

ORIGINAL



0000078475

RECEIVED

1 FENNEMORE CRAIG, P.C.
 2 Jay L. Shapiro (No. 014650)
 3 Patrick J. Black (No. 017141)
 4 3003 North Central Avenue, Suite 2600
 5 Phoenix, Arizona 85012
 Telephone (602)916-5000
 Attorneys for Pine Water Company

2007 NOV -7 P 4: 29
 AZ CORP COMMISSION
 DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

7 IN THE MATTER OF THE APPLICATION
 8 OF PINE WATER COMPANY FOR
 9 APPROVAL TO (1) ENCUMBER A PART
 10 OF ITS PLANT AND SYSTEM
 11 PURSUANT TO A.R.S. § 40-285(A); AND
 12 (2) ISSUE EVIDENCE OF
 INDEBTEDNESS PURSUANT TO A.R.S.
 § 40-302(A).

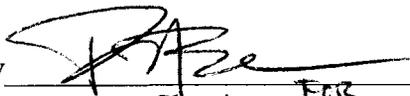
DOCKET NO: W-03512A-07-0362

NOTICE OF FILING

13 Pine Water Company, Inc. hereby submits the Notice of Filing in the above-
 14 referenced matter. Attached hereto as Exhibit A is the Direct Testimony of
 15 Robert T. Hardcastle.

16 DATED this 7th day of November, 2007.

FENNEMORE CRAIG, P.C.

17
 18
 19 By  For

Jay L. Shapiro
 Patrick J. Black
 3003 North Central Avenue
 Suite 2600
 Phoenix, Arizona 85012
 Attorneys for Pine Water Company

20
 21
 22 Arizona Corporation Commission
 DOCKETED

NOV -7 2007

23
 24
 25 DOCKETED BY 

1 ORIGINAL and thirteen (13) copies of the
2 foregoing filed this 21st day of November, 2007:

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington St.
6 Phoenix, AZ 85007

7 COPY of the foregoing hand-delivered
8 this 21st day of November, 2007

9 Mr. Dwight D. Nodes
10 Assistant Chief Administrative Law Judge
11 Arizona Corporation Commission
12 1200 W. Washington Street
13 Phoenix, AZ 85007

14 Mr. Kevin Torrey, Esq.
15 Legal Division
16 Arizona Corporation Commission
17 1200 West Washington Street
18 Phoenix, Arizona 85007

19 COPY of the foregoing mailed
20 this 21st day of November, 2007

21 Mr. Michael Greer
22 3850 Matazal Vista
23 Pine, Arizona 85544

24 Mr. Fred B. Krafczyk
25 8039 Louthian
26 Strawberry, Arizona 85544

By: Patsy Regalado
1997657.1/75206.015

EXHIBIT

A

1 FENNEMORE CRAIG, P.C.
2 Jay L. Shapiro (No. 014650)
3 Patrick J. Black (No. 017141)
4 3003 North Central Avenue, Suite 2600
5 Phoenix, Arizona 85012
6 Telephone (602)916-5000
7 Attorneys for Pine Water Company

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 IN THE MATTER OF THE APPLICATION
10 OF PINE WATER COMPANY FOR
11 APPROVAL TO (1) ENCUMBER A PART
12 OF ITS PLANT AND SYSTEM PURSUANT
13 TO A.R.S. § 40-285(A); AND (2) ISSUE
14 EVIDENCE