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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

2007 OCT 31 P 2:39
AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE
APPLICATION OF CORDES LAKES
WATER COMPANY FOR A
PERMANENT RATE INCREASE.

DOCKET NO. W-02060A-07-0256

**NOTICE OF FILING
NEIL FOLKMAN'S DIRECT
TESTIMONY**

Lee E. Esch hereby files the Direct Testimony of Neil Folkman in the above-referenced matter.

RESPECTFULLY SUBMITTED this 31st day of October, 2007.

Lee E. Esch
Attorney for Neil Folkman
Jennings Strouss & Salmon
201 E. Washington Street, 11th Floor
Phoenix, Arizona 85004
(602) 262-5803

Original and thirteen (13) copies
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31st day of October, 2007 with:

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Phoenix, Arizona 85007

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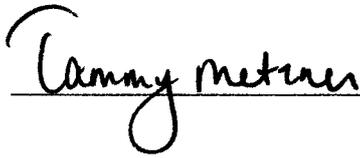
Arizona Corporation Commission
DOCKETED
OCT 31 2007

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1 Copy of the foregoing mailed this
2 31st day of October, 2007 to:

3 Robin R. Mitchell
4 Attorney, Legal Division
5 Arizona Corporation Commission
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 Neil Folkman
9 Vice President
10 Cordes Lakes Water Company
11 2501 East Palo Verde
12 Phoenix, Arizona 85016

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION) DOCKET NO. W-02060A-07-0256
OF CORDES LAKES WATER COMPANY)
FOR AN INCREASE IN ITS RATES)

DIRECT
TESTIMONY
OF
NEIL FOLKMAN
VICE PRESIDENT
CORDES LAKES WATER COMPANY

OCTOBER 31, 2007

1 **I. INTRODUCTION**

2 **Q. Please state your name and relationship to the Application, Cordes Lakes**
3 **Water Company.**

4 A. My name is Neil Folkman. I am currently serving as Vice President of Cordes
5 Lakes Water Company. I have been a shareholder, officer and director of the
6 Company at various times, continuously, since it was organized for the purpose of
7 acquiring the two water systems commonly known as Cordes Lakes and Verde
8 Village from Queen Creek Land and Cattle Company, the developer of
9 subdivisions thus identified, in 1974.

10
11 **Q. Are you responsible for preparation of the Rate Case presently before the**
12 **Commission?**

13 A. Yes, I prepared it.

14
15 **Q. When did the Company last make application for a rate increase?**

16 A. The last time that we applied for an increase in rates was in the year 1984.

17
18 **Q. Why has there been no application filed for approximately 22 years since the**
19 **last decision became effective in 1985?**

20 A. During that period of time growth of Cottonwood and development in the area
21 served by the Verde Village system caused the system to expand dramatically.
22 Because of the growth, the Company, as a whole, was profitable, although similar
23 expansion did not occur with respect to the Cordes Lakes system, and we, of
24 course, accounted for both systems as one within the same company.

25
26 **Q. What has happened to cause you to now file an application for rate increases?**

1 A. In 2004, the City of Cottonwood through its poser of eminent domain, condemned
2 and acquired all of the business and assets related to the Verde Village System.
3 For all of the obvious reasons, Cottonwood could not acquire the Cordes system,
4 and we have continued to operate it as the company's sole and only business
5 activity since the fall of 2004. Without revenues from the successful Verde
6 Village system, it has not been profitable; hence this application.

7
8 **Q. Have you received and reviewed, and are you familiar with the report of the**
9 **Corporation Commission Staff in the form of the Direct Testimony of Gary**
10 **T. McMurry, Katrin Stukov and Steve P. Irvine?**

11 A. I have, and I am.

12
13 **Q. What are your preliminary observations with respect to the Staff Report?**

14 A. While I might, as you would expect, quibble over a number of the Staff
15 Recommendations, I concur that the ultimate recommendation for increasing rates
16 is fair and reasonable. That said, my greatest concern relates to Mr. McMurry's
17 Rate Base Adjustments No. 1 and No. 3, because they have significant
18 implications for future rate considerations.

