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BEFORE THE ARIZONA CORPORATION

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Arizona Corporation Commission

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AZ CORP COMMISSION  
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GARY PIERCE

RAYMOND R. PUGEL AND JULIE B. PUGEL,  
husband and wife as trustees of THE RAYMOND R.  
PUGEL and JULIE B. PUGEL FAMILY TRUST,  
And  
ROBERT RANDALL and SALLY RANDALL,  
Husband and wife,  
Complainants,  
v.  
PINE WATER COMPANY, an Arizona Corporation,  
Respondent.

DOCKET NO. W-03512A-06-0407

**STAFF'S NOTICE OF FILING  
SUPPLEMENTAL TESTIMONY OF  
STEVEN M. OLEA**

ASSET TRUST MANAGEMENT CORP.,  
Complainant,

v.  
PINE WATER COMPANY, an Arizona Corporation,  
Respondent.

DOCKET NO. W-03512A-06-0613

JAMES HILL and SIOUX HILL, husband and wife and  
as trustees of THE HILL FAMILY TRUST,  
Complainants,

v.  
PINE WATER COMPANY, an Arizona Corporation,  
Respondent.

DOCKET NO. W-03512A-07-0100

BRENT WEEKS,  
Complainant,

v.  
PINE WATER COMPANY, an Arizona Corporation,  
Respondent.

DOCKET NO. W-03512A-07-0019

Staff hereby provides notice of filing of the supplemental testimony of Steven M. Olea,  
Assistant Director of the Commission's Utilities Division. During the course of the hearing,  
several additional issues have arisen for which Staff believes additional Staff testimony may be of

...

...

1 assistance. To that end, Staff hereby provides testimony to supplement its pre-filed testimony.

2 RESPECTFULLY SUBMITTED this 19<sup>th</sup> day of September, 2007.

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**SECOND  
SUPPLEMENTAL  
TESTIMONY**

**OF**

**STEVEN M. OLEA  
ASSISTANT DIRECTOR  
UTILITIES DIVISION**

**PINE WATER COMPANY**

**DOCKET NOS. W-03512A-06-0407  
W-03512A-06-0613  
W-03512A-07-0100  
W-03512A-07-0019**

**SEPTEMBER 19, 2007**

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF HATCH-MILLER  
Commissioner  
KRISTIN K. MAYES  
Commissioner  
GARY PIERCE  
Commissioner

RAYMOND R. PUGELA ND JULIE B. PUGEL  
AS TRUSTEES OF THE RAYMOND R. PUGEL  
AND JULIE B. PUGLE FAMILY TRUST, and  
ROBERT RANDALL AND SALLY RANDALL,

Complainant,

v.

PINE WATER COMPANY,

Respondent.

DOCKET NO. W-03512A-06-0407

ASSET TRUST MANAGEMENT, CORP.,

Complainant,

v.

PINE WATER COMPANY,

Respondent.

DOCKET NO. W-03512A-06-0613

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Wife as trustees of THE HILL FAMILY TRUST,

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BRENT WEEKES,  
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PINE WATER COMPANY,  
Respondent.

DOCKET NO. W-03512A-07-0019

SECOND  
SUPPLEMENTAL  
TESTIMONY

OF

STEVEN M. OLEA

ASSISTANT DIRECTOR

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 19, 2007

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1 **Introduction**

2 **Q. Please state your name and business address.**

3 A. Steven M. Olea, 1200 West Washington Street, Phoenix, Arizona, 85007.

4  
5 **Q. By whom and in what capacity are you employed?**

6 A. I am employed by the Arizona Corporation Commission ("Commission") as an Assistant  
7 Director for the Utilities Division.

8  
9 **Q. Are you the same Steve Olea that has previously provided Utilities Division Staff  
10 ("Staff") testimony in this docket?**

11 A. Yes.

12  
13 **Purpose**

14 **Q. What is the purpose of this portion of your testimony in this matter?**

15 A. During the public comment portion of this proceeding, some of Pine Water Company's  
16 ("Pine" or "Company") customers appeared in person to provide public comment. Many  
17 of them raised various issues about the quality of the Company's service. In this  
18 supplemental testimony, I will provide Staff's comments regarding those issues.

