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Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF PINEVIEW WATER COMPANY, INC. FOR AN INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN NAVAJO COUNTY, ARIZONA.	DOCKET NO. W-01676A-04-0500
IN THE MATTER OF THE APPLICATION OF PINEVIEW WATER COMPANY, INC., FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCES OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE	DOCKET NO. W-01676A-04-0463 **NOTICE OF FILING**

Pineview Water Company, by and through its undersigned counsel, hereby provides this Notice of Filing on behalf of the Company of the Rebuttal Testimonies of Ron McDonald and Dan L. Neidlinger in accordance with the Amended Procedural Order dated October 4, 2005.

Respectfully submitted this 10st day of February 2005.

SALLQUIST & DRUMMOND, P.C.

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Original and ten copies of the foregoing filed this 10th day of February, 2005, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

Copy of the foregoing filed/mailed this 10th day of February , 2005, to:

Hearing Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

Legal Division
Arizona Corporation Commission
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Phoenix, Arizona 85012

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PINEVIEW WATER COMPANY
DOCKET NOS. W-01676A-04-0463
& W-01676A–04-0500
RATE AND FINANCING APPLICATIONS

REBUTTAL TESTIMONY
OF
RON MCDONALD

FILED
FEBRUARY 10, 2005

PINEVIEW WATER COMPANY INC.
RATE AND FINANCING APPLICATIONS
DOCKET NO. W-01676A-04-0463
DOCKET NO. W-01676A-04-0500
REBUTTAL TESTIMONY OF
RON MCDONALD
PREFILED FEBRUARY 10, 2005

Q. Please state your name and business address.

A. My name is Ron McDonald. My business address is 5198, Cub Lake Road, Show Low, Arizona, 85901.

Q. By whom are you employed and what capacity?

A. I am the General Manager of Pineview Water Company.

Q. How long have you been so employed?

A. I have been the General Manager of the Company since April 7, 2003.

Q. Would you please give a brief resume of your education and experience in the utility industry?

A. Prior to coming to work for Pineview Water Company I worked for the City of Cypress, California. Cypress is a community of just over 48,000 residents. I worked for the City for 27 years, 4 months. During that time I worked my way for an entry level position in the Maintenance Division of Public Works to the Position of Public Works Superintendent. Just over half of my time with the City was in mid-management. I managed a staff of 60 in all functions of Public Works Maintenance. I prepared, presented and managed an annual budget of over 6 million dollars. My experience that pertains to the utility industry, besides the management of personnel and budgets, is in the designing, installation and maintenance of water, sewer and irrigation systems. I have performed the actual installations and maintenance as well

as managed numerous contracts of the same. My education consists of mostly on-the-job experience. While I do not have a degree, I have 4.0 GPA at Cypress College where I have taken numerous classes in the field of Public Works. These classes varied from Public Works Administration, Inspection, all aspects of design and construction of hard and soft landscapes, Supervision/Management and Budget Preparation and Presentation. I have also taken classes in Math and English Writing.

Q. Did you file Direct Testimony in this proceeding?

A. No, the Direct Testimony and Exhibits supporting our Applications were filed by the Company's consultant, Dan Neidlinger of Neidlinger and Associates.

Q. Why have you elected to file Rebuttal Testimony at this time?

A. Following my review of the prefiled testimonies of Staff witnesses Zestrijan, Rameriez, Johnson and Hains I was compelled to file this testimony due to the numerous factual errors and incorrect conclusions reached in those testimonies.

Q. How do you propose addressing those issues with which you do not agree?

A. I believe the most direct manner would be to go through the testimonies page by page and correct the record where it is an error.

Q. Referring to the Staff report filed on January 21, 2005, I refer you to the testimony of Elena Zestrijan, and ask if you have comments on that testimony?

A. Yes I do. At Page 4, Lines 20 to 24 Staff states that the Company has not complied with the "inter-mingling" issues set forth in the last rate case decision. This is an incorrect summation on Staff's part. Every one of the issues/orders that were brought out in the 1996 Rate Increase were addressed and corrected per the Commission's order. There has been no "inter-mingling" of Pineview with any Sutter or any other company. Staff insinuates, at line 22 "There appears to

be an inter-mingling of Pineview's operations...", but gives no specific example for this assumption. I submit there is no such "the inter-mingling".

Q. Are there other incorrect factual assumptions in this section of the Staff Testimony?

A. Yes, on Page 5, Lines 5 through 10, the Staff states "Staff is aware that the Sutter's also own a heavy equipment rental business." Staff cannot be aware that the Sutter's own a heavy equipment rental business, because the owners of Pineview Water Company, Henry and Kathrine Sutter, do not own any business other than Pineview Water Company. It appears that the Lease to Purchase Agreement that Pineview Water Company has made with Henry Sutter has given Staff the impression that Henry has an equipment rental business. In addition, I have explained to Staff that Pineview Water Company's backhoe is used exclusively by Pineview Water Company <u>for</u> Pineview Water Company business by, highly trained, Pineview Water Company employees <u>only</u>. Further, Pineview Water Company has kept records on the hours/mileage use of the backhoe. It was explained to Staff that before 2003 the only records maintained of this use were on Line Extensions. When the tractor was used for in-house operations these records were not kept up-to-date until the policy was amended in late 2003.

Q. Has Staff also made erroneous assumptions regarding the work performed for the Company by Henry and Kathrine Sutter on Page 5 starting at Line 12?

A. Yes, this entire paragraph is a Staff summation that is incorrect. Staff may have misunderstood the very detailed response to their Data Request on Wages and Salaries, a copy of which is attached hereto as Exhibit RM-1, specifically in Data Responses EZ 2.1 thru 2.7. Henry and Kathrine's involvement in the Company is not minimal, and yes, they do <u>occasionally</u> travel together on Pineview Water Company business. Pineview Water Company is the <u>only</u> business

they own. They do not promote land development. They obtain easements so that we can get our water lines to where land is being developed.

Q. Does the Company have concerns with the recommendations contained on Page 5 Line 18?

A. Very much so. Pineview Water Company takes offense at Staff's recommendations here. First, there is no "commingling" of expenses and capital equipment. Second, every Pineview Water Company employee is highly trained in the equipment that Pineview Water Company employees operate. Pineview Water Company agrees that it will obtain Commission approval prior to any debt the Company enters into. Pineview Water Company is keeping usage reports. Pineview Water Company does intend to file a new rate case in 2007, using 2006 as a test year. The entire paragraph at Page 6 Line 4 is an incorrect or unneeded summation by Staff, and the Commission should not include such an order in its final Opinion and Order.

Q. Do you agree with Staff's removal of the new well sites from the Company's plant accounts?

A. No. ACC Staff was shown the site of the new wells. A service road has been built. The well sites have been cleared, conduit has been installed for the electric and 3 well permits have been obtained. The imminent use of this land was explained to ACC Staff during the inspection visit.

Q. Will you speak further on this issue when you comment on the testimony of Dorothy Hains?

A. Yes I will.

Q. Do you agree with Staff's disallowance of the capital improvements made to the office space?

A. No. The office was not remodeled. The office had a linoleum floor. Pineview Water Company approached Kathrine Sutter and requested we be allowed to add carpet to the building. This lease is in effect a triple net lease with the Company paying for repairs. Since it was a capital improvement to the "office space", Kathrine has maintained the rent at $15.40 a square foot when comparable rates in this area are $18 a square foot.

Q. Is the truck Staff disallowed used and useful?

A. The 1979 Ford was, and is, used and very useful. The Company's field staff uses this truck to service our meters, flush our lines, and perform re-reads as well as numerous other field tasks.

Q. Staff recommends disallowing some $47,000 in Salaries and Wages. Do you believe that adjustment is appropriate?

A. These <u>are</u> necessary expenses. These were clearly explained employees functions in our response to Staff's Data Request No.2, Response EZ 2.1. Copies of those Job Descriptions are attached hereto as Exhibit RM-2. Also, concerning Taren Sutter, during the 5 weeks she worked for the Company, she was a paid Pineview Water Company employee performing Billing Clerk Duties <u>as</u> she was training the newly hired Billing Clerk. In addition, during this time Taren was setting up the new computer billing program.

