10/00								

Project Manager
[Signature]

Terms and Conditions / MSDS Information On Reverse



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
11/10/00	175679	1

LAKESIDE - 7761
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

SHIPPED TO:

2 5 3621 MC
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

BROOKE UTILITIES
 GENERAL

CUSTOMER NO.	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE				
1080917761	PO# 2921	0001	MDR	135					
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE						
100684	OUR TRUCK	11/10/00	11/08/00						
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT		
UFR1400-D	8" RESTRAINT F/DIP (MEGALUG)	2	0	2	26.687	EA	53.37		
8FL90	8" FLANGE 90 121756	1	0	1	111.838	EA	111.84		
8MJACCE	8" MJ ACCESSORY SET L/B 085812	2	0	2	15.115	EA	30.23		
8GASK116	8" FULL FACE CL INS GASK 1/16"	2	0	2	3.105	EA	6.21		
6GASK116	6" FULL FACE CL INS GASK 1/16"	3	0	3	2.365	EA	7.10		
MP80CADM	8" FLG PLT BOLT/NUT KIT 8ea/BAG	2	0	2	9.637	EA	19.27		
MP60CADM	6" CAD PLTD BOLT W/NUT	3	0	3	9.22	EA	27.67		
8MJ90	8" MJ 90 L/ACC 072249	1	0	1	68.00	EA	68.00		
6FLTEE	6" FLANGE TEE 124238	1	0	1	106.218	EA	106.22		
8X10FLXPE	8X10' FLXPE SPOOL	1	0	1	242.66	EA	242.66		
DELIVER TO PINE JOB SITE CALL GLEN AT 520-978-3777 FOR DELIVERY INSTRUCTIONS									
8X10 SPOOL IS BEHIND CULVERT. IF YOU CANNOT FIND, SEE MATT									
HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY. NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.							NET AMOUNT	672.57	
							FREIGHT	0.00	
							TAX	0.00	
Amount Due 12/10/00							INVOICE AMOUNT	672.57	

Terms and Conditions / MSDS Information On Reverse



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
11/10/00	175680	1

LAKESIDE - 7761
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

SHIPPED TO:

5 5 3624 MC
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

105.0
 BROOKE UTILITIES
 PROJECT MAGNOLIA
 HWY 87
 PINE, AZ

CUSTOMER NO	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE			
1080917761	P.O.# 2921	0002	GEB	135				
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE					
102318	OUR TRUCK	11/10/00	11/09/00					
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT	
3COMPFLAN	3X7 1/2" CI COMPANION FLANGE	2	0	2	14.160	EA	28.32	
3GASK116	3" FULL FACE CL INS GASK 1/16"	2	0	2	1.390	EA	2.78	
SEE GEB W/ANY PROBLEMS								
HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY. NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.					NET AMOUNT	31.10		
					FREIGHT	0.00		
					TAX	0.00		
Amount Due 12/10/00					INVOICE AMOUNT	31.10		

Terms and Conditions / MSDS Information On Reverse



INVOICE

INVOICE DATE	INVOICE NUMBER	PAGE
11/10/00	175681	1

LAKESIDE - 7781
 1493 NORTH TECH BLVD
 GILBERT, AZ 85233
 Telephone 520-537-5788

SOLD TO:

SHIPPED TO:

3 5 3822 MC
 BROOKE UTILITIES-MASTER
 P O BOX 1807
 BAKERSFIELD CA 93303-1807

BROOKE UTILITIES
 GENERAL

CUSTOMER NO.	CUSTOMER ORDER NO.	JOB	WRITER	SALESMAN	TERMS AND CONDITIONS OF SALE ON REVERSE SIDE		
1080917761	PO# 2921	0001	MDR	135			
REFERENCE	SHIP VIA	DATE SHIPPED	ORDER DATE				
102914	VIA SALESMAN	11/10/00	11/10/00				
OUR CODE NO.	DESCRIPTION	ORDERED	BACK ORDERED	SHIPPED	UNIT PRICE	UNIT	NET AMOUNT
8X6FLRED#	8X6 FL RED	1	0	1	122.470	EA	122.47
<p>*HUGHES SUPPLY STOCKS OVER 85,000 DIFFERENT PRODUCTS FOR TIMELY DELIVERY.*</p> <p>NO CREDIT WILL BE ALLOWED FOR GOODS RETURNED WITHOUT OUR PERMISSION. ALL RETURNS SUBJECT TO RESTOCKING, HANDLING AND FREIGHT CHARGES.</p> <p>Amount Due 12/10/00</p>					NET AMOUNT	122.47	
					FREIGHT	0.00	
					TAX	0.00	
					INVOICE AMOUNT	122.47	

Robert [Signature]

[Signature]

HARDCASTLE
REBUTTAL EXHIBIT 5

**FIRST SET OF DATA REQUESTS
FROM PINE WATER COMPANY, INC.
TO ARIZONA CORPORATION COMMISSION STAFF
(Docket No. W-03412A-03-0279)**

REQUEST:

- 1.13 Regarding the Direct Testimony of Claudio M. Fernandez at page 7, l. 28 through page 8, l. 4, please state the basis for Staff's conclusion that PWCo's Construction Work in Progress represented the cost of Project Magnolia in Docket No. W-01576A-99-0277. In support of Staff's response, please provide any documentation or other evidence supporting Staff's conclusion that the costs of Project Magnolia were included in Company's CWIP in that docket.

RESPONSE:

The basis for Staff's conclusion that Project Magnolia was included in CWIP in Docket No. W-01576A-99-0277 is the Company's application. Please refer to Schedule A-4, Column 2, Projected year as of and for the year ended 6/30/99 (Exhibit 5) in the amount of \$334,242; Schedule B-1; Schedule B-4 – Projected capital expenditures of \$334,242; Schedule E-5, page 2, Project Magnolia – Date in Service 6/30/98, Useful life 20 yrs. – Method Straight line – Cost as of 6/30/98 of \$17,040. See attached copies of above mentioned schedules.

E R Water Company
 Detail of Utility Plant
 Schedule E-5
 Test Year Ended June 30, 1998

*STAFF
 1.13 ONLY
 ATTACHMENT*

	<u>Date in Service</u>	<u>Useful Life</u>	<u>Method</u>	<u>6/30/97</u>	<u>6/30/98</u>
Total Additons:					
Project Magnolia	6/30/98	20-yrs	Straight line	\$ -	\$ 17,040
Canyon Tanks Rebuild Well #11	6/30/98	20-yrs	Straight line		8,043
Brooke View Terrace - Ferrari Well	6/30/98	20-yrs	Straight line	3,345	16,227
Pine Creek Canyon - Cedar	6/30/98	20-yrs	Straight line		12,308
Pinecrest - Well Recasing	6/30/98	20-yrs	Straight line		10,887
Portals 2 Well Rebuild	6/30/98	20-yrs	Straight line	6,982	
Water System Planning	6/30/98	20-yrs	Straight line	12,977	5,363
Strawberry View 1 Well	6/30/98	20-yrs	Straight line	5,817	23,967
Strawberry Pines Well	6/30/98	20-yrs	Straight line	16,566	55,018
Rimwoods Well	6/30/98	20-yrs	Straight line	14,535	33,334
Strawberry Ranch 5 Well	6/30/98	20-yrs	Straight line	18,162	21,036
Stawberry View 3 Well	6/30/98	20-yrs	Straight line	8,932	4,678
McKnight Well	6/30/98	20-yrs	Straight line	17,845	2,335
O'Hara Well	6/30/98	20-yrs	Straight line	20,503	150
Strawberry Ranch 3 Well	6/30/98	20-yrs	Straight line	9,262	26,267
Strawberry Ranch 2 Well	6/30/98	20-yrs	Straight line	15,227	3,052
Whawk Paving Project	6/30/98	20-yrs	Straight line		553
Cache Tank Bi-Pass Project	6/30/98	20-yrs	Straight line		2,682
Pool Pines Paving Meter Relocation	6/30/98	20-yrs	Straight line		5,144
Homestead Well	10/31/97	20-yrs	Straight line		1,390
Walnut Glen Well	11/30/97	20-yrs	Straight line	1,277	1,259
Interconnections	8/31/97	20-yrs	Straight line		330
O'Brien Main-line Extension	7/31/97	20-yrs	Straight line	351	
Pine Booster Site	11/30/97	20-yrs	Straight line	1,160	1,304
Air Compressors	9/30/96	20-yrs	Straight line	5,873	
Cimmaron Pines Improvements	9/30/96	20-yrs	Straight line	1,960	2,201
Strawberry Hollow Well	6/30/97	20-yrs	Straight line		970
Correction between years				<u>31,105</u>	<u>(31,105)</u>
				191,879	224,433
Meters:					
Meter 5/8"	1996	20-yrs	Straight line	5,153	-
Meter 5/8"	1997	20-yrs	Straight line	10,549	17,555
Meter 5/8"	1998	20-yrs	Straight line	-	40,879
				<u>15,702</u>	<u>58,434</u>
				<u>\$ 207,581</u>	<u>\$ 282,867</u>

HARDCASTLE
REBUTTAL EXHIBIT 6

1 LAW OFFICE OF JOHN G. GLIEGE
2 P.O. Box 1388
3 Flagstaff, AZ 86002-1388
(928 380 0159)

4 John G. Gliege (#003644)
5 Attorney for Pine Strawberry Water Improvement District

6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO. W-03512A-03-0279
REQUEST TO PRODUCE

14
15 **TO: PINE WATER COMPANY and its Attorneys.**

16 Pursuant to Rule 34, Ariz.R.Civ.P., you are hereby requested to produce for inspection, copying
17 and photographing at 9:00 AM on November 18, 2003 at the LAW OFFICE OF JOHN G. GLIEGE,
18 13 MOUNTAIN VIEW, KENDRICK PARK, ARIZONA, or the same can be mailed to the LAW
19 OFFICE OF JOHN G. GLIEGE, P.O. BOX 1388, FLAGSTAFF, AZ 86002-1388, by or before
November 17, 2003, the following described documents and tangible things:

20 **INSTRUCTIONS FOR USE**

21
22 1. In producing the documents designated below, you are requested to furnish all documents known
23 or available to you regardless of whether a document is currently in your possession, custody, or
24 control, or that of your attorneys, employees, agents, investigators, or other representatives, or is
otherwise available to you.

25 2. If, for any reason, you are unable to produce in full any document requested:

26 a. Produce each such document to the fullest extent possible;

27 b. Specify the reasons for your inability to produce the remainder; and

28 c. State in detail whatever information, knowledge, or belief you have concerning the whereabouts
29 and substance of each document not produced in full.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT'S REQUEST TO
PRODUCE DOCUMENTS TO PINE WATER COMPANY**

Request No. 15:

All estimates compiled by Pine Water Company of the value of the Certificate of Convenience and Necessity of Pine Water Company during the past five years, up to and including the day of your answers.

1 LAW OFFICE OF JOHN G. GLIEGE
2 P.O. Box 1388
3 Flagstaff, AZ 86002-1388
(928 380 0159)

4 John G. Gliege (#003644)
5 Attorney for Pine Strawberry Water Improvement District

6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

) **DOCKET NO. W-03512A-03-0279**
) **INTERROGATORIES TO PINE WATER**
) **COMPANY**

14
15 **TO: PINE WATER COMPANY, and its attorney of record.**

16 Pursuant to Rule 33, Arizona Rules of Civil Procedure and the Order of the Hearing Officer in
17 the above captioned matter, you are hereby required to answer in writing and under oath, within ten
18 (10) days, the following interrogatories, in accordance with the following instructions.

19 **INTERROGATORIES**

20 **I. INSTRUCTIONS**

21 (A) These interrogatories shall be deemed continuing so as to require supplement answers if
22 you obtain further or additional information with respect to the subject matter of any of these
23 interrogatories after your answers have been made.

24 (B) As used herein, "person" shall mean any natural person, firm, partnership, joint venture,
25 corporation or other entity.

26 (C) Whenever an interrogatory requests that you identify a person, state his or its full name
27 and complete present or last known residential and business address and phone numbers.

28 Where the "person" identified" is an individual, state in addition: (i) the name and
29 address of the person who was his employer at the time relevant to the interrogatory; (ii) his present

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
INTERROGATORIES TO PINE WATER COMPANY**

Interrogatory No. 4:

What terms of sale, transaction relationships, and ownership relationships does Pine Water Co. have with entities related to Strawberry Water Co., Brooke Utilities, Robert Hardcastle, Crystall Investments L.L.C., Jayco or Jayco Oil Company, or similar entities that are not arms-length transactions that effect the cost of water (including purchase, transportation or wheeling), or reliability of water supply to Pine Water Co?

Interrogatory No. 10:

Who are the beneficial owners or principals of Crystal Investments L.L.C., and Jayco and what other firms or entities are related thereto?

Interrogatory No. 41:

State the names and addresses of each shareholder in Pine Water Company, Brooke Utilities, Inc., Crystal Investment L.L.C. and any other entity falling within the definition of Pine Water Company set forth herein and the number of shares owned by each in each such entity or organization, setting forth the same by the name of the entity or organization.

Interrogatory No. 45:

Has the internal management of the Company, or any of its creditors in discussions with management of the Company, had discussion of the option of bankruptcy of Pine Water Co.? If so, please state who was involved in such discussions, when they occurred, and what was the sum and substance of such discussion?

**BOURASSA Rebuttal
Testimony**

1 FENNEMORE CRAIG
Jay L. Shapiro (No. 014650)
2 Patrick Black (No. 017141)
3003 N. Central Ave.
3 Suite 2600
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4 Attorneys for Pine Water Company, Inc.

5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE
APPLICATION OF PINE WATER
9 COMPANY FOR A
DETERMINATION OF THE
10 CURRENT FAIR VALUE OF ITS
UTILITY PLANT AND PROPERTY
11 AND FOR INCREASES IN ITS
RATES AND CHARGES BASED
12 THEREON FOR UTILITY SERVICE
AND FOR APPROVAL TO INCUR
13 LONG-TERM DEBT

DOCKET NO: W-03512A-03-0279

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19 **REBUTTAL TESTIMONY OF**
20 **THOMAS J. BOURASSA**
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22
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1 **I. INTRODUCTION, PURPOSE AND SUMMARY OF REBUTTAL**
2 **TESTIMONY.**

3 **Q. PLEASE STATE YOUR NAME AND ADDRESS?**

4 A. Thomas J. Bourassa, 139 W. Wood Drive, Phoenix, Arizona 85029.

5 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT**
6 **TESTIMONY IN THIS PROCEEDING?**

7 A. Yes, my direct testimony was filed with Pine Water Company's ("Pine Water" or
8 "Company") application in this docket.

9 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

10 A. I have reviewed the direct filing by Utilities Division Staff ("Staff") and the direct
11 filings by Intervenors, Pine Strawberry Water Improvement District ("District")
12 and John Breninger, and will provide testimony in rebuttal to these parties'
13 positions on certain issues related to the revenue requirement, rate base and income
14 statement, cost of capital and proposed return on rate base, rate design and
15 proposed rates. In support of my rebuttal testimony, I have prepared Rebuttal
16 Schedules A-1, B-1, B-2, B-5, C-1, C-2, D-1, D-2, H-1, H-2, H-3 and H-4, which
17 schedules are attached hereto. I would note that to the extent we have not
18 specifically addressed a particular issue raised by Staff or the Intervenors in this
19 rebuttal filing, this omission is not intended to reflect the Company's agreement on
20 that issue. Rather, where Pine Water accepts a recommendation of another party,
21 we have specifically indicated that to be the case.

22 **Q. WOULD YOU PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY,**
23 **STARTING WITH THE COMPANY'S REBUTTAL RATE BASE?**

24 A. Certainly. The Company's rebuttal fair value rate base ("FVRB") is approximately
25 \$665,500. This is approximately \$14,500 lower than the direct filing due primarily
26 to the Company's proposed adjustment to reduce post test year plant to reflect the

1 actual cost of revenue neutral plant additions constructed and in service as of
2 October 31, 2003.

3 In contrast, Staff proposes a FVRB of \$633,958, which at first glance
4 appears close to the Company's proposed FVRB. However, there are significant
5 differences in the rate base components. First, the Company proposes including
6 approximately \$61,000 of revenue neutral post test year plant, while Staff excludes
7 all post test year plant.

8 Second, Staff proposes including approximately \$450,000 of plant, at
9 original cost less depreciation, pertaining to Project Magnolia, a pipeline
10 connecting Pine Water and Strawberry Water. As Mr. Hardcastle explains in his
11 rebuttal testimony, Staff's proposed inclusion of Project Magnolia in Pine Water's
12 rate base is based on Staff's erroneous findings regarding ownership of the
13 pipeline.

14 Third, Staff proposes to exclude \$369,000 of deferred tax assets from rate
15 base because the Company never sought approval to tax normalize. The Company
16 disagrees with this Staff adjustment because it reflects a one-sided approach to
17 ratemaking

18 **Q. HAS THE COMPANY'S REQUESTED REVENUE REQUIREMENT**
19 **CHANGED AS A RESULT OF THE CHANGE IN RATE BASE?**

20 A. Yes, slightly due to the rate base adjustment mentioned above. The revenue
21 requirement has also changed due to other adjustments to revenues and expenses
22 reflected in the Company's rebuttal filing. For instance, the Company's has
23 accepted Staff's purchased water adjustments as well as Staff's sales tax
24 adjustment. In addition, while the Company does not accept Staff's use of
25 revenues from historical years to determine the correct level of property taxes, Pine
26 Water has made an adjustment in the rebuttal schedules to reflect changes to

1 proposed revenues as well as adoption of the same revenue components Staff
2 recommends in the pending Arizona-American Water Company rate proceeding
3 (Docket Nos. WS-01303a-02-0867, et al.).

4 Notably, however, there are several adjustments recommended by Staff that
5 the Company does not accept, including Staff's proposal to remove all
6 transportation expenses, reduce materials and supplies expense, and reduce rate
7 case expense by lengthening the amortization period. Furthermore, Staff has
8 increased depreciation expense for plant that is not owned by the Company (Project
9 Magnolia) and Staff has eliminated depreciation expense on post test year plant in
10 light of Staff's recommendation that no post test-year plant be included in rate
11 base. The Company disagrees and includes an adjustment to reflect depreciation
12 only on the post test year plant constructed and in service by October 31, 2003.

13 **Q. WHAT IS THE COMPANY'S REBUTTAL REVENUE REQUIREMENT?**

14 A. The Company's requested rebuttal revenue increase is approximately \$266,000, a
15 decrease of approximately \$3,000 from the Company's direct filing. The rebuttal
16 revenue increase represents a 40.8 percent increase over the adjusted test year
17 revenues. In contrast, Staff's recommended revenue increase is approximately
18 \$46,724. This is an increase of approximately 7.14 percent over adjusted test year
19 revenues. The District, as well as Intervenor John Breninger, are recommending
20 no rate increase at this time.

21 **Q. ARE THERE ANY OTHER CHANGES REFLECTED IN YOUR**
22 **REBUTTAL AS COMPARED TO THE DIRECT FILING?**

23 A. Yes, the Company has adjusted its recommended overall rate of return to 10.99
24 percent. The Company has not changed its recommended 12 percent cost of
25 equity, however, because of a proposed change to long-term debt, the weighted
26 cost of capital has changed.

1 Staff did not challenge the Company's recommended cost of capital.
2 Instead, Staff's recommends an operating margin of 10%, which translates to an
3 11.05% rate of return on Staff's FVRB and further proposes to disallow the
4 conversion on Pine Water's \$533,000 inter-company payable. As a result, Staff's
5 proposal results in a negative equity balance, a position that conflicts with Staff's
6 proposal to include Project Magnolia in rate base, and threatens the Company's
7 financial health.

8 **II. RATE BASE.**

9 **A. Post Test Year Plant Additions.**

10 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
11 **ORIGINAL COST RATE BASE, AND IDENTIFY ANY ADJUSTMENTS**
12 **YOU HAVE ACCEPTED FROM STAFF?**

13 A. Yes. The Company's original cost rate base is shown on Schedule B-2. There is
14 only one rebuttal adjustment to adjust post test year plant to actual expenditures
15 through October 31, 2003. In the direct filing, the Company used estimates from
16 its capital budget for 2003.

17 **Q. WHAT POSITION HAS STAFF TAKEN ON THE INCLUSION OF POST**
18 **TEST YEAR PLANT IN RATE BASE?**

19 A. Staff is proposing to disallow all post test year plant because the proposed total
20 amount was based on an estimate. See Direct testimony of Marlin Scott, Jr. ("Scott
21 Dt.") at Exhibit MSJ, page 7 of 15. During Staff's plant audit in June 2003, Staff
22 was provided information on actual plant addition for 2003 completed as of that
23 time. *Id.* At that time, a mere month and a half after the application was filed,
24 approximately \$12,000 was expended for meter installations, although the
25 Company informed Staff that these meter installations were "on-going". In
26 addition, improvements to pumping equipment and transmission and distribution

1 mains were also listed as projects starting either later in 2003 or 2004.

2 Staff rejected the meter project costs because only 113 of the planned 300
3 installations were complete by the time of its audit, further referring to the small
4 percentage of the planned total. *Id.* Staff also rejected the pumping equipment
5 costs and transmission and distribution mains because these projects had not been
6 completed at the time of their review. *Id.*

7 **Q. WHAT IS THE TOTAL COST OF PINE WATER'S POST TEST YEAR**
8 **PLANT ADDITIONS AS OF OCTOBER 31, 2003?**

9 A. Approximately \$52,000 for meter installations, \$8000 for transmission and
10 distribution mains improvements, and \$1,000 for pumping equipment
11 improvements. *See* Bourassa Rebuttal Exhibit 1. This is the amount,
12 approximately \$61,000 the Company proposes for inclusion in rate base.

13 **Q. WHY HAS THE COMPANY SELECTED OCTOBER 31, 2003 AS THE**
14 **CUT-OFF DATE?**

15 A. Although this cut-off date is after Staff's audit, Staff's audit in this case took place
16 almost immediately after the Company's application was deemed sufficient.
17 However, the cut-off date is before the Company's rebuttal filing and well before
18 Staff's surrebuttal, and well before the hearing in this matter. As a result, Staff's
19 June 26, 2003 cut-off date is simply too far removed from the time new rates will
20 be in effect. In addition, given the fact that the majority of the post test year plant
21 additions are meters installed to replace poorly functioning meters, there is no
22 reason Staff cannot update its audit in sufficient time.

23 **B. Deferred Taxes.**

24 **Q. WOULD YOU PLEASE ADDRESS STAFF'S ADJUSTMENT TO RATE**
25 **BASE TO REMOVE DEFERRED TAXES?**

26 A. Yes, Staff proposes to reduce original cost rate base by \$369,000 to eliminate a

1 deferred tax asset on the books of Pine Water. Fernandez Dt. at 9. First, Staff
2 claims that the adjustment is necessary because the Company did not seek or
3 receive prior approval from the Commission to tax normalize. Second, Staff
4 claims that the customers of Pine Water have provided, through rates, cost recovery
5 at a higher depreciation rate. *Id.* Third, Staff claims that the deferred tax asset
6 should be eliminated from rate base because the Company failed to take the
7 opportunity to provide ratepayers with zero cost capital. Fernandez Dt. at 10.
8 None of Staff's reasons supports the proposed reduction to the Company's rate
9 base.

10 **Q. WOULD YOU PLEASE EXPLAIN THE DEFERRED TAX ASSET?**

11 A. The deferred tax asset was booked at the time Brooke Utilities, the parent,
12 reorganized several of its systems, including the creation of Pine Water from the
13 former E&R Water Company and Williamson Waterworks, Inc. systems. *See*
14 Decision No. 60972 (July 23, 1998). In accordance with Generally Accepted
15 Accounting Principles ("GAAP"), the difference between the tax basis of assets
16 and liabilities and their reported amounts in the financial statements was reflected
17 in Pine Water's books and records. Guidance for recording deferred tax assets and
18 liabilities is also given in FAS-109: Accounting for Income Taxes issued by the
19 Financial Accounting Standards Board ("FASB").