19  
20 In addition, various issues have been raised during this hearing to which I would also like  
21 to provide Staff's comments.

22  
23 **Adequacy of Service**

24 **Q. What is the first subject you would like address?**

25 A. I would like to address the adequacy of Pine's service. Staff notes that the complaints  
26 filed in this case tend to focus on the allegation that the moratorium imposed by the  
27 Commission operates as a taking. I have no opinion on that subject. However, the

1 testimony during this hearing seems to focus on whether Pine is providing adequate  
2 service in the context of the complainants' request for deletion from Pine's Certificate of  
3 Convenience and Necessity ("CC&N"). I would like to provide Staff's perspective on that  
4 subject.

5  
6 **Q. What are the general characteristics of "adequate" water utility service?**

7 A. In Staff's opinion, a water utility generally provides adequate service when it can meet all  
8 the water needs of its customers with minimal interruptions at rates that allow the utility  
9 the opportunity to earn a reasonable rate of return on its required investment. However,  
10 when evaluating the adequacy of a utility's service, it is also appropriate to consider the  
11 facts and circumstances under which a company operates. These individual facts and  
12 circumstances may impact the ultimate conclusion.

13  
14 **Q. In Staff's opinion, is Pine Water Company currently able to consistently meet its  
15 customers' demand?**

16 A. At times, but not throughout the year. For a number of years, Pine has not been able to  
17 meet existing customer demand with its existing water supply resources, generally during  
18 the summer months. Because Pine has been unable to meet existing demand, the  
19 Commission has imposed various moratoria on new service connections and allowed the  
20 Company to impose special tariffs.

21  
22 **Q. Does Pine's current inability to consistently meet customer demand mean that its  
23 service is inadequate?**

24 A. As I stated earlier, these determinations should not be made without considering the facts  
25 and circumstances surrounding a particular company's operations. However, it is difficult  
26 to view a company's inability to consistently meet customer demand as anything other

1 than an indication that the company is not providing adequate service. Certainly, from an  
2 engineering standpoint, this factor is extremely significant.

3

4 **Q. Based on the above, does Staff believe that the complainants' properties should be**  
5 **deleted from Pine's CC&N?**

6 A. No. There are a variety of other factors present in Pine's case that should be considered.

7

8 **Q. What are these additional factors?**

9 A. The first has to do with the historical difficulties in locating water within or near the Pine  
10 service area. Staff recognizes that certain testimony in this proceeding has indicated that  
11 water is available at depths exceeding 1,000 feet or more. The discovery of water  
12 underlying the Pine service area at these depths is a relatively new phenomenon. It is  
13 important to understand that, for many years, experts had concluded that the area  
14 underlying Pine did not have sufficient water to supply the Pine system. It would seem to  
15 me that Pine's long-term inability to meet its customer demand is mitigated to some  
16 degree by this factor.

17

18 **Q. Has Staff previously provided testimony regarding the availability of water in the**  
19 **Pine/Strawberry, Arizona area?**

20 A. Yes.

21

22 **Q. Please summarize Staff's previous position.**

23 A. Based on the area's well data and discussions with Arizona Department of Water  
24 Resources ("ADWR") personnel, Staff's opinion was the same as ADWR's at the time –  
25 that is – there was no information available indicating that there was an adequate supply of  
26 water in the Pine area for the Company to serve its customers in a manner that you would

1 normally expect from a water utility, i.e., supply water upon demand without curtailment  
2 or water hauling.

3  
4 **Q. Has there come to light any information that influences Staff's opinion regarding the**  
5 **availability of water in the Pine/Strawberry area?**

6 A. Yes.

7  
8 **Q. Please summarize that information and its effect on Staff's opinion.**

9 A. As stated earlier, wells have been drilled in the area that seem to produce much more  
10 water than the wells that have been drilled in Pine in the past. These wells have been  
11 drilled to a depth much greater than the existing Pine wells. Therefore, this would seem to  
12 indicate that there may be a deep aquifer which can be tapped to provide adequate water  
13 for Pine.