Q. Specifically, would you speak to the disallowance of the salaries of Mr. and Mrs. Sutter?

A. Staff must have misunderstood the Data Request Response as to the actual work performed by Henry and Kathrine Sutter. The one and only business that Henry and Kathrine Sutter own is Pineview Water Company. They do not "promote" land development. It was explained to Staff that when land in our certificated area is being developed often times easements have to be obtained in order to get our water lines from their existing location to the

development site. We have found that it is very difficult to obtain easements from property owners via the mail. Henry, and sometimes Kathrine, will personally travel to where these owners live, to explain the advantages of easements and obtain them. The "Land Development" company that Staff refers to is a temporary office of Ernie Sutter's company. It is not a "Sutter family" business. It is solely an Ernie Sutter business. Ernie is the non-paid Vice President of Pineview Water Company. His duties in the Company were sent to Staff in Data Request. (See Exhibit RM-2) His business is in no way mingled with that of Pineview Water Company. His company is in a temporary trailer located on a parcel behind the parcel that Pineview Water Company sits on. Ernie is in the process of building his company office on a parcel outside Pineview Water Company's Certificate area.

Q. Do you believe the Staff's analysis of Salaries and Wages was correct?

A. It appears that Staff did not do a job comparison of similar size Water Company's. They did not include salary adjustments for Pineview Water Company's staff. If they had done so they would have found that Pineview Water Company has less staff than our contemporaries, and the staff we do have is compensated at a below average rate of similar job duties. Pinetop Water Company, which is just south of us is an example of this.

Q. Please speak to the disallowance of the $7,500 in employee pension and benefits.

A. As noted in the above rebuttal, again, it appears that Staff did not do a comparison of benefits with that of similar size water utilities. Pineview Water Company provides a minimum of benefits that is below the average of similar size water utilities. It is hoped that the Commission will consider this when making their ruling on the Salary and Benefit issue. The only way Pineview Water Company can obtain and retain qualified personnel is to be able to offer competitive wages that include a benefit package. In addition, to help the Company get

through the winter months, when seasonal residents are gone resulting in much less revenue, Kathrine and Henry have not received salaries. The last salary either has received was in September of 2004 to date.

Q. Are there other inappropriate adjustments to expenses recommended by Staff?

A. Yes, it appears Staff misinterpreted the information we provided. Pineview Water Company has receipts for purchased power in 2003 totaling $42,953. The document totaling $39,512 that Staff is referring to does not include two payments that had not yet been posted at the time the document was sent to Staff. The $3,441 is included on the document and is listed as Accounts Payable. In addition, we believe Staff should have included an estimate of increase purchase power due to the ACC approved line extensions resulting in 112 new service connections scheduled to go into service in early 2005. Staff should also have estimated an increase in purchase power that will result in filling the additional storage tank that is part of the Debt Authorization Application connected with the Rate increase filing.

Q. Staff removed $5,578 that was recorded as heavy equipment repairs noting that the receipts were not specific as to which equipment was repair or what the actual repairs were. Would you like to clarify this issue?

A. Yes, apparently staff's opinion is that Pineview Water Company should not pay for repairs to "leased" equipment. First, as I have explained to staff several times, the equipment was Leased-to-Purchase. In my interpretation of this, Pineview Water Company was repairing purchased pieces of equipment. Pineview Water Company now owns the equipment that was formerly Lease-to-Purchase. Second, it has been my experience that it is normal to pay for repairs on leased equipment. Lastly, at that time we were not recording repairs specifically to

each piece of equipment. In 2004, and current, we began this type of itemized cost in order to budget for the future.

Q. Staff also made a very large adjustment to the Company's booked Rent Expense. Would you please comment on that adjustment?

A. First let me acknowledge that there have been Capital purchases by Pineview Water Company that did not have Commission approval. Without going into a lot of detail we would like to note that every purchase was made with Pineview Water Company's rate payers best interest in mind. Let me also say that this practice has been stopped and will not happen again. With that said, Staff was given a copy of the Lease-to-Purchase Agreement that Pineview Water Company made with Henry Sutter that made it possible for Pineview Water Company to trade-in the Commission Approved Backhoe of 1996 for a newer model. The backhoe approved by the Commission in Decision No. 59934 lacked the improved features of the one obtained through the Lease-to-Purchase Agreement with Henry Sutter. Through this Lease-to-Purchase Agreement Pineview Water Company turned over the Commission approved backhoe to Henry Sutter. Henry traded in the backhoe for a $17,000 down payment on the purchase of a new backhoe for $60,000. Henry then made a Lease-to-Purchase Agreement with Pineview Water Company in the amount of $43,000. Pineview Water Company made 43 payments of $1,000 for the backhoe beginning on May 2, 2000. The last payment was made on April 2, 2004. This is the one and only backhoe owned by Pineview Water Company. Concerning the need to rent "other heavy equipment", it is submitted that Staff is not qualified to make this determination as they do not know the soils or what type of equipment it takes to install main lines in our franchise area. The use of large Trac-hoes with hammer-hoe attachments are commonly used to trench through the malipai rock that is present throughout this area. Concerning the "rent expense" of $5,069 for

"unsubstantiated" expenses, Staff has not made it clear what expenses they are referring to. In 2003 Pineview Water Company made two payments totaling $300 to Henry Sutter for a Lease to Purchase Agreement of a 1979 Ford Courier Truck. Staff is incorrect in stating that this truck is not used or useful. The truck is used for a variety of tasks such as servicing our meters, flushing our main lines, obtaining materials, investigating service request, etc. Please note that Staff never requested information on this truck. The not used or useful statement is an incorrect, uniformed summation by Staff.

Q. Did Staff consider your full explanation of the employee's uniform costs they deleted from office supplies?

A. No. It is imperative that Pineview Water Company field staff wear uniforms that depict the Company's name and logo so that the public knows who it is that enters there backyards via easements to access our main lines and meters. During Staff's audit at our office we did acknowledge that the Uniform Service Provider had been eliminated. In 2004, Pineview Water Company management determined it would be a savings to the Company to purchase uniforms rather than continuing to pay a Uniform Service Provider. However, this does not mean there is no Uniform Costs. Pineview Water Company management made an agreement with the field staff. The Company purchased 10 uniforms for each of the three current Field Staff personnel. The field staff would then launder the uniforms themselves eliminating the monthly service fees. Uniforms have a life span of approximately a year. Therefore the Company agreed to replace 5 uniforms each year. The initial purchase of the uniforms cost more than the cost of the Uniform Service; however, overall this saved the company just over $300 a year. We request the Commission allow $720 as the annual replacement expense of uniforms.

1 Q. Are there other Staff disallowances on Page 12 of Ms. Zestrijan's testimony with which
2 you disagree?
3 A. We are unclear on the $1,098 that Staff is referring to. We have no expenses that add up
4 to this amount. Staff needs to clarify where they got this dollar amount. Additionally, we
5 disagree with Staff on eliminating Henry Sutter's fuel expense. Staff is presuming the fuel
6 expense is unrelated to Company business when in fact Henry was on Company business. Staff
7 is again incorrectly determining the 1979 Ford "is not used or useful". In addition, Staff must
8 have misunderstood when we told her we cancelled the Verizon Wireless Phones believing we
9 no longer needed cell phones. We did not eliminate the service. We just changed providers. We
10 have a cell phone expense of $173 a month. I am not sure why Staff went away thinking we no
11 longer needed land lines.
12 Q. On Page 13 at Line 12, the Staff implies that the Company is not keeping its records
13 consistent with the NARUC accounts. Would you please comment?
14 A. Staff is incorrect in this determination. Pineview Water Company accounting does meet,
15 or exceed, NARUC USOA standards. Dan Neidlinger will elaborate on this in his testimony.
16 However, I would like to add that Pineview Water Company filed amended Annual Reports in
17 2004, amending our reports from 1998 through 2002, partially due to correcting the depreciation
18 schedules.
19 Q. Are there other errors that Mr. Neidlinger will speak to in his Rebuttal Testimony?
20 A. Yes, he will provide significant other detail on the other errors.
21 Q. Would you please summarize your comments on the testimony of Ms. Zestreijan?
22 A. Pineview Water Company requests that the Commission disregard Staff's
23 recommendations concerning commingling as this assumption is incorrect. Pineview Water

Company adamantly objects to Staff's opinion that Pineview Water Company propagates any policy that is detrimental to its ratepayers. Pineview Water Company also states that it is not necessary to "require" us to maintain written documentation on the use of our backhoe, since we are already doing such. Pineview Water Company wonders why a Finance Officer believes she can determine the training or experience needed of our equipment operators. Regardless of the fact that this is not her business, she has nothing to base this recommendation on. Pineview Water Company has had absolutely no injuries or accidents attributed to the operating of any of our equipment. The least experienced Pineview Water Company employee has over 5 years of training and experience in the use of every piece of equipment we own or use. Between the General Manager, Site Project Manager, Superintendent and Senior Serviceman there is a combined experience of over 80 years of equipment operation experience. This recommendation has no merit or place in this hearing. Pineview Water Company agrees that all future capital transactions that would require the company to go into debt will have prior Commission approval. Pineview Water Company vehicles and equipment are used solely by Pineview Water Company employees for Pineview Water Company's business. Be that as it may, Staff was informed in their audit that the policy of keeping these records has been reintroduced and followed since mid-2003. Pineview Water Company requests the Commission disregard Staff's recommendation of filing an affidavit concerning our accounting practices. It is contradictory since they reviewed and approved our Test Year Operating Revenue. If our accounting did not meet or exceed NARUC USOA specifications Staff would not have approved this document.