20 Rebuttal Exhibit 2 shows the calculation of the deferred tax asset. The
21 deferred tax asset consists of three primary book and tax timing differences. The
22 first component is a deferred tax asset arising from contributions-in-aid of
23 construction ("CIAC"). During the period 1986 to 1996, CIAC was treated as
24 taxable income for tax purposes, but not for book purposes. The Tax Reform Act
25 of 1986 repealed former Internal Revenue Code ("IRC") section 118(b) and the
26 special provisions pertaining to CIAC's, effective for all amounts received after

1 December 31, 1986. IRS Notice 87-82, 1987 CB 389 provided that CIAC's
2 received after December 31, 1986 were to be taxed as ordinary income. In 1996,
3 IRC section 118 was amended via the Small Business Job Protection Act. This
4 amendment reestablished the income tax exemption related to CIAC. Because
5 CIAC received during the period 1986 to 1996 was recognized as income for tax
6 purposes but not for book purposes, Pine Water paid the income taxes and a
7 deferred tax asset was created.

8 The second component is a deferred tax liability arising from the difference
9 in the tax depreciation rates and book depreciation rates. The Accelerated Cost
10 Recovery System ("ACRS") in IRC Section 168 provides for greater tax
11 depreciation deductions than are provided for book purposes. Accelerated
12 depreciation was taken on Pine Water's existing plant, resulting in greater
13 deductions for income tax purposes than for book purposes. As a consequence, a
14 deferred tax liability must be recorded on the Company's books.

15 The third component is a deferred tax asset arising from net operating loss
16 ("NOL") carry forwards. IRC Section 172 allows for NOL carry forwards to be
17 carried over to each of the next 20 years following the taxable year of loss.
18 Because of this tax deduction, a deferred tax asset is created.

19 **Q. WOULD THE LACK OF A SPECIFIC FINDING OR ORDERING**
20 **PARAGRAPH FROM THIS COMMISSION RELATING TO TAX**
21 **NORMALIZATION MEAN THAT PINE WATER COULD NOT TAX**
22 **NORMALIZE?**

23 **A.** Not in my opinion. Few, if any, water utility companies receive a tax
24 normalization order from the Commission. A good example is Paradise Valley
25 Water Company. The first rate application filed by Paradise Valley Water
26 Company, after more than a decade of no rate filings, used a test year ended

1 September 30, 1990 and, in that rate case, deferred income taxes were deducted
2 from rate base. Decision No. 57834 (April 23, 1992) at 11. There was no question
3 that the company could tax normalize, even though Paradise Valley Water had not
4 received a rate order from this Commission authorizing tax normalization. In fact,
5 Paradise Valley Water had to tax normalize consistent with the Tax Reform Act of
6 1969, which imposed tax normalization requirements under section 167 of the IRC,
7 and the Economic Recovery Tax Act of 1981, which required full normalization of
8 book-tax depreciation life and method differences required under IRC section 168
9 (e) for all public utility electing to use the new ACRS (for depreciation) set forth
10 requirements for tax normalization. In the Paradise Valley Water case, the deferred
11 taxes were deducted from rate base by the Company, due to higher tax depreciation
12 compared to book depreciation, without a specific order from this Commission.

13 Numerous other water utility have never received a rate order from this
14 Commission specifically setting forth tax normalization, prior to deferred income
15 taxes appearing in their rate filing, yet they were considered tax normalized via the
16 use of deferred income taxes or investment tax credits in then instant rate filing.
17 Examples would include Big Park Water Company, Decision No. 57507, Chaparral
18 City Water Company, Decision No. 57395, Rio Verde Utilities Inc., Decision No.
19 57168, and Bella Vista Water Company, Decision No. 57831. In short, Staff is
20 apparently making up Commission policy on a case-by-case basis. As a result, this
21 type of financing for all but the largest water utilities in this state will become next
22 to impossible.

23 In summary, this is the first rate proceeding for Pine Water after the
24 reorganization of E&R Water Company and Williamson Waterworks and
25 therefore, the first place to address the matter. Moreover, there can be no question
26 that the Commission has broad discretion here and Staff's assertion that treatment

1 of deferred taxes should be disallowed because it did not have prior approval is
2 suspect. I think it can be safely assumed that had the Company sought specific
3 approval for tax normalization prior to the instant case, Staff would have
4 recommended that any decision on normalization be deferred until the next rate
5 case, which is exactly where we are now.

6 **Q. DID STAFF PROPOSE RATE BASE TREATMENT OF DEFERRED**
7 **TAXES IN THE PRIOR E&R RATE PROCEEDING, DECISION 62400**
8 **(MARCH 31, 2000)?**

9 A. Yes. Staff proposed a \$91,000 reduction from rate base in the E&R water case.
10 See Direct testimony of Darron W. Carlson (Docket No. W-01576A-99-0277) at 7.
11 Staff also notes that Williamson's deferred taxes were excluded from rate base
12 because Staff found insufficient substantiation of the deferred tax amount itself to
13 include it in rate base. In neither instance did Staff assert that prior tax
14 normalization approval by the Commission was needed. *Id.* Indeed, it would
15 appear that the Company is tax normalized as a result of the Commission decision
16 to include deferred taxes in the rate base determination in the last rate case.

17 **Q. DO DEFERRED TAX ASSETS AND LIABILITIES HAVE THE SAME**
18 **EFFECT ON RATE BASE?**

19 A. No. Deferred tax assets increase rate base while deferred tax liabilities decrease
20 rate base.

21 **Q. DID PINE WATER'S RATEPAYERS PROVIDE COST RECOVERY AT A**
22 **HIGHER DEPRECIATION RATE? .**

23 A. No. As I have testified above, there is a deferred tax liability arising from the
24 differences in the tax and book depreciation rates (Component Two). Tax rates
25 have been higher than book; otherwise, a deferred tax asset from the depreciation
26 differences would have been created.

1 Q. DID THE COMPANY TAKE ACCELERATED DEPRECIATION?

2 A. Yes, and in doing so provided ratepayers the benefits of zero cost capital Staff
3 refers to in its direct testimony. See Fernandez Dt. at 10. I am not sure why Mr.
4 Fernandez claims otherwise.

5 Q. IS NORMALIZATION FOR RATEMAKING REQUIRED IF THE
6 COMPANY CONTINUES TO EMPLOY ACCELERATED
7 DEPRECIATION ON ITS EXISTING PLANT?

8 A. Yes, if the Commission disallows the deferred taxes, as Staff suggests, the
9 Company will be precluded from using accelerated depreciation on its existing
10 plant.

11 Q. WHAT ABOUT STAFF'S CLAIM THAT PINE WATER'S DEFERRED
12 TAX ASSET SHOULD BE ELIMINATED BECAUSE THEY INCREASE
13 RATE BASE?

14 A. This is not a valid reason to disallow inclusion of the deferred tax asset in rate base.
15 If a utility company is afforded tax normalization and it reduces rate base in one
16 rate proceeding, consistent treatment should be given to deferred taxes in future
17 proceedings even if it increases rate base. This is a matter of fundamental fairness
18 and the Commission should avoid adopting Staff recommendations that result in
19 arbitrary decisions.

20 C. Project Magnolia.

21 Q. STAFF PROPOSES TO INCLUDE PROJECT MAGNOLIA IN PINE
22 WATER'S RATE BASE. HAS STAFF PROPERLY ACCOUNTED FOR
23 THIS ADJUSTMENT?

24 A. No. Mr. Hardcastle addresses Staff's erroneous conclusion that Pine Water owns
25 Project Magnolia, the pipeline connecting the Pine Water and Strawberry Water
26 Company systems, in his rebuttal testimony. Rebuttal Testimony of Robert T.

1 Hardcastle ("Hardcastle Rb.") at 20-24. For my part, though, I can testify that Staff
2 failed to properly treat Project Magnolia as if Pine Water owned it because Staff
3 did not account for the capitalization of the project and did not include all of the
4 necessary operating expenses.

5 **Q. PLEASE EXPLAIN THE SHORTCOMINGS IN STAFF'S**
6 **RECOMMENDATION.**

7 A. First, there is absolutely no evidence on the Company's books and records that
8 Project Magnolia is included in Pine Water's plant balances. Therefore, in order to
9 account for the project, the costs of the pipeline must be included in plant-in-
10 service. If we were to use, hypothetically, original cost (which is inappropriate for
11 the reasons identified in Mr. Hardcastle's rebuttal testimony at 29), the net effect
12 would be to increase rate base by \$420,120 (\$449,568 of plant less \$29,448 of
13 accumulated depreciation). Although Staff made this adjustment, it incorrectly
14 calculated accumulated depreciation. Perhaps though, Staff's error is due to the
15 wrong in service date being given to Staff in data request responses. *See*
16 *Fernandez Dt.* at 8. In any event, my calculation of accumulated depreciation is
17 \$13,487, if Project Magnolia were placed into service in February 2001, as Mr.
18 Hardcastle correctly testified in the Company's direct presentation, and depreciated
19 at a rate of 2 percent annually using a half-year convention (\$449,568 times 1.5
20 times 2 percent).

21 Second, a corresponding amount needs to be added to the Company's
22 capital structure, either additional debt, equity, or both. Nevertheless, Staff has
23 failed to treat Project Magnolia as having been financed by debt or equity, despite
24 asserting that Pine Water owns it. *Id.* Since Pine Water would need financing
25 approval for debt, we would have to treat the project as having been financed with
26 equity. Accounting properly for the financing of Project Magnolia would result in

1 positive equity. In addition, there would be further increases in the equity
2 component of the capital structure if all transportation expenses (wheeling
3 charges), from inception though the end of the test year, were deemed invalid, as
4 required under Staff's recommended ratemaking treatment. These expenses would
5 have to be added back to equity because net income for the test year and prior years
6 would increase. Net income increases equity. The net effect of this failure to
7 properly reflect Pine Water as being financed by equity is Staff's assertion that
8 Pine Water's equity remains negative. Direct Testimony of John Thornton
9 ("Thornton Dt.") at 5.

10 Third, if Project Magnolia were to be properly treated as owned by Pine
11 Water, all of the operating costs associated with the project must be accounted for
12 in operating expenses, including depreciation, pumping power, operations labor,
13 payroll taxes, insurance, water treatment, and repairs and maintenance. Staff
14 included only depreciation. See Staff Response to Pine Water Data Request 1.16,
15 copy attached hereto as Bourassa Rebuttal Exhibit 3.

16 **Q. WHAT ABOUT STAFF'S CLAIM THAT ALL OF THESE OTHER**
17 **OPERATING EXPENSES ARE ACCOUNTED FOR IN AN ALLOCATION**
18 **OF OVERHEAD?**

19 A. Staff is wrong. Brooke Utilities does not allocate Project Magnolia operating
20 expenses to Pine Water because Brooke Utilities' operating expenses are recovered
21 through the wheeling charge paid by Pine Water.

22 **Q. WHAT IS THE SIGNIFICANCE OF STAFF'S FAILURE TO PROPERLY**
23 **TREAT PROJECT MAGNOLIA AS BEING OWNED BY PINE WATER?**

24 A. Staff's inadequate accounting further undermines Staff's recommended treatment.
25 Of course, the primary flaw in Staff's reasoning is that Project Magnolia was built
26 and paid for and is owned and operated by Brooke Utilities. Hardcastle Rb. at 24-

1 25.

2 **D. Working Capital Allowance.**

3 **Q. HAVE YOU ADJUSTED THE WORKING CAPITAL ALLOWANCE IN**
4 **THE COMPANY'S REBUTTAL RATE BASE?**

5 A. Yes. I have used the formula method and have accounted for rebuttal changes to
6 operating expenses. The result is a working capital allowance that is slightly less
7 than the amount requested in the direct filing.

8 **III. REVENUES AND EXPENSES.**

9 **Q. PLEASE EXPLAIN THE REBUTTAL ADJUSTMENTS TO REVENUES**
10 **AND EXPENSES AND THE ADJUSTMENTS ACCEPTED FROM STAFF.**

11 A. There are 8 rebuttal adjustments to expenses.

12 The Company accepts Staff's proposed adjustment to sales tax expense.
13 Rebuttal adjustment 1 removes the negative sales tax balance in sales tax expense.

14 Rebuttal adjustment number 2 decreases depreciation to reflect the lower
15 amount of post test year plant the Company now proposes and to correct an error
16 made in the direct filing. I inadvertently reduced rather than increased plant-in-
17 service by \$16,500 for materials and supplies expenses reclassified to plant. The
18 proposed reclassification was unintentional.

19 Rebuttal adjustment number 3 adjusts property taxes to reflect the rebuttal
20 proposed revenues and to reflect a change in the revenue components. I will
21 discuss this later in my testimony.

22 The Company accepts Staff's proposed adjustments to purchased water.
23 Purchased water was adjusted for reclassification materials and supplies expense
24 and contractual services-other expense as well as for trucking or hauling costs that
25 are now covered by an adjuster. Rebuttal adjustments 4, 5, and 6 reflect these
26 adjustments. Rebuttal adjustments 4 and 5 have a net zero effect on operating

1 expenses because they simply reclassify expenses from one account to another.
2 Rebuttal adjustment number 6 removes trucking costs that are now covered by an
3 adjuster. The net effect is a \$2,183 reduction to operating expenses from the direct
4 filing.

5 Rebuttal adjustment 7 lowers interest expense to reflect a reduction in the
6 proposed long-term debt from \$178,000 to \$164,000. I will discuss the Company's
7 proposal for long-term debt in the next section of my rebuttal testimony.

8 Rebuttal adjustment 8 adjusts income taxes to reflect the changes to taxable
9 income resulting from the adjustments described above.

10 **A. Transportation Expense.**

11 **Q. HOW DOES THE COMPANY RESPOND TO STAFF'S ELIMINATION OF**
12 **VIRTUALLY ALL OF THE WATER TRANSPORTATION EXPENSES?**

13 A. The Company rejects Staff's proposal to eliminate transportation expenses from
14 operating expenses because, contrary to Staff's claim, they are "applicable."
15 Fernandez Dt. at 13. Transportation expenses represent the wheeling charges Pine
16 Water incurs for delivery of water purchased from Strawberry Water through
17 Project Magnolia. Because Staff has erroneously concluded that Pine Water owns
18 Project Magnolia, Staff has improperly eliminated these necessary operating
19 expenses.

20 **Q. IS PINE WATER GOING TO CONTINUE INCURRING**
21 **TRANSPORTATION EXPENSES?**

22 A. Yes, unless the Commission denies recovery of this cost. For the foreseeable
23 future, obtaining water from Strawberry Water for delivery through Project
24 Magnolia is necessary if Pine Water is going to maintain its current water utility
25 service levels. If the Commission denies recovery of this legitimate operating
26 expense, Pine Water will no longer be able to purchase water from Strawberry

1 Water for delivery through Project Magnolia.

2 **Q. WHAT ARE THE WHEELING FEES CHARGED TO PINE?**

3 A. \$15.00 per thousand gallons transported. *See* Hardcastle Rb. at 29 (discussing
4 reasonableness of wheeling charge).

5 **Q. DOES THE WHEELING CHARGE INCLUDE THE COST OF THE**
6 **WATER FROM STRAWBERRY WATER?**

7 A. No, Strawberry Water charges Pine Water for all water sold according to
8 Strawberry Water's Commission approved tariff.

9 **B. Rate Case Expense.**

10 **Q. HOW DOES THE COMPANY RESPOND TO STAFF'S**
11 **RECOMMENDATION REGARDING RECOVERY OF RATE CASE**
12 **EXPENSE?**

13 A. Staff accepted the Company's total rate case expense. However, Staff proposes to
14 amortize rate case expense over 4.5 years instead of 3 years as proposed by the
15 Company. Fernandez Dt. at 13.

16 **Q. WHAT IS THE BASIS FOR STAFF'S PROPOSED AMORTIZATION**
17 **PERIOD?**

18 A. Staff's basis for the 4.5 year amortization period is that this is the time period that
19 elapsed between this case and the last rate case involving this system. *See*
20 Fernandez Dt. at 13. Yet, Staff has not provided any explanation as to why it
21 projects this will be the same interval between this rate proceeding and the next
22 one. Moreover, given the Company's continuing need to address chronic water
23 supply problems, and the potential for a massive infusion of capital to do so, plus
24 the continuation of the water augmentation surcharge approved by the Commission
25 in Decision No. 65914 (May 16, 2003), it is more likely than not that the next rate
26 case will take place in less than 4.5 years.

1 Q. WHAT POSITION HAS THE DISTRICT TAKEN REGARDING THE
2 COMPANY'S PROPOSED RATE CASE EXPENSE?

3 A. The District claims that Pine Water's "rate hearing costs are way out of line with
4 what a firm this size should spend." *See* Jones Dt. at 11. The District provided no
5 evidence in support of this allegation, however. Instead, the District has actually
6 provided information supporting, at a minimum, the Company's requested level of
7 rate case expense.

8 Q. WHAT INFORMATION HAS THE DISTRICT PROVIDED TO SUPPORT
9 THE COMPANY'S REQUESTED LEVEL OF RATE CASE EXPENSES?

10 A. In response to Pine Water's data requests, the District provided copies of Mr.
11 Jones' invoices for services rendered to the District in connection with this matter.
12 *See* District Response to Pine Water Data Request 1.17, attached hereto as Exhibit
13 4. Between September 25, 2003 and October 31, 2003, Mr. Jones (and his
14 assistant) spent nearly 150 hours in connection with this matter.

15 Clearly, Pine Water's outside consultant (me) and its attorneys charge
16 higher rates than Mr. Jones, although I am aware of no claim that such rates are
17 above market. Focusing therefore, on the number of hours spent by Mr. Jones on
18 this matter in just 35 days, nearly 150, it should come as no surprise that the
19 Company's consultant and attorneys have spent and will spend hundreds of hours
20 in connection with this matter. It must be recalled that this matter began late last
21 year with the preparation and then filing of the Company's interim rate case and
22 will conclude some time next year following extensive discovery, multiple pre-
23 hearing filings, several days of hearings, post hearing briefing and appearances
24 before the Commission. Month-by-month, the Company's rate case expenses
25 should reflect the tremendous efforts required of Pine Water to meet its burden of
26 proof on every one of its recommendations as well as its need to defend against the

1 claims of all opposing parties, including the District.

2 **Q. DID THE DISTRICT RECOMMEND WHAT THE RATE CASE EXPENSE**
3 **SHOULD BE?**

4 A. No.

5 **Q. IS PINE WATER'S REQUESTED RATE CASE EXPENSE REASONABLE?**

6 A. Yes, in my opinion it is. Staff also agrees, as it did not adjust the total amount of
7 rate case expense. *See* Fernandez Dt. at 13. Rate case expense is directly related to
8 not only to the general costs of preparing and prosecuting the application, but the
9 number and nature of the Intervenor, the number, scope, and nature of the data
10 requests, and the number and nature of the issues with respect to the parties in the
11 case. As reflected throughout the Company's direct and rebuttal presentations, this
12 Company faces a number of critical and unique issues. Moreover, the magnitude
13 of the unsubstantiated accusations the District makes in its testimony, and the
14 number and scope of the District's data requests, which the Company must respond
15 to, contribute to a significant rate case expense.

16 **Q. HAS THE COMPANY REVISED ITS REQUESTED LEVEL OF RATE**
17 **CASE EXPENSE?**

18 A. Not in this rebuttal filing. However, primarily due to the District's intervention,
19 and its efforts to expand the scope of the issues in this proceeding, the Company
20 has been required to expend substantial additional sums. Therefore, I anticipate a
21 revised request for recovery of rate case expense in either the rejoinder presentation
22 or during the hearings.

23 **C. Property Tax Expense.**

24 **Q. DO YOU AGREE WITH STAFF ON THE REVENUE COMPONENTS**
25 **USED IN THE PROPERTY TAX CALCULATION?**

26 A. No. Staff improperly uses historical year revenues (2000, 2001, and 2002) in

1 computing property taxes. For ratemaking, where prospective rates are set,
2 property taxes must be synchronized with prospective revenues to insure the
3 Company recovers its property taxes on a going forward basis. In a recent Bella
4 Vista Water rate case, Decision No. 65350 (Nov. 1, 2002), proposed revenues were
5 included in the property tax calculation.

6 **Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX WITH REVENUES**
7 **PROPER RATEMAKING?**

8 A. Yes, it is certainly proper ratemaking to include all known changes to expenses. If
9 income taxes can be adjusted based on adjusted revenues and expenses for
10 ratemaking purposes, then property taxes can also be adjusted. Calculating
11 property taxes based on data other than test year revenues at present and proposed
12 rates is similar to using actual income tax expense in the test year

13 **Q. IS STAFF'S POSITION IN THE INSTANT CASE CONSISTENT WITH ITS**
14 **RECOMMENDATIONS IN OTHER RECENT RATE PROCEEDINGS?**

15 A. No. For example, in the pending Arizona-American rate proceeding I referred to
16 earlier, Staff is recommending use of two times adjusted test year revenues plus
17 proposed revenues. See Direct Testimony of Alexander Igwe at 3 (Docket Nos.
18 WS-01303A-02-0867 et al.) This is exactly what the Company is recommending
19 in this rebuttal filing.

20 **D. Other Revenue and Expense Items in Dispute with Staff.**

21 **Q. WOULD YOU PLEASE CONTINUE WITH YOUR DISCUSSION OF**
22 **REVENUES AND EXPENSES?**

23 A. Sure. The Company also disagrees with Staff's recommended reduction to
24 materials and supplies. Staff proposes to use an average of the past three years as
25 its estimate of these expenses on a going forward basis. While I do not necessarily
26 disagree with this approach, the result must be evaluated for reasonableness and

1 Pine Water's management expectations. Expenses for materials and supplies are
2 expected to continue for the foreseeable future at the levels requested. In fact, the
3 expenses through the ten months ending October 31, 2003 are over \$28,400,
4 greater than the level proposed by Staff for a full twelve months.

5 Finally, the Company disagrees with Staff's proposal to interest synchronize
6 interest expense with rate base. Staff's proposal uses a proposed weighted cost of
7 debt of 4.13 percent, which assumes a capital structure with positive equity. Yet,
8 Mr. Thornton claims Staff could not do a cost of capital analysis because equity
9 was negative. Thornton Dt. at 5. Thus, Staff's recommendation is contrary to its
10 own determination of the Company's capital structure and weighted cost of debt.
11 See Staff Response to Pine Water Data Request 1.23, attached hereto as Bourassa
12 Rebuttal Exhibit 3. I do not know how Staff derived this capital structure.

13 **Q. WHAT IMPACT DOES INTEREST SYNCHRONIZATION HAVE ON THE**
14 **REVENUE REQUIREMENT?**

15 A. In the instant case, interest synchronization increases interest expense and lowers
16 income taxes. This has the effect of lowering the revenue requirement. Of course,
17 all this is impossible if, as Staff claims, Pine Water's equity is negative. If equity
18 is negative, a meaningful cost of debt cannot be determined. In the instant case, the
19 unadjusted (before the proposed inter-company payable conversion) test year
20 equity is a negative \$153,000 and debt is a positive \$59,000. Using this capital
21 structure, the resulting weighted cost of debt is a negative 6.28 percent.

22 **Q. DOES STAFF AGREE THAT INTEREST SHOULD NOT BE**
23 **SYNCHRONIZED?**

24 A. Yes. Staff was asked to explain why they are using interest synchronization if the
25 requested debt and equity financings are proposed to cover operating expenses.
26 Staff stated it should have used actual interest expense in its calculation of income

1 taxes rather than interest synchronization. *See* Staff Response to Pine Water Data
2 Request 1.22, attached hereto as Bourassa Rebuttal Exhibit 3.

3 **E. District Testimony on Revenue and Expenses.**

4 **Q. CAN YOU ADDRESS THE KEY INCOME STATEMENT ISSUES RAISED**
5 **BY THE DISTRICT?**

6 A. The District has charged that the Company “has excluded critical information that
7 influences costs and rates has been left out, misstated or presented in a confusing
8 manner in terms of (1) costs of purchasing water from third parties; (2) costs of
9 (wheeling water) through the unregulated Project Magnolia pipeline connecting the
10 Strawberry Water system to the Pine Water system; (3) costs of hauling water; (4)
11 overstating property taxes; and (5) presenting massive outside service costs that are
12 not clarified.” *See* Jones Dt. at 2. In addition, the District’s witness testifies that
13 the Company is allocating costs and revenues in an “unjustified manipulative
14 manner”. *Id.* at 3. Finally, the District charges “there is a massive incentive to not
15 disclose the details of transactions that could result in multiple mark-ups on water
16 purchases, unjustified mark-ups between companies on wheeling costs, and
17 excessive unexplained service fees.” *See id.* at 3-4.

