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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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COMMISSIONERS

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MAR 21 2003

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AZ CORP COMMISSION
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Docket No. W-01777A-02-0547

IN THE MATTER OF THE APPLICATION OF
FORTY NINER WATER COMPANY OF AN
EMERGENCY RATE INCREASE.

NOTICE OF FILING DIRECT
TESTIMONY OF MS. DEBBIE
PEDERSEN

Forty Niner Water Company, Inc., through undersigned counsel, hereby provides

Notice of Filing Direct Testimony of Ms. Debbie Pedersen.

Respectfully submitted this 21st day of March 2003.

ROSHKA HEYMAN & DEWULF, PLC

By

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March 21, 2003, with:

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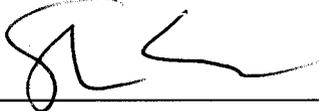
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BEFORE THE ARIZONA CORPORATION COMMISSION

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MIKE GLEASON

Docket No. W-01777A-02-0547

IN THE MATTER OF THE APPLICATION OF
FORTY NINER WATER COMPANY OF AN
EMERGENCY RATE INCREASE.

DIRECT TESTIMONY

OF

MS. DEBBIE PEDERSEN

March 21, 2003

1 the City of Tucson ("Tucson") and to cancel Forty Niner's Certificate of Convenience and
2 Necessity ("CC&N").
3

4 **II. TERMS OF THE SALE OF FORTY NINER'S ASSETS AND THE AMENDED**
5 **APPLICATION.**

6 Q. Please summarize the terms and conditions of the sale of Forty Niner to Tucson.

7 A. In basic and general terms, (1) all of the assets of Forty Niner, other than the Retained
8 Assets, will be sold to Tucson; (2) customers of Forty Niner will become customers of
9 Tucson's water utility; (3) the Golf Course will contribute One Million Forty One
10 Thousand Three Hundred Dollars (\$1,041,300) to assist in the construction of an effluent
11 line to the Golf Course; and (4) the Golf Course will purchase effluent water from Tucson
12 beginning the time the line is installed. When I use the term "Retained Assets" I mean (a)
13 the three (3) water wells which will be abandoned; (b) the equipment owned by Forty
14 Niner, other than the equipment to be conveyed to the City of Tucson; (c) existing
15 business inventory, contract rights relating to the Golf Course, accounts receivable,
16 business records; (d) land owned by Forty Niner; and (e) the distribution system located
17 within the boundaries of the Golf Course.
18

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20
21 Q. How is the Amended Application different from the prior Application that Forty Niner
22 filed with the Commission?

23 A. Forty Niner's original Application for the Approval of the Sale of Assets and for the
24 Cancellation of Convenience and Necessity ("Application") was filed with the
25 Commission on March 8, 2002. The Application sought approval for the sale of most of
26 Forty Niner's assets, other than the Retained Assets and the three (3) water wells currently
27

1 contemplated to be conveyed to Tucson. At that time, Forty Niner intended to retain all of
2 its water wells with which it would serve the Golf Course. In order to continue to serve
3 that customer, Forty Niner intended to keep its CC&N, so it also requested that a portion of
4 its CC&N be deleted. The Amended Application, however, requests that the Commission
5 approve the sale of all of the Forty Niner assets, other than the Retained Assets, including
6 the three (3) wells, to Tucson and that Forty Niner's CC&N be cancelled. After the sale,
7 Forty Niner will not serve any customers and the three (3) wells that it will retain will be
8 abandoned.
9

10
11 Q. Ms. Pedersen, are you the witness who is sponsoring the Amended Application?

12 A. Yes, I am.
13

14 Q. To the best of your knowledge, is the information contained in the Amended Application
15 accurate?
16

17 A. Yes it is.
18

19 Q. Will Forty Niner refund all of its customer security deposits if the sale is approved?

20 A. Yes.
21

22 Q. Will Forty Niner refund any amounts owing in connection with main line extension
23 agreements if the sale is approved?
24

25 A. There are no refunds due on meter and service line installations.
26
27

1 Q. Will Forty Niner's 2002 Annual Regulatory Assessment be paid?

2 A. Yes, it will.

3
4 **III. THE SALE OF ASSETS TO TUCSON IS IN THE PUBLIC INTEREST.**

5 Q. Please explain why Forty Niner now proposes to sell its assets (other than the Retained
6 Assets) to Tucson and have its CC&N cancelled.

7
8 A. Forty Niner does not have an adequate supply of water to meet the current and future needs
9 of its customers. Realistically, in order for Forty Niner's customers to have a safe, reliable
10 and economical supply of water, a water service provider like Tucson will have to acquire
11 Forty Niner's system. Tucson has a good operational history and demonstrated ability to
12 provide water service to the current customers of Forty Niner.

13
14 In order to fully explain the reasons for the Amended Application, I need to provide some
15 historical background. In September 1999, IRI purchased the Golf Course and Forty
16 Niner. Forty Niner serves customers at Forty Niner Country Club Estates, the Forty Niner
17 Resort and the Golf Course pursuant to CC&Ns issued in Decisions Nos. 33214 and
18 33217. At the time IRI acquired Forty Niner, we were led to believe that there was an
19 adequate water supply to meet the current and future needs of Forty Niner's customers.
20 However, in May 2000, we learned there was insufficient water in the aquifer to provide
21 service to the residential and turf irrigation customers. So, Forty Niner purchased
22 "emergency water" from Tucson with the condition that all of the purchased water was to
23 be for the use of residential customers. The only water available for turf irrigation was that
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which was pumped from Forty Niner's wells. Emergency water purchased from Tucson was used to provide service to Forty Niner's customers from May to October 2000.

