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Arizona Corporation Commission

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4 Commissioner

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

7 IN THE MATTER OF THE APPLICATION  
8 OF H2O, INC., FOR AN EXTENSION OF  
9 ITS EXISTING CERTIFICATE OF  
10 CONVENIENCE AND NECESSITY.

11 IN THE MATTER OF THE APPLICATIONS  
12 OF JOHNSON UTILITIES, L.L.C., DBA  
13 JOHNSON UTILITIES COMPANY FOR AN  
14 EXTENSION OF ITS CERTIFICATE OF  
15 CONVENIENCE AND NECESSITY TO  
16 PROVIDE WATER AND WASTEWATER  
17 SERVICE TO THE PUBLIC IN THE  
18 DESCRIBED AREA IN PINAL COUNTY,  
19 ARIZONA.

20 IN THE MATTER OF THE APPLICATION  
21 OF DIVERSIFIED WATER UTILITIES,  
22 INC. TO EXTEND ITS CERTIFICATE OF  
23 CONVENIENCE AND NECESSITY.

24 IN THE MATTER OF THE APPLICATION  
25 OF QUEEN CREEK WATER COMPANY  
26 TO EXTEND ITS CERTIFICATE OF  
CONVENIENCE AND NECESSITY.

DOCKET NO. W-02234A-00-0371

DOCKET NO. W-02987A-99-0583  
WS-02987A-00-0618

DOCKET NO. W-02859A-00-0774

DOCKET NO. W-01395A-00-0784

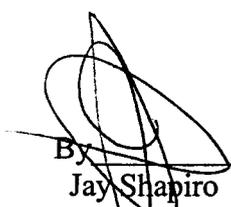
**H2O'S SUMMARY OF PRE-FILED  
TESTIMONY**

H2O, Inc., ("H2O") hereby files witness summaries for Donald L. Schnepf, Richard F. Bartholomew and Dr. Stanely Griffis.

DATED this 12<sup>th</sup> day of March, 2001.

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AN ORIGINAL and ten copies  
of the foregoing were filed  
this 12<sup>th</sup> day of March, 2001 with:

Docketing Supervisor  
Docket Control  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

A COPY of the foregoing  
was delivered this 12<sup>th</sup>  
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25  
26 By   
11633234/46327.002

**DONALD L. SCHNEPF**

Donald L. Schnepf, president of H2O, Inc. ("H2O"), has been planning for the expansion of H2O's system to the contested area for many years. H2O hired Bartholomew Engineering to develop an engineering plan ("Master Plan") that quantifies the amount, size and types of infrastructure that will most efficiently serve H2O's current CC&N area as well as the contested area. The Master Plan provides the design and construction of a fully integrated system that will ensure that H2O can meet the needs of current and future customers. Consequently, H2O is the best position to provide quality, cost-efficient water utility service within the least amount of time to the contested area.

H2O needs to expand its CC&N area to ensure that it will remain a viable company when its entire area is completely developed. Expanding into the contested area is the only area available. H2O is bordered by Queen Creek Water Company and/or state land on all sides other than the contested area. Further, H2O is contiguous to all portions of the contested area. By serving the contested area, H2O will be providing safe and reliable water utility service and benefiting customers in its existing CC&N through increased system redundancy and greater economies of scale.

Having been informed by Dr. Stanley Griffis, County Manager, that a water improvement district would be formed to acquire Diversified's facilities and service area, H2O entered into a Settlement Agreement with Johnson Utilities and Queen Creek. H2O believed that this resolution would benefit all parties, customers, landowners, developers and Pinal County. Diversified's customers would receive service from the newly created district, and Diversified itself would receive fair value for its facilities and service area. Additionally, the remaining parties would benefit from an expeditious resolution of this matter without prolonged appeals and litigation. Most importantly, the customers, landowners and Pinal County would benefit from the comprehensive approach to extending water and wastewater utility service throughout the contested area.