18 **Q. DOES THE DISTRICT PROVIDE ANY EVIDENCE IN SUPPORT OF MR.**
19 **JONES’ TESTIMONY?**

20 A. None whatsoever. In fact, the District could not produce such evidence when
21 asked. *See* Hardcastle Rb. at Hardcastle Rebuttal Exhibit 2 (District response to
22 Pine Water data request requesting supporting information for Mr. Jones’ claims
23 concerning misapplication of expenses and revenues directing Pine Water to Mr.
24 Jones’ direct testimony).

25 **Q. WAS THE COMPANY’S APPLICATION PREPARED IN ACCORDANCE**
26 **WITH COMMISSION RULES AND REGULATIONS?**

1 A. Yes, as Staff found in its June 2, 2003 Letter of Sufficiency.

2 **Q. IN DETERMINING THE REVENUE REQUIREMENT, DID YOU**
3 **BECOME AWARE OF ANY COSTS THAT WERE MISSTATED, LEFT**
4 **OUT, OR PRESENTED IN A CONFUSING MANNER?**

5 A. Nothing material. I prepared the filing based on the books and records of the
6 Company, in conformance with the rules and regulations of the Commission, and
7 in a format prescribed by the Commission. For instance, the Company did propose
8 adjustments to the test year operating expenses to make the test year in its view a
9 normal or more realistic relationship between revenues, expenses and rate base as
10 allowed consistent with the Commission's rules. See A.A.C. R14-2-103.A.3.i
11 (defining pro forma adjustments to historical test year data).

12 **Q. WHAT ABOUT THE DISTRICT'S ASSERTION THAT THE PROPERTY**
13 **TAXES HAVE BEEN MATERIALLY MISSTATED?**

14 A. I have adjusted the test year property taxes using the ADOR methodology and
15 adjusted the test year accordingly. Any misstatements in actual expenses would be
16 eliminated because property taxes were calculated using the ADOR formula. Any
17 disagreement between the Company and Staff with respect to property taxes in the
18 instant case is purely a function of a disagreement in the revenue components used
19 in the ADOR model. This will be the expense level on a going forward basis,
20 irrespective of any past reporting.

21 Nevertheless, in light of Mr. Jones' testimony, and in developing a response
22 to a District data request, I have reviewed the 2002, 2001, and 2000 property taxes
23 and have found amounts attributed to Strawberry Water in the reported amounts on
24 Schedule E-2. In 2002, approximately \$16,700 in property taxes were attributed to
25 Strawberry Water, but incorrectly appeared on Pine Water's books. In 2001,
26 approximately \$14,550 in property taxes were attributed to Strawberry Water, but

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 (discussing reasonableness of wheeling charge). As reported on Schedule C-1 and
2 on Schedule E-2, transportation expenses are \$176,144. The difference is
3 immaterial. In 2001, approximately 17,859,000 gallons were delivered. At a cost
4 of \$15.00 per thousand, transportation expenses calculate to be \$267,865. As
5 reported on Schedule E-2, transportation expenses are \$267,780. Again, the
6 difference is immaterial. In 2000, there were 0 gallons delivered though the
7 pipeline. Schedule E-2 shows \$132,732. In developing a response to a District
8 data request, I discovered the 2000 expense was misclassified and should have
9 been reported as contractual services.

10 **Q. DOES THE 2000 MISREPORTING ERROR AFFECT THE REVENUE**
11 **REQUIREMENT THE COMPANY IS REQUESTING OR ANY OF THE**
12 **RECOMMENDATIONS THE COMPANY HAS MADE IN THE INSTANT**
13 **CASE?**

14 A. No on both counts. These errors occurred outside the test year.

15 **Q. THE DISTRICT CLAIMS THAT TRANSPORTATION EXPENSES EQUAL**
16 **TO 41 PERCENT OF REVENUE IS EXCESSIVE. HOW DOES THE**
17 **COMPANY RESPOND?**

18 A. The District's claim, that the wheeling charge resulting in costs equal to over 41
19 percent of the Company's revenues during the test year, is in error. *See Jones Dt.*
20 *at 3.* During the test year, the transportation expense was equal to approximately
21 26 percent of revenues.

22 **Q. PLEASE EXPLAIN.**

23 A. In its calculation, the District includes purchased water expense, which includes
24 costs of actual water purchases as well as the cost of trucking water, not wheeling
25 fees. Wheeling fees (transportation expenses) were \$176,144 in the test year.
26 Test year revenues were \$670,447. This translates to approximately 26 percent.

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?**

1 A. None, it appears Staff has not found reason to question these expense levels.

2 Q. **DO YOU HAVE A RESPONSE TO THE DISTRICT'S ASSERTION THAT**
3 **IT COULD NOT ASCERTAIN THE COSTS OF HAULED WATER**
4 **DURING THE TEST YEAR COVERED BY THE ADJUSTER APPROVED**
5 **IN EARLY 2003?**

6 A. Yes. The District obviously did not review the Company's application. In my
7 direct testimony, I specifically identify the adjustment for trucking costs ("water
8 hauling costs") that I removed from the test year operating expenses. *See Direct*
9 *Testimony of Thomas J. Bourassa ("Bourassa Dt.") at 7. At best, this is another*
10 *indication that the District does not have a full understanding of the facts.*

11 Q. **ARE THE COMPANY'S OUTSIDE SERVICE COSTS "MASSIVE" AS THE**
12 **DISTRICT HAS CHARGED?**

13 A. In my opinion, no. The Company does not have an operations and accounting
14 staff. I would expect to see greater outside service costs as a result. Also, the
15 Company has incurred and expects to incur significant legal costs in defending its
16 CC&N as well as addressing its severe water supply problems. Also, as I
17 explained in my direct presentation, the Company adjusted the test year expense
18 levels downward by nearly \$38,000 to reflect expected levels on a going forward
19 basis. Bourassa Dt. at 9.

20 Q. **HAS STAFF PROPOSED ANY ADJUSTMENTS TO CONTRACTUAL**
21 **SERVICES OR TO THE OVERHEAD EXPENSES?**

22 A. Again, no.

23 Q. **HAS EVIDENCE BEEN PRESENTED THAT BROOKE UTILITIES**
24 **ALLOCATES COSTS AND REVENUES BETWEEN PINE WATER,**
25 **STRAWBERRY WATER AND ITSELF IN AN UNJUSTIFIED AND**
26 **MANIPULATIVE MANNER?**

1 A. None of which I am aware.

2 **Q. ARE THERE ANY OPERATIONAL COSTS FROM PROJECT**
3 **MAGNOLIA INCLUDED IN OPERATING EXPENSES?**

4 A. No. As I testified to earlier, operating expenses are recovered in the wheeling fee
5 Brooke Utilities charges.

6 **Q. IS WATER PURCHASED BY BROOKE UTILITIES "MARKED-UP" AND**
7 **THEN RESOLD TO PINE WATER?**

8 A. No. The District makes this accusation, but frankly there is absolutely no evidence
9 to support it. *See Jones Dt. at 10.* First, all invoices for purchased water are
10 invoiced from the vendor, not Brooke Utilities. Second, neither Brooke Utilities
11 nor any of its subsidiaries own or have an interest in the water suppliers (other than
12 Strawberry Water) or in the trucking company, Pearson Trucking. Third, the cost
13 of water purchased from Strawberry Water is covered by a tariff approved by the
14 Commission. *See Hardcastle Rb. at 27-28.*

15 **Q. DOES THE COMPANY PAY DIFFERENT AMOUNTS TO DIFFERENT**
16 **WATER SUPPLIERS?**

17 A. Yes, depending on the circumstances, purchased water costs do vary from supplier
18 to supplier. For example, Pine Water pays Strawberry Water pursuant to a
19 Commission approved tariff. In contrast, private well owners negotiate agreements
20 and prices based on their own circumstances, including water quality, stand-by
21 charges, electricity costs and water availability.

22 **Q. CAN YOU ADDRESS THE DISTRICT'S CONCERN THAT REPAIRS AND**
23 **MAINTENANCE EXPENSES WERE ZERO IN 1999 AND ZERO IN 2001?**

24 A. Yes. In 1999 and 2001, repairs and maintenance expenses were reported in
25 miscellaneous income on the Commission Annual Reports. *See Bourassa Rebuttal*
26 *Exhibit 5.* The respective amounts were \$16,325 and \$4,447. Near as I can tell,

1 the individual preparing the Company's Annual Reports reported the repairs and
2 maintenance amounts in miscellaneous expense because the internal general ledger
3 account reported in repairs and maintenance for 2000 and 2002 was for the internal
4 Company account, materials and supplies. Thus, there may have been some
5 confusion as to where to report the amounts in the past. In my experience, this type
6 of reporting problem is not unique to Pine Water, nor did this have any impact on
7 the determination of the Company's revenue requirement.

8 **Q. CAN YOU EXPLAIN THE \$494,709 OF OTHER REVENUE IN 2000?**

9 A. Yes. This was primarily related to the recording of income tax of \$494,500 and the
10 result of the recognition of deferred taxes, which I discussed earlier in this rebuttal
11 testimony.

12 **Q. DO YOU HAVE ANY OTHER COMMENTS?**

13 A. Yes. The District asserts the Company's financial statements "appear to lack
14 reasonable consistency and accuracy and should be used to prompt further
15 questions as to the firm's real financial status." See Jones Dt. at 15. Thus, the
16 District believes the Company is showing a poor financial condition in hopes of a
17 large rate increase. *Id.*

18 **Q. DO YOU BELIEVE THIS TO BE TRUE?**

19 A. No. I believe my rebuttal testimony demonstrates the District does not have a full
20 understanding of the facts. The Company's financial condition is poor, without
21 any need to "enhance" the facts, due in large measure to the past (and on-going)
22 water supply problems in Pine, Arizona and the increased operating costs incurred
23 to meet the water demands of its customers. The net losses, as well as the
24 insufficient cash flows in prior years, not creative accounting as Mr. Jones
25 imagines, are the reasons Pine Water is in the shape it is in.

26

1 **IV. COST OF CAPITAL.**

2 **Q. CAN YOU DISCUSS THE REBUTTAL COST OF CAPITAL SCHEDULES?**

3 A. Yes. Rebuttal Schedule D-2 reflects a change in proposed long-term debt. As you
4 will recall, the Company proposed converting \$178,000 of inter-company payable
5 to long-term debt. The Company now proposes a reduced debt amount of
6 \$164,000, as discussed below.

7 Rebuttal Schedule D-1, page 2, reflects a change in the proposed equity. In
8 the direct filing, the Company proposed converting \$355,599 of the inter-company
9 payable to equity. The proposed change is to increase the amount of equity to
10 \$369,559, as further discussed below.

11 Rebuttal Schedule D-1, page 1, shows the rebuttal weighted cost of debt,
12 equity, and capital. My recommendation on the cost of equity has not changed and
13 remains at 12 percent.

14 **Q. IS THERE A DISAGREEMENT BETWEEN STAFF AND THE COMPANY**
15 **REGARDING THE COST OF CAPITAL?**

16 A. Yes, although it is important to point out from the beginning that Staff has neither
17 presented cost of capital testimony nor refuted my testimony on the appropriate
18 cost of equity. *See, generally,* Thornton Dt. Still, the Company's has two primary
19 issues with Staff's recommendations regarding Pine Water's capital structure and
20 the cost of capital itself.

21 First, Staff recommends that the Commission deny the conversion on Pine
22 Water's inter-company payable to long-term debt and equity. The Company
23 continues to propose the conversion with the modification to the amount of long-
24 term debt discussed herein. Second, in lieu of preparing cost of capital testimony,
25 Staff recommends a 10 percent operating margin, which translates to an 11.05
26 percent return on Staff's FVRB for Pine Water. The Company disputes Staff's

1 approach primarily because its reasons for not preparing cost of capital testimony
2 are erroneous, particularly given its proposals regarding rate base.

3 **Q. WOULD YOU PLEASE SUMMARIZE THE COMPANY'S PROPOSAL TO**
4 **CONVERT THE INTER-COMPANY PAYABLE TO LONG-TERM DEBT**
5 **AND EQUITY?**

6 A. Yes, as I discussed in my direct testimony, the Company proposed converting an
7 inter-company payable of approximately \$533,000 to \$178,000 of long-term debt
8 and \$355,000 to equity. The \$178,000 was related to financing of plant additions
9 for 2000, 2001, 2002, and 2003, as Pine Water added approximately \$103,000 of
10 plant since 2000 and approximately \$75,000 of plant additions were planned for
11 2003. *See Bourassa Dt. at 11.*

12 **Q. WHAT IS THE REASON FOR THE ADJUSTMENT DOWNWARD TO**
13 **\$164,000?**

14 A. In rebuttal, the 2003 amount has been adjusted downward to approximately
15 \$61,000 (2003 year to date actual plant expenditures). The Company now
16 proposes approval of \$164,000 of long-term debt and the balance of \$369,000
17 converted to equity.

18 **Q. WHY DOES STAFF RECOMMEND DENIAL OF THE COMPANY'S**
19 **REQUESTED CONVERSION OF THE INTER-COMPANY PAYABLE TO**
20 **DEBT AND EQUITY?**

21 A. Staff asserts that the inter-company payable was for operating expenses and any
22 amount converted to debt or equity is inappropriate and a violation of A.R.S. 40-
23 302-(A). Thornton Dt. at 2. To begin with, I note that Staff's witness appears to
24 be offering a legal opinion, something Staff recently criticized me for doing in the
25 pending Arizona-American rate proceeding. *See Staff's Statement of Objections to*
26 *Arizona-American Water Company's Rebuttal Testimony (Docket Nos. WS-*

1 01303a-02-0867, et al.).

2 In any event, Staff's position is incorrect for three reasons. One, as I have
3 testified, the long-term debt is for plant. In my direct testimony, I stated that the
4 financing was to be used for \$103,000 of plant added since 2000 and \$75,000 for
5 plant to be added through the end of 2003. *See Bourassa Dt. at 11.*

6 Two, irrespective of the make-up of the inter-company payable, whatever
7 money could have been paid to Brooke Utilities to reduce the inter-company
8 payable was instead used to pay for plant. Cash is fungible. If plant was paid for,
9 then some other operating expense or obligation was not. The flip side of this is if
10 all wheeling charges were paid for, and then costs for new plant, property taxes,
11 purchased water, and/or employee wages would not have been paid. Vendors,
12 other than Brooke Utilities, demand payment on a timely basis or they would not
13 continue to provide services to Pine Water. Employees have to be paid on time or
14 they would sever their employment. Property taxes have to be paid. Therefore,
15 while in my direct testimony I indicated that the inter-company payable was related
16 to the wheeling charges, I went on to say that Pine Water had not been able to pay
17 all if its operating expenses **as well as** to fund plant additions. *Id.*

18 **Q. COULD ALL OF THE INTER-COMPANY PAYABLE BE ATTRIBUTED**
19 **TO WHEELING CHARGES?**

20 A. No, wheeling charges since 2000 were \$443,924 (2001 was \$267,780 and 2002
21 was \$176,144). There is an error in Schedule E-2 for 2000. The transportation
22 expenses of \$132,732 are not wheeling charges, rather they are contractual
23 services—other. This was a reporting error on the E-2 schedule but this error does
24 not affect net income for 2000. In any case, the inter-company payable cannot be
25 said to consist entirely of wheeling charges.

26 **Q. THANK YOU. PLEASE CONTINUE.**

1 A. Third, a utility company that cannot pay its obligations and continue to operate
2 should have the ability to raise capital by increasing equity to maintain its financial
3 health. The alternative is long-term debt or increasing short-term payables. Short-
4 term liabilities should not finance long-term problems. I doubt Staff would have
5 recommended Brooke Utilities discontinue funding Pine Water's cash needs and
6 allow it to go bankrupt. Staff's position, based on their recommendations, is to
7 place the financial burden on Brooke Utilities rather than help solve Pine Water's
8 financial problems. If this happens, at some point, Brooke Utilities is going to
9 have to stop infusing capital into Pine Water in one form or another, as it has done
10 to keep the Company afloat.

11 Fourth, I note that in applications for CC&N's, equity additions are
12 normally greater than funds needed for plant so that utilities can pay operating
13 expenses during early years when there is not enough cash flow from revenues to
14 fund all operating expenses. This is a similar situation.

15 **Q. IS THE COMPANY STILL PROPOSING A TERM OF 5 YEARS AND 10**
16 **PERCENT INTEREST ON THE LONG-TERM DEBT?**

17 A. Yes. Staff claims that a reasonable period would be 15 years and a reasonable rate
18 would be 2 percentage points over prime or 6 percent. Thornton Dt. at 4.
19 However, the term of the loan proposed by Pine Water is the same as that
20 authorized in the prior rate case. Decision 62400 (March 31, 2000). Moreover,
21 although the inter-company payable is short-term debt, payable within 12 months,
22 none of the payable has been paid since 2000. Instead, it has increased from
23 approximately \$96,000 in 2000 to over \$533,000 in 2002. In other words, Brooke
24 Utilities has already waited as long as 3 years for payment without interest. In
25 essence, Brooke Utilities will have to wait 8 to 9 years for full payment since
26 inception of the original amounts giving rise to the inter-company payable. This is

1 because there will be insufficient cash flows, even under proposed rates, to retire
2 this obligation timely. Increasing the term to 10 or 15 years places an unreasonable
3 burden on Brooke Utilities.

4 It can also be argued that Pine Water has not been servicing its existing
5 long-term debt. Theoretically, the Company has merely been transferring long-
6 term debt (owed to Brooke Utilities) to interest-free short-term debt (inter-company
7 payable owed to Brooke Utilities) rather than truly paying down debt. Again, cash
8 is fungible. If Pine Water pays long-term debt, then it cannot pay the wheeling
9 charges, or operating expenses, and visa-versa. No matter how you look at it, both
10 obligations are due. Perhaps Pine Water should not pay the long-term debt. At
11 least then Brooke Utilities could accrue interest.

12 **Q. WHAT ABOUT STAFF'S PROPOSED INTEREST RATE?**

13 A. Staff's proposed interest rate is unreasonable. As I have testified before, Pine
14 Water is not creditworthy and would not likely be able to obtain third party
15 financing at the interest rate proposed by Staff. For instance, I inquired of Mr.
16 Kevin Lewis, Vice President of Merrill Lynch Financial Service ("MLFS")
17 regarding the interest rates and parameters under which MLFS lends. He stated
18 that high-risk loans would require 8.29 to 9.29 percent rates. *See* Bourassa
19 Rebuttal Exhibit 6. Based on these parameters, I do not see how Pine Water
20 would even be accepted by MLFS, even at the higher rates. This is because Pine
21 Water has experienced negative cash flows in recent years and has a negative debt
22 ratio. Two key parameters MLFS looks at in evaluating a borrower. *Id.*

23 In contrast, Staff has not provided any evidence that any of its supposed
24 lenders at favorable rates would provide financing to Pine Water. *See* Staff
25 Response to Pine Water Data Request 1.5, copy attached hereto as Bourassa
26 Rebuttal Exhibit 3. For example, Staff claims WIFA would loan Pine Water

1 money but neglects to mention that WIFA only provides financing on new plant.
2 *See* Staff Response to Pine Water Data Request 1.4, copy attached hereto as
3 Bourassa Rebuttal Exhibit 3.

4 **Q. HOW DOES STAFF JUSTIFY ITS RECOMMENDED LOWER INTEREST**
5 **RATE ON DEBT THAT IT RECOMMENDS NOT BE APPROVED?**

6 A. Staff cites two recent financings with low interest rates to support its interest rate
7 recommendations: One for Community Water of Green Valley ("Community
8 Water") from Bank One and one for Ashfork Water Service ("Ashfork Water")
9 from the U.S. Department of Agriculture ("USDA"). Thornton Dt. at 3. Staff's
10 support is seriously flawed. For one thing, Staff neglects to mention the financial
11 conditions and legal forms of its two representative borrowers, which factors
12 impact obtainable interest rates.

13 First, Community Water has a superior financial condition when compared
14 to Pine Water. *See* Bourassa Rebuttal Exhibit 7 (excerpts from Community Waters
15 Annual Report). Community Water had cash and cash equivalents of over
16 \$669,000 as of December 31, 2002, a current ratio of over 4 and had no long-term
17 debt as of December 31, 2002. It also appears to have internally funded its plant
18 additions for 2002 from internally generated funds, as plant increased by over
19 \$1,000,000 without a corresponding increase in debt, membership contributions
20 and/or contributions-in-aid of construction.

21 Second, Staff references a financing source providing subsidized rates from
22 which Pine Water could never obtain a loan. Ashfork Water is a non-profit co-
23 operative and qualifies for the low subsidized interest rate from the USDA. Staff
24 has not demonstrated that Pine Water, theoretically a for-profit entity, could qualify
25 under the applicable USDA guidelines. In the end, Mr. Thornton's assessment of
26 Pine Water's ability to obtain lower cost financing is unsupported fiction and

1 should be rejected.

2 **Q. WHAT WOULD BE THE EFFECT OF THE COMMISSION DENYING**
3 **THE PROPOSED CONVERSION OF THE INTER-COMPANY PAYABLE**
4 **TO DEBT AND EQUITY?**

5 A. First, Pine Water's financial situation would not be improved. It would still have a
6 negative equity and poor liquidity ratios. This will impact both cash flow and the
7 ability to borrow funds or attract capital in the future. Future cash flow will be
8 needed to pay down the short-term inter-company payable rather than being
9 available to help internally funded plant additions or to provide cash flow to
10 service future long-term debt or to pay dividends. Risks to equity stakeholders
11 will be much greater and I would have to advise the Company to request a much
12 higher return on rate base to compensate for the added risks. Risks to potential
13 debt holders will simply be too high to attract low interest rates or even obtain
14 financing. Second, the inter-company payable would not be paid for several years,
15 tying up Brooke Utilities' capital, providing no return, and placing a financial
16 burden on the shareholder that will ultimately have trickle down implications to
17 Pine Water's future financial health. In fact, it can be argued that denial of the
18 conversion of the inter-company payable, at least to equity, is confiscatory because
19 it deprives Brooke Utilities the recovery of funds that are now due, while
20 simultaneously denying Brooke Utilities the opportunity to invest these funds in
21 more profitable alternatives.

22 **V. RATES AND RATE DESIGN.**

23 **Q. PLEASE DISCUSS YOUR REBUTTAL RATE SCHEDULES?**

24 A. Rebuttal Schedule H-3 shows the rebuttal rates.

25 **Q. HAS STAFF ADOPTED THE COMPANY'S PROPOSED DESIGN FOR**
26 **WINTER AND SUMMER RATES?**

1 A. Yes. *See* Fernandez Dt. at 15.

2 **Q. WHAT IS THE PRIMARY DIFFERENCE IN STAFF'S RATE DESIGN**
3 **WHEN COMPARED TO THE COMPANY'S PROPOSED RATE DESIGN?**

4 A. The Company's design allows more gallons in each tier for 1 inch and larger
5 meters while Staff's design applies the same number of gallons in each tier
6 regardless of meter size. In Staff's opinion, inclusion of more gallons in the larger
7 meter sizes does not promote conservation. *See* Fernandez Dt. at 15.

8 **Q. DO YOU AGREE?**

9 A. Yes and no. Both designs promote conservation. Customers who use more water
10 pay more under both rate designs. However, the Company's proposed rate design
11 takes into account the fact that larger meters serve customers with greater
12 minimum water needs than those of smaller metered customers rather than the one
13 size fits all approach of Staff. It also reflects, as do the minimum charges, that
14 larger meters have higher capacity flows that are generally required to meet the
15 minimum customer demands.

16 Allowing more gallons for larger meters is not necessarily counter to
17 conservation. By considering the minimum water needs and capacity, the
18 Company's designed its tiers to be more attainable for larger metered customers.
19 In other words, there is an incentive for the larger metered customers to reduce
20 their average usage below the higher cost tiers. For example, the second tier for 1
21 inch and larger meters is 25,000 for the Company and 6,000 gallons for Staff. The
22 average usages for 1 inch meters, as shown on Schedule H-2, are approximately
23 31,800 gallons and 44,900 gallons, respectively. The Company's lower cost tier is
24 more attainable than Staff's and there is an incentive to conserve.