Q. Mr. McDonald, have you also reviewed the prefiled testimony of Dorothy Hains?

A. Yes I have.

Q. Do you have comments and concerns regarding that testimony?

A. I do.

Q. Referring to Ms. Hains conclusions and recommendations starting on Page 5 of her testimony, would you please comment on Staff's recommendations.

A. Yes. Pineview Water Company corrected the depreciation rates in 2003 and filed amended Annual Reports for 1998, 2000, 2001 and 20002 which reflect the changes. We will use those depreciation rates going forward. As to her fourth recommendation, Pineview Water Company has upgraded its policy on finding and repairing leaks. A plan is in place to replace Transite and SDR 21 pipe with C900 PVC Pipe. 95% of the leaks have been on the Transite and SDR 21 pipe. However, this plan is dependent on the Commissions decision on the percentage of increase Pineview Water Company will be granted.

Q. Has Staff made a major error in its assumptions when considering the Company's need for the proposed new construction?

A. Definitely. Staff has underestimated the future growth of Pineview Water Company's Certificated area. Ms. Hains has based her entire estimate on the average growth of 21 new connections a year. When Ms. Hains inspected our franchise area she and I had a discussion concerning Pineview Water Company's history of an average of 25 new connections a year. The following is a portion of what was explained to Ms. Hains during that conversation.

The Commission granted Pineview Water Company an Extension of its Certificate of Convenience and Necessity to include a 160 acre parcel known then as the Kohner Subdivision. In the application it was shown that there would be 381 new connections in this subdivision within 5 years. (ACC Commission Decision No. 66176, dated August 15, 2003 Docket No. W-01676A-03-0254). The Commission granted two Line Extensions (Dated June 18, 2004 & October 29, 2004) in this subdivision, now known as Starlight Ridge Estates Homes and Town

homes respectively. These are the first phase of development in the subdivision, which will be completed, in early 2005. These two Line Extensions have a total of 112 new connections. When Ms. Hains inspected our service area she was shown the Mountain Park Apartment Project. This project, which is now complete, has four 2" meters and twelve 1" meters which serve a minimum of 76 customers. She was also shown a 42 acre site and informed that the developer has already come to Pineview Water Company and requested an estimate for a line extension that will bring our water to the subdivision he plans to build in 2006 that will bring 160 new connections. Ms. Hains was then shown a small subdivision in the south of our franchise called Wagon Wheel Meadows. She was informed that this subdivision has submitted plans for 48 new connections in 2005. In December 2004 a developer in the southeast area of our franchise asked for a line extension estimate to serve the second phase of his subdivision, know as Wolf Pines. The plan he submitted for review has 36 new connections. He indicated he plans to start this next phase this spring. Other sites were shown to Ms. Hains and she was informed of the estimated new connections of each site; all of which would be completed within the next five years. In our application evidence was presented indicating more than 500 new connections in the next three to five years. Ms. Hains may have not been told that Pineview Water Company had to initiate the first phase of our Curtailment Plan twice in the summer of 2003 due to storage levels dropping close to Fire Flow minimum requirements. This has happened prior to any of the before mentioned new connections. Reducing our requested Two Million Gallon Storage Tank to one million gallons would result in, at best, only bringing Pineview Water Company water storage capacity to near future demands. In addition, it appears that the calculations Ms. Hains used to estimate her proposed one million gallon storage tank are incorrect. It appears that she took Pineview Water Company's four year old lowest bid for the

Two Million Gallon Storage Tank of $304,150 and multiplied that by 67.32 percent (304,150 x 67.32% = 204,753.78). Seventy-five percent of the cost of building a storage tank is in the base and roof, with no sidewalls. Therefore, Ms. Hains should have estimated the cost of the 1,000,000 tank to be $228,112 (304,150 x 75% = 228,112.5). A bigger tank is basically a taller tank. Since we are limited by the agreement that was made when the land was obtained to building a tank with a maximum height of 32 feet, going up is not an option. However, if we were able to reconstruct the tank to be taller in the future, using the originally low-bid cost, a Two Million Gallon Storage Tank, the additional cost to build the Two Million Gallon Storage Tank now would be $76,037.50. One million gallons more of storage for $76,000. Reconstructing the tank to provide an additional 1,000,000 gallons of storage in the future would be at a considerably higher cost. In addition, even if it was possible to raise the height of the tank, by the time this addition would be approved, the subdivision homes will be built right up the property line of the tank. It would be an unreasonable burden for the residents in that area to have to live through such a project so close to their homes. Since the main purpose of this project is to convert the current pressure system into a gravity system, the system would have to convert back to pressure, and pay the much higher cost of purchasing power during the time the tank was being reconstructed. In our opinion this would be an unreasonable cost burden. Pineview Water Company only has one opportunity and one site to place the Two Million Gallon Storage Tank. When known future demands need to be met it would not be economically feasible or physically possible to upsize this tank to meet the demand. It would be irresponsible of Pineview Water Company to not plan and complete this project as we proposed as soon as possible. This is One Million Gallons more of Fire Flow protection in an area that has

experienced two major fires in two recent years. Pineview Water Company believes the Two Million Gallon Storage Tank is the best plan for our current rate payers.

Q. In addition to the domestic requirements for water storage, is there a substantial fire potential in your service area and the related public need for substantial additional storage?

A. Yes, the bark beetle has had a definite effect on the trees in the White Mountains. While some forest management has begun to remove dead wood, there are still thousands of acres that have wood that is virtually a match waiting to be stuck. In addition, while this winter season is not yet over, the White Mountains has experienced nine plus years of drought. The likelihood of a large fire in our area is very high. Each year since the Rodeo-Chediski fire I have attended task force meetings with many other utilities and government agency to discuss all our abilities and readiness to meet the threat. As I stated earlier, in the summer of 2003 we had to initiate the first phase of our Curtailment Plan so as to maintain minimum fire flow. In 2003 there was an average of 918 connections billed. In 2004 there was an average of 950 connections billed. That is an average of 32 more connections billed in 2004 than in 2003. In 2004 we sold 116,652 more gallons than in 2003. That's just over 3,645 gallons per connection. These are facts. So given the 500 near future new connections that we know about right now, that means there will be a demand for, at least, 2,600,000 more gallons with five years. Considering this, we will not be able to meet the demand with current capacities, not to mention what will happen if there is another fire.

Q. Staff has also disallowed three well sites from your plant. You believe this to be appropriate?

A. Staff states the land expense of $50,750 is for unused un-useful land. It was explained in Pineview Water Company's rebuttal to Staff's storage tank recommendation the inaccuracy of

the current, near and future demands of Pineview Water Company's system. The wells are a vital part of meeting that demand, which I just described. Concerning Staff's comment that "This land is currently not being used..." Staff is incorrect. Three well permits have been obtained on this land. The casing for the first well was lying on the ground next to the first site when Staff was shown the three cleared well sites. Staff was driven to the three well sites on the service road that was built to access the sites and the conduit has already been installed for the electric to two of the three well sites. Since the land noted above is already under Pineview Water Company's control, it is requested that the $54,000 requested for Land in our application be transferred to the cost of building the Two Million Gallon Storage Tank, since it is known that the cost of steel has gone up since the original bids were received four years ago.

Q. Do you have any thoughts on Staff's proposed Rate Design?

A. Yes, Mr. Neidlinger will speak to this more fully, but I believe the proposed rate design is irresponsible. Staff has actually lowered rates on customers consuming less than 4,000 gallon per month, and proposes only nominal increases for customers using as much as 25,000 gallons per month. Given the demographics of our service area, i.e., relatively well-to-do and many seasonal customers, this design does nothing but promote consumption while lowering the Company's revenues. We believe the revenue levels and rate design proposed by Mr. Neidlinger are more responsible.

Q. Will you please summarize your comments on Ms. Hains testimony?

A. Much of Ms. Hains' testimony is either incomplete and/or inaccurate. I am not sure if she did not understand me or if I misunderstood her. It is possible that it is some of both. Be that as it may, her conclusions and resulting recommendations should to be disregarded, or at the least, reconsidered with the actual facts; especially the facts surrounding future demands on our

system. I would like to point out that Ms. Hains has been accurate on describing our existing plant.

