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

BEFORE THE ARIZONA CORPORATION COMMISSION

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

**DOCKET NO. W-03512A-03-0279
DIRECT TESTIMONY OF JOHN NELSON,
ADMINISTRATOR, PINE STRAWBERRY
WATER IMPROVEMENT DISTRICT**

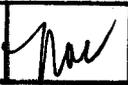
COMES NOW THE PINE WATER COMPANY AND pursuant to the Procedural Order of this Commission in the above captioned matter hereby submits the Direct Testimony of John Nelson, Administrator, Pine Strawberry Water Improvement District a copy of the same being attached hereto.

Respectfully submitted this 31st day of October, 2003.

Arizona Corporation Commission

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DOCKETED BY 

LAW OFFICE OF JOHN G. GLIEGE

John G. Gliege

1 Original and thirteen copies of the foregoing
2 sent this ~~31~~ day of October, 2003 to:

3 Docket Control Center
4 Arizona Corporation Commission
5 1200 W. Washington Street
6 Phoenix, AZ 85007

6 Copies of the foregoing
7 Mailed this 31 day of
8 October, 2003 to :

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**Written Testimony
of John Nelson, Administrator
Pine/Strawberry Water Improvement District**

INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is John F. Nelson. My business address is 1400 E. Ash Street, Globe, AZ 85501

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

A. I am the County Manager and Clerk of the Board of Supervisors of Gila County, Arizona. In addition, as of September 9, 2003, I have been appointed by the Gila County Board of Supervisors as the Administrator of the Pine/Strawberry Water Improvement District. Prior to becoming the Gila County Manager, I was the Gila County Finance Manager.. I am a professional manager somewhat sheltered from the political environment, that is trained and experienced in bringing together people and resources to attack issues faced by various citizen groups and entities within our governmental units.

Q. UNDER WHAT CIRCUMSTANCES DID YOU BECOME THE ADMINISTRATOR OF THE PINE/STRAWBERRY WATER IMPROVEMENT DISTRICT?

A. Over the last 4-6 months, five of the seven members of the Board of Directors of the District resigned their positions for a variety of reasons. Because the District cannot legally operate with less than a majority of seven directors present, and because the Board of Supervisors did not want to appoint replacements for far in excess of a majority of the Director's seats, the Supervisors assumed the governance of the District and appointed me as the Administrator.

Q. IS THE PINE/STRAWBERRY WATER IMPROVEMENT DISTRICT DIFFERENT THAN MOST OF THE WATER DISTRICTS WE TRADITIONALLY UNDERSTAND ARE FORMED TO SUPPLY WATER TO END-USERS?

A. Yes. This District is different in the fact it was established initially to locate an adequate long-run stable source of water for the property owners within the District, which is different than most "Domestic" Water Improvement Districts which may also treat, store, distribute, and sell water to rate payers within the District boundaries. By approval of citizens or property owners within the District and by application to the Board of Supervisors of Gila County, the District could become a "Domestic" Water Improvement District that had responsibilities beyond locating sources of water.

Q. WHAT BOUNDARY RELATIONSHIPS DOES THE PINE/STRAWBERRY DISTRICT HAVE WITH THE PINE WATER CO. SERVICE AREA?

A. The Pine/Strawberry Water Improvement District includes all of the service area of Pine Water Co., all the area served by Strawberry Water Co., and the area where the unregulated Magnolia Project 8" pipeline is laid to connect the two systems to transfer an average of approximately 750,000 gallons of water each day from Strawberry to Pine. Pine Water Company, Inc. and Strawberry Water Company, Inc., both regulated by the Arizona Corporation Commission, and the unregulated Magnolia Project pipeline are all owned by Brooke Utilities, Inc., an Arizona corporation not currently regulated as a public service corporation by the Arizona Corporation Commission.

PURPOSE OF TESTIMONY, SUMMARY AND CONCLUSIONS

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying in this proceeding on behalf of the Pine/Strawberry Water Improvement District and the property owners and residents and business owners that make up the District. The District has a vital interest in this Rate Case since approximately two-thirds of the members of the Pine/Strawberry District are customers of Pine Water Co. and approximately two-thirds of

the water supplied to Pine Water Co. comes from wells in the Strawberry portion of our District. Significant water is wheeled by pipeline from the Strawberry area to Pine Water Co. from several major wells in Strawberry owned by private citizens and from some wells owned directly by Strawberry Water Co.

As the Administrator of the Pine/Strawberry Water Improvement District, I am faced with finding solutions to the long-run water availability and service issues faced by (1) the current rate-payers connected to the water system, (2) the property owners who are not yet connected to the water system, (3) the Gila County government which is constantly pressured by property owners to help with the highly emotional and technical water issues in the Pine and Strawberry area, and (4) the Arizona Corporation Commission that I believe has been faced with far too many hassles related to this matter.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I am testifying against the proposed rate increases that are the subject of this hearing. The first purpose of my testimony is to quickly bring to the forefront the key issues of this situation and to start the process of (1) having adequate water service and stability of supply for the citizens of Pine and Strawberry, (2) seeking a fair rate of return for the provider of the water, (3) healing of the wounds that have been created over the years in this situation, and (4) returning the Pine/Strawberry Water Improvement System back into the hands of its citizens where it justly belongs. The second purpose of my testimony will be to introduce individuals who will testify on the inappropriateness of the proposed rates based on the inadequacy and inaccuracy of basic rate justification information that I believe is currently being, and has in the past, been supplied to the Arizona Corporation Commission.

AS A BUSY COUNTY MANAGER, HOW ARE YOU HANDLING THE TASK OF ADMINISTERING THE PINE/STRAWBERRY WATER IMPROVEMENT DISTRICT?

A. Because of the long-run nature of the Pine-Strawberry water issues, and the many times it has been part of the political pressure and discussion agenda with the Gila County Board of Supervisors, our County Supervisors need a stable Board of Directors to ultimately direct the activities of the Pine/Strawberry District. The Gila County Board of Supervisors believes

the dissention related to water issues within the Pine/Strawberry communities, the passionate positions taken by community members related to Brooke Utilities as a provider of water, and the disagreements that have occurred between Board of Director members within the Pine/Strawberry Water Improvement District dictate that I look closely at all the factors related to this situation. Thus, my appointment as the Administrator was coupled with me being authorized to take whatever operational and administrative action is necessary to reach the objective of returning the District to the hands of a stable Board that has some direction and a plan in place. Therefore, as an appointed Administrator that cannot do everything that needs to be done by myself, I have appointed a 12-person advisory committee of citizens and landowners I consult for information, and I have engaged the following experienced people to help operate the District and to complete legwork, legal work, and financial and operational analysis needed to finish the task at hand:

- Harry D. Jones, Ph.D., Consultant, HDJ Management for general administrative support.
- Don Jackson, Managing Director, Economists.com, for valuation and rate hearing support.
- John G. Gliege, Attorney for legal support.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.