25 **Q. ARE THERE OTHER REBUTTAL SCHEDULES REGARDING RATE**
26 **DESIGN?**

1 A. Yes. Rebuttal Schedule H-1 shows the revenue summary for the rebuttal rates.
2 Rebuttal Schedule H-2 shows the analysis of revenues by customer class.

3 **Q. DOES THE COMPANY STILL PROPOSE A WATER EXPLORATION**
4 **SURCHARGE?**

5 A. No, Mr. Hardcastle explains the reasons for the Company's withdrawal for
6 authorization to collect this surcharge in his rebuttal testimony. *See* Hardcastle Rb.
7 at 19.

8 **Q. ARE THE COMPANY AND STAFF IN AGREEMENT ON THE WATER**
9 **HAULING ADJUSTER MECHANISM?**

10 A. Yes, both Staff and the Company propose that this adjuster mechanism be
11 continued to allow the Company to recover the costs of hauling water into the Pine
12 Water system. *See* Fernandez Dt. at 11.

13 **Q. DO ANY OF THE INTERVENORS OFFER A PROPOSED RATE DESIGN?**

14 A. The District does not provide any testimony concerning rate design, except for its
15 unwarranted criticism of the proposed Water Exploration Surcharge. Jones Dt. at
16 14. Mr. Breninger testifies that some sort of "tiered system of water rates" should
17 be approved but provides no detail as to what he is recommending. Direct
18 Testimony of John O. Breninger at 3, 5. Therefore, it is impossible for me to
19 respond.

20 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

21 A. Yes, it does.
22
23
24
25
26

**BOURASSA Rebuttal
Exhibits**

BOURASSA

REBUTTAL EXHIBIT 1

Brooke Utilities and Affiliates
 Capital Expenditures
 For the Year of 2003

	BUI	Navajo	Payson	Pine	Strawberry	Tonto Basin	Total
January							
106.00 Pine Reservoir	2,000.00						2,000.00
311.00 Pumping Equipment			650.11		1,159.59		1,809.70
331.00 Transmission & Dist. Mains			674.00	958.29	702.51		2,334.80
334.00 Meter & Water Installation		181.82	996.84	5,782.07	1,222.05	335.68	8,518.46
Total	2,000.00	181.82	2,320.95	6,740.36	3,084.15	335.68	14,662.96
February							
331.00 Transmission & Dist. Mains			6,304.71	7,037.09	1,469.80	1,446.33	16,257.93
334.00 Meter & Water Installation		674.62	2,128.70	14,333.97	468.91	225.42	17,831.62
Total	-	674.62	8,433.41	21,371.06	1,938.71	1,671.75	34,089.55
March							
311.00 Pumping Equipment					2,611.85	1,267.60	3,879.45
334.00 Meter & Water Installation			1,508.80	9,696.16	548.27	771.94	12,525.17
Total	-	-	1,508.80	9,696.16	3,160.12	2,039.54	16,404.62
April							
311.00 Pumping Equipment			1,344.05				1,344.05
334.00 Meter & Water Installation		168.53	2,666.38	2,422.07	1,665.65	179.63	7,102.26
Total	-	168.53	4,010.43	2,422.07	1,665.65	179.63	8,446.31
May							
311.00 Pumping Equipment					2,295.88		2,295.88
334.00 Meter & Water Installation			2,680.85	2,925.99	587.91	902.09	7,096.84
Total	-	-	2,680.85	2,925.99	2,883.79	902.09	9,392.72
June							
334.00 Meter & Water Installation			3,670.64	7,218.78	216.45	986.28	12,092.15
Total	-	-	3,670.64	7,218.78	216.45	986.28	12,092.15
July							
311.00 Pumping Equipment						750.84	750.84
334.00 Meter & Water Installation		327.57	427.29	3,393.67	892.82	1,659.70	6,701.05
341.00 Transportation Equipment	59,552.22						59,552.22
Total	59,552.22	327.57	427.29	3,393.67	892.82	2,410.54	67,004.11

Brooke Utilities and Affiliates
 Capital Expenditures
 For the Year of 2003

	BUI	Navajo	Payson	Pine	Strawberry	Tonto Basin	Total
August							
311.00 Pumping Equipment		4,289.45	3,038.90		2,563.73	1,807.94	11,700.02
331.00 Transmission & Dist. Mains						14,962.81	14,962.81
334.00 Meter & Water Installation		440.29	3,638.63	2,535.70	434.24	875.98	7,924.84
Total	-	4,729.74	6,677.53	2,535.70	2,997.97	17,646.73	34,587.67
September							
334.00 Meter & Water Installation			1,115.66	3,762.39	74.81	647.32	5,600.18
Total	-	-	1,115.66	3,762.39	74.81	647.32	5,600.18
October							
311.00 Pumping Equipment				1,014.83			1,014.83
334.00 Meter & Water Installation		127.16	1,436.75	56.81	260.43	56.81	1,937.96
Total	-	127.16	1,436.75	1,071.64	260.43	56.81	2,952.79
YTD Total	61,552.22	6,209.44	32,282.31	61,137.82	17,174.90	26,876.37	205,233.06

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REBUTTAL EXHIBIT 2

	BUI	United Utilities	Strawberry	Tonto	Payson	Navajo	Pine Water	Total
Temporary Book/Tax Differences								
1) Amortization of CIAC								
Books:								
Contributions in Aid of Construction	-	(966,725)	-	-	-	-	(958,323)	(1,925,048)
Less A/A of CIAC @ 4/30/00	-	280,671	-	-	-	-	430,388	711,059
Net liability to amortize	-	(686,054)	-	-	-	-	(527,935)	(1,213,989)
Tax:								
Contributions in Aid of Construction	-	-	-	-	-	-	-	-
Less A/A of CIAC	-	-	-	-	-	-	-	-
Net liability to amortize	-	-	-	-	-	-	-	-
Deferred (Income) expense for tax	-	686,054	-	-	-	-	527,935	1,213,989
2) Bad Debt								
Books	-	-	-	-	-	-	-	-
Tax	-	-	-	-	-	-	-	-
Deferred (Income) expense for tax	-	-	-	-	-	-	-	-
3) Depreciation								
Books:								
Fixed assets	377,300	2,836,910	1,175,456	-	123,789	314,408	1,772,204	6,600,067
Less undepreciable land	-	(25,566)	(2,375)	-	(300)	(10,050)	(16,930)	(55,221)
Accumulated depreciation @4/30/00	(126,341)	(1,237,496)	(701,103)	-	(71,977)	(175,983)	(1,104,809)	(3,417,509)
Net Book Value	250,959	1,573,848	471,978	-	51,512	128,375	650,865	3,127,337
Tax:								
Fixed assets	377,300	2,876,336	1,175,456	-	123,789	314,408	1,933,193	6,800,482
Less undepreciable land & equipment	-	(25,566)	(271,430)	-	(227)	(29,050)	(598,820)	(925,093)
Accumulated depreciation @4/30/00	(126,341)	(1,385,912)	(381,273)	-	(74,339)	(187,670)	(831,881)	(2,987,416)
Tax Basis	250,959	1,464,858	522,753	-	49,223	97,688	502,492	2,887,973
Deferred (Income) expense for tax	-	(108,990)	50,775	-	(2,289)	(30,887)	(148,173)	(239,364)
4) Net Operating Losses								
BUI Net operating income c/f allocated		(121,379)	(69,510)		(6,736)	(16,790)	(57,291)	(271,705)
Income tax NOL not utilized @12/31/99	-	1,180,759	676,186	-	65,528	163,328	557,316	2,643,117
	-	1,059,380	606,676	-	58,792	146,538	500,026	2,371,412
Net deferred (Income) expense for income tax	-	1,838,444	657,481	-	56,503	115,851	879,788	3,348,037
Federal deferred tax benefit (liability) based upon a tax rate of 34%	-	556,391	223,533	-	19,211	39,389	299,128	1,137,653
Arizona deferred tax benefit (liability) based upon a tax rate of 8%	-	130,916	52,596	-	4,520	9,268	70,383	267,683
Total deferred tax debit (credit)	-	687,307	276,129	-	23,731	48,658	369,511	1,405,336
Deferred Income Tax Asset (Liability) @ 4/30/2000(Rounded)	-	687,000	276,000	-	24,000	49,000	369,000	1,405,000
Deferred Income Tax Asset (Liability) @ 12/31/99 (Rounded)	-	(24,000)	(66,500)	-	10,000	11,000	(125,500)	(195,000)
Tax Provision (benefit) exp for Jan-Apr 2000	-	(711,000)	(342,500)	-	(14,000)	(38,000)	(494,500)	(1,600,000)

Payson's NOL is from C&S

E&R's R/E that went to:		%	NOL
3/31/00 Strawberry	617,084	82.85%	660,915
12/1/98 Pine	367,823	37.35%	393,949
			1,054,864

WWW's R/E that went to:		%	NOL
12/1/98 Pine	689,087	87.50%	106,941
3/31/00 Strawberry	98,401	12.50%	15,271
			122,212

BOURASSA

REBUTTAL EXHIBIT 3

**FIRST SET OF DATA REQUESTS
FROM PINE WATER COMPANY, INC.
TO ARIZONA CORPORATION COMMISSION STAFF
(Docket No. W-03412A-03-0279)**

REQUEST:

- 1.4 Is Staff aware of any basis to conclude that the Water Infrastructure Finance Authority would provide financing to PWCo?

RESPONSE:

Yes. Staff believes that PWCo could qualify to submit an application for financing from the WIFA and that PWCo could qualify for such financing.

REQUEST:

- 1.5 Is Staff aware of any banks, including Bank One referenced in the Direct Testimony of John S. Thornton at page 3, ls. 22-23, would provide financing to PWCo?

RESPONSE:

Staff is not aware of what specific banks would or would not provide financing to PWCo.

REQUEST:

- 1.6 Is Staff aware of any basis to conclude that the U. S. Department of Agriculture would provide financing to PWCo?

RESPONSE:

Staff cannot conclude whether the U. S. Department of Agriculture would or would not provide financing to PWCo.

REQUEST:

- 1.16 Did Staff include operating and maintenance expenses associated with the operation of Project Magnolia in Staff's recommended level of operating expenses in light of Staff's recommended inclusion of the project in rate base? If Staff's answer is no to this Data Request, please explain why it is appropriate to include Project Magnolia in rate base but to not allow recovery of operating and maintenance expenses associated with Project Magnolia.

RESPONSE:

Staff included Depreciation Expense of \$8,992 in its recommended rates. In addition Staff allowed the Company's proposed overhead allocation from Brooke Utilities to Pine Water of \$71,092.

REQUEST:

- 1.22 If, as Staff asserts in its direct filing, the requested debt and equity financings proposed to recover operating expenses, please indicate why Mr. Fenandez is using interest synchronization on Schedule CMF-2 to compute income taxes, using weighted cost of debt of 4.13%?

RESPONSE:

Staff should have used the actual interest expense in its calculation of income taxes rather than the synchronized interest.

REQUEST:

- 1.23 Please identify Staff's proposed capital structure showing the calculation of the 4.13% weighted cost of debt.

RESPONSE:

See attached.

Pine Water Company
 Capital Structure and
 Rate of Return Calculation

Line No.	[A]	[B]	[C]	[D]	[E]	[F]	[G]
		Capital	Weight (%)	Cost	Weighted Cost	Gross Rev. Conv. Factor	Grossed-Up Cost
1	Long-term Debt	\$ 205,332	58.34%	7.08%	4.13%	1.00	4.13%
2	Common Equity	\$ 146,623	41.66%	8.7%	3.62%	1.63	5.918
3		\$ 351,955	100.0%		7.8%		10.04%

Pre-Tax Interest Coverage 2.4

BOURASSA

REBUTTAL EXHIBIT 4

**FIRST SET OF DATA REQUESTS
FROM PINE WATER COMPANY, INC.,
TO PINE/STRAWBERRY WATER IMPROVEMENT DISTRICT
(Docket No. W-03412A-03-0279)**

REQUEST:

1.17 Please state the number of hours spent in connection with this matter by Harry Jones, the cost billed to the District and provide copies of any invoices received by the District from or related to Harry Jones.

RESPONSE:

ANSWER; #1.17 During September 25.5 hours at a cost of \$1,147.50 and during October 145.9 hours at a cost of \$6,398.00. See Exhibit 1.17 for copies of bills.

1487701.1/75206.006

HDJ Management

HC8 Box 363
Payson, AZ 85541
(928) 474-2876
Cell (928) 595-1111
FAX (928) 474-2876

***** INVOICE *****

Terms: Net 10 days

To: John Nelson, Administrator, Pine/Strawberry Water
Improvement District

From: Harry D. Jones, HDJ Management

Date: 9-30-03

For management services rendered 9-25-03 thru 9-30-03:

9-25-03	Review Economist.com report, Morrison Maierle report, and news articles to prepare for meeting with John, Marty, Dan, and Ron. Attend meeting at Marty's office. Start review of Pine Water Rate Hearing documents.	13.3 hours
9-26-03	Begin generating ideas for survey form. Meet with John to review prior days discussions, contract suggestions, and strategies.	1.9
9-28-03	Further review of Economist.com report to prepare for call to Dan. Review parts of rate hearing submittals and testimony that might affect Economist.com report.	4.3
9-29-03	Discuss suggested changes and questions on Econ.com report with Dan. Begin draft of letter to old board member related to recovery of assets. Go to Pine to meet with Mary Lou Myers about records. Complete letter to old board members.	6.0

Total Hours 25.5

@ 45.00/hr.

Total Due: \$1,147.50

HDJ Management

HC8 Box 363
Payson, AZ 85541
(928) 474-2876
Cell (928) 595-1111
FAX (928) 474-2876

***** INVOICE *****

Terms: Net 10 days

To: John Nelson, Administrator, Pine/Strawberry Water Improvement District

From: Harry D. Jones, HDJ Management

Date: 10-31-03

*pd. 11-5-03
ck. # 1069
ALONG WITH
EXPENSES OF
\$172.22 AS ACT*

For management services rendered 10-1-03 thru 10-31-03:

10-1-03	Meet with John Nelson and leave suggested letter to former board members.	.6 hours
10-2-03	Telephone call with Loren Peterson with his suggestions about possible intervention in rate hearing and his ideas of community members to bring into a potential citizens communications group.	1.8
10-3-03	Call from John N. requesting I call Jon Breninger and to review Loren's comments. Go to Roundup newspaper office to review letter to editor from three weeks earlier by Estess. Call John B., make introduction, and set appointment for Sunday, 10-5. Call from Loren Peterson about intervention deadline dates.	1.0
10-4-03	Prepare potential survey questions and file and organize documents.	2.2
10-5-03	Prepared agenda to discuss with John Breninger. Met with John B. to discuss his feelings and review his agenda for transition to Bd. of Supervisors. Reviewed records he will prepare to deliver next day.	6.9
10-6-03	Review CAP water rights of Pine Water Co. (none for Strawberry) with CAP offices. Go to bank to arrange to get new signatures on bank account. Lunch with Marty to update him on progress and to give him bank signature card to go to John N. Go to Pine and pick up records, unpaid bills, checks, keys, etc. and review them with John B.	3.8
10-7-03	To Pine to Post Office, storage building, and review and pick up some records to study. Called Mortensen and Goode about records and minutes of last board meeting. Made quick review of	4.6

	records picked up, sorted mail and bills, called John Liege about intervention, prepared for next day meeting with John N.	
10-8-03	Met with John N. to update on my activities and to review legal briefs, allocations of CAP water, etc. Filed documents, read reports, and began preparation for mailing of reports to citizens. Coordinated with Jo Johnson to handle M-M reports and CD-ROMs to be picked up by citizens.	5.8
10-9-03	Met with John N. to coordinate payment of bills and to arrange to have E-mail sent to John Liege. Prepared part of documents for John G., arranged notebooks, and prepared notes for Nancy to be able to do the telephone calls and mailings of the M-M reports and CD-ROMs.	2.7
10-10-03	Prepare copies of rate hearing documents and status for John G. Go to copy store, Jo Johnson's office, Payson Packaging, and Post Office.	1.3
10-11-03	Contact Pine library and John B. Set up mailing and call procedures for distribution of reports and CDs. Check Web sites for County link and PSWID links for internet access to report. Further review rate hearing application to save time of John G. (especially the financial sections).	5.5 Harry
10-11-03	Prepare invoice forms and mailing/pickup checklist for Jo Johnson to use. Make calls to citizens who requested reports two months ago, fill out invoices, and package items ready for pick up or mailing.	2.9 Nancy
10-12-03	Prepare to update John G. on significant details of rate hearing and procedural order of ACC. Further coordinate financial details in rate hearing application with Econ.com report. Complete M-M report review so I can discuss with Buzz Walker and Mike Ploughe when I hand deliver their copies.	6.8 Harry
10-12-03	Place calls to citizens and prepare invoices, mailings and pick up envelopes.	1.2 Nancy
10-13-03	Met with Ray Pugel and called Loren Peterson to get input for meeting with John Nelson	.6
10-14-03	Calls from Printing by George and John Gliege. To Payson P.O. and Printing by George. To Pine mailbox. To Payson Town Hall to meet with Buzz Walker. Pay bills and update mailing records.	3.7 Harry
10-14-03	Complete daily mailing preparation	.5 Nancy
10-15-03	Met John N. to pay bills and set agenda for next days meeting. To Pine to go to storage unit and mail box and pick up new bills. Prepared written agenda for 10-16 meeting with attorney. Reviewed resumes and filed paid bills. Prepared CDs for mailing.	4.6
10-16-03	Make copies of resumes for meeting. Meet with John N. and John Gliege	3.0
10-17-03	Met with Bill McKnight to deliver report and discuss his well that supplies water to Brooke system. Met with Mike Ploughe to review study and arrange meeting with John N. To Post Office.	2.5
10-18-03	Update records and arrange meeting schedule with John N. Called Breninger, resume applicants, and other interested parties and interviewed them over phone. Began drafting interrogatory questions for John G.	5.2

10-19-03	Review E-mail from Loren. Prepare questions for John G. Call Ray Pugel for his e-mail. Make committee candidate calls. Prepare memo to attorney	10.2
10-20-03	Complete balance of mailing and prepare accounts receivable list	2.1 Nancy
10-20-03	Verify final mailing results. Handle E-mail from Pugel and prepare additional questions for Gliege.	3.6 Harry
10-21-03	Lunch with Gregrumph of SRP. To John N. office and post office to deliver mailings. Call from Glenn Brown. Start preparing written testimony.	5.7
10-22-03	Telephone review of draft testimony with Peterson. And Pugel. Review of testimony with Gliege and discuss extention request. To Pine P.O. for mail To nelson and Jo Johnson to review collections and status. Update of testimony and integrate Pugel and Peterson comments. Discuss additional background with Greg of SRP.	6.2
10-23-03	To J. Nelson office to review agenda. Long call from Gliege as to processes and facts. Integrate Gliege comments into agenda. Meet with Dan Jackson and Nelson and discussed legal issuesand testimony with Gliege.	4.0
10-24-03	Call from Komrumph to discuss data and review his explanation of M & M study. Obtain additional population info. From Nelson and discuss with Greg K.	1.0
10-25-03	Update written testimony with John. Calls with Jim Estess and Alan LaMagna.	7.9
10-26-03	Review and prepare testimony	8.5
10-27-03	Update testimony and re-arrange records. Prepare reply to Gliege and Nelson. Go to Pine to see Perry Schaal and Tom Weeks.	7.2
10-28-03	Review updates to testimony and seed to others. Calls to Jackson, Johnson, Nelson, and Gliege. Update testimony based on days conversations.	7.6
10-29-03	Print update of testimony and e-mail. Review Fed-Ex documents from Jackson. Call Gliege about the new info. To Pine for mail. Called Nelson on way to Laughlin to review status. Review exhibits and update testimony.	7.8
10-30-03	Call Gliege to review latest e-mail. To county offices to copy Exhibits. To P.O. to mail copies to Gliege. Make final adjustments to testimony .	5.6
10-31-03	To Pine P.O. to look for staff reports . See Perry Schaal at Knolls job site. Follow up at P.O. to track delivery to Gliege.	1.3

Total Hours – Nancy 6.7 @ \$20.00 = \$ 134.00

Total Hours – Harry 139.2 @ \$45.00 = 6,264.00

Total Due \$6,398.00

AGREEMENT NO. 03-GI-32-0010

BETWEEN THE

BUREAU OF RECLAMATION,
THE TOWN OF PAYSON, ARIZONA,
AND GILA COUNTY, ARIZONA

TO PROVIDE FUNDS AND IN-KIND SERVICES TO
SUPPLEMENT AVAILABLE APPROPRIATED FEDERAL FUNDS FOR
THE MOGOLLON RIM WATER RESOURCE MANAGEMENT STUDY

1. THIS AGREEMENT is made and entered into by and between the Town of Payson, Arizona, hereinafter referred to as "Payson," and Gila County, Arizona, hereinafter referred to as "the County", all of which at times are referred to as "Cooperating Partners" and the Bureau of Reclamation, hereinafter referred to as "Reclamation;" all of which are at times collectively referred to as "Parties," pursuant to the Act of Congress approved June 17, 1902 (32 Stat. 388), and acts amendatory thereof or supplementary thereto, all of which acts are commonly known and referred to as Reclamation Law, and the Act of March 4, 1921, referred to as the Contributed Funds Act; and Public Law 108-7, which authorized the expenditure of fund to conduct the Mogollon Rim Water Resource Management Study.

WITNESSETH

2. EXPLANATORY RECITALS

2.1 WHEREAS, Reclamation in the above mentioned Acts has been authorized by Congress for said investigation; and

2.2 WHEREAS, investigation activities shall include, but are not limited to, those shown in the attached Plan of Study as Attachment A and incorporated herein by reference; and

2.3 WHEREAS, the problem of a growing population in the study area and limited water resources requires additional water sources; and

2.4 WHEREAS, Reclamation has programmed funds under the South/Central Arizona Investigations Program; and

2.5 WHEREAS, Reclamation seeks a minimum 50 percent match-of-study costs by the Cooperating Partners through direct funding or in-kind services; and

2.6 WHEREAS, the Cooperating Partners seek to support and participate in said investigation by providing direct funding and/or in-kind services,

2.7 WHEREAS, a "Project Management Team" (PMT), as described herein, will be formed to provide direction in the development of said Study.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, Parties hereto agree as follows:

3. SERVICES TO BE PERFORMED

3.1 To the extent that funds are advanced or in-kind services are provided by or through the Cooperating Partners, and that Federal funds are appropriated for this purpose, Reclamation and the Cooperating Partners shall, with their staff or by contract, use said funds and in-kind services to complete the work program reflected in Attachment A (the Plan of Study) as set forth in this agreement, and as directed by the PMT herein described.

3.2 Upon completion, Reclamation shall transmit to the Cooperating Partners its report as scheduled in Attachment A.

4. TERM OF AGREEMENT

4.1 This agreement shall become effective upon the date of the last signature of this document and shall remain in effect until the completion of the Study, unless otherwise terminated pursuant to Article 14 herein. The Parties hereto anticipate that the Study will be completed by September 30, 2005.

5. COORDINATION AND PROGRESS REPORTS

5.1 Reclamation shall submit to the Cooperating Partners on a semi-annual basis, a report of actual expenditures on Study work. A separate account shall be maintained by Reclamation for all the work performed on the project Study, with costs identifiable by Study task. This account and related records shall be available for inspection, audit, and reproduction by the Cooperating Partners without charge during normal business hours. During the progress of the work, all operations of either Reclamation or the Cooperating Partners, pertaining to this Study, shall be open to inspection by authorized representatives of the Cooperating Partners or Reclamation, and if work is not being done in a mutually satisfactory manner, any Party may terminate this agreement as specified in Article 14.

6. STUDY MANAGER

6.1. The Parties hereby agree that Reclamation will provide a Study Manager to perform and carry out the duties and responsibilities required of the Study Manager under this agreement.

SAME AS ATTACHMENT A

Reclamation's Study Manager will pursue the work diligently, with an objective of meeting the schedule as found in the Plan of Study. The Study Manager supports the Chairman of the PMT as described in Article 7.

6.2. Subject only to the express limitations of this agreement, the Study Manager is authorized to incur costs, liabilities, and obligations up to the amounts approved and funded by the Parties to this agreement and to perform or arrange for the performance of Study investigations.