In March 2002, Forty Niner entered into a Purchase and Sale Agreement to sell most of its assets (primarily those to serve the residential customers) to Tucson. This agreement was the basis for the Application. However, there was some opposition to this sale over Forty Niner's plans to continue to serve one customer, the Golf Course. So, we looked to see if there was a different way to structure the transaction that would be more acceptable.

In May 2002, we were again faced with the problem of insufficient water in the aquifer to provide service to Forty Niner's customers. Again, we purchased emergency water from Tucson on condition that the water only was used for the residential customers. I should point out that emergency water is relatively expensive. In fact, Forty Niner has sought and obtained emergency rate relief from this Commission in order to pay for emergency water. Forty Niner also currently has a permanent rate case proceeding pending before the Commission in Docket No W-0177A-02-0175. That rate case has been continued pending the outcome of this proceeding. If the Amended Application is granted, Forty Niner will move to dismiss that rate case proceeding.

In September 2002, Forty Niner and Tucson entered into a new Purchase and Sale Agreement. This agreement is the basis for the Amended Application. As I previously mentioned, the new Purchase and Sale Agreement provides that all of the assets of Forty Niner (other than Retained Assets) will be sold to Tucson, customers of Forty Niner will

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become customers of Tucson's water utility, the Golf Course will contribute One Million Forty One Thousand Three Hundred Dollars (\$1,041,300) to assist in the construction of an effluent line to the Golf Course, the Golf Course will purchase effluent water from Tucson beginning the time that the line is installed and Forty Niner will abandon the three (3) wells which it will retain and will no longer conduct any active business.

The new Purchase and Sale Agreement was approved by the Tucson City Council and Mayor on February 10, 2003. On February 25, 2003, Forty Niner filed the new Purchase and Sale Agreement with the Commission and served a copy on all of the parties to this case.

I should also point out that in October 2002, Forty Niner did not have enough water to serve the Golf Course. Forty Niner and the Golf Course were very concerned at that time that the Golf Course turf would be lost. Accordingly, Forty Niner entered into an agreement with Tucson to purchase water for the Golf Course, on a temporary basis, until the new Purchase and Sale Agreement is approved. Tucson has informed Forty Niner that it cannot continue to provide emergency water to the Golf Course and residential customers. Obviously, this is a major concern to Forty Niner as it looks toward the future. Forty Niner's ongoing needs and inability to meet those needs from existing resources was a major factor in deciding to sell all of the assets to Tucson and requesting that its CC&N be cancelled.

Q. Please describe the rates that Forty Niner charges its customers.

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A. As of January 2003, there are approximately 389 Forty Niner residential customers. Forty Niner's residential rates are:

- (a) \$7.00/month flat rate and that includes the first 1,000 gallons;
- (b) \$.56 per 1,000 gallons from 1,000 – 14,000 gallons; and
- (c) \$.61 per 1,000 gallons over 14,000 gallons.

The average monthly bill for residential customers is \$15.30. As of January 2003, Forty Niner was purchasing from Tucson an average of 20,000 gallons of water per day for residential use at an average rate of \$3.60 per 1, 000 gallons.

There is one turf irrigation customer, the Golf Course. The turf irrigation rate is as follows:

- (a) \$100/month flat rate per meter includes the first 1,000 gallons; and
- (b) \$.59 per gallon for all water used over 1,000 gallons.

Forty Niner's residential and turf irrigation rates are well below what it would request the Commission approve in the permanent rate case. I think that is an important factor for the Commission to consider, namely, if the sale to Tucson is not approved, Forty Niner will be requesting a significant rate increase in the pending permanent rate case. While I do not know what rates Tucson will charge current Forty Niner customers, based on my discussions with customer and Tucson representatives, I believe it is generally accepted that rates will need to be increased whether the assets are sold or not.

Q. Why do you believe that the sale of assets to Tucson is in the public interest?

A. For all of the reasons that I have discussed, Forty Niner truly believes that it is in the public

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interest, and especially the interest of its current customers, that the sale of assets takes place. Tucson is a municipal water utility that has the experience and resources--natural and economic--to serve the current customers of Forty Niner and provide them safe, reliable and economical water service.

Q. Have you had an opportunity to review the Revised Staff Report dated March 18, 2003?

A. Yes, I have.

Q. What is your reaction to the Revised Staff Report?

A. The Revised Staff Report recommends the approval of the sale of assets and the cancellation of the Certificate of Convenience and Necessity. I am pleased that the Staff has reached the conclusion that the sale and cancellation are in the public interest and recommends Commission approval.

IV. CONCLUSION.

Q. Do you have any concluding testimony?

A. Yes, I do. It has been a difficult and sometimes frustrating experience owning and operating Forty Niner. We have taken seriously our responsibility to provide water service. When our supply has been insufficient, we have purchased water that has been delivered to the service area. We have filed emergency rate cases and have a permanent rate case that is pending. We have a vested interest in the well-being of the people and businesses that are within the Forty Niner CC&N territory. They are our neighbors, employees and patrons. In light of our system supply problems and the potential for

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significant rate increases looming in the future, we feel fortunate that we were able to enter into an agreement with Tucson that, we believe, will provide current Forty Niner customers with a stable water supply presently and in the future. Accordingly, I urge the Commission to approve the Amended Application.