14  
15 **Q. Has Pine been criticized for failing to develop deep and/or wells that produce more**  
16 **water?**

17 A. Yes. During the course of this hearing, I have heard various criticisms of Pine in that  
18 regard. Some have pointed to the wells developed by some of the complainants and then  
19 asked why Pine has not met with similar success. Some have alleged that Pine has not  
20 been diligent in its efforts to solve its water supply issues.

21  
22 **Q. What does Staff think of these circumstances?**

23 A. First, let me say that Staff is sympathetic to the experiences of Pine's customers. These  
24 customers, from a system-wide perspective, do an excellent job of conserving water.  
25 Despite their efforts, they still endure water shortages each summer, with the attendant  
26 outages and/or hauling surcharges. Certainly, from their perspective, it must be very

1 frustrating to see others develop seemingly high (relatively speaking for the Pine, Arizona  
2 area) water producing wells in the Pine service area while the Company's supply problems  
3 continue. Nevertheless, it is important to consider these issues from the Company's  
4 perspective, too.

5  
6 **Q. What factors are important to consider in that regard?**

7 A. In this case, primarily the regulatory parameters set by Commission rules and regulations.  
8 For example, the utility is allowed to pass on to rate payers only those plant costs that are  
9 considered to be reasonable and prudent. A utility would most likely not be allowed to  
10 pass on plant costs to rate payers if the plant was not ultimately used and useful. In the  
11 specific case of Pine Water Company, it would most likely not be allowed to pass on the  
12 costs of drilling deep wells that came up dry or were very low producers, especially if the  
13 drilling was not based on evidence demonstrating that significant water was expected to be  
14 found.

15  
16 **Q. What efforts has Pine undertaken to develop its own deep wells?**

17 A. It is my understanding that until recently Pine has not developed or tried to develop new  
18 long-term water sources of its own. It has looked at drilling the same wells as in the past  
19 and/or tried to enter into water sharing agreements with other well owners.

20  
21 **Q. Does Staff believe that Pine's efforts thus far have been reasonable?**

22 A. Staff is not able to conclude that the Company's actions have been unreasonable. As was  
23 stated earlier, the discovery of the deep water aquifer is a recent phenomenon. Staff  
24 believes that it is because of this new information that Pine has recently undertaken  
25 pursuit of a deep well as a possible beginning to a long-term solution of the water supply  
26 problems in the Pine/Strawberry area.

1 **Q. Is it in the public interest to delete the complainants' properties from Pine's service**  
2 **area at this time?**

3 A. No. Based upon the facts as they exist at present, it is in the long-term best interests of  
4 Pine's customers to keep Pine's service area intact. It would benefit the Pine system for  
5 the complainants' to enter into main extension agreements ("MXA") with Pine (just as any  
6 new customer would with any water utility) and provide their water source(s) to Pine as  
7 part of that MXA. If the water sources are truly as productive as has been testified to in  
8 this case, the entire community would benefit with the additional water and the  
9 complainants would benefit by being provided water by a utility that would now have  
10 adequate water production, or at least close to adequate.

11  
12 **Q. What effect would deletion from Pine Water Company's CC&N have upon the water**  
13 **supply to both the subject properties themselves and to the Pine service area as a**  
14 **whole?**

15 A. I do not know what specific effect it would have on the complainants' properties, but as  
16 for the Pine service area, it would not be as beneficial as having the properties remain  
17 within the CC&N. If the complainants enter MXAs and thereby provide for Pine to use  
18 these wells, this will benefit Pine's entire service area. Even if the complainants elect to  
19 forego development of their properties at this time, it nonetheless remains in Pine's  
20 customers' interest for the Company to retain its service territory.

21  
22 **Q. Why is it in the public interest for Pine to retain its service territory?**

23 A. From the testimony in this proceeding, it appears that the long-term answer to Pine's water  
24 supply problems lies in the development of deep wells. Because of the depth to which one  
25 must drill in order to properly develop such a well, the solution to Pine's water supply  
26 problem will be relatively expensive. The reasonable and prudent costs of such deep

1 wells, if successfully developed, would potentially be added to Pine's rate base. Such a  
2 potentially expensive solution would be less burdensome to customers if it could be spread  
3 across a larger customer base. From this perspective, deletions to Pine's service area will  
4 likely be detrimental to Pine's customers in the long-run.