6.3 The Study Manager will organize and coordinate a multi-disciplinary team to conduct the Study activities as described in Attachment A.

7. PROJECT MANAGEMENT TEAM

7.1 As a means of guiding the performance of the Study Manager, securing effective cooperation and interchange of information, and providing consultation on a prompt and orderly basis among the Parties on various administrative and technical matters which may arise from time to time in connection with the Agreement, a Project Management Team or PMT is hereby established consisting of a representative from each of the Cooperating Partners and a representative from Reclamation. Other entities may be added to the PMT with approval of representatives from both Reclamation and each of the Cooperating Partners. The PMT will oversee the formulation of the project alternatives, level of detail of the Study, general format of documentation for the Study, and conformance with the Study goals, budget, and schedule.

The PMT shall act in accordance with the following provisions, as well as other provisions, which it may from time to time implement as long as such provisions are consistent with the terms of this Agreement:

7.1.1 Each of the Cooperating Partners shall have one duly authorized representative on the PMT. The representative must be vested with authority to make requisite decisions within the scope of this Agreement. Each of the Cooperating Partners may have an alternate act as temporary representative on the PMT in the absence of the regular member. Such alternate shall have all the authority granted to the authorized representative.

7.1.2 The Parties may invite representatives from agencies to attend PMT meetings to facilitate constructive input and exchange of information. Such invited representatives shall not, however, participate in the PMT decision-making process.

7.1.3 The Chairman of the PMT shall be Reclamation's representative. The Chairman shall be responsible for calling and presiding over meetings of the PMT. The Chairman shall promptly call a meeting of the PMT at the request of any member, but shall provide reasonable advance notice of the time and place of the meeting. The Chairman, with the assistance of the Study Manager shall prepare written notes of all meetings and distribute them to each PMT

representative within a reasonable time after each meeting. The Study Manager acts as the "executive secretary" for the PMT as well as the link with the technical disciplines.

7.1.4 Every reasonable attempt will be made to obtain consensus among all representative on issues that come before the PMT. However, in the event that consensus is not achieved, the Chairman shall consider the positions of each of the representatives in deciding an appropriate course of action.

7.1.5 Any decision may be made by the PMT in an assembled meeting or, upon consent of all PMT members, after the representatives have had an opportunity to consult with one another, by telephone/faxogram, telegraph, telex, letter, or by any combination thereof.

7.2 The PMT shall have the following duties and responsibilities, as well as other duties which it may from time to time agree to undertake, as long as such duties are consistent with the terms of this Agreement:

7.2.1 Monitor the progress of development and completion of the Study activities.

7.2.2 Review, discuss, and attempt to resolve any disputes among the Cooperating Partners arising under the Agreement.

7.2.3 Provide direction to the Study Manager as needed.

7.2.4 Review, and provide direction to the Study Manager, regarding changes to the schedule and scope of work.

7.2.5 Review and comment on drafts of documents developed as part of the Study. The Study Manager shall consider incorporating, as directed by the PMT, all comments in preparing the final documents. Drafts of documents shall be released to the public only after review by the PMT or as required by law.

8. STUDY FUNDING

8.1 Non-Federal funds provided to Reclamation, through direct funding or in-kind services by or through the Cooperating Partners will be a minimum of 50 percent of the actual costs of the work performed under this Agreement as provided in Articles 9. and 10. Reclamation will fund the balance of the study costs, except as discussed in Article 8.2.

8.2. Reclamation funding is subject to annual appropriation by the Congress of the United States, as described in Article 13. If funds available to Reclamation are interrupted, or if the Cooperating Partners wish to accelerate the pace of the Study where feasible, the Cooperating Partners may advance additional funds for Study purposes. Such additional funds may, at the

option of the Cooperating Partners, be counted as an increase in the Cooperating Partners' share of project costs.

8.3 The total estimated cost of the Study is approximately \$600,000.00. Except for any changes described in Articles 11.1 and 11.2, the total payments and in-kind services by the Cooperating Partners under this agreement are not anticipated to exceed \$300,000.00.

8.3.1 The total payments and in-kind services provided by Payson shall total 25% of the cost of the study, or approximately \$150,000.00, which shall be paid or performed in accordance with the following schedule: No less than 8.33% of the total cost of the study, or \$50,000.00, whichever is less, on or before September 30, 2003; no less than 8.33% of the total cost of the study or \$50,000.00, whichever is less, on or before September 30, 2004; and the balance on or before September 30, 2005.

8.3.2 The total payments and in-kind services provided by the County shall total 25% of the cost of the study, or approximately \$150,000.00, which shall be paid or performed in accordance with the following schedule: No less than 6.67% of the total cost of the study, or \$40,000, whichever is less, on or before September 30, 2003; no less than 8.33% of the total cost of the study, or \$50,000, whichever is less, on or before September 30, 2004; and the balance on or before September 30, 2005.

9. IN-KIND SERVICES

9.1 In-kind services provided by the Cooperating Partners will be comprised of tasks that would be otherwise performed by Reclamation in completing the Study. Allowability of these costs will be determined in accordance with the Office of Management and Budget (OMB) Circular A-87, revised August 29, 1997, "Cost Principles for State and Local Governments". Allowability of costs for in-kind services provided by others on behalf of Cooperating Partners will be determined by either OMB Circular A-21, "Cost Principles for Educational Institutions", revised August 8, 2000, OMB Circular A-87, "Cost Principles for State and Local Governments" revised August 29, 1997, or OMB Circular A-122, "Cost Principles for Non-Profit Organizations," revised June 1, 1998, as appropriate.

Copies of OMB Circulars are available on the Internet at
"http://www.whitehouse.gov/omb/grants/grants_circulars.html".

9.2 The value, as provided in Attachment A, of in-kind services provided by the Cooperating Partners, or others on behalf of the Cooperating Partners, shall be credited toward the Cooperating Partners' share of the Study costs, as documentation is received that said in-kind services have been accomplished. Such documentation is required on at least a semi-annual basis. The value of those services will generally be compared to what it would have cost Reclamation to provide the same service and be in accordance with the OMB cost principles.

9.3 Credit given for in-kind services performed prior to the date of enactment of this agreement will be limited to 1) those costs incurred after January 1, 2002 for preparation of the scope of this study and the resulting cost-share agreement or 2) those costs incurred after January 1, 2001 which focus on the availability of additional water supplies in the study area.

9.4 In-kind services not specifically detailed in Attachment A will be credited only if said service is approved in advance by Reclamation.

9.5 Source records supporting in-kind service credit will be retained for 3 years following completion of the Study.

10. ADVANCEMENT/REIMBURSEMENT OF FUNDS After the Study has begun, if projections of study expenses indicate that the combined available funds of the Parties will be exceeded, the Parties will be notified. Should the Cooperating Partners and Reclamation be unable to arrange for appropriate funding or in-kind services, the Study activities will be suspended until funding is available or other options are proposed which are acceptable to the Parties of this agreement.

11. CHANGES AND DISPUTES

11.1 It is recognized that the schedule of activities and costs of conducting this Study are estimates based on perceived requirements prior to initiation, and that changes are likely to occur. It is also anticipated that the plan of study (Attachment A) will be revised from time to time as changes occur in the Study. If and when the Cooperating Partners and Reclamation agree that a change in the activities or costs described in the plan of study is necessary and feasible, the plan of study may be modified in writing to reflect the change by having both parties sign as to the agreed upon changes.

11.2 Should disputes arise over the provisions of, or performance under this agreement, representatives of the Cooperating Partners and Reclamation will attempt to resolve the situation. Should the situation be unresolvable, termination of this agreement would follow procedures as described under Article 14.2.

12. LIABILITY

12.1 Reclamation shall perform its obligations under this Agreement in the capacity of a Federal agency. It is neither a co-venturer, agent, employee, nor representative of the Cooperating Partners. The Cooperating Partners assume no liability for claims or actions arising solely out of the performance of such work by Reclamation's employees or agents.

12.2 Liability of the United States resulting from the negligence of its employees shall be governed by the Federal Tort Claims Act (28 U.S.C. 2671, et seq.). The Cooperating Partners

recognizes that the Federal Tort Claims Act operates to provide liability coverage for the United States Government and its employees in lieu of ordinary insurance coverage.

12.3 Each Party to this Agreement shall be severally liable for loss, damage, or other expense caused by that Party's intentional or wrongful action, neglect, omission, or default in connection with this Agreement. No Party shall be liable for any loss, damage, or other expense caused by another Party's intentional or wrongful action, neglect, omission, or default in connection with this Agreement.

13. CONTINGENT ON APPROPRIATION OR ALLOTMENT OF FUNDS The expenditure or advance of any money or the performance of any obligation by Reclamation under this agreement shall be contingent upon appropriation or allotment of funds by Congress. Absence of appropriation or allotment of funds shall relieve the Cooperating Partners from any obligation under this agreement. No liability shall accrue to Reclamation in case funds are not appropriated.

14. TERMINATION

14.1 Any of the Cooperating Partners or Reclamation may terminate work under this agreement by giving 90 days written notice of termination to the other Parties.

14.2 In the event of termination, Reclamation will prepare and make available to the Cooperating Partners and others interested Federal and State agencies a concluding report summarizing the Study accomplishments at the time of termination.

15. AVAILABILITY OF INFORMATION

15.1 All information and data obtained or developed by Reclamation, in connection with the Study (exclusive of intra-governmental communications) shall be available upon request, except where prohibited by law, to the Cooperating Partners without further charge. However, use of said reports, data, and information shall appropriately reference Reclamation as the source.

15.2 All information and data obtained or developed by the Cooperating Partners, in connection with the Study shall be available upon request, except where prohibited by law, to Reclamation without further charge. However, use of said reports, data, and information shall appropriately reference the appropriate Cooperating Partners as the source. Excluded from this paragraph and not required to be disclosed are internal communications.

15.3 Data compiled and results of studies performed under this agreement will become public domain upon the completion of the investigation and study report, or upon completion of a concluding report under the provisions of Article 14.2.

16. DELAYS

16.1 To the extent that performance of an obligation under this agreement is prevented or delayed by any cause which is beyond the reasonable control of either Party to this agreement, the non-performing Party shall not be deemed to be in default.

16.2 Should the non-performing Party be deemed to be in default, the Cooperating Partners and Reclamation will follow the procedures describe under Article 11.

17. JURISDICTION Federal and State laws govern this agreement. In case of conflict between Federal and State law, Federal law controls.

18. JUDICIAL REMEDIES NOT FORECLOSED Nothing herein shall be construed as: (a) depriving any Cooperating Partners from pursuing and prosecuting any remedy in any appropriate court of the United States or appropriate State which would otherwise be available to such Cooperating Partners, even though provisions herein may declare that determinations or decisions of Reclamation's authorized representative or other persons are conclusive, or (b) depriving any Cooperating Partners of any defense thereto which would otherwise be available.

19. NOTICES AND AUTHORIZED REPRESENTATIVES

19.1 Notice given pursuant to the provisions of this agreement, or which are necessary to carry out its provisions, must be in writing and delivered personally to whom the notice is to be given, or mailed, postage prepaid addressed to that authorized representative. The Parties' authorized representatives and their addresses for this purpose are as follows:

To Payson

Mr. Colin Walker
Town of Payson
303 North Beeline Highway
Payson, Arizona 85541

To Gila County

Supervisor Ron Christensen
Gila County
PO Box 2297
Payson, AZ 85547

To Reclamation

Ms. Leslie Meyers
Bureau of Reclamation
PO Box 81169
Phoenix, Arizona 85069-1169

19.2 Any Party may change its authorized representative in the future by letter to the other Party signed by the agency's responsible authority.

20. INTEGRATIONS No representations or promises are binding on Reclamation or the Cooperating Partners, except those representations and promises contained in this agreement or in some future written representations or promises signed by both Parties.

21. OFFICIALS NOT TO BENEFIT No member of or delegate to Congress, or resident Commissioner, shall be admitted to any share or part of this agreement, or to any benefit arising from it. However, this clause does not apply to this agreement to the extent that this agreement is made with a corporation for the corporation's general benefit.

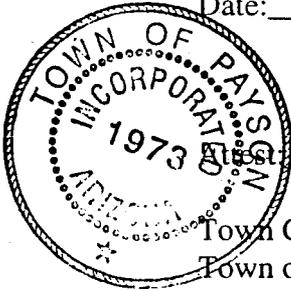
IN WITNESS WHEREOF, the Parties hereto have executed this agreement on the date and year written below.

Town of Payson

By: *Kenneth P. Murphy*

Name: Kenneth P. Murphy
Title: Mayor
Town of Payson

Date: 6/23/03



Steve Smith

Town Clerk
Town of Payson

Date: 6/23/03

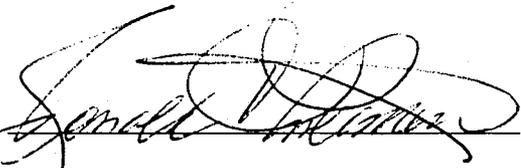
APPROVAL AS TO FORM

The Town of Payson Legal Department has reviewed this agreement and approved it as to form. When reviewing this agreement for form, the Legal Department considers whether the following situations have been addressed: 1) Identification of parties; 2) offer and acceptance; 3) existence of consideration (we do not review to determine if consideration is adequate); and 4) that certain provisions specifically required by statute are included (i.e., provisions concerning non-availability of funds and conflict of interest, A.R.S. § 38-511). We have not reviewed the agreement for other issues. Therefore, approval as to form should not be considered as approval of the appropriateness of the terms or conditions of the agreement or the underlying transaction. In addition, approval as to form should not be considered approval of the underlying policy considerations addressed by the agreement.

Dated 6/23, 2003.

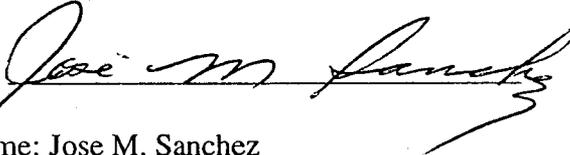
By *Samuel I. Streichman*
Samuel I. Streichman, Town Attorney

Gila County

By: 

Name: Ronald Christensen
Title: Chairman, Gila County Board of Supervisors
Gila County, Arizona

Date: 6-23-03

By: 

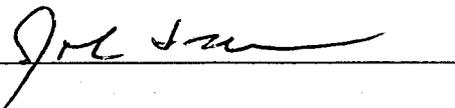
Name: Jose M. Sanchez
Title: Vice-Chairman, Gila County Board of Supervisors
Gila County, Arizona

Date: 6-24-03

By: 

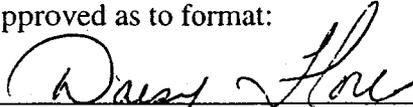
Name: Cruz Salas
Title: Member, Gila County Board of Supervisors
Gila County, Arizona

Date: 6-24-03

Attest: 

Name: John F. Nelson
Clerk of the Board of Supervisors
Gila County

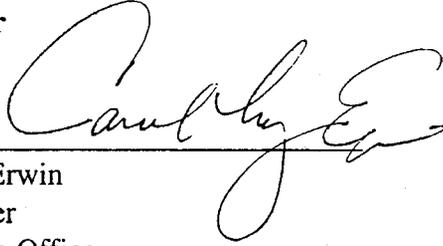
Approved as to format:


County Attorney

Bureau of Reclamation
United States Department of the Interior

By: _____

Carol Lynn Erwin
Area Manager
Phoenix Area Office



Date: _____

5/29/03

LESLIE MEYERS

STUDY MANAGER

(602) 216-3835

FAX (602) 216-4007

LMEYERS@LC.USBR.GOV

BOURASSA

REBUTTAL EXHIBIT 5

COMPARATIVE STATEMENT OF INCOME AND EXPENSES

Acct. No.	OPERATING REVENUES	Prior Year	Current Year
461	Metered Water Sales*	\$ 35,628	\$ 529,718
460	Unmetered Water Sales*		
46x	Water Sales to Other Customers		
47x	Other Operating Revenues	155	4,909
	Total Operating Revenues	\$ 35,783	\$ 534,627

Acct. No.	OPERATING EXPENSES	Prior Year	Current Year
601	Salaries & Wages	\$ 6,809	\$ 79,856
610	Purchased Water	4,497	35,311
615	Purchased Pumping Power	3,012	31,371
618	Water Testing	90	14,090
619	Water Treatment		562
620	Repairs & Maintenance		
621	Office Supplies & Expense		
630	Outside Services	8,860	56,798
631	Rate Case Expense		
640	Rents		1,324
650	Transportation Expense		
655	General Insurance		
658	Health & Life Insurance		
675	Miscellaneous Operating Expense	10,808	122,928
680	Taxes Other than Property & Income	2,245	31,128
681	Property Tax	1,592	35,016
403	Depreciation / AMORTIZATION	<15,389>	36,268
409	Income Tax		
	Total Operating Expense	\$ 22,524	\$ 444,652
	OPERATING INCOME (LOSS)*	\$ 13,259	\$ 89,975

Acct. No.	OTHER INCOME/EXPENSE	Prior Year	Current Year
419	Interest Income	\$	\$
421	Other Income	862	267
426	Other Expense	390	48
427	Interest Expense	9,469	113,742
	TOTAL OTHER INCOME/EXPENSE*	\$ <8,997>	\$ <113,523>
	NET INCOME (LOSS)*	\$ 4,262	\$ <23,548>

MC 2001

COMPANY NAME: PINE WATER COMPANY, INC

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Acct. No.	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR
461	Metered Water Revenue	\$ 593,529	\$ 675,199
460	Unmetered Water Revenue		
474	Other Water Revenues	8,164	10,034
	TOTAL REVENUES	\$ 601,693	\$ 685,233
	OPERATING EXPENSES		
601	Salaries and Wages	\$ 109,630	\$ 109,808
610	Purchased Water	39,183	107,942
615	Purchased Power	35,513	28,399
618	Chemicals	3,571	
620	Repairs & Maintenance	11,261	
621	Office Supplies and Expense		
630	Outside Services	153,343	129,077
635	Water Testing	1,325	8,987
641	Rents	7,025	583
650	Transportation Expenses		267,780
657	Insurance - General Liability		
659	Insurance - Health and Life	8,113	8,117
666	Regulatory Commission Expense - Rate Case		
675	Miscellaneous Expense	124,658	71,734
403	Depreciation Expense	52,440	46,112
408	Taxes Other Than Income	34,676	40,895
408.11	Property Taxes	42,282	43,592
409	Income Tax		
	TOTAL OPERATING EXPENSES	\$ 623,020	\$ 863,026
	OTHER INCOME/EXPENSE		
419	Interest and Dividend Income	\$ -	\$ -
421	Non-Utility Income	494,709	23
426	Miscellaneous Non-Utility Expenses		
427	Interest Expense	(7,128)	(8,925)
	TOTAL OTHER INCOME/EXPENSE	\$ 487,581	\$ (8,902)
	NET INCOME/(LOSS)	\$ 466,254	\$ (186,695)

BOURASSA

REBUTTAL EXHIBIT 6



Private Client Group

Merrill Lynch Business
Financial Services Inc.
2555 E. Camelback Road
Suite 800
Phoenix, AZ 85016
(602)954-5019
FAX (602)954-5915

Kevin Lewis
Vice President
Regional Finance Manager

September 10, 2003

Mr. Thomas Bourassa, CPA
139 W. Wood Drive
Phoenix, Arizona 85029

Re: CREDIT FACILITIES PROPOSAL

Dear Mr. Bourassa,

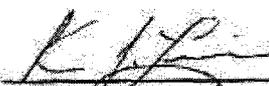
Merrill Lynch uses a number of items to evaluate the pricing it provides clients on a deal by deal basis. These include profitability & cash flow trends, leverage, collateral, and industry risk. We typically like to see companies that have a positive cash flow over the last three years with a debt service coverage of 1.25:1, a debt to equity of 3:1 or better and fully collateralized. As noted we also assess industry risk in our model which is somewhat subjective based on the particular industry.

High risk companies which do not meet any of these would be assigned a higher risk using the FDIC's scale of 1 - 10. A "1" rating would be the least risk. Typically 7 - 10 would constitute high risk. Correspondingly, a high risk company would be assessed larger spread over the benchmark cost of funds when determining a fixed rate. Currently, I would price a fixed rate of 8.29% - 9.29% for a high risk deal using a straight five year fully amortizing note. This pricing is based off of the five year treasury with a maturity in 8/08 and yield of 3.29%.

If you have any questions, please do not hesitate to call.

Very truly yours,

MERRILL LYNCH BUSINESS FINANCIAL SERVICES INC.

By: 

Kevin Lewis
Vice President

BOURASSA

REBUTTAL EXHIBIT 7



STATE OF ARIZONA CORPORATION COMMISSION CORPORATION ANNUAL REPORT & CERTIFICATE OF DISCLOSURE



00672564

DUE ON OR BEFORE 04/15/2003

FY02-03

FILING FEE \$10.00

The following information is required by A.R.S. §§10-1622 & 10-11622 for all corporations organized pursuant to Arizona Revised Statutes, Title 10. The Commission's authority to prescribe this form is A.R.S. §§10-121.A & 10-3121.A. YOUR REPORT MUST BE SUBMITTED ON THIS ORIGINAL FORM. Make changes or corrections where necessary. Information for the report should reflect the current status of the corporation. See instructions for proper format. REFER TO THE INSTRUCTIONS ON PAGE 4.

1. -0102411-7 COMMUNITY WATER COMPANY OF GREEN VALLEY PO BOX 1078 GREEN VALLEY, AZ 85622-1078

RECEIVED

MAR 20 2003

ARIZONA CORP. COMMISSION CORPORATIONS DIVISION

Business Phone: _____ (Check phone is optional) State of Domicile: ARIZONA Type of Corporation: NON-PROFIT

2. Statutory Agent: WILLIAM D BAKER Mailing Address: 7310 N 16TH STREET #320 city, State, Zip: PHOENIX, AZ 85020

Physical Address, if Different. Physical Address: city, State, Zip:

ACC USE ONLY Fee \$10 Penalty \$ Restate \$ Expense \$ Renewal \$

WA 3-24-03

Use this box only if appointing a new Statutory Agent. If appointing a new statutory agent, the new agent MUST consent to their appointment by signed form. (Individual) or We, (corporation or limited liability company) having been designated the new Statutory Agent, do hereby consent to this appointment until my removal or resignation pursuant to law. Signature of new Statutory Agent

3. Secondary Address: 561252

Foreign Corporations are REQUIRED to complete this section.

4. Check the one category below which best describes the CHARACTER OF BUSINESS of your corporation.

- BUSINESS CORPORATIONS: 1. Accounting, 2. Advertising, 3. Aerospace, 4. Agriculture, 5. Architecture, 6. Banking/Finance, 7. Barber/Cosmetology, 8. Construction, 9. Contractor, 10. Credit/Collection, 11. Education, 12. Engineering, 13. Entertainment, 14. General Consulting, 15. Health Care, 16. Hotel/Motel, 17. Import/Export, 18. Insurance, 19. Legal Services, 20. Manufacturing, 21. Mining, 22. News Media, 23. Pharmaceutical, 24. Publishing/Printing, 25. Planning/Landscape, 26. Real Estate, 27. Restaurant/Bar, 28. Retail Sales, 29. Science/Research, 30. Sports/Sporting Events, 31. Technology/Computer, 32. Technology/General, 33. Telecommunications, 34. Tourism/Convention Services, 35. Transportation, 36. Utilities, 37. Veterinary Medicine/Animal Care, 38. Other. NON-PROFIT CORPORATIONS: 1. Charitable, 2. Educational, 3. Civic, 4. Church, 5. Political, 6. Religious, 7. Social, 8. Utility, 9. Cultural, 10. Athletic, 11. Science/Research, 12. Hospital/Health Care, 13. Agricultural, 14. Animal Husbandry, 15. Homeowner's Association, 16. Professional, commercial, industrial or trade association, 17. Other: utility

-0102411-7 COMMUNITY WATER COMPANY OF GREEN VALLEY

Page 2

5. CAPITALIZATION: (Business Corporations and Business Trusts are REQUIRED to complete this section.) Business trusts must indicate the number of transferable certificates held by trustees evidencing their beneficial interest in the trust estate. Please examine the corporation's original Articles of Incorporation for the amount of shares authorized. Review all corporation amendments to determine if the original number of shares has changed. Examine the corporation's minutes for the number of shares issued. Please Print or Type Clearly.