19
20 **Q. Please explain.**

21 A. Adjustment No. 1 proposes the elimination from the rate base of the cost of a
22 parcel of real estate that was acquired by the company specifically for the purpose
23 of drilling a new well. Staff has suggested that, absent an immediate use, the
24 property is not used and useful. Inasmuch as the property will likely be used for
25 its intended purpose prior to another application for rate increase, the "immediate"
26 standard seems arbitrary and unreasonable.

1
2 Adjustment No. 3 proposes removal of \$350,954 from plant as lacking support.
3 The support that is lacking is not the Company's ability to document the purchase
4 of the relevant assets; rather, its inability to allocate items purchased specifically
5 to the Cordes System. Prior to 2004 (and the transfer of the Verde Village system
6 to Cottonwood) no effort was made to allocate plant and equipment to the
7 different systems--for all practical purposes it was treated as one system.
8 Divestiture of the Verde Village system presents an abundance of practical
9 problems in "tracking" plant into the Cordes System. Obviously it is physically
10 present, could be observed and examined and, given time, could be demonstrated
11 to Staff as a proper part of plant. Current conditions and timing do not,
12 unfortunately, afford that opportunity to us.
13

14 **Q. Are you prepared, nevertheless, to accept the Staff Report?**

15 A. Yes. Taken as a whole, the Staff recommendation reaches a fair and reasonable
16 conclusion. Accordingly, the Company would respectfully request that the Staff
17 report and recommendations be adopted, that the Commission's decision
18 implement those recommendations and grant the recommended increases; but with
19 the tacit acknowledgement that the Company may, prior to its next application,
20 take appropriate measures to "reinstate" the amounts for plant removed pursuant
21 to Staff recommendations 1 and 3, should they be adopted.
22

23 **Q. Katrin Stukov has indicated in her recommendations that any increase in**
24 **rates be effective on the first month following ADEQ documentation that the**
25 **Company is supplying water that meets water quality standards. What is the**
26 **status of the Company's water quality?**

1 A. On April 10, 2007, the Company received notice of non-compliance due to
2 coliform violations on December 4, 2006, and February 5, 2007. On both
3 occasions the Company proceeded, using exactly the required methods, to correct
4 the problem and in total compliance with ADEQ rules concerning retesting and
5 notification. In spite of the Company's actions, Mr. Jim Puckett of ADEQ (who
6 wrote the non-compliance report) refused to answer the Company's request for
7 compliance. On August 2, 2007 The Company hired a consultant, Mr. Bruce Scott
8 PE, to handle the situation. After many calls, on October 2, 2007, Mr. Puckett
9 indicated that all was in order and he informed Mr. Scott that he would
10 recommend compliance.

11
12 On October 19, 2006, the Company was unexpectedly informed by Ms Donna
13 Calderon, that two new violations existed. Both concerned chlorine residual and
14 were dated June 12, 2007, and September 24, 2007. Both were under the name of
15 Jim Puckett. Neither of the new violations was communicated to the Company by
16 mail or phone, although ADEQ claims that a telefacsimile copy was provided.

17
18 The Company did not feel that the tests required by ADEQ were required because
19 the Company does not chlorinate except for repairs or bad samples. A test for
20 chlorine residuals would be meaningless if there was no chlorine. The Company
21 chlorinated only 30 days during the last 12 months--all for repairs. During
22 inspection by Ms Stukov, our two remaining chlorinators were out of service.

23
24 To satisfy ADEQ, the Company has agreed to take five samples for chlorine
25 residuals in order to demonstrate that the water is safe to drink. During the
26 summer, 2008, the Company will take sample during periods of high temperature

1 to provide evidence of compliance as required by federal and state authorities. All
2 recent samples have been submitted, and airmailed to California for testing.

3
4 The Company is working with ADEQ on this matter and any delay in
5 implementing the rate increase would, it believes be an excessive penalty to the
6 Company.

7
8 **Q. Does this conclude your direct testimony?**

9 **A. Yes, it does.**