Q. Do you have the general comments on the conclusion reached by Mr. Ramirez?

A. Despite Mr. Ramirez mind-boggling testimony, his conclusions are incorrect. Since Mr. Ramirez's testimony is based on incorrect calculations given to him, his conclusions are also incorrect. In addition, Mr. Ramirez should have used comparable water companies serving comparable seasonal demands that result in similar fluctuating revenues. While I only completed Geometry in school, I believe I could have figured out his formula. Trouble is, he only gave the formula and did not include actual numbers, so I could not check his calculations; and even if I was able to, I would have come up with the wrong conclusions because the numbers he was given are incorrect.

Q. Finally, do you have any comments on Jim Johnson's testimony?

A. Only that since Mr. Johnson's testimony is based on incorrect calculations given to him, his conclusions are also incorrect.

Q. What is your recommendation to the Administrative Law Judge and Commissioners regarding the Staff Report?

A. Pineview Water Company requests that the Commission order Staff to correct the errors in their calculations and resubmit them to Mr. Johnson and Mr. Ramirez for their recalculation and reevaluation of the appropriate revenue levels, rates, and financing approval.

Q. Does this conclude your testimony?

A. Yes it does.

Exhibit
RM-1

ARIZONA CORPORATION COMMISSION STAFF'S
SECOPND SET OF DATA REQUESTS TO
PINEVIEW WATER COMPANY, INC.
DOCKET NO. W-01676A-04-0462
December 15, 2004

Question EZ 2.1 Please provide a list of all current active employees, responsibilities, hours, they work per day, and salaries.

Answer EZ 2.1 We have provided a list of all employees who worked for the Company in 2003. Taren Sutter worked for the Company for a few months updating the Company's billing program. She also hired and trained Tamera Salas as the then Billing Clerk. Gloria Johnson replaced Tamera in September 2003.

Please see the following attachments:

- Employee Job Descriptions (9 sheets, these are the current active employees)
- Employee Salaries Detail Sheet (2003 Salaries)

All hourly paid employees work a standard 40 hour week. At least one field staff worker (Jack, Wayne or Bruce) works 2 hours each day on holidays and weekends. This person checks the wells and responds to various call outs.

Ron McDonald, Pineview Water Company's General Manager, works and average of 50 hours a week as the only non-family member on salary. Please note that, while the Company does pay Ron's fuel and some of Ron's meals while on business trips, Ron uses his personal vehicle and ninety-five percent of the time pays for his own lodging, when overnight stays are necessary. Ron also uses his personal vehicle, at no cost to the Company, to inspect job sites, attend meetings and various other work related activities outside the office.

Henry, Kathrine and Mandy's hours vary depending on the work load. Sometimes 20 hours a week, sometimes 60+ hours a week.

Please note that Ernie Sutter donates an average of 10 hours a week of his time, at no cost to the Company. He provides vital background information on plant additions completed prior to Ron McDonald taking over as the General Manager. His business contacts are also an asset to the Company.

Question EZ 2.2 Please provide detailed information on Henry Sutter's position in the Company and how much time he spends on each of his duties/responsibilities.

Answer EZ 2.2 Henry Sutter is the President of Pineview Water Company and 50% Owner. Henry spends most of his time in the field. Approximately Seventy-Five percent of his time is spent outside the office. Much of this time is spent obtaining easements from, often out-of-state, property owners. He also meets with developers, frequently in the Phoenix valley, concerning the development of land within our franchise area. He was very instrumental in negotiating the deal that obtained the land for the proposed Two Million Gallon Storage Tank site. This was a crucial element in the proposed project of converting our water system from the current, very expensive, use of electricity to maintain the pressure in the system to the gravity type system that prompted the Debt Authorization Application.

Henry also negotiated the up scaling of an 8" main to a 12" main from Well Site 4 to the Wal-Mart site when the Wal-Mart was built in our franchise area in 1998. This set the ground work for the overall project. The project includes a 12" Transmission Main from the Two Million Gallon Storage Tank Site to the Well Site 4 area and also runs along Hwy 260 towards the north of our franchise area where we are negotiating a future interconnect with the City of Show Low Water System. This will greatly enhance the fire flow protection of the rate payers in both franchises.

Henry also travels to prospective vehicle and equipment suppliers to personally work out the best deals for the Company's needs. While occasionally Henry will charge some gas to Pineview Water Company, he covers the cost of his business trips with his own finances. This is a huge savings to our rate payers.

There are a number of small private systems congruent to Pineview Water Company's CC&N. Periodically the owners of these systems will contact Pineview Water Company to discuss the possibility of taking over their system(s). Henry's 50+ years of constructing, repairing and maintaining Drinking Water Systems give him unique and rare abilities of evaluating and negotiating the possible acquisition of these systems.

In addition to the above list of duties/responsibilities, Henry chairs the monthly Board Meetings and the meetings of Stockholders; both the annual and periodic, as needed, Special Meetings.

Please see Henry's Job Description for a list of all his Duties/responsibilities.

Question EZ 2.3 Please provide detailed information on Kathrine Sutter's position in the Company and how much time she spends on each of her duties/responsibilities.

Answer EZ 2.3 Kathrine Sutter is the Sectary/Treasure of Pineview Water Company and 50% Owner. Kathrine spends approximately half of her time working outside the office. Approximately 50% of the time that she works outside the office she is working in our franchise area. She does the daily bank deposits. She takes various paperwork for notarization (line extension agreements, easements and various other agreements, etc.) and she researches properties in the franchise area where possible line extension would benefit the Company.

Concerning the other 50% of the time Kathrine spends outside the office; Kathrine has a variety of duties. A portion of this time she goes with Henry, particularly when the Company needs easements. Often times the property owners feel more at ease with Kathrine, most often when they are dealing with women property owners. She also spends a portion of her time receiving and delivering paperwork. On the mountain it can take up to four days for some paperwork to reach the valley (Phoenix). When time is a factor, Kathrine can have the paperwork to the valley and back in half that time.

The other half of Kathrine time is spent working in the office. She takes and then transcribes the minutes of all meetings. She signs checks, reviews and approves the work of the Staff Accountant, and communicates with customers that have a variety of questions. Roughly 30% of Pineview Water Company customers are long-time summer residents that Kathrine has know for decades. This is a valuable asset, particularly when dealing with customers that have lived on the mountain for 40+ years.

Please see Kathrine's Job Description for a list of all her duties/responsibilities.

Question EZ 2.4 Please provide detailed information on Mandy Sutter's position in the Company and how much time she spends on each of her duties/responsibilities.

Answer EZ 2.4 Mandy Sutter is a consultant to Pineview Water Company. She works from 15 to 20 hours a week. Her time is split approximately 50/50 between working in the office and in the field. Mandy's main function in the Company is as a consultant. Mandy, and Taren Sutter, obtained the billing program (Continental Billing) and set it up. Up until the Staff Accountant, Leslie Boyse, was hired Mandy did the day-to-day accounting input into the Company's computer using QuickBooks.

Mandy continues to provide consulting services to Pineview Water Company by attending industry meetings and communicating with other industry advisors in order to stay current with standards, trends and technical knowledge.

Please see Mandy's Job Description for a list of all her duties/responsibilities.

Question EZ 2.5 — Please confirm ownership of the other businesses owned by each of the Sutters, including Henry Kathrine, Ernie and Mandy.

Answer EZ 2.5 — We question the relevancy of this question. Be that as it may, the only business that Henry and Kathrine own is Pineview Water Company. Mandy owns no other business. Ernie owns a construction company (Stonebrook Development).

Question EZ 2.6 — Please confirm the elimination of the part-time certified operator since two of the company's employees received certification. Specify the dates when the part-time operator stopped working and the dates when the two company employees received their certification, and the dates they started working as certified operators.

Answer EZ 2.6 — Dave Walters will receive his last check from Pineview Water Company in December 2004. Pineview Water Company made the agreement with him that we would employ him through the end of 2004. Wayne Coats was working on his Grade 2 Water Distribution System Operator and we were not sure when he would actually obtain the upgraded rating. Wayne did not inform the Company that he had obtained the upgrade until September 2004. Wayne originally obtained the Grade 1 in September 2002. A copy of John "Jack" Moore's Grade 1 Water Distribution System Operator Certificate is not included. The office copy has been lost and we have requested a replacement. His Operator Number is 21650. It expires on September 30, 2006.

See attached certification of Wayne Coats.

Question EZ 2.7 — Please explain employee counts (responses to Staff Data Request 2-16).

Answer EZ 2.7 — I believe this question refers to Staff's Data Request of September 2, 2004. The question was "Please provide actual and budgeted employee counts by month for the years 1999, 2000, 2001, 2002 and 2003."

I have attached a copy of the chart that was sent as a response to that question.