Number of Shares/Certificates Authorized Class Series Within Class (if any)

None

Number of Shares/Certificates Issued Class Series Within Class (if any)

None

6. SHAREHOLDERS: (Business Corporations and Business Trusts are REQUIRED to complete this section.) List shareholders holding more than 20% of any class of shares issued by the corporation, or having more than a 20%

Beneficial interest in the corporation. Please Type or Print Clearly.

Name: _____ Name: _____
 NONE Name: _____ Name: _____

7. OFFICERS Please Type or Print Clearly. You Must List at Least One.

Name: <u>Raymond L Smith</u>	Name: <u>Robert W Liddell</u>
Title: <u>Chairman</u>	Title: <u>Secretary</u>
Address: <u>545 Paseo Potrerro</u>	Address: <u>20 Calle Lecho</u>
<u>Green Valley, AZ 85614</u>	<u>Green Valley, AZ 85614</u>
Date taking office: <u>4/28/98</u>	Date taking office: <u>6/28/98</u>
Name: <u>John R (Dick) McCordless</u>	Name: _____
Title: <u>Treasurer</u>	Title: _____
Address: <u>917 W Camino Guarina</u>	Address: _____
<u>Green Valley, AZ 85614</u>	_____
Date taking office: <u>02/26/03</u>	Date taking office: _____

8. DIRECTORS Please Type or Print Clearly. You Must List at Least One.

Name: <u>George H Fielder</u>	Name: <u>Ray H Erickson</u>
Address: <u>911 Camino Guarina</u>	Address: <u>913 N Camino Guarina</u>
<u>Green Valley, AZ 85614</u>	<u>Green Valley, AZ 85614</u>
Date taking office: <u>4/24/95</u>	Date taking office: <u>12/18/95</u>
Name: <u>Roger L Rogge</u>	Name: <u>Grant E McMartin</u>
Address: <u>651 N Avenida Cipres</u>	Address: <u>963 S Vuelta de Transicion</u>
<u>Green Valley, AZ 85614</u>	<u>Green Valley, AZ 85614</u>
Date taking office: <u>11/23/98</u>	Date taking office: <u>2/28/00</u>

0102411-7

Balance Sheets

	Assets	
	2002	2001
Utility plant:		
Plant in service, at cost	\$16,059,274	\$14,974,931
Construction work-in-progress	<u>598,553</u>	<u>427,704</u>
	16,657,827	15,402,635
Less accumulated depreciation	<u>5,433,896</u>	<u>5,114,108</u>
Total utility plant	<u>11,224,731</u>	<u>10,288,527</u>
Current assets:		
Cash and cash equivalents	669,270	1,209,915
Securities available-for-sale, at market	119,847	416,375
Accounts receivable, less allowance for doubtful accounts of \$3,200 in 2002 and 2001	179,307	169,592
Materials and supplies	38,166	50,774
Prepayments and special deposit	<u>19,389</u>	<u>19,197</u>

Total current assets	<u>1,025,179</u>	<u>1,865,853</u>
Deferred charges:		
Central Arizona Project		
Capital Charges	336,256	278,765
Other	<u>64,184</u>	<u>67,602</u>
Total deferred charges	<u>400,440</u>	<u>346,367</u>
	<u>\$12,650,350</u>	<u>\$12,500,747</u>

0102411-7

As of December 31, 2002 and 2001

Membership Interest and Liabilities

	2002	2001
Membership Interest:		
Memberships and contributions	\$ 48,010	\$ 48,010
Accumulated surplus	7,127,766	6,859,149
Accumulated other comprehensive income	<u>14,436</u>	<u>6,939</u>
Total membership interest	<u>7,190,212</u>	<u>6,914,098</u>
Current liabilities:		
Accounts payable	98,920	347,528
Accrued taxes	67,917	85,502
Other liabilities	<u>71,502</u>	<u>69,878</u>
Total current liabilities	<u>238,339</u>	<u>502,908</u>
Deferred credits:		
Refundable advances for construction	4,019,985	3,901,510
Other	<u>191,948</u>	<u>90,805</u>
Total deferred credits	<u>4,211,933</u>	<u>3,992,315</u>
Contributions in-aid-of construction, net	<u>1,099,866</u>	<u>1,091,426</u>
	<u>\$12,650,350</u>	<u>\$12,500,747</u>

**BOURASSA Rebuttal
Schedules**

Pine Water Company
 Test Year Ended December 31, 2002
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Rebuttal Schedule A-1
 Page
 Witness: Bourassa

Line
No.

1	Fair Value Rate base			\$	665,509		
2							
3	Adjusted Operating Income				(132,139)		
4							
5	Current Rate of Return				-19.86%		
6							
7	Required Operating Income			\$	73,164		
8							
9	Required Rate of Return on Fair Value Rate Base				10.99%		
10							
11	Operating Income Deficiency			\$	205,303		
12							
13	Gross Revenue Conversion Factor				1.2985		
14							
15	Increase in Gross Revenue						
16	Requirement			\$	266,589		
17							
18		Present	Proposed	Dollar		Percent	
19	Customer	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>		<u>Increase</u>	
20	<u>Classification</u>						
21	5/8 Inch Meter - Residential	\$626,494	\$878,138	\$	251,644	40.17%	
22	3/4 Inch Meter - Residential	468	833		365	77.91%	
23	1 Inch Meter - Residential	4,441	8,263		3,822	86.07%	
24	2 Inch Meter - Residential	194	523		329	169.69%	
25	5/8 Inch Meter - Commercial	2,003	3,725		1,722	85.98%	
26	1 Inch Meter - Commercial	2,647	4,509		1,862	70.32%	
27	2 Inch Meter - Commercial	5,977	11,368		5,390	90.18%	
28							
29	Revenues from Annualization	3,539	4,434		895	25.30%	
30					-	0.00%	
31					-	0.00%	
32	Miscellaneous Revenues	8,436	8,436		-	0.00%	
33					-	0.00%	
34	Total of Water Revenues	<u>\$654,199</u>	<u>\$920,228</u>	\$	<u>266,029</u>	<u>40.66%</u>	

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SUPPORTING SCHEDULES:

Rebuttal B-1
 Rebuttal C-1
 Rebuttal C-3
 Rebuttal H-1

Pine Water Company
 Test Year Ended December 31, 2002
 Summary of Fair Value Rate Base

Exhibit
 Rebuttal Schedule B-1
 Page 1
 Witness: Bourassa

Line No.		Original Cost Rate base
1		
2	Gross Utility Plant in Service	\$ 1,952,732
3	Less: Accumulated Depreciation	<u>1,228,209</u>
4		
5	Net Utility Plant in Service	\$ 724,523
6		
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	52,072
10	Contributions in Aid of	
11	Construction - Net of amortization	463,392
12	Customer Meter Deposits	21,356
13	Deferred Income Taxes & Credits	-
14	Investment tax Credits	-
15	<u>Plus:</u>	
16	Unamortized Finance	
17	Charges	-
18	Deferred Tax Assets	369,000
19	Allowance for Working Capital	108,806
20	Citizens Acquisition Adjustment	-
21		
22	Total Rate Base	<u>\$ 665,509</u>
23		
24		
25		
26	<u>SUPPORTING SCHEDULES:</u>	
27	Rebuttal B-2	
28		
29		
30		
31		

RECAP SCHEDULES:
 Rebuttal A-1

Pine Water Company
 Test Year Ended December 31, 2002
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Direct Adjusted End of Test Year	Proforma Label	Adjustment Amount	Rebuttal Adjusted End of Test Year
1	Gross Utility				
2	Plant in Service	\$ 1,967,029	(1)	(14,297)	\$ 1,952,732
3					
4	Less:				
5					
6	Accumulated				
7	Depreciation	<u>1,228,209</u>			<u>1,228,209</u>
8					
9	Net Utility Plant				
10	in Service	\$ 738,820			\$ 724,523
11					
12	Less:				
13	Advances in Aid of				
14	Construction	\$ 52,072			\$ 52,072
15	Contributions in Aid of				
16	Construction - Net	463,392			463,392
17					
18	Customer Meter Deposits	21,356			21,356
19	Deferred Income Taxes	-			-
20	Investment Tax Credits	-			-
21	Plus:				
22					
23	Deferred Tax Assets	369,000			369,000
24					
25	Working capital	109,032	(2)	(225)	108,806
26					
27					
28	Total	<u>\$ 680,032</u>			<u>\$ 665,509</u>

31 ADJUSTMENTS:

- 32 (1) Adjust proforma plant to actual YTD expenditures
 33 (2) Change in working capital allowance.

40 SUPPORTING SCHEDULES:

RECAP SCHEDULES:
 Rebuttal B-1

41
 42

Pine Water Company
Test Year Ended December 31, 2002
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	89,156
3	Pumping Power (1/24 of Pumping Power)		1,539
4	Material and Supplies Inventories		-
5	Prepayments		18,111
6			
7			
8	Total Working Capital Allowance	<u>\$</u>	<u>108,806</u>
9			
10			
11	Working Capital Requested	<u>\$</u>	<u>108,806</u>
12			

13
14 SUPPORTING SCHEDULES:

15 Rebuttal C-1

16

RECAP SCHEDULES:

Rebuttal B-1

Pine Water Company
 Test Year Ended December 31, 2002
 Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 1
 Witness: Bourassa

Line No.	Direct Adjusted Test Year	Label	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
Revenues						
1						
2	\$ 645,612			\$ 645,612	266,029	\$ 911,640
3	-			-		-
4	8,436			8,436		8,436
5	<u>\$ 654,048</u>		<u>\$ -</u>	<u>\$ 654,048</u>	<u>\$ 266,029</u>	<u>\$ 920,076</u>
Operating Expenses						
7	\$ 125,296			\$ 125,296		\$ 125,296
8	6,105			6,105		6,105
9	64,262	(4a)(5a)(6)	(6,427)	57,835		57,835
10	36,942			36,942		36,942
11	604			604		604
12	42,923	(5b)	807	43,730		43,730
13	7,758			7,758		7,758
14	-			-		-
15	38,328			38,328		38,328
16	66,430			66,430		66,430
17	19,368	(4b)	3,437	22,805		22,805
18	71,092			71,092		71,092
19	-			-		-
20	176,144			176,144		176,144
21	2,271			2,271		2,271
22	12,663			12,663		12,663
23	2,631			2,631		2,631
24	299			299		299
25	2,153			2,153		2,153
26	202			202		202
27	4,080			4,080		4,080
28	1,000			1,000		1,000
29	-			-		-
30	-			-		-
31	(380)	(1)	380	0		0
32	272			272		272
33	21,501			21,501		21,501
34	50,000			50,000		50,000
34	35,496	(2)	80	35,576		35,576
35	45			45		45
36	45,239	(3)	459	45,698		45,698
37	(45,951)	(8)	676	(45,274)	61,157	15,883
38						
39	<u>\$ 786,774</u>		<u>\$ (588)</u>	<u>\$ 786,186</u>	<u>\$ 61,157</u>	<u>\$ 847,344</u>
40	<u>\$ (132,727)</u>		<u>\$ 588</u>	<u>\$ (132,139)</u>	<u>\$ 204,871</u>	<u>\$ 72,733</u>
Other Income (Expense)						
42	-			-		-
43	-			-		-
44	-			-		-
45	(20,824)	(7)	1,298	(19,526)		(19,526)
46	-			-		-
47	-			-		-
48	<u>\$ (20,824)</u>		<u>\$ 1,298</u>	<u>\$ (19,526)</u>	<u>\$ -</u>	<u>\$ (19,526)</u>
49	<u>\$ (153,551)</u>		<u>\$ 1,886</u>	<u>\$ (151,665)</u>	<u>\$ 204,871</u>	<u>\$ 53,206</u>

SUPPORTING SCHEDULES:
 Rebuttal C-2

RECAP SCHEDULES:
 Rebuttal A-1

54

Line No.	Adjustments to Revenues and Expenses						Subtotal
	1	2	3	4	5	6	
	Remove Sales Tax Expense	Depreciation Expense	Property Taxes	Reclassify Purchased Water Expense	Reclassify Purchased Water Expense	Reclassify Purchased Water Expense	
1	380	80	-	459	-	(2,183)	(1,264)
2	(380)	(80)	-	(459)	-	2,183	1,264
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16	(380)	(80)	-	(459)	-	2,183	1,264
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36	1,298	(676)	-	-	-	-	1,886
37							
38							

Line No.	Adjustments to Revenues and Expenses						Subtotal
	7	8	9	10	11	12	
	Interest Expense	Income Taxes	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	
21	1,298	-	-	-	-	-	1,298
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36	1,298	(676)	-	-	-	-	1,886
37							
38							

Pine Water Company
Test Year Ended December 31, 2002
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Line
No.
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Remove Negative Sales Taxes Recorded in Revenues

Direct Sales Tax Amount

(380)

Rebuttal Test Year Sales Tax Amount

-

Total Adjustments

\$ (380)

Adjustment to Revenues and/or Expenses

\$ 380

Pine Water Company
 Test Year Ended December 31, 2002
 Adjustments to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Rebuttal Schedule C-2
 Page 3
 Witness: Bourassa

Line

No.

1 Depreciation Expense

2

3

Account			Original Cost	Rate	Depreciation Expense
No.	Description				
6	301	Organization	\$ -	0.00%	\$ -
7	302	Franchises	-	0.00%	-
8	303	Land and Land Rights	16,930	0.00%	-
9	304	Structures and Improvements	160,067	3.33%	5,330
10	305	Collecting and Impounding Rese	-	2.50%	-
11	306	Lake, River and Other Intakes	-	2.50%	-
12	307	Wells and Springs	65,994	3.33%	2,198
13	308	Infiltration Galleries and Tun	-	6.67%	-
14	309	Supply Mains	479	2.00%	10
15	310	Power Generation Equipment	-	5.00%	-
16	311	Pumping Equipment	131,293	12.50%	16,412
17	320	Water Treatment Equipment	5,320	3.33%	177
18	330	Distribution Reservoirs and St	247,073	2.22%	5,485
19	331	Transmission and Distribution	990,291	2.00%	19,806
20	333	Services	80,461	3.33%	2,679
21	334	Meters and Meter Installations	193,687	8.33%	16,134
22	335	Hydrants	-	2.00%	-
23	336	Backflow Prevention Devices	-	6.67%	-
24	339	Other Plant and Miscellaneous	-	6.67%	-
25	340	Office Furniture and Equipment	-	6.67%	-
26	341	Transportation Equipment	-	20.00%	-
27	342	Stores Equipment	-	4.00%	-
28	343	Tools, Shop and Garage Equipment	-	5.00%	-
29	344	Laboratory Equipment	-	10.00%	-
30	345	Power Operated Equipment	-	5.00%	-
31	346	Communication Equipment	-	10.00%	-
32	347	Miscellaneous Equipment	-	10.00%	-
33	348	Other Tangible Plant	-	0.00%	-

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TOTALS	\$ 1,891,594		\$ 68,230
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Proforma Plant (to be completed by 12/31/2003)	\$ 61,138	3.6396%	2,225
--	-----------	---------	-------

45

46

47

48

Less: Amortization of Contributions	\$ 958,323	3.6396%	(34,879)
-------------------------------------	------------	---------	----------

49

50

Total Depreciation Expense			\$ 35,576
----------------------------	--	--	-----------

51

52

Test Year Depreciation Expense			35,496
--------------------------------	--	--	--------

53

54

Increase (decrease) in Depreciation Expense			80
---	--	--	----

55

56

Adjustment to Revenues and/or Expenses			\$ 80
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57

Pine Water Company
 Test Year Ended December 31, 2002
 Adjustments to Revenues and Expenses
 Adjustment Number 3

Exhibit
 Rebuttal Schedule C-2
 Page 4
 Witness: Bourassa

Line No.		
1	<u>Property Taxes</u>	
2		
3	Adjusted Revenues in year ended 12/31/02	\$ 654,048
4	Adjusted Revenues in year ended 12/31/02	654,048
5	Proposed Revenues	<u>920,076</u>
6	Average of three year's of revenue	<u>\$742,724</u>
7	Average of three year's of revenue, times 2	\$1,485,448
8	Add:	
9	Construction Work in Progress at 10%	
10	Deduct:	
11	Book Value of Transportation Equipment	-
12		
13	Total Book Value of Transportation Equipment	<u>\$ -</u>
14		
15	Full Cash Value	\$ 1,485,448
16	Assessment Ratio	<u>25%</u>
17	Assessed Value	371,362
18	Property Tax Rate	12.31%
19		
20	Property Tax	45,698
21	Tax on Parcels	-
22		
23	Total Property Tax at Proposed Rates	<u>\$ 45,698</u>
24	Property Taxes in the test year	<u>45,239</u>
25	Change in Property Taxes	<u>\$ 459</u>
26		
27		
28	Adjustment to Revenues and/or Expenses	<u>\$ 459</u>
29		
30		

Pine Water Company
Test Year Ended December 31, 2002
Adjustments to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line

No.

1	<u>Transfer Amounts from Purchased Water to Contractal Services -Other (per Staff)</u>		
2		<u>Label</u>	
3	Decrease Purchased Water for Meter Reading Charges	4a	(3,437)
4	<u>Increase Contractual Services - Other for Meter Reading Charges</u>	4b	3,437
5			
6			
7			
8	Adjustment to Revenues and/or Expenses		<u>\$ -</u>
9			
10			
11			

Pine Water Company
Test Year Ended December 31, 2002
Adjustments to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Line

No.

1	<u>Transfer Amounts from Purchased Water to Materials and Supplies (per Staff)</u>		
2		<u>Label</u>	
3	Decrease Purchased Water for Meter Reading Charges	5a	(807)
4	<u>Increase Contractual Services - Other for Meter Reading Charges</u>	5b	807
5			
6			
7			
8	Adjustment to Revenues and/or Expenses		<u>\$ -</u>
9			
10			
11			

Pine Water Company
Test Year Ended December 31, 2002
Adjustments to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

Line No.		
1	<u>Remove Starlight Hauling Costs from Purchased Water (per Staff)</u>	
2		
3	Decrease Purchased Water for Starlight Water Trucking Charges	(2,183)
4		
5		
6		
7		
8	Adjustment to Revenues and/or Expenses	<u>\$ (2,183)</u>
9		
10		
11		

Pine Water Company
Test Year Ended December 31, 2002
Adjustments to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

Line
No.
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1	<u>Projected 2003 Interest Expense</u>	
2		
3	Projected 2003 Interest Expense	\$ 19,526
4		
5	Direct Adjusted Test year Interest Expense	<u>20,824</u>
6		
7	Increase (decrease) in Revenues/ Expenses	\$ (1,298)
8		
9		
10		
11		
12	Adjustment to Revenue and/or Expense	<u>\$ 1,298</u>
13		

14 SUPPORTING SCHEDULES:
15 Rebuttal C-2, Page 8a

Pine Water Company
Test Year Ended December 31, 2002
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	16.02%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	22.99%
9		
10	Operating Income % = 100% - Tax Percentage	77.01%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.2985
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rebuttal A-1
20		

Actual End of Test Year Adjusted End of Test Year

Line No.	Stockholder's Equity	Dollar Amount	Label	Adjustment	Dollar Amount
1		(152,996)	(a)	369,599	216,604
2		<u>(152,996)</u>			<u>216,604</u>
3		<u>(152,996)</u>			<u>216,604</u>
4	Totals	<u>(152,996)</u>			<u>216,604</u>
5					
6					
7					
8					

(a) Propose converting \$369,599 of \$533,599 inter-company payable to equity.

SUPPORTING SCHEDULES:
E-1

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29

Pine Water Company
 Test Year Ended December 31, 2002
 Cost of Long Term Debt

Exhibit
 Rebuttal Schedule D-2
 Page 1
 Witness: Bourassa

Line No.	Description of Debt	Adjusted End of Test Year			End of Projected Year				
		Amount Outstanding	Percent	Interest Rate	Composite Cost	Amount Outstanding	Percent	Interest Rate	Composite Cost
1									
2	Long-Term Debt	55,353	25.23%	10.00%	2.52%	32,971	15.03%	10.00%	1.50%
3	Long-Term Debt (a)	164,000	74.77%	10.00%	7.48%	137,388	62.63%	8.00%	5.01%
4									
5									
6									
7									
8									
9									
10	Totals	219,353	100.00%		10.00%	170,359	77.66%		6.51%

(a) Propose converting \$164,000 of the \$533,599 inter-company payable to long-term debt.

Supporting Schedules:

15
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17
18

Pine Water Company
Amortization Schedule

Exhibit
Rebuttal Schedule C2
Page 8a
Witness: Bourassa

Line
No.

1		Principal		\$	104,000.00	
2		No. of Months			60	
3		Annual Interest Rate			10.00%	
4		Monthly Payment		\$	2,209.69	
5						
6		<u>Date</u>	<u>Pay No.</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u> <u>Balance</u>
7	May-00	1	\$	1,343.03	\$ 866.67	\$2,209.69 \$ 104,000.00
8	Jun-00	2		1,354.22	855.47	2,209.69 102,656.97
9	Jul-00	3		1,365.50	844.19	2,209.69 101,302.76
10	Aug-00	4		1,376.88	832.81	2,209.69 99,937.25
11	Sep-00	5		1,388.36	821.34	2,209.69 98,560.37
12	Oct-00	6		1,399.93	809.77	2,209.69 97,172.01
13	Nov-00	7		1,411.59	798.10	2,209.69 95,772.09
14	Dec-00	8		1,423.36	786.34	2,209.69 94,360.50
15	Jan-01	9		1,435.22	774.48	2,209.69 92,937.14
16	Feb-01	10		1,447.18	762.52	2,209.69 91,501.93
17	Mar-01	11		1,459.24	750.46	2,209.69 90,054.75
18	Apr-01	12		1,471.40	738.30	2,209.69 88,595.51
19	May-01	13		1,483.66	726.03	2,209.69 87,124.12
20	Jun-01	14		1,496.02	713.67	2,209.69 85,640.46
21	Jul-01	15		1,508.49	701.20	2,209.69 84,144.44
22	Aug-01	16		1,521.06	688.63	2,209.69 82,635.95
23	Sep-01	17		1,533.74	675.96	2,209.69 81,114.89
24	Oct-01	18		1,546.52	663.18	2,209.69 79,581.15
25	Nov-01	19		1,559.40	650.29	2,209.69 78,034.63
26	Dec-01	20		1,572.40	637.29	2,209.69 76,475.23
27	Jan-02	21		1,585.50	624.19	2,209.69 74,902.83
28	Feb-02	22		1,598.71	610.98	2,209.69 73,317.33
29	Mar-02	23		1,612.04	597.66	2,209.69 71,718.61
30	Apr-02	24		1,625.47	584.22	2,209.69 70,106.58
31	May-02	25		1,639.02	570.68	2,209.69 68,481.11
32	Jun-02	26		1,652.68	557.02	2,209.69 66,842.09
33	Jul-02	27		1,666.45	543.25	2,209.69 65,189.41
34	Aug-02	28		1,680.33	529.36	2,209.69 63,522.97
35	Sep-02	29		1,694.34	515.36	2,209.69 61,842.63
36	Oct-02	30		1,708.46	501.24	2,209.69 60,148.29
37	Nov-02	31		1,722.69	487.00	2,209.69 58,439.84
38	Dec-02	32		1,737.05	472.64	2,209.69 56,717.14
39	Jan-03	33		1,751.53	458.17	2,209.69 54,980.09
40	Feb-03	34		1,766.12	443.57	2,209.69 53,228.57
41	Mar-03	35		1,780.84	428.85	2,209.69 51,462.45
42	Apr-03	36		1,795.68	414.01	2,209.69 49,681.61
43	May-03	37		1,810.64	399.05	2,209.69 47,885.93

2003	
Current Portion	22,192.32
Interest Expense	4,323.99
Total Debt Service	<u>26,516.31</u>

Pine Water Company

Revenue Summary

With Annualized Revenues to Year End Number of Customers
Test Year Ended December 31, 2002

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Present Water Revenues	Proposed Water Revenues	Percent of Present Water Revenues
1	5/8 Inch	Residential 14A	\$ 507,049	\$ 714,179	\$ 207,130	40.85%	78.52%	78.33%	78.33%
2	5/8 Inch	Residential 14B	119,446	163,959	44,514	37.27%	18.50%	17.98%	17.98%
3									
4	3/4 Inch	Residential 14B	468	833	365	77.91%	0.07%	0.09%	0.09%
5	1 Inch	Residential 14A	4,441	8,263	3,822	86.07%	0.69%	0.91%	0.91%
6	2 Inch	Residential 14A	194	523	329	169.69%	0.03%	0.06%	0.06%
7									
8									
9	5/8 Inch	Commercial 14A	2,003	3,725	1,722	85.98%	0.31%	0.41%	0.41%
10	1 Inch	Commercial 14A	2,647	4,509	1,862	70.32%	0.41%	0.49%	0.49%
11	2 Inch	Commercial 14A	5,977	11,368	5,390	90.18%	0.93%	1.25%	1.25%
12									
13									
14									
15	Total Water Revenues		\$ 642,224	\$ 907,358	\$ 265,134	41.28%	99.45%	99.51%	99.51%
16									
17									
18	Revenue Annualization (a)								
19	5/8 Inch	Residential 14A	\$ 3,539	\$ 4,434	895	25.30%	0.55%	0.49%	0.49%
20									
21									
22									
23									
24	Total Revenue Annualization		3,539	4,434	895	25.30%	0.55%	0.49%	0.49%
25	Total Water Revenues with								
26	Revenue Annualization		\$ 645,763	\$ 911,792	\$ 266,029		100.00%	100.00%	100.00%
27									
28									

(a) Customer Growth Annualization is not calculated. Change in customers is not due to growth.