5  
6 **Clarification of 0.2 Gallons Per Minute ("gpm") as a Requirement for Main Extension**  
7 **Agreements**

8 **Q. Have you testified earlier about the circumstances under which Pine should be able**  
9 **to enter main extension agreements?**

10 A. Yes.

11  
12 **Q. Has any of the testimony that you have heard thus far in the hearing influenced**  
13 **Staff's opinion about these requirements?**

14 A. No.

15  
16 **Q. How was the 0.2 gpm per connection, of which you have previously testified,**  
17 **derived?**

18 A. Water systems should be designed such that water production is able to supply peak day  
19 demand. Peak hour demand and emergency demand are provided through storage. Peak  
20 day demand is calculated by applying a factor to the average day demand during the peak  
21 month. For the Pine system, the average day demand for the peak month is very low when  
22 compared to other systems. The primary reasons for this are the fact that customers of  
23 Pine are extremely good at conserving water and also that Pine, Arizona is a  
24 weekend/holiday destination that has extreme fluctuations between weekday water use  
25 and weekend use.

1 For Pine, the average day water use during the peak use month has been approximately  
2 120 gallons per day ("gpd") per connection. For most systems, one would multiply this  
3 figure by a factor of 1.25 to get the peak day use per connection. In the case of Pine, the  
4 factor should instead be 2.0 to 3.0. The reason being, as stated above, Pine has a very high  
5 holiday/weekend water use compared to its weekday use. Multiplying the 120 gpd by 2.0  
6 gives you a peak day use of 0.167 gpm per connection. Multiplying the 120 gpd by 3.0  
7 gives you a peak day use of 0.25 gpm per connection.

8  
9 Based on all the above, Staff chose to use 0.2 gpm per connection as what should be  
10 required to adequately serve Pine's service area. It should be noted that for most systems  
11 the peak day use per connection is estimated to be at least 0.5 gpm; in some cases  
12 sometimes even 1.0 gpm. Staff points this out to emphasize what a good job of  
13 conservation the present customers of Pine are doing. Also, if the deep aquifer discussed  
14 in this hearing proves to be as productive as testified to by the complainants, Staff would  
15 recommend that eventually Pine Water Company be able to provide at least 0.25 gpm per  
16 connection.

17  
18 **Q. Does the 0.2 gpm represent a precise number or an estimate?**

19 **A.** As can be seen from the above explanation of its calculation, the 0.2 gpm is an estimate.  
20 This estimate is appropriate to use at this time to determine when to allow expansion of  
21 the Pine system; nonetheless, the Commission should be aware that Staff considers this  
22 estimate to be on the low side.

1 **Long-Term Storage of Water**

2 **Q. Do you recall the testimony that Pine could improve its supply by pumping water**  
3 **from all its available water sources in the winter months and storing it for use in the**  
4 **summer?**

5 A. Yes.

6  
7 **Q. In Staff's opinion, is this a likely solution?**

8 A. No.

9  
10 **Q. Why is it that one should not store water over a period of several months?**

11 A. Water that is stored too long in either storage tanks or in the pipes will eventually  
12 deteriorate in quality. There is no set rule or requirement that speaks to the exact time  
13 limit that water can be stored. Designers are cautioned to consider this when designing  
14 water systems. For example, all dead-end lines should be equipped with blow-off valves  
15 to enable operators to remove stagnant water. Another example is the Ten States  
16 Standard. It states, "Excessive storage capacity should be avoided to prevent potential  
17 water quality deterioration problems."

18  
19 **Q. Is there a requirement for how much storage capacity a water system should**  
20 **provide?**

21 A. Yes, the minimum amount is set by the Arizona Department of Environmental Quality  
22 ("ADEQ") at the average day use during the peak month less water production excluding  
23 the highest water production source.

1 **Q. Please provide an example of the above.**

2 A. Assume you have a water system with three wells producing 500 gpm, 200 gpm and 100  
3 gpm. Assume the average day use during the peak month is 1,000,000 gallons. Based on  
4 these figures, the minimum ADEQ storage requirement would be 568,000 gallons. This is  
5 determined by disregarding the largest producing well (500 gpm) and calculating the daily  
6 amount of water that can be provided by the other two wells: 300 gpm multiplied by 1,440  
7 minutes in a day = 432,000 gallons. One then subtracts the 432,000 gallons from the  
8 1,000,000 gallons, leaving the 568,000 gallons.