To answer EZ 2.7 we submit the following: The budgeted employees for each of the months and years requested ranged from 5 to 8 employees. Henry, Kathrine and Mandy have been the only consistent employees in the Company. Other budgeted positions in the Company that varied with being filled to being vacated for a variety of reasons include the Billing Clerk position, the General Manager position, the Staff Accountant position and two Field Staff positions.
In 1999 five positions were budgeted. In 2000 & 2001 seven positions were budgeted. In 2002 & 2003 eight positions were budgeted.

Concerning the months/years where there were less employees than were budgeted, these were when the positions were vacant.

Concerning the months/years where there were more employees than were budgeted, these were when temporary help was hired for specific jobs, such as line extensions.

Question EZ 2.8 Please provide number of years and amounts of the uncollected accounts (Bad Debts) written off in the test year.

Answer EZ 2.8 See Attached

Question EZ 2.9 Please provide attendance records and receipts supporting any and all Water Industry Conferences/Seminars attended in 2003. Also include membership payments made to Industry Associations pertaining to Water Business and Associations. In particular, please provide any and all business receipts for the following business trips, including meals, seminar payments and hotel records.

1/30/2003	2/10/2003
1/30/2003	5/19/2003
1/30/2003	8/21/2003
1/30/2003	10/17/2003
2/3/2003	12/23/2003

Answer EZ 2.9 See Attached Receipts

Question EZ 2.10 Please provide Bill of Sale for the two 2001 GMC truck leased by Pineview Water Company and the analysis that was done by the Company to arrive at the lease agreement and amounts.

Answer EZ 2.10 We have attached copies of the Bill of Sale for each of the trucks. Also attached is a copy of the Lease to Purchase Agreement where Pineview Water Company is purchasing the trucks from Henry Sutter. The difference in what Pineview Water Company pays and what the truck payment actually is, is the handling fee paid to Henry Sutter for obtaining

the loans in his name and making the payments on the trucks with the funds sent to him by Pineview Water Company.

Question EZ 2.11 Please provide detailed analysis relating to the backhoe and skidsteer rental, including the work jobs each has been used for, the amount of time for each job and the lease amount per piece of equipment for each job.

Answer EZ 2.11 The Backhoe was not rented. It was Leased-to-Purchase. This has been paid for.

During the Lease to Purchase period it was agreed that Pineview Water Company would pay an "extra" cost on the equipment if used in excess of what would be considered a normal amount of use. This was done to compensate Henry Sutter for excessive wear and tear on the Backhoe in the event that Pineview Water Company failed to complete the Lease to Purchase and Henry had to retain possession of the Backhoe.

Concerning how much time was spent on each job, these records were not consistently kept until the beginning of 2004. There were four small line extensions but these are only a faction of the time these two pieces of equipment were used in 2003.

The agreed normal use on the Backhoe was 40 hours per month. Hours in excess of 40 hours a month were paid at $25/hr.

When we bid jobs that include the use of the Backhoe we bill the Backhoe at $32.25/hr. This does not include the operator.

The Skidsteer was bought by Pineview Water Company in 1992 and was paid for prior to the last Rate Increase.

When we bid jobs that include the use of the Skidsteer we bill the Skidsteer at $27.25/hr. This also does not include the operator.

Question EZ 2.12 Please explain why Pineview Water Company is responsible for the repairs of the backhoe and skidsteer if a rental is charged, since Pineview does not own the above mentioned heavy equipment.

Answer EZ 2.12 The above mentioned equipment, which actually should only include the Backhoe, was not rented. It was Leased-to-Purchase. Pineview Water Company has owned the Skidsteer since before the last Rate Increase. Pineview Water Company pays for repairs and maintenance because that is normal with any purchased vehicle or equipment. While the title has not been exchanged as yet, Pineview Water Company has completed payments on the Backhoe and has possession of such.

Question EZ 2.13 Please provide an explanation why Pineview Water Company's office lease expense is @ $16.24 per square foot per year while typical office space within Show Low runs between $9 and $14 a square foot per year.

Answer EZ 2.13 We believe Staff may have been given an incorrect square footage on our office. We pay $1,150/month for 896 square feet. Our calculations put our per foot cost at **$15.40.** Not sure where or how Staff acquired the average cost but the offices right across the street from us are renting for $18 per square foot. I called Spectrum Realty a local property manager, Don Staley (928) 532-5500, here in Show Low and was told that the average office rent, for a "livable" office space in the Show Low area ranges from $15 to $16.

PINEVIEW WATER

Exhibit RM-2

5198 Cub Lake Road
Show Low, AZ 85901
928-537-4858
Fax 928-537-2180

Position: **Customer Service/Billing Clerk**

Starting Hourly Wage: $10.00/Hr.

Job Summary:

Meet and greet customers. Performs a variety of general clerical duties; aids in providing work coordination of others; and does related work as required

Typical Duties:

1. Answer the phones, take messages, relay information to customers
2. Meet/greet customers that visit the office.
3. Accept/record water payments.
4. Attend morning/weekly staff meetings to give and receive updates
5. Input billing information into Billing Program.
6. Print & Mail Monthly Water Bills to Customers
7. Maintain good working relationships with Office and Field staff.
8. Sort mail.
9. Send faxes as needed.
10. Obtain and input customer account information into computer.
11. Receive work order requests and produce work orders.
12. File.
13. Submit and update Blue Stake requests as needed.
14. Maintain (Inventory, Order, Receive, Will-Call, Stock) Office Supplies.
15. Maintain communications with field staff via phone, cell phone, radio.
16. Transfer phones to Messaging Service at close of business day and Un-transfer the phones at beginning of business day.
17. Perform other duties as required.

PINEVIEW WATER

5198 Cub Lake Road
Show Low, AZ 85901
928-537-4858
Fax 928-537-2180

Position: **Staff Accountant** (Leslie Boyse)

Starting Hourly Wage: $12.00/Hr.

Job Summary:

To direct and oversee all the financial activities of the corporation including preparation of current financial reports.

Typical Duties:

1. Prepares financial reports, including income statements, balance sheets, reports to shareholders, tax returns, and reports for government regulatory agencies.

   Responsible for all financial procedures and records. This responsibility includes:

   a. Maintenance of checking accounts and invoices.

   b. Responsible for subsidiary ledgers: cash disbursements, cash receipts, accounts payable, month-end payroll summary, accounts receivable summary, and journal entries for adjustments to the general ledger.

   c. Responsible for current and capital fund general ledgers, trial balances, financial report, and balance sheets.

   d. Preparing monthly reports that include accounts payable reconciliation, accounts receivable reconciliation, cash flow report, and balance sheet audits.

2. Reviews budget preparation, and audit functions. Meets regularly with Company Management to keep informed and to offer direction.

3 Reviews reports to analyze projections of sales and profit against actual figures, budgeted expenses against final totals, and suggests methods of improving the planning process as appropriate.

4. Analyzes company operations to pinpoint opportunities and areas that need to be reorganized, down-sized, or eliminated.

5. Confers with Board of Directors, General Manager and Staff Consultant to coordinate and prioritize planning.

6. . Review monthly billing prior to Billing Clerk printing the bills.

7. Train Customer Service/Billing Clerk.

8. Evaluate job performance of staff under their direction and make recommendations to General Manager.

ADDITIONAL RESPONSIBILITIES:

Providing accounting services as required by "Management Agreement."

PINEVIEW WATER

5198 Cub Lake Road
Show Low, AZ 85901
928-537-4858
Fax 928-537-2180

Position: **Senior Serviceman** (Wayne Coats)

Starting Hourly Wage: $14.50/Hr.

Job Summary:

A Field Staff Position performing various skilled and unskilled tasks in the installation, repair and maintenance of Drinking Water Plant Systems.

Typical Duties:

1. Read maps and local addresses
2. Locate water meters
3. Submit and update Blue Stake requests as needed.
4. Accurately take meter readings.
5. Install water meters.
6. Stand On-Call Duty (on average every third week)
7. Turn water services on and off.
8. Inspect/Maintain/Record Well Site Operations.
9. Possess or commit to obtain Operator I and Operator II certifications within reasonable time frame (time frame to be mutually determined).
10. Perform semi-skilled labor such as digging, laying water pipe, locating water service lines, flushing water systems, maintenance in and around wells, storage tanks, maintenance yard and buildings.
11. Move office files from one location to another, as needed.
12. Perform other duties as required.

PINEVIEW WATER

5198 Cub Lake Road
Show Low, AZ 85901
928-537-4858
Fax 928-537-2180

Position: **Operations Superintendent** (John "Jack" Moore)

Starting Hourly Wage: $15.00/Hr.

Job Summary:

Mainly a Field Staff Position with some office work. Performs and/or oversee the installation and/or replacement of water meters. Inspects existing main line system. Responds to customer service requests.