Pine Water Company
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2002

Exhibit
 Rebuttal Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2002	Summer			Winter					
			Average Consumption	Present Rates	Proposed Rates	Present Rates	Proposed Rates	Average Consumption			
1	5/8 Inch Residential 14A	1,502	2,731	27.74	40.95	13.21	25.24	30.53	1,998	5.29	20.96%
2	5/8 Inch Residential 14B	360	2,614	29.50	39.75	10.25	26.32	29.26	1,707	2.93	11.14%
3											
4	3/4 Inch Residential 14B	1	4,901	38.37	74.04	35.66	39.47	66.10	5,215	26.63	67.47%
5	1 Inch Residential 14A	2	31,834	203.75	363.69	159.94	185.91	258.20	28,836	72.29	38.88%
6	2 Inch Residential 14A	0	-	64.58	174.17	109.59	64.58	174.17	-	109.59	169.69%
7											
8											
9	5/8 Inch Commercial 14A	2	14,750	96.02	190.96	94.94	66.48	97.45	9,786	30.97	46.59%
10	1 Inch Commercial 14A	1	44,901	281.50	549.68	268.18	177.12	240.95	27,358	63.83	36.04%
11	2 Inch Commercial 14A	2	38,801	285.24	582.59	297.35	223.11	372.36	28,358	149.25	66.90%
12											
13											
14											
15											
16											
17											
18											
19											
20											
21											
22											
23											
24											
25											
26											
27											
28											
29											
30											
31											
32											
33											
34											
35											
36											
37											

Totals 1,871

Actual Year End Number of Customers: 1,884

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Pine Water Company
 Present and Proposed Rates
 Test Year Ended December 31, 2002

Exhibit
 Rebuttal Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Proposed Rates	Percent Change
1				
2				
3				
4	Rate Code Sheet 14A			
5	Monthly Usage Charge for:			
6	<u>Residential, Commercial</u>			
7	5/8 x 3/4 Inch	\$ 18.45	\$ 21.77	18.00%
8	3/4 Inch	21.22	32.66	53.89%
9	1 Inch	24.54	54.43	121.79%
10	1 1/2 Inch	36.90	108.86	195.00%
11	2 Inch	64.58	174.17	169.69%
12	3 Inch	92.25	348.34	277.60%
13	4 Inch	147.60	544.28	268.75%
14	6 Inch	-	1,088.55	0.00%
15	8 Inch	-	2,177.10	0.00%
16				
17	Rate Code Sheet 14B			
18	Monthly Usage Charge for:			
19	<u>Residential, Commercial</u>			
20	5/8 x 3/4 Inch	\$ 20.35	\$ 21.77	6.98%
21	3/4 Inch	30.53	32.66	6.97%
22	1 Inch	50.88	54.43	6.97%
23	1 1/2 Inch	101.75	108.86	6.98%
24	2 Inch	162.80	174.17	6.98%
25	3 Inch	305.25	348.34	14.11%
26	4 Inch	508.75	544.28	6.98%
27	6 Inch	1,017.50	1,088.55	6.98%
28	8 Inch	-	2,177.10	0.00%
29				
30				
31				
32		Present Rates	Proposed Rates	
33	Rate Code Sheet 14A			
34	<u>Gallons In Minimum</u>			
35	All	-	-	
36				
37				
38	Rate Code Sheet 14B			
39	<u>Gallons In Minimum</u>			
40	All	-	-	
41				
42				
43				
44	Rate Code Sheet 14A			
45	Tier 1: Gallons upper limit (over 0 gallons (Present), 0 Gallons Proposed, but not over stated amount)			
46	5/8 Inch Residential and Commercial	4,000	2,000	
47	1 Inch and Larger Residential and Commercial	4,000	10,000	
48				
49				
50	Rate Code Sheet 14B			
51	Tier 1: Gallons upper limit (over 0 gallons (Present), 0 Gallons Proposed, but not over stated amount)			
52	5/8 Inch Residential and Commercial	999,999,999	2,000	
53	1 Inch and Larger Residential and Commercial	999,999,999	10,000	
54				
55				

Pine Water Company
 Present and Proposed Rates
 Test Year Ended December 31, 2002

Exhibit
 Schedule H-3
 Page 2
 Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Summer Proposed Rates		Winter* Proposed Rates
1					
2	Rate Code Sheet 14A				
3	<u>Tier 2: (Gallon upper limit, up to, but not exceeding)</u>				
4	5/8 Inch Residential and Commercial	999,999,999	8,000		
5	1 Inch and Larger Residential and Commercial	999,999,999	25,000		
6					
7					
8	Rate Code Sheet 14B				
9	<u>Tier 2: (Gallon upper limit, up to, but not exceeding)</u>				
10	5/8 Inch Residential and Commercial	999,999,999	8,000		
11	1 Inch and Larger Residential and Commercial	999,999,999	25,000		
12					
13					
14	Rate Code Sheet 14A				
15	<u>Tier 3: (Gallon over)</u>				
16	5/8 Inch Residential and Commercial	999,999,999	999,999,999		
17	1 Inch and Larger Residential and Commercial	999,999,999	999,999,999		
18					
19					
20	Rate Code Sheet 14B				
21	<u>Tier 3: (Gallon over)</u>				
22	5/8 Inch Residential and Commercial	999,999,999	999,999,999		
23	1 Inch and Larger Residential and Commercial	999,999,999	999,999,999		
24					
25					
26					
27					
28					
29	Rate Code Sheet 14A				
30	<u>Commodity Rates (per 1,000 gallons over minimum and per Tier) (A)</u>				
31	All Tier 1	\$ 3.40	\$ 5.85	\$ 4.39	
32	All Tier 2	5.95	10.23	7.68	
33	All Tier 3	5.95	14.23	11.68	
34	All Tier 4	5.95	14.23	11.68	
35					
36					
37	Rate Code Sheet 14B				
38	<u>Commodity Rates (per 1,000 gallons over minimum and per Tier)</u>				
39	All Tier 1	\$ 3.50	\$ 5.85	\$ 4.39	
40	All Tier 2	3.50	10.23	7.68	
41	All Tier 3	3.50	14.23	11.68	
42	All Tier 4	3.50	14.23	11.68	
43					
44	* Summer Months (May, June, July, August, September)				
45	Winter Months (October, November, December, January, February, March, April)				
46					
47					
48					
49					
50					
51					
52					
53					
54					

Pine Water Company
 Changes in Representative Rate Schedules
 Test Year Ended December 31, 2002

Exhibit
 Rebuttal Schedule H-3
 Page 3
 Witness: Bourassa

Line No.	Other Service Charges	Rate Code	Rate Code	Proposed
		Sheet A Present Rates	Sheet B Present Rates	
1	Establishment	\$ 25.00	\$ 25.00	\$ 25.00
2	Establishment (After Hours)	\$ 35.00	\$ 35.00	\$ 35.00
3	Reconnection (Delinquent)	\$ 20.00	\$ 35.00	\$ 50.00
4	Reconnection (After Hours)	\$ 30.00	\$ 45.00	\$ 45.00
5	Meter Test	\$ 25.00	\$ 25.00	\$ 25.00
6	Deposit	**	**	
7	Deposit Interest	6.00%	6.00%	6.00%
8	Re-Establishment (With-in 12 Months)	***		
9	NSF Check	\$ 10.00	\$ 10.00	\$ 10.00
10	Deferred Payment, Per Month (b)			
11	Meter Re-Read	\$ 15.00	\$ 15.00	\$ 15.00
12	Charge of Moving Customer Meter -			
13	Customer Requested	Cost	Cost	Cost
14	Late Payment Charge, greater of 1.50% or	\$ 5.00	\$ 10.00	(1)
15	Cut Lock Fee			\$ 50.00
16	Meter Removal Fee			\$ 150.00
17	Illegal Supply Fee			
18	First Offense			\$ 500.00
19	Second Offense			\$ 1,000.00
20	Third Offense			\$ 2,000.00
21	Water Theft Fee			
22	First Offense			\$ 250.00
23	Second Offense			\$ 500.00
24	Third Offense			\$ 750.00
25	Emergency Conservation Response Fee			\$ 100.00
26	Cross Connection Exposure Fee			\$ 100.00
27	Damages to Meter Locks, Valves, Seals	Cost	\$ 40.00	(2)
28	Sprinklers			(a)
29	(1) Greater of 1.50% or \$5.00 Present Rates or 1.5% or \$10.00 Proposed Rates.			
30	(2) \$40.00 plus actual cost of making repairs.			
31	** PER COMMISSION RULES (R14-2-403.B)			
32	*** MONTHS OFF SYSTEM TIMES MINIMUM (R14-2-403.D)			

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 (14-2-409.D 5) ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES.
 (a) 1.50% of the monthly minimum for a comparable sized meter connection, but no less than \$5 per month

Meter Size	Service Line and Meter Installation		Proposed Charges(*)	Proposed Charges(**)
	Rate Code Sheet A	Rate Code Sheet B		
5/8 x 3/4 Inch	\$430	\$430	\$500	\$500
3 / 4 Inch	\$480	\$480	\$575	\$575
1 Inch	\$550	\$550	\$660	\$660
1 1/2 Inch	\$775	\$775	\$900	\$900
2 Inch	\$1,305	\$1,305	\$2,200	\$1,500
3 Inch	\$1,815	\$1,815	\$2,900	\$2,100
4 Inch	\$2,860	\$2,860	\$4,200	\$3,200
6 Inch	N/A	\$5,275	\$7,700	\$6,000
8 Inch	Cost	Cost	Cost	Cost
Meters Larger than 8	Cost	Cost	Cost	Cost

(*) For Compound Meters
 (**) For Turbine Meters
 Plus Actual Cost of Road Crossing Costs
 As meters and service lines are now taxable income for income purposes, it shall be the at the discretion of the utility whether to collect income taxes on the meter and service line charges.
 Any tax collected will be refunded each year that the meter deposit is refunded.

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

5/8 Inch Residential - 14A

Exhibit
 Rebuttal Schedule H-4
 Page 1a
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 18.45	\$ 21.77	\$ 3.32	18.00%
1,000	21.85	27.62	5.77	26.40%
2,000	25.25	33.47	8.22	32.54%
3,000	28.65	43.70	15.05	52.53%
4,000	32.05	53.94	21.89	68.28%
5,000	38.00	64.17	26.17	68.87%
6,000	43.95	74.40	30.45	69.29%
7,000	49.90	84.64	34.74	69.61%
8,000	55.85	94.87	39.02	69.87%
9,000	61.80	109.11	47.31	76.55%
10,000	67.75	123.34	55.59	82.05%
11,000	73.70	137.57	63.87	86.67%
12,000	79.65	151.81	72.16	90.59%
13,000	85.60	166.04	80.44	93.97%
14,000	91.55	180.28	88.73	96.91%
15,000	97.50	194.51	97.01	99.50%
16,000	103.45	208.74	105.29	101.78%
17,000	109.40	222.98	113.58	103.82%
18,000	115.35	237.21	121.86	105.64%
19,000	121.30	251.45	130.15	107.29%
20,000	127.25	265.68	138.43	108.79%
25,000	157.00	336.85	179.85	114.55%
30,000	186.75	408.02	221.27	118.48%
35,000	216.50	479.19	262.69	121.33%
40,000	246.25	550.36	304.11	123.50%
45,000	276.00	621.53	345.53	125.19%
50,000	305.75	692.70	386.95	126.56%
60,000	365.25	835.04	469.79	128.62%
70,000	424.75	977.38	552.63	130.11%
80,000	484.25	1,119.72	635.47	131.23%
90,000	543.75	1,262.06	718.31	132.10%
100,000	603.25	1,404.40	801.15	132.81%
Average Usage				
2,731	\$ 27.74	\$ 40.95	\$ 13.21	47.64%

Present Rates:

Monthly Minimum:	\$ 18.45	\$ 18.45
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 21.77	21.771
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 5.85	\$ 4.39
Up to 8,000	\$ 10.23	\$ 7.68
Up to 999,999,999	\$ 14.23	\$ 11.68
Over 1,000,000,000	\$ 14.23	\$ 11.68

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

5/8 Inch Residential - 14A

Exhibit
 Rebuttal Schedule H-4
 Page 1b
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 18.45	\$ 21.77	\$ 3.32	18.00%
1,000	21.85	26.16	4.31	19.71%
2,000	25.25	30.54	5.29	20.96%
3,000	28.65	38.22	9.57	33.40%
4,000	32.05	45.89	13.84	43.20%
5,000	38.00	53.57	15.57	40.97%
6,000	43.95	61.25	17.30	39.35%
7,000	49.90	68.92	19.02	38.12%
8,000	55.85	76.60	20.75	37.15%
9,000	61.80	88.27	26.47	42.83%
10,000	67.75	99.95	32.20	47.52%
11,000	73.70	111.62	37.92	51.46%
12,000	79.65	123.30	43.65	54.80%
13,000	85.60	134.97	49.37	57.68%
14,000	91.55	146.65	55.10	60.18%
15,000	97.50	158.32	60.82	62.38%
16,000	103.45	170.00	66.55	64.33%
17,000	109.40	181.68	72.28	66.07%
18,000	115.35	193.35	78.00	67.62%
19,000	121.30	205.03	83.73	69.02%
20,000	127.25	216.70	89.45	70.30%
25,000	157.00	275.08	118.08	75.21%
30,000	186.75	333.46	146.71	78.56%
35,000	216.50	391.83	175.33	80.99%
40,000	246.25	450.21	203.96	82.83%
45,000	276.00	508.59	232.59	84.27%
50,000	305.75	566.97	261.22	85.43%
60,000	365.25	683.72	318.47	87.19%
70,000	424.75	800.48	375.73	88.46%
80,000	484.25	917.23	432.98	89.41%
90,000	543.75	1,033.99	490.24	90.16%
###	603.25	1,150.74	547.49	90.76%

Average Usage
 1,998 \$ 25.24 30.53 \$ 5.29 20.96%

Present Rates:

Monthly Minimum:	\$ 18.45	\$ 18.45
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 21.77	21.771
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 5.85	\$ 4.39
Up to 8,000	\$ 10.23	\$ 7.68
Up to 999,999,999	\$ 14.23	\$ 11.68
Over 1,000,000,000	\$ 14.23	\$ 11.68

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

5/8 Inch Residential - 14B

Exhibit
 Rebuttal Schedule H-4
 Page 2a
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase			
-	\$ 20.35	\$ 21.77	\$ 1.42	6.98%			
1,000	23.85	27.62	3.77	15.80%	Present Rates:		
2,000	27.35	33.47	6.12	22.37%	Monthly Minimum:	\$ 20.35	\$ 20.35
3,000	30.85	43.70	12.85	41.66%	Gallons in Minimum	-	
4,000	34.35	53.94	19.59	57.02%	Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
5,000	37.85	64.17	26.32	69.54%	Up to 999,999,999	\$ 3.50	\$ 3.50
6,000	41.35	74.40	33.05	79.93%	Up to 999,999,999	\$ 3.50	\$ 3.50
7,000	44.85	84.64	39.79	88.71%	Up to 999,999,999	\$ 3.50	\$ 3.50
8,000	48.35	94.87	46.52	96.22%	Over 1,000,000,000	\$ 3.50	\$ 3.50
9,000	51.85	109.11	57.26	110.42%			
10,000	55.35	123.34	67.99	122.83%			
11,000	58.85	137.57	78.72	133.77%	Proposed Rates:		
12,000	62.35	151.81	89.46	143.48%	Monthly Minimum:	\$ 21.77	21.771
13,000	65.85	166.04	100.19	152.15%	Gallons in Minimum	-	
14,000	69.35	180.28	110.93	159.95%	Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
15,000	72.85	194.51	121.66	167.00%	Up to 2,000	\$ 5.85	\$ 4.39
16,000	76.35	208.74	132.39	173.40%	Up to 8,000	\$ 10.23	\$ 7.68
17,000	79.85	222.98	143.13	179.24%	Up to 999,999,999	\$ 14.23	\$ 11.68
18,000	83.35	237.21	153.86	184.60%	Over 1,000,000,000	\$ 14.23	\$ 11.68
19,000	86.85	251.45	164.60	189.52%			
20,000	90.35	265.68	175.33	194.06%			
25,000	107.85	336.85	229.00	212.33%			
30,000	125.35	408.02	282.67	225.50%			
35,000	142.85	479.19	336.34	235.45%			
40,000	160.35	550.36	390.01	243.22%			
45,000	177.85	621.53	443.68	249.47%			
50,000	195.35	692.70	497.35	254.59%			
60,000	230.35	835.04	604.69	262.51%			
70,000	265.35	977.38	712.03	268.34%			
80,000	300.35	1,119.72	819.37	272.80%			
90,000	335.35	1,262.06	926.71	276.34%			
100,000	370.35	1,404.40	1,034.05	279.21%			
Average Usage							
2,614	\$ 29.50	\$ 39.75	\$ 10.25	34.75%			

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

5/8 Inch Residential - 14B

Exhibit
 Rebuttal Schedule H-4
 Page 2a
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 20.35	\$ 21.77	\$ 1.42	6.98%
1,000	23.85	26.16	2.31	9.67%
2,000	27.35	30.54	3.19	11.67%
3,000	30.85	38.22	7.37	23.88%
4,000	34.35	45.89	11.54	33.61%
5,000	37.85	53.57	15.72	41.53%
6,000	41.35	61.25	19.90	48.11%
7,000	44.85	68.92	24.07	53.67%
8,000	48.35	76.60	28.25	58.42%
9,000	51.85	88.27	36.42	70.24%
10,000	55.35	99.95	44.60	80.57%
11,000	58.85	111.62	52.77	89.67%
12,000	62.35	123.30	60.95	97.75%
13,000	65.85	134.97	69.12	104.97%
14,000	69.35	146.65	77.30	111.46%
15,000	72.85	158.32	85.47	117.33%
16,000	76.35	170.00	93.65	122.66%
17,000	79.85	181.68	101.83	127.52%
18,000	83.35	193.35	110.00	131.97%
19,000	86.85	205.03	118.18	136.07%
20,000	90.35	216.70	126.35	139.85%
25,000	107.85	275.08	167.23	155.06%
30,000	125.35	333.46	208.11	166.02%
35,000	142.85	391.83	248.98	174.30%
40,000	160.35	450.21	289.86	180.77%
45,000	177.85	508.59	330.74	185.97%
50,000	195.35	566.97	371.62	190.23%
60,000	230.35	683.72	453.37	196.82%
70,000	265.35	800.48	535.13	201.67%
80,000	300.35	917.23	616.88	205.39%
90,000	335.35	1,033.99	698.64	208.33%
100,000	370.35	1,150.74	780.39	210.72%

Average Usage
 1,707 \$ 26.32 29.26 \$ 2.93 11.14%

Present Rates:

Monthly Minimum:	\$ 20.35	\$ 20.35
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Over 1,000,000,000	\$ 3.50	\$ 3.50

Proposed Rates:

Monthly Minimum:	\$ 21.77	21.771
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 5.85	\$ 4.39
Up to 8,000	\$ 10.23	\$ 7.68
Up to 999,999,999	\$ 14.23	\$ 11.68
Over 1,000,000,000	\$ 14.23	\$ 11.68

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

3/4 Inch Residential - 14B

Exhibit
 Rebuttal Schedule H-4
 Page 3a
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 21.22	\$ 32.66	\$ 11.44	53.89%
1,000	24.72	38.50	13.78	55.76%
2,000	28.22	44.35	16.13	57.17%
3,000	31.72	54.59	22.87	72.09%
4,000	35.22	64.82	29.60	84.04%
5,000	38.72	75.05	36.33	93.84%
6,000	42.22	85.29	43.07	102.01%
7,000	45.72	95.52	49.80	108.93%
8,000	49.22	105.76	56.54	114.86%
9,000	52.72	119.99	67.27	127.60%
10,000	56.22	134.22	78.00	138.75%
11,000	59.72	148.46	88.74	148.59%
12,000	63.22	162.69	99.47	157.34%
13,000	66.72	176.93	110.21	165.18%
14,000	70.22	191.16	120.94	172.23%
15,000	73.72	205.39	131.67	178.61%
16,000	77.22	219.63	142.41	184.42%
17,000	80.72	233.86	153.14	189.72%
18,000	84.22	248.10	163.88	194.58%
19,000	87.72	262.33	174.61	199.05%
20,000	91.22	276.56	185.34	203.18%
25,000	108.72	347.73	239.01	219.84%
30,000	126.22	418.90	292.68	231.88%
35,000	143.72	490.07	346.35	240.99%
40,000	161.22	561.24	400.02	248.12%
45,000	178.72	632.41	453.69	253.86%
50,000	196.22	703.58	507.36	258.57%
60,000	231.22	845.92	614.70	265.85%
70,000	266.22	988.26	722.04	271.22%
80,000	301.22	1,130.60	829.38	275.34%
90,000	336.22	1,272.94	936.72	278.60%
100,000	371.22	1,415.28	1,044.06	281.25%

Average Usage
 4,901 \$ 38.37 \$ 74.04 \$ 35.66 92.94%

Present Rates:

Monthly Minimum:	\$ 21.22	\$ 21.22
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Over 1,000,000,000	\$ 3.50	\$ 3.50

Proposed Rates:

Monthly Minimum:	\$ 32.66	32.6565
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 5.85	\$ 4.39
Up to 8,000	\$ 10.23	\$ 7.68
Up to 999,999,999	\$ 14.23	\$ 11.68
Over 1,000,000,000	\$ 14.23	\$ 11.68

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

3/4 Inch Residential - 14B

Exhibit
 Rebuttal Schedule H-4
 Page 3b
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 21.22	\$ 32.66	\$ 11.44	53.89%
1,000	24.72	37.04	\$ 12.32	49.85%
2,000	28.22	41.43	\$ 13.21	46.81%
3,000	31.72	49.10	\$ 17.38	54.80%
4,000	35.22	56.78	\$ 21.56	61.21%
5,000	38.72	64.46	\$ 25.74	66.46%
6,000	42.22	72.13	\$ 29.91	70.84%
7,000	45.72	79.81	\$ 34.09	74.55%
8,000	49.22	87.48	\$ 38.26	77.74%
9,000	52.72	99.16	\$ 46.44	88.08%
10,000	56.22	110.83	\$ 54.61	97.14%
11,000	59.72	122.51	\$ 62.79	105.14%
12,000	63.22	134.18	\$ 70.96	112.25%
13,000	66.72	145.86	\$ 79.14	118.61%
14,000	70.22	157.53	\$ 87.31	124.34%
15,000	73.72	169.21	\$ 95.49	129.53%
16,000	77.22	180.89	\$ 103.67	134.25%
17,000	80.72	192.56	\$ 111.84	138.55%
18,000	84.22	204.24	\$ 120.02	142.50%
19,000	87.72	215.91	\$ 128.19	146.14%
20,000	91.22	227.59	\$ 136.37	149.49%
25,000	108.72	285.97	\$ 177.25	163.03%
30,000	126.22	344.34	\$ 218.12	172.81%
35,000	143.72	402.72	\$ 259.00	180.21%
40,000	161.22	461.10	\$ 299.88	186.01%
45,000	178.72	519.48	\$ 340.76	190.66%
50,000	196.22	577.85	\$ 381.63	194.49%
60,000	231.22	694.61	\$ 463.39	200.41%
70,000	266.22	811.36	\$ 545.14	204.77%
80,000	301.22	928.12	\$ 626.90	208.12%
90,000	336.22	1,044.87	\$ 708.65	210.77%
100,000	371.22	1,161.63	\$ 790.41	212.92%