Although the formation of a water improvement district in conjunction with the Settlement Agreement would have resolved this matter in a manner that benefited the public interest, Diversified successfully challenged the formation of the district. Even without a district, however, the methodology for allocating CC&N expansions employed in the Settlement Agreement ensures that the public interest is served. Diversified has not demonstrated an ability to provide safe reliable water utility service to its current service area, nor the ability to expand into the contested area. Arizona Department of Environmental Quality records indicate that Diversified has been, and currently is in, violation of Department regulations. Diversified does not have adequate storage to serve its current customers and, failing to address growth within its service area, Diversified did not update its Microbiological Site Sampling Plan. These violations illustrate an inability to adequately plan for and address growth within Diversified's service area.

Further, Diversified's claim that it needs to loop its system by providing service to the contested area is incorrect and unsupported. Diversified does not appear to have any engineering

plans to serve either expansion in its current CC&N area or the contested area. Also, Diversified may adequately loop its system within its current CC&N area. Therefore, given Diversified's inability to meet growth within its service area and its ability to develop a looped system that will provide reliable service to new customers, Diversified should concentrate on providing adequate service within its current CC&N.

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**DR. STANLEY D. GRIFFIS**

Dr. Stanley Griffis, County Manager for Pinal County, Arizona, was instrumental in brokering a settlement agreement between H2O, Inc. ("H2O"), Johnson Utilities L.L.C. ("Johnson Utilities") and Queen Creek Water Company ("Queen Creek"). In mid-December, Dr. Griffis was contacted by several of the landowners owning property within Diversified's CC&N area. The landowners informed Dr. Griffis that they were having problems with Diversified and that these problems were impacting their ability to develop their properties. In response to these concerns, Dr. Griffis told the landowners that they could attempt to form a water improvement district that would acquire Diversified's facilities.

Ensuring that utility service to the contested area was expeditiously resolved is important to the County. Pinal County is experiencing significant growth and it needs growth in an orderly fashion to enhance the quality of life of its citizens. The dispute before the Arizona Corporation Commission was threatening orderly growth and the County did not want to see development projects delayed by protracted litigation over which entity would have the right to provide water and wastewater utility service.

Dr. Griffis informed H2O, Johnson Utilities, and Queen Creek of the desire of the landowners within Diversified's CC&N area to form a water improvement district that would acquire Diversified's facilities, and, inquired whether a settlement could be reached if the district was formed. H2O, Johnson Utilities, and Queen Creek reached an agreement which offered great benefits to Pinal County by providing certainty over utility facilities to the greatest possible area.

The County's actions have been in response to concerns voiced by its citizens who believe that Diversified is unable to provide adequate water utility services. The formation of the district would have ensured that Diversified was paid fair market value for its facilities and service rights. Contrary to the claims of Diversified, the settlement agreement and formation of the district were intended to benefit the citizens of Pinal County.

**RICHARD R. BARTHOLOMEW, P.E., R.L.S.**

Mr. Bartholomew has been a consulting engineer for H2O, Inc. ("H2O"), for the past two years. In that capacity, Mr. Bartholomew prepared a Master Plan identifying the necessary facilities to serve H2O's current service area as well as the contested area. H2O's Master Plan demonstrates how H2O will economically serve the contested area through facilities integrated with its current system, and, in a manner that promotes the public interest of both H2O's current and future customers. H2O has already begun constructing an infrastructure of transmission pipelines and storage reservoirs in accordance with its Master Plan. These facilities are an integral part of providing service to customers within the contested area. Having already developed the Master Plan and begun construction of the necessary facilities, H2O is in the best position to provide cost-effective service in the least amount of time.

Diversified Water Utilities, Inc. ("Diversified") does not appear to have developed plans to serve either the contested area or address growth within its current CC&N area. Further, Diversified's plan to connect facilities in the contested area with Diversified's current facilities is not feasible and will not serve the public interest. Diversified's current lines are too small to transmit the required water for domestic and fire flow to the large subdivisions planned for the contested area. Additionally, Diversified does not have the necessary storage to serve its current customers, let alone serve the contested area. The 200,000 gallon storage tank being constructed by Diversified is necessary to serve its current customers and comply with the Arizona Department of Environmental Quality's regulations. Additionally, Diversified's claim that it needs to loop its system by providing water utility service to Ware Farms and Home Place is not sound. A review of Diversified's current CC&N area shows that its system can be adequately looped without serving Ware Farms and Home Place. Therefore, there is no engineering need for Diversified to serve the contested area.