Typical Duties:

1. Plan, perform and/or oversee Water Meter installations.
2. Plan, perform and/or oversee Water Meter Replacements.
3. Attend weekly staff meetings to give and receive updates
4. Train assigned staff in field operations.
5. Stand on-call duty (on average every third week)
6. Maintain good working relationships with customers and industry peers.
7. Perform on-site inspections, when needed, of contracted work and document work progress.
8. Submit weekly time cards for self and staff under your direction.
9. Possess, or commit to obtain, Operator I and Operator II certifications within reasonable time frame (time frame to be mutually determined).
10. Evaluate job performance of staff under their direction and make recommendations to General Manager.
11. Interview job applicants for positions under their direction and make recommendations to the General Manager.
12. Submit and update Blue Stake requests as needed.
13. Submit any required applications for permits for the projects assigned.
14. Perform other duties as required by the General Manager or Board of Directors.

PINEVIEW WATER

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Position: **Site Project/Inspection Manager** (Bruce Germain)

Starting Hourly Wage: $16.00/Hr.

Job Summary:

Reviews plans. Inspects work. Submits material list for projects. Performs and/or trains/oversees installation of Drinking Water Systems.

Typical Duties:

1. Plan and oversee projects given by General Manager.
2. Review project plans and estimate needed materials.
3. Attend morning staff meetings to give and receive updates
4. Train current staff on water main installation.
5. Stand on-call duty (on average every third week)
6. Maintain good working relationships with other contractor representatives.
7. Perform on-site inspections of contracted work and document work progress.
8. Submit weekly time cards for self and staff under your direction.
9. Possess, or commit to obtain, Operator I and Operator II certifications within reasonable time frame (time frame to be mutually determined).
10. Evaluate job performance of staff under their direction and make recommendations to General Manager.
11. Interview job applicants for positions under their direction and make recommendations to the General Manager.
12. Submit and update Blue Stake requests as needed.
13. Submit any required applications for permits for the projects assigned.
14. Perform other duties as required by the General Manager and/or Board of Directors.

PINEVIEW WATER

5198 Cub Lake Road
Show Low, AZ 85901
928-537-4858
Fax 928-537-2180

Position: **General Manager** (Ronald McDonald)

Salary: $700.00/Week

Job Summary:

Manage/Oversee the day-to-day operations of the Company.

Typical Duties:

1. Plan and oversee daily operations of the Company.
2. Review project plans and estimate needed materials.
3. Chair morning/weekly staff meetings to give and receive updates.
4. Attend monthly Board meetings.
5. Maintain good working relationships with other Utilities.
6. Maintain good working relationships with other Industry Contractors.
7. Perform on-site inspections of contracted work, as needed, and document work progress.
8. Evaluate job performance of staff under your direction.
9. Interview job applicants.
10. Submit Annual Operating Budget to the Board of Directors.
11. Submit applications to the ACC to Obtain Extension of CC&N, as needed.
12. Submit applications to the ACC for Debt Authorization, as needed
13. Submit applications to the ACC Rate Increases, as needed.
14. Create and maintain a long term goals for the improvement of customer service.
15. Design and plan the replacement of old main lines.
16. Oversee all upgrades of the water system.
17. Update and Oversee the service schedule and maintenance of all fire hydrants on the system.
18. Negotiation an interconnect systems with surrounding water utility systems.
19. Design and Oversee the continual improvement of fire flow protection.
20. Develop and implement a continually updated set of specifications for all new installations.
21. Perform as required by the Board of Directors.

PINEVIEW WATER

5198 Cub Lake Road
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928-537-4858
Fax 928-537-2180

Position: **Vice President** (Ernie Sutter)

Salary: $.00/Month

Job Summary:

Develops policies and programs for the company. The major areas covered are organizational planning, organizational development, employment, indoctrination and training, employee relations, compensation, benefits, safety and health, and employee services. Develops practices and objectives that will provide a balanced program throughout the Company. Reports to the Board Chair. Assists and advises.

Typical Duties:

1. Reviews and makes recommendations to policies and objectives proposed by the General Manager.

2. Reviews and makes recommendations to employee relations policies proposed by the General Manager.

3. Approves all information submitted. Acts as primary contact between Company Owners and General Manager.

4. Protects interests of employees and the company in accordance with company Human Resources policies and governmental laws and regulations. Approves recommendations for terminations. Reviews employee appeals through complaint procedure.

5. Evaluates plans and instructs changes to plans. Makes recommendations to General manager.

6. Reviews and makes recommendations as to wage and salary structure, pay policies, performance appraisal programs, employee benefit programs and services, and company safety and health programs. Monitors for effectiveness and cost containments.

7. Reviews and approves standard recruiting and placement practices and procedures. Reviews variances to policies. Interviews General Manager candidates.

8. Directs the preparation and maintenance of such reports as are necessary to carry out functions of the Company. Reviews reports to the Share Holders of the Company.

9. Informs General Manager of significant problems that may jeopardize the achievement of objectives, and those which may not be being addressed adequately.

ADDITIONAL RESPONSIBILITIES:

Assumes other duties as assigned by Board President.

PINEVIEW WATER

5198 Cub Lake Road
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928-537-4858
Fax 928-537-2180

Position: **Secretary/Treasurer** (Kathrine Sutter)

Salary: $3,000.00/Month

JOB SUMMARY: To direct and oversee all the financial activities of the corporation.

Typical Duties:

1. Directs the preparation of all financial reports, including income statements, balance sheets, reports to shareholders, tax returns, and reports for government regulatory agencies.
2. Oversees accounting, budget preparation, and audit functions. Meets regularly with General Manager to keep informed and to offer direction.
3. Reviews reports to analyze projections of sales and profit against actual figures, budgeted expenses against final totals, and suggests methods of improving the planning process as appropriate.
4. Analyzes company operations to pinpoint opportunities and areas that need to be reorganized, down-sized, or eliminated.
5. Confers with president, vice president, and General Manager to coordinate and prioritize planning.
6. Studies long-range economic trends and projects company prospects for future growth in overall sales, opportunities for acquisitions and/or expansion of C.C.&N. Estimates requirements for capital, land, buildings, and an increase in the work force.
7. Supervises investment of funds; works with banks and/or investment bankers to raise additional capital as required for expansion.

PINEVIEW WATER

5198 Cub Lake Road
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928-537-4858
Fax 928-537-2180

Position: **President** (Henry Sutter)

Salary: $3,000.00/Month

JOB SUMMARY:

The President assists in coordinating all business and financial concerns for the Company. Business and Finance includes the Budget, Facilities Planning, Internal Audit, Personnel, and Physical Plant functions. The primary responsibility of the position is providing professional direction to the Board of Directors, Share Holders and Company Management to ensure that all such activities are closely coordinated and accountable.

Typical Duties:

1. Assists the Vice President regarding business and financial concerns.
2. Provides the necessary direction for the budget and coordinates the budget and planning policies and procedures.
3. Conducts special projects and assignments.
4. Serves on committees.
5. Coordinates various activities in the absence of the Vice President.
6. Chairs monthly Board of Director meetings.
7. Chairs meetings of Share Holders.

PINEVIEW WATER

5198 Cub Lake Road
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928-537-4858
Fax 928-537-2180

Position: **Consultant** (Mandy Sutter)

Salary: $240.00/Week

JOB SUMMARY:

Operates as a consultant to determine appropriate solutions to business problems. Provides analysis, definition and direction to develop and maintain activities. Ensures correct business functionality, requirements, and industry standards are addressed.

Consults with the Project Manager on whether project is meeting expected results.

Typical Duties:

1. Consults with staff to develop understanding of the varied and complex business needs supported by the Company. Responsible for recommendation in determining how changing needs will affect the system. Understands the system in the big picture and provides ideas and recommendations regarding the evolution of the system.

2. Responds to questions and makes recommendations to the staff regarding current and potential system changes. Conducts research and analysis into the nature, effect and results of system problems. Aids in the development of system requirements, documentation, workflow procedures, and data modeling.

3. Recommends system changes and aids in the development of detailed specifications for implementation. Communicates system changes to staff.

4. May be involved with the Project Manager regarding planning/scheduling and sources allocation.

5. Monitors the performance of the system; and recommends suggested quality control practices and procedures.

6. Aids in building effective relationships with other community businesses. Acts as a liaison occasion with vendors as appropriate in support of the systems. Works together with the General Manager and the Site Project Managers to all company needs have been met.

7. Participates in industry and other professional networks to ensure awareness of industry standards, trends and best practices in order to strengthen organizational and technical knowledge.