Average Usage
 5,215 \$ 39.47 66.10 \$ 26.63 67.47%

Present Rates:

Monthly Minimum:	\$ 21.22	\$ 21.22
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Over 1,000,000,000	\$ 3.50	\$ 3.50

Proposed Rates:

Monthly Minimum:	\$ 32.66	32.6565
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 5.85	\$ 4.39
Up to 8,000	\$ 10.23	\$ 7.68
Up to 999,999,999	\$ 14.23	\$ 11.68
Over 1,000,000,000	\$ 14.23	\$ 11.68

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

1 Inch Residential - 14A

Exhibit
 Rebuttal Schedule H-4
 Page 4a
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase			
-	\$ 24.54	\$ 54.43	\$ 29.89	121.79%			
1,000	27.94	60.28	32.34	115.73%	Present Rates:		
2,000	31.34	66.12	34.78	110.99%	Monthly Minimum:	\$ 24.54	\$ 24.54
3,000	34.74	71.97	37.23	107.17%	Gallons in Minimum	-	
4,000	38.14	77.82	39.68	104.04%	Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
5,000	44.09	83.67	39.58	89.77%	Up to	4,000	\$ 3.40 \$ 3.40
6,000	50.04	89.52	39.48	78.89%	Up to	999,999,999	\$ 5.95 \$ 5.95
7,000	55.99	95.36	39.37	70.32%	Up to	999,999,999	\$ 5.95 \$ 5.95
8,000	61.94	101.21	39.27	63.40%	Over	1,000,000,000	\$ 5.95 \$ 5.95
9,000	67.89	107.06	39.17	57.70%			
10,000	73.84	112.91	39.07	52.91%			
11,000	79.79	123.14	43.35	54.33%	Proposed Rates:		
12,000	85.74	133.38	47.64	55.56%	Monthly Minimum:	\$ 54.43	
13,000	91.69	143.61	51.92	56.63%	Gallons in Minimum	-	
14,000	97.64	153.84	56.20	57.56%	Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
15,000	103.59	164.08	60.49	58.39%	Up to	10,000	\$ 5.85 \$ 4.39
16,000	109.54	174.31	64.77	59.13%	Up to	25,000	\$ 10.23 \$ 7.68
17,000	115.49	184.55	69.06	59.79%	Up to	999,999,999	\$ 14.23 \$ 11.68
18,000	121.44	194.78	73.34	60.39%	Over	1,000,000,000	\$ 14.23 \$ 11.68
19,000	127.39	205.01	77.62	60.93%			
20,000	133.34	215.25	81.91	61.43%			
25,000	163.09	266.42	103.33	63.36%			
30,000	192.84	337.59	144.75	75.06%			
35,000	222.59	408.76	186.17	83.64%			
40,000	252.34	479.93	227.59	90.19%			
45,000	282.09	551.10	269.01	95.36%			
50,000	311.84	622.27	310.43	99.55%			
60,000	371.34	764.61	393.27	105.90%			
70,000	430.84	906.95	476.11	110.51%			
80,000	490.34	1,049.29	558.95	113.99%			
90,000	549.84	1,191.63	641.79	116.72%			
100,000	609.34	1,333.97	724.63	118.92%			

Average Usage
 31,834 \$ 203.75 \$ 363.69 \$ 159.94 78.50%

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

1 Inch Residential - 14A

Exhibit
 Rebuttal Schedule H-4
 Page 4a
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 24.54	\$ 54.43	\$ 29.89	121.79%
1,000	27.94	58.81	30.87	110.50%
2,000	31.34	63.20	31.86	101.66%
3,000	34.74	67.59	32.85	94.55%
4,000	38.14	71.97	33.83	88.70%
5,000	44.09	76.36	32.27	73.19%
6,000	50.04	80.74	30.70	61.36%
7,000	55.99	85.13	29.14	52.04%
8,000	61.94	89.52	27.58	44.52%
9,000	67.89	93.90	26.01	38.31%
10,000	73.84	98.29	24.45	33.11%
11,000	79.79	105.96	26.17	32.80%
12,000	85.74	113.64	27.90	32.54%
13,000	91.69	121.31	29.62	32.31%
14,000	97.64	128.99	31.35	32.11%
15,000	103.59	136.67	33.08	31.93%
16,000	109.54	144.34	34.80	31.77%
17,000	115.49	152.02	36.53	31.63%
18,000	121.44	159.69	38.25	31.50%
19,000	127.39	167.37	39.98	31.38%
20,000	133.34	175.04	41.70	31.28%
25,000	163.09	213.42	50.33	30.86%
30,000	192.84	271.80	78.96	40.94%
35,000	222.59	330.18	107.59	48.33%
40,000	252.34	388.55	136.21	53.98%
45,000	282.09	446.93	164.84	58.44%
50,000	311.84	505.31	193.47	62.04%
60,000	371.34	622.06	250.72	67.52%
70,000	430.84	738.82	307.98	71.48%
80,000	490.34	855.57	365.23	74.49%
90,000	549.84	972.33	422.49	76.84%
100,000	609.34	1,089.08	479.74	78.73%
Average Usage				
28,836	\$ 185.91	258.20	\$ 72.29	38.88%

Present Rates:

Monthly Minimum:	\$ 24.54	\$ 24.54
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 54.43
Gallons in Minimum	-
Charge Per 1,000 Gallons	<u>Summer</u> <u>Winter</u>
Up to 10,000	\$ 5.85 \$ 4.39
Up to 25,000	\$ 10.23 \$ 7.68
Up to 999,999,999	\$ 14.23 \$ 11.68
Over 1,000,000,000	\$ 14.23 \$ 11.68

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

2 Inch Residential - 14A

Exhibit
 Rebuttal Schedule H-4
 Page 5a
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase			
-	\$ 64.58	\$ 174.17	\$ 109.59	169.69%			
1,000	67.98	180.02	112.04	164.81%	Present Rates:		
2,000	71.38	185.86	114.48	160.39%	Monthly Minimum:	\$ 64.58	\$ 64.58
3,000	74.78	191.71	116.93	156.37%	Gallons in Minimum	-	
4,000	78.18	197.56	119.38	152.70%	Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
5,000	84.13	203.41	119.28	141.78%	Up to 4,000	\$ 3.40	\$ 3.40
6,000	90.08	209.26	119.18	132.30%	Up to 999,999,999	\$ 5.95	\$ 5.95
7,000	96.03	215.10	119.07	124.00%	Up to 999,999,999	\$ 5.95	\$ 5.95
8,000	101.98	220.95	118.97	116.66%	Over 1,000,000,000	\$ 5.95	\$ 5.95
9,000	107.93	226.80	118.87	110.14%			
10,000	113.88	232.65	118.77	104.29%			
11,000	119.83	242.88	123.05	102.69%	Proposed Rates:		
12,000	125.78	253.12	127.34	101.24%	Monthly Minimum:	\$ 174.17	174.168
13,000	131.73	263.35	131.62	99.92%	Gallons in Minimum	-	
14,000	137.68	273.58	135.90	98.71%	Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
15,000	143.63	283.82	140.19	97.60%	Up to 10,000	\$ 5.85	\$ 4.39
16,000	149.58	294.05	144.47	96.59%	Up to 25,000	\$ 10.23	\$ 7.68
17,000	155.53	304.29	148.76	95.64%	Up to 999,999,999	\$ 14.23	\$ 11.68
18,000	161.48	314.52	153.04	94.77%	Over 1,000,000,000	\$ 14.23	\$ 11.68
19,000	167.43	324.75	157.32	93.96%			
20,000	173.38	334.99	161.61	93.21%			
25,000	203.13	386.16	183.03	90.10%			
30,000	232.88	457.33	224.45	96.38%			
35,000	262.63	528.50	265.87	101.23%			
40,000	292.38	599.67	307.29	105.10%			
45,000	322.13	670.84	348.71	108.25%			
50,000	351.88	742.01	390.13	110.87%			
60,000	411.38	884.35	472.97	114.97%			
70,000	470.88	1,026.69	555.81	118.04%			
80,000	530.38	1,169.03	638.65	120.41%			
90,000	589.88	1,311.37	721.49	122.31%			
100,000	649.38	1,453.71	804.33	123.86%			

Average Usage
 - \$ 64.58 \$ 174.17 \$ 109.59 169.69%

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

2 Inch Residential - 14A

Exhibit
 Rebuttal Schedule H-4
 Page 5b
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 64.58	\$ 174.17	\$ 109.59	169.69%
1,000	67.98	178.55	110.57	162.66%
2,000	71.38	182.94	111.56	156.29%
3,000	74.78	187.33	112.55	150.50%
4,000	78.18	191.71	113.53	145.22%
5,000	84.13	196.10	111.97	133.09%
6,000	90.08	200.48	110.40	122.56%
7,000	96.03	204.87	108.84	113.34%
8,000	101.98	209.26	107.28	105.19%
9,000	107.93	213.64	105.71	97.94%
10,000	113.88	218.03	104.15	91.45%
11,000	119.83	225.70	105.87	88.35%
12,000	125.78	233.38	107.60	85.55%
13,000	131.73	241.05	109.32	82.99%
14,000	137.68	248.73	111.05	80.66%
15,000	143.63	256.41	112.78	78.52%
16,000	149.58	264.08	114.50	76.55%
17,000	155.53	271.76	116.23	74.73%
18,000	161.48	279.43	117.95	73.04%
19,000	167.43	287.11	119.68	71.48%
20,000	173.38	294.78	121.40	70.02%
25,000	203.13	333.16	130.03	64.01%
30,000	232.88	391.54	158.66	68.13%
35,000	262.63	449.92	187.29	71.31%
40,000	292.38	508.29	215.91	73.85%
45,000	322.13	566.67	244.54	75.91%
50,000	351.88	625.05	273.17	77.63%
60,000	411.38	741.80	330.42	80.32%
70,000	470.88	858.56	387.68	82.33%
80,000	530.38	975.31	444.93	83.89%
90,000	589.88	1,092.07	502.19	85.13%
100,000	649.38	1,208.82	559.44	86.15%
Average Usage				
-	\$ 64.58	\$ 174.17	174.17	269.69%

Present Rates:

Monthly Minimum:	\$ 64.58	\$ 64.58
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 174.17	174.168
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 5.85	\$ 4.39
Up to 25,000	\$ 10.23	\$ 7.68
Up to 999,999,999	\$ 14.23	\$ 11.68
Over 1,000,000,000	\$ 14.23	\$ 11.68

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 18.45	\$ 21.77	\$ 3.32	18.00%
1,000	21.85	27.62	5.77	26.40%
2,000	25.25	33.47	8.22	32.54%
3,000	28.65	43.70	15.05	52.53%
4,000	32.05	53.94	21.89	68.28%
5,000	38.00	64.17	26.17	68.87%
6,000	43.95	74.40	30.45	69.29%
7,000	49.90	84.64	34.74	69.61%
8,000	55.85	94.87	39.02	69.87%
9,000	61.80	109.11	47.31	76.55%
10,000	67.75	123.34	55.59	82.05%
11,000	73.70	137.57	63.87	86.67%
12,000	79.65	151.81	72.16	90.59%
13,000	85.60	166.04	80.44	93.97%
14,000	91.55	180.28	88.73	96.91%
15,000	97.50	194.51	97.01	99.50%
16,000	103.45	208.74	105.29	101.78%
17,000	109.40	222.98	113.58	103.82%
18,000	115.35	237.21	121.86	105.64%
19,000	121.30	251.45	130.15	107.29%
20,000	127.25	265.68	138.43	108.79%
25,000	157.00	336.85	179.85	114.55%
30,000	186.75	408.02	221.27	118.48%
35,000	216.50	479.19	262.69	121.33%
40,000	246.25	550.36	304.11	123.50%
45,000	276.00	621.53	345.53	125.19%
50,000	305.75	692.70	386.95	126.56%
60,000	365.25	835.04	469.79	128.62%
70,000	424.75	977.38	552.63	130.11%
80,000	484.25	1,119.72	635.47	131.23%
90,000	543.75	1,262.06	718.31	132.10%
100,000	603.25	1,404.40	801.15	132.81%
Average Usage				
14,750	\$ 96.02	\$ 190.96	\$ 94.94	98.88%

Present Rates:

Monthly Minimum:	\$ 18.45	\$ 18.45
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 21.77	21.771
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 5.85	\$ 4.39
Up to 8,000	\$ 10.23	\$ 7.68
Up to 999,999,999	\$ 14.23	\$ 11.68
Over 1,000,000,000	\$ 14.23	\$ 11.68

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

5/8 Inch Commercial - 14A

Exhibit
 Rebuttal Schedule H-4
 Page 6b
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 18.45	\$ 21.77	\$ 3.32	18.00%
1,000	21.85	26.16	4.31	19.71%
2,000	25.25	30.54	5.29	20.96%
3,000	28.65	38.22	9.57	33.40%
4,000	32.05	45.89	13.84	43.20%
5,000	38.00	53.57	15.57	40.97%
6,000	43.95	61.25	17.30	39.35%
7,000	49.90	68.92	19.02	38.12%
8,000	55.85	76.60	20.75	37.15%
9,000	61.80	88.27	26.47	42.83%
10,000	67.75	99.95	32.20	47.52%
11,000	73.70	111.62	37.92	51.46%
12,000	79.65	123.30	43.65	54.80%
13,000	85.60	134.97	49.37	57.68%
14,000	91.55	146.65	55.10	60.18%
15,000	97.50	158.32	60.82	62.38%
16,000	103.45	170.00	66.55	64.33%
17,000	109.40	181.68	72.28	66.07%
18,000	115.35	193.35	78.00	67.62%
19,000	121.30	205.03	83.73	69.02%
20,000	127.25	216.70	89.45	70.30%
25,000	157.00	275.08	118.08	75.21%
30,000	186.75	333.46	146.71	78.56%
35,000	216.50	391.83	175.33	80.99%
40,000	246.25	450.21	203.96	82.83%
45,000	276.00	508.59	232.59	84.27%
50,000	305.75	566.97	261.22	85.43%
60,000	365.25	683.72	318.47	87.19%
70,000	424.75	800.48	375.73	88.46%
80,000	484.25	917.23	432.98	89.41%
90,000	543.75	1,033.99	490.24	90.16%
100,000	603.25	1,150.74	547.49	90.76%
Average Usage				
9,786	\$ 66.48	97.45	\$ 30.97	46.59%

Present Rates:

Monthly Minimum:	\$ 18.45	\$ 18.45
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 21.77	21.771
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 5.85	\$ 4.39
Up to 8,000	\$ 10.23	\$ 7.68
Up to 999,999,999	\$ 14.23	\$ 11.68
Over 1,000,000,000	\$ 14.23	\$ 11.68

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 24.54	\$ 54.43	\$ 29.89	121.79%
1,000	27.94	60.28	32.34	115.73%
2,000	31.34	66.12	34.78	110.99%
3,000	34.74	71.97	37.23	107.17%
4,000	38.14	77.82	39.68	104.04%
5,000	44.09	83.67	39.58	89.77%
6,000	50.04	89.52	39.48	78.89%
7,000	55.99	95.36	39.37	70.32%
8,000	61.94	101.21	39.27	63.40%
9,000	67.89	107.06	39.17	57.70%
10,000	73.84	112.91	39.07	52.91%
11,000	79.79	123.14	43.35	54.33%
12,000	85.74	133.38	47.64	55.56%
13,000	91.69	143.61	51.92	56.63%
14,000	97.64	153.84	56.20	57.56%
15,000	103.59	164.08	60.49	58.39%
16,000	109.54	174.31	64.77	59.13%
17,000	115.49	184.55	69.06	59.79%
18,000	121.44	194.78	73.34	60.39%
19,000	127.39	205.01	77.62	60.93%
20,000	133.34	215.25	81.91	61.43%
25,000	163.09	266.42	103.33	63.36%
30,000	192.84	337.59	144.75	75.06%
35,000	222.59	408.76	186.17	83.64%
40,000	252.34	479.93	227.59	90.19%
45,000	282.09	551.10	269.01	95.36%
50,000	311.84	622.27	310.43	99.55%
60,000	371.34	764.61	393.27	105.90%
70,000	430.84	906.95	476.11	110.51%
80,000	490.34	1,049.29	558.95	113.99%
90,000	549.84	1,191.63	641.79	116.72%
100,000	609.34	1,333.97	724.63	118.92%
Average Usage				
44,901	\$ 281.50	\$ 549.68	\$ 268.18	95.27%

Present Rates:

Monthly Minimum:	\$ 24.54	\$ 24.54
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 54.43	54.4275
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 5.85	\$ 4.39
Up to 25,000	\$ 10.23	\$ 7.68
Up to 999,999,999	\$ 14.23	\$ 11.68
Over 1,000,000,000	\$ 14.23	\$ 11.68

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

1 Inch Commercial - 14A

Exhibit
 Rebuttal Schedule H-4
 Page 7b
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 24.54	\$ 54.43	\$ 29.89	121.79%
1,000	27.94	58.81	30.87	110.50%
2,000	31.34	63.20	31.86	101.66%
3,000	34.74	67.59	32.85	94.55%
4,000	38.14	71.97	33.83	88.70%
5,000	44.09	76.36	32.27	73.19%
6,000	50.04	80.74	30.70	61.36%
7,000	55.99	85.13	29.14	52.04%
8,000	61.94	89.52	27.58	44.52%
9,000	67.89	93.90	26.01	38.31%
10,000	73.84	98.29	24.45	33.11%
11,000	79.79	105.96	26.17	32.80%
12,000	85.74	113.64	27.90	32.54%
13,000	91.69	121.31	29.62	32.31%
14,000	97.64	128.99	31.35	32.11%
15,000	103.59	136.67	33.08	31.93%
16,000	109.54	144.34	34.80	31.77%
17,000	115.49	152.02	36.53	31.63%
18,000	121.44	159.69	38.25	31.50%
19,000	127.39	167.37	39.98	31.38%
20,000	133.34	175.04	41.70	31.28%
25,000	163.09	213.42	50.33	30.86%
30,000	192.84	271.80	78.96	40.94%
35,000	222.59	330.18	107.59	48.33%
40,000	252.34	388.55	136.21	53.98%
45,000	282.09	446.93	164.84	58.44%
50,000	311.84	505.31	193.47	62.04%
60,000	371.34	622.06	250.72	67.52%
70,000	430.84	738.82	307.98	71.48%
80,000	490.34	855.57	365.23	74.49%
90,000	549.84	972.33	422.49	76.84%
100,000	609.34	1,089.08	479.74	78.73%
Average Usage				
27,358	\$ 177.12	240.95	\$ 63.83	36.04%

Present Rates:

Monthly Minimum:	\$ 24.54	\$ 24.54
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 54.43	54.4275
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 5.85	\$ 4.39
Up to 25,000	\$ 10.23	\$ 7.68
Up to 999,999,999	\$ 14.23	\$ 11.68
Over 1,000,000,000	\$ 14.23	\$ 11.68

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

2 Inch Commercial - 14A

Exhibit
 Rebuttal Schedule H-4
 Page 8a
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 64.58	\$ 174.17	\$ 109.59	169.69%
1,000	67.98	180.02	112.04	164.81%
2,000	71.38	185.86	114.48	160.39%
3,000	74.78	191.71	116.93	156.37%
4,000	78.18	197.56	119.38	152.70%
5,000	84.13	203.41	119.28	141.78%
6,000	90.08	209.26	119.18	132.30%
7,000	96.03	215.10	119.07	124.00%
8,000	101.98	220.95	118.97	116.66%
9,000	107.93	226.80	118.87	110.14%
10,000	113.88	232.65	118.77	104.29%
11,000	119.83	242.88	123.05	102.69%
12,000	125.78	253.12	127.34	101.24%
13,000	131.73	263.35	131.62	99.92%
14,000	137.68	273.58	135.90	98.71%
15,000	143.63	283.82	140.19	97.60%
16,000	149.58	294.05	144.47	96.59%
17,000	155.53	304.29	148.76	95.64%
18,000	161.48	314.52	153.04	94.77%
19,000	167.43	324.75	157.32	93.96%
20,000	173.38	334.99	161.61	93.21%
25,000	203.13	386.16	183.03	90.10%
30,000	232.88	457.33	224.45	96.38%
35,000	262.63	528.50	265.87	101.23%
40,000	292.38	599.67	307.29	105.10%
45,000	322.13	670.84	348.71	108.25%
50,000	351.88	742.01	390.13	110.87%
60,000	411.38	884.35	472.97	114.97%
70,000	470.88	1,026.69	555.81	118.04%
80,000	530.38	1,169.03	638.65	120.41%
90,000	589.88	1,311.37	721.49	122.31%
100,000	649.38	1,453.71	804.33	123.86%
Average Usage				
38,801	\$ 285.24	\$ 582.59	\$ 297.35	104.24%

Present Rates:

Monthly Minimum:	\$ 64.58	\$ 64.58
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 174.17	174.168
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 5.85	\$ 4.39
Up to 25,000	\$ 10.23	\$ 7.68
Up to 999,999,999	\$ 14.23	\$ 11.68
Over 1,000,000,000	\$ 14.23	\$ 11.68

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

2 Inch Commercial - 14A

Exhibit
 Rebuttal Schedule H-4
 Page 8b
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 64.58	\$ 174.17	\$ 109.59	169.69%
1,000	67.98	178.55	110.57	162.66%
2,000	71.38	182.94	111.56	156.29%
3,000	74.78	187.33	112.55	150.50%
4,000	78.18	191.71	113.53	145.22%
5,000	84.13	196.10	111.97	133.09%
6,000	90.08	200.48	110.40	122.56%
7,000	96.03	204.87	108.84	113.34%
8,000	101.98	209.26	107.28	105.19%
9,000	107.93	213.64	105.71	97.94%
10,000	113.88	218.03	104.15	91.45%
11,000	119.83	225.70	105.87	88.35%
12,000	125.78	233.38	107.60	85.55%
13,000	131.73	241.05	109.32	82.99%
14,000	137.68	248.73	111.05	80.66%
15,000	143.63	256.41	112.78	78.52%
16,000	149.58	264.08	114.50	76.55%
17,000	155.53	271.76	116.23	74.73%
18,000	161.48	279.43	117.95	73.04%
19,000	167.43	287.11	119.68	71.48%
20,000	173.38	294.78	121.40	70.02%
25,000	203.13	333.16	130.03	64.01%
30,000	232.88	391.54	158.66	68.13%
35,000	262.63	449.92	187.29	71.31%
40,000	292.38	508.29	215.91	73.85%
45,000	322.13	566.67	244.54	75.91%
50,000	351.88	625.05	273.17	77.63%
60,000	411.38	741.80	330.42	80.32%
70,000	470.88	858.56	387.68	82.33%
80,000	530.38	975.31	444.93	83.89%
90,000	589.88	1,092.07	502.19	85.13%
100,000	649.38	1,208.82	559.44	86.15%
Average Usage				
28,358	\$ 223.11	372.36	\$ 149.25	66.90%

Present Rates:

Monthly Minimum:		\$ 64.58	\$ 64.58
Gallons in Minimum		-	-
Charge Per 1,000 Gallons		<u>Summer</u>	<u>Winter</u>
Up to	4,000	\$ 3.40	\$ 3.40
Up to	999,999,999	\$ 5.95	\$ 5.95
Up to	999,999,999	\$ 5.95	\$ 5.95
Over	1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:		\$ 174.17	174.168
Gallons in Minimum		-	-
Charge Per 1,000 Gallons		<u>Summer</u>	<u>Winter</u>
Up to	10,000	\$ 5.85	\$ 4.39
Up to	25,000	\$ 10.23	\$ 7.68
Up to	999,999,999	\$ 14.23	\$ 11.68
Over	1,000,000,000	\$ 14.23	\$ 11.68