9  
10 **Q. What is the minimum storage required for Pine?**

11 A. The 2006 Annual Report for Pine indicates that the average day use during the peak month  
12 was approximately 203,500 gallons. Pine also has several water sources. If you  
13 disregarded all these sources, to be extremely conservative, the minimum storage required  
14 would be 203,500 gallons.

15  
16 **Q. How much storage does Pine currently provide?**

17 A. Pine's 2006 Annual report shows storage capacity of 970,000; which is obviously more  
18 than ADEQ required minimum.

19  
20 **Fire Protection Issues**

21 **Q. Do you recall the public comments offered on this issue?**

22 A. Yes.

23  
24 **Q. Is Pine in compliance with applicable requirements for fire protection?**

25 A. Staff is not aware of any State requirements regarding water quantity for water utilities  
26 providing fire protection.

1 **Q. Please explain your answer.**

2 A. Arizona has no State standard for a water system providing fire protection. Each  
3 individual community through its fire department and/or fire district sets its own  
4 standards. Staff is not aware of any such requirement for Pine. In addition, in Pine's last  
5 rate case and in its latest Annual Report, there are no fire hydrants listed as being in Pine's  
6 rate base.

7  
8 **Customer Service Issues**

9 **Q. During the public comment session held at the beginning of the hearing in this**  
10 **matter, some of Pine's customers voiced complaints about various aspects of the**  
11 **Company's service. Has Staff investigated these complaints?**

12 A. Yes. Staff had previously received and investigated the complaints for all but three of the  
13 people that offered public comment. Staff spoke with the other three, docketed their  
14 complaints, and has investigated those complaints.

15  
16 **Q. Please summarize briefly the Company's complaint history.**

17 A. The complaints have been primarily regarding billing, quality of service, and customer  
18 service.

19  
20 **Q. What is the most frequent complaint?**

21 A. Recently, the primary complaint has had to do with the water hauling surcharge.

22  
23 **Q. How many of these complaints have been filed?**

24 A. From June through September of this year, there have been 39.

1 **Q. Has the Company taken any action to remedy this situation?**

2 A. Staff believes that the only true remedy would be the elimination of the need for the  
3 surcharge, i.e., adequate water production. However, the Company has attempted to better  
4 explain how the surcharge works and how it is calculated. Pine has done this by providing  
5 a water hauling surcharge fact sheet to its customers as was requested by the Commission.  
6

7 **Q. Is there any other type of complaint against Pine for which Staff would like to offer  
8 comment?**

9 A. Yes, it has to do with Pine's customer service response.  
10

11 **Q. How are customer complaints handled by the company?**

12 A. Customer complaints are handled through a call center in California. Pine contracts with  
13 this call center which handles complaints for several water utilities.  
14

15 **Q. What are the specific concerns that have been raised?**

16 A. The concerns focus primarily on the slow response time and/or the lack of knowledge at  
17 the call center about the specific situation in Pine.  
18

19 **Q. Does Staff have any concerns regarding this arrangement?**

20 A. With regard to the customer concerns, Staff believes that Pine should provide Pine-  
21 specific training to the individuals taking complaints at the call center so they can more  
22 promptly and knowledgeably handle calls from Pine customers. If this cannot be done,  
23 then Pine should provide a person or persons in the Pine/Strawberry area that can take its  
24 customers' complaints.

1     **Q.    Does Staff have concerns of its own regarding Pine's responses to customer**  
2     **complaints?**

3     A.    Yes. By rule, utilities have five days to respond to customer complaints once the utility  
4     has been notified of those complaints by Staff. Staff has found that during the summer  
5     months, the period during which most complaints about Pine are received by Staff, the  
6     Company seems to have difficulty responding within the five day timeframe. It is Staff's  
7     opinion that Pine should be required to provide adequate personnel to respond to customer  
8     complaints and Staff's inquiries in a timely manner.

9

10    **Q.    Does this conclude this portion of your testimony?**

11    A.    Yes, it does.

12