ARIZONA CORPORATION COMMISSION
PINEVIEW WATER COMPANY, INC.
DOCKET NOS. W-0167A-04-0463 & 0500

Rebuttal Testimony of Dan L. Neidlinger

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive, Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm specializing in utility rate economics.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS AND EXPERIENCE.

A. A summary of my professional qualifications and experience is included in the attached Statement of Qualifications. In additions to the Arizona Corporation Commission ("ACC"), I have presented expert testimony before regulatory commissions and agencies in Alaska, California, Colorado, Guam, Idaho, New Mexico, Nevada, Texas, Utah, Wyoming and the Province of Alberta, Canada.

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

A. I am appearing on behalf of Pineview Water Company, Inc. ("Pineview" or the "Company"), the applicant in this case.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to rebut certain portions of the direct testimonies of ACC Staff witnesses Elena Zestrijan, Alejandro Ramirez, Dorothy Hains and James Johnson, collectively referred to at times in my rebuttal testimony as "Staff". Ms. Zestrijan is responsible for the development of Staff recommendations on rate base and test year revenues and expenses. Mr. Ramirez's testimony deals with the cost of equity and rate of return. Ms. Hains's testimony addresses engineering issues and Mr. Johnson discusses

matters related to the Company's financing application that was consolidated with the rate application in this case.

Q. DOES THE LACK OF REBUTTAL TO EVERY POSITION TAKEN OR ADJUSTMENTS MADE BY THESE WITNESSES ON OTHER RATEMAKING ISSUES MEAN THAT YOU AGREE WITH SUCH POSITIONS OR ADJUSTMENTS?

A. No, it does not. However, the issues I address in rebuttal have a substantial impact on Pineview's revenue requirement and rate design.

Q. PLEASE PROVIDE A SUMMARY OF YOUR REBUTTAL TESTIMONY.

A. A summary of my rebuttal testimony is as follows:

1. Staff's recommended revenue requirements are understated by at least $23,910 due to errors in Staff's development of rate base and the calculation of test year operating expenses;
2. Staff's contention that the Company is not in compliance with NARUC's recommended accounting practices is incorrect. The Company's accounting records have been and are currently maintained in accordance the NARUC's uniform system of accounts;
3. Staff's recommended rate of return of 7.20% is well short of the return required at this time for Pineview to maintain its financial integrity;
4. Staff's filed rate design is in error since it produces total revenues that exceed its recommended revenue requirement by over $10,000;
5. Staff's monthly service charges and tiered commodity rates need to be revised to promote revenue stability; and
6. Staff's recommended tier breaks for meter sizes greater than 3" should be increased to properly reflect the usage characteristics of these larger meters.

I. STAFF ERRORS

Q. DOES THE STAFF REPORT CONTAIN NUMEROUS ERRORS IN BOTH THE DEVELOPMENT OF RATE BASE AND IN THE CALCULATION OF TEST YEAR OPERATING EXPENSES?

A. Yes. The Staff has made a number of mistakes in compiling its report. The effect of these errors, in total, on revenue requirements is significant.

Q. WHAT ERRORS DID STAFF MAKE IN THE DEVELOPMENT OF RATE BASE?

A. There are two. First, Staff removed $50,750 of land from utility plant. As explained in the rebuttal testimony of Mr. Ronald McDonald, General Manager of the Company, this land is used and useful and should not have been adjusted from rate base. Finally, Staff mistakenly reversed a $15, 978 Company pro forma adjustment to the meter advances account.

Q. DID STAFF EXPLAIN THIS ADJUSTMENT?

A. Staff stated that it made the adjustment to agree the meter advance deduction to rate base with the $88,392 book balance at December 31, 2003. This balance was incorrect and therefore the adjustment to rate base was incorrect. The correct balance at that date was $72, 414. The Company's $15,978 adjustment was explained in the note on Schedule B-2, page 7 of the filing and work paper 000021 provided to Staff in support of the filing.

Q. WHAT IS THE EFFECT OF THESE ERRORS ON STAFF'S RATE BASE?

A. As shown on the attached Exhibit DLN-1, because of these errors, Staff has understated rate base by $66,728.

Q. SIMILARLY, HAVE STAFF'S ERRORS ALSO RESULTED IN AN UNDERSTATEMENT OF TEST YEAR OPERATING EXPENSES?

A. Yes. I have identified three adjustments to test year expenses proposed by Staff that are in error as well as one legitimate test year expense that was omitted by Staff. These adjustments are also shown on Exhibit DLN-1. The errors related to purchased power

costs ($3,441) and the $5,578 reduction in equipment repairs are both discussed in detail in Mr. McDonald's rebuttal testimony. Staff's adjustment to reduce bad debt expense by $8,347 is duplicative since bad debt expenses were already adjusted downwardly by the Company to normalize test year amounts at $3,706. This adjustment was explained on work papers 000017 and 000020 that were provided to the Staff. With Staff's adjustment, bad debts produce income of $4,641 to the Company – an illogical result.

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR INTEREST ON CUSTOMER DEPOSITS.

A. Staff deducted from rate base customer deposits totaling $7,769 but failed to reflect in cost of service the $466 of interest, at 6%, payable by the Company on these deposits. Customer deposits are not a cost-free source of capital.

Q. HOW DO THESE ERRORS AFFECT REVENUE REQUIREMENTS?

A. Staff's errors result in an understatement in revenue requirements of $23,910; $6,078 related to rate base and $17,832 to operating expenses. Accordingly, Staff's recommended increase in revenues for Pineview, at a minimum, should be adjusted upwardly from $15,495 to $39,405.

Q. IN ADDITION TO THESE ERRORS, ARE THERE OTHER EXPENSE ITEMS IN DISPUTE IN THIS CASE?

A. Yes. As discussed in the rebuttal testimony of Mr. McDonald, the Company disagrees with many other expense adjustments made by Staff. The Company is seeking a revenue increase in this case of $126,452 or 24.19%. Adjusting for the errors previously discussed, Staff's recommended revenue increase is $39,405 or 7.54%. The bulk of the remaining $87,000 difference between Company and Staff revenue increases, over $50,000, is due to disputed expenses.

I. NARUC UNIFORM SYSTEM OF ACCOUNTS ("USOA")

Q. STAFF CONTENDS (DIRECT TESTIMONY OF ELENA ZESTRIJAN – PAGE 13) THAT THE COMPANY DOES NOT MAINTAIN ITS BOOKS AND RECORDS IN ACCORDANCE WITH THE USOA PRESCRIBED BY NARUC. ARE THESE CONTENTIONS CORRECT?

A. No. The Company's accounting records are maintained in accordance with the USOA prescribed by NARUC. Accounting detail supporting this conclusion was provided to Staff on work papers 000004 through 000016. It should have been obvious from a review of these accounting documents that the Company's chart of accounts and account classifications are in conformance with NARUC's requirements.

Q. MS. ZESTRIAJAN ALSO STATES ON PAGE 13 OF HER DIRECT TESTIMONY, LINE 7, "STAFF NOTED THAT THE COMPANY IS CONSOLIDATING TOO MAY EXPENSE ACCOUNTS INTO THE MISCELLANEOUS EXPENSE. STAFF RECOMMENDS THAT THE COMPANY BE ORDERED THAT, IN THE FUTURE, IT KEEPS ALL INFORMATION AT THE DETAIL LEVEL IN ACCORDANCE WITH THE NARUC USOA." IS THIS AN ACCURATE CHARACTERIZATION OF THE COMPANY'S ACCOUNTING?

A. No, it is not. The Company maintains separate accounts, in accordance with the NARUC USOA, for transportation expense, office supplies, postage, telephone, bad debts, etc. as shown on the accounting trial balances provided to Staff. For presentation purposes in the filing, many of these accounts were consolidated into a General & Administrative expense classification. Reclassification detail was provided to Staff on work paper 000001.

Q. MS. ZESTIAJAN'S OPERATING INCOME STATEMENT, SCHEDULE ENZ-11, SHOWS THAT THE COMPANY CLASSIFIED $72,950 AS MISCELLANEOUS EXPENSE IN ITS FILING. IS THIS CORRECT?

A. No. As shown on Schedule C-1 of the filing, the $72,950 is classified as General & Administrative expense, not miscellaneous expense.

III. RATE OF RETURN AND FINANCING

Q. DID YOU REVIEW THE RATE OF RETURN TESTIMONY OF MR. ALEJANDRO RAMIREZ?

A. Yes. Mr. Ramirez performed a cost of equity analysis using a capital asset pricing model ("CAPM") and a discounted flow method ("DCF"). Based on his analysis, he recommends a cost of equity of 8.9 percent and an overall rate of return of 7.2 percent using a capital structure of 49 percent debt and 51 percent equity.

Q. DO YOU HAVE ANY COMMENTS WITH REGARD TO MR. RAMIREZ'S ANALYSIS AND CONCLUSIONS?

A. Yes. Mr. Ramirez's analysis typifies Staff's recent approach to rate of return for many water companies, regardless of size, customer usage patterns or other pertinent demographics. It is essentially a "boilerplate" market calculation that does not pass the "sanity test" in many cases, including the instance application.

Q. WHAT IS "THE SANITY TEST"?

A. The "sanity test" involves the application of the results of CAPM or DCF analyses to determine whether the calculated rate of return will, in fact, allow the utility the opportunity to earn a fair rate of return and attract capital at reasonable rates. These are fundamental tenets of utility regulation. Had Mr. Ramirez and Mr. Johnson applied the test in this case, they should have concluded that the Company could not maintain any reasonable semblance of financial integrity with a 7.2% rate of return.

Q. PLEASE EXPLAIN.

A. The companion filing in this case is a request for approval of an additional $730,000 of debt financing. Staff is recommending authorization to borrow a lesser amount – approximately $578,000. This amount of additional debt increases, on a pro forma basis, the Company's debt percentage to 68% and correspondingly increases its financial risk – a fact not considered by Mr. Ramirez in this rate of return analysis. Moreover, as shown

on Exhibit DLN-2, Staff's recommendations provide for a times interest earned ratio ("TIER") of only 1.12. In actuality, of course, even this low ratio cannot be achieved by the Company since the bulk of the operating expenses eliminated by Staff are necessary and will be reflected in the financial statements provided to lenders.

Q. ASKED ANOTHER WAY, AT MR. RAMIREZ'S RECOMMEND RETURN LEVEL, IS THERE SUFFICENT REVENUE TO ADEQUATELY SUPPORT THE MUCH NEEDED STORAGE ADDITIONS?

A. No, Staff's recommendation places the Company in an untenable theoretical position of being able to build a smaller tank on the absolutely limited real estate parcel available, but without sufficient revenue to build the 2 million gallon storage tank. Mr. McDonald's Rebuttal Testimony has fully explained why Staff's recommended tank size, and the resultant financing level, is not sound utility management.

Q. IS THERE A MINIMUM TIER REQUIREMENT THAT SHOULD HAVE BEEN CONSIDERED BY MR. RAMIREZ IN THE DEVELOPMENT OF HIS RATE OF RETURN RECOMMENDATION?

A. Yes. In my view, a TIER of 1.50 is the minimum that should have been considered when developing a rate of return for the Company. As indicated on Exhibit DLN-2, a rate of return of 9.38% on Staff rate base is required to achieve a TIER of 1.50. This ratio is less that the 1.84 TIER requested in the financing application (the coverage statistics shown on Attachment D, page 3 of 3, of the financing application are incorrect) but significantly greater than Staff's 1.12. More importantly, the 1.50 TIER provides for a $25,000 dollar safety margin in excess of interest expense. Staff's comparable safety margin is inadequate at only $6,100.

V. RATE DESIGN

Q. HAVE YOU REVIEWED STAFF'S RATE DESIGN PROPOSALS?

A. Yes. My analysis indicates that Staff's proposed rates produce annual revenues of $548,595 or $10,376 more that Staff's recommended revenue requirement of $538,219. There are obviously errors in the design of the three-tier usage blocks or in the level of rates assigned to these blocks. Accordingly, I can only comment in general on Staff's rate design proposals.

Q. WHAT ARE YOUR COMMENTS?

A. First, Staff provides no explanation for reducing the current monthly service charge for 5/8" meters and charging a rate for the first 3,000 gallons that is less than the current commodity rate of $3.26. Over 88% of the Company's customers receive service through a 5/8" meter. Under the Staff proposal, over 50% of the monthly billings to these customers would receive rate reductions.

Q. DO RATE DECREASES PROVIDE CUSTOMERS WITH ANY INCENTIVE TO CONSERVE THEIR WATER USAGE?

A. No. There is no justification from either a cost or conservation standpoint for providing a customer with a rate reduction for doing nothing with respect to his or her water consumption. In addition, Pineview's water sales are highly seasonal; approximately 60% of annual sales are realized during the five summer months of May through September. Accordingly, any reduction in minimums and low-user rates negatively affects winter-time cash flow.

Q. PLEASE CONTINUE WITH YOUR COMMENTS.

A. Second, the low rate in the first block necessitates large increases in the commodity rates for the second and third blocks to meet overall revenue requirements. Under Staff's filed rate design, 65% of total commodity revenues are billed at second and third block rates. By contrast, under the Company's proposed rates, 55% of total commodity revenues are

billed in the top two tiers. Staff's rate design, therefore, poses revenue stability problems for this highly seasonal water utility.

Finally, Staff's proposed blocking levels for meter sizes greater than 3"(4" to 10") are flawed and should be revised. The break points for the first two tiers are too low considering the usage characteristics of these larger meters.

Q. DOES THE COMPANY CURRENTLY PROVIDE SERVICE THROUGH METERS LARGER THAN 3"?

A. No, not at this time. However, it is important that the rates for all meter sizes are designed correctly in this case to avoid the problems that would arise when service through one of these larger meters is requested in the future.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

DAN L. NEIDLINGER

SUMMARY STATEMENT OF QUALIFICATIONS

I. General:

Mr. Neidlinger is President of Neidlinger & Associates, Ltd., a Phoenix consulting firm specializing in utility rate economics and financial management. During his consulting career, he has managed and performed numerous assignments related to utility ratemaking and energy management.

II. Education:

Mr. Neidlinger was graduated from Purdue University with a Bachelor of Science degree in Electrical Engineering. He also holds a Master of Science degree in Industrial Management from Purdue's Krannert Graduate School of Management. He is a licensed Certified Public Accountant in Arizona and Ohio.

III. Consulting Experience:

Mr. Neidlinger has presented expert testimony on financial, accounting, cost of service and rate design issues in regulatory proceedings throughout the western United States involving companies from every segment of the utility industry. Testimony presented to these regulatory bodies has been on behalf of commission staffs, applicant utilities, industrial intervenors and consumer agencies. He has also testified in a number of civil litigation matters involving utility ratemaking and once served as a Special Master to a Nevada court in a lawsuit involving a Nevada public utility.

Mr. Neidlinger has performed feasibility studies related to energy management including cogeneration, self-generation, peak shaving and load-shifting analyses for clients with large electric loads. In addition, he has conducted electric and gas privatization studies for U.S. Army installations and assisted these and other consumer clients in contract negotiations with utility providers of electric, gas and wastewater service.

Mr. Neidlinger has extensive experience in the costing and pricing of utility services. During his consulting career, he has been responsible for the design and implementation of utility rates for over 30 electric, gas, water and wastewater utility clients ranging in size from 50 to 25,000 customers.

IV. Professional Affiliations:

Professional affiliations include the American Institute of Certified Public Accountants.

PINEVIEW WATER COMPANY, INC.
ACC DOCKET NOS. W-01676A-04-0463 & 0500

UNDERSTATEMENT OF REVENUE REQUIREMENTS DUE TO STAFF ERRORS

DESCRIPTION	AMOUNT
ERRORS IN REDUCTIONS TO RATE BASE:	
Removal of Used & Useful Land	$50,750
Improper Adjustment to Meter Advances	15,978
Total Errors - Rate Base	$66,728
Additional Return Requirement at 7.20%	$4,804
Additional Revenue Requirement	$6,078
ERRORS IN REDUCTIONS TO OPER. EXPENSES:	
Error in Compiling Purchased Power Cost	$3,441
Improper Elimination of Equipment Repair Costs	5,578
Duplicative Normalization - Bad Debt Expense	8,347
Omission of Interest on Customer Deposits	466
Total Errors & Omissions - Oper. Exp.	$17,832
TOTAL SHORTFALL IN REVENUE REQUIREMENTS	$23,910

PINEVIEW WATER COMPANY, INC.
ACC DOCKET NOS. W-01676A-04-0463 & 0500

RATE OF RETURN ON STAFF RATE BASE REQUIRED TO ACHIEVE 1.50 TIER

DESCRIPTION	STAFF RECOMMENDATION	REQUIRED FOR 1.50 TIER
Rate Base (1)	$662,093	$662,093
Rate of Return Percentage (2)	7.20%	9.38%
Operating Income (1)	$47,671	$62,104
Operating Income x Taxes (3)	$55,554	$74,104
Pro Forma Interest (3)	$49,413	$49,413
TIER (3)	1.12	1.50
Coverage In Excess of Interest	$6,141	$24,691

NOTES:
(1) Staff - Schedule ENZ-1
(2) Staff - Schedule AXR-1
(3) Staff - Schedule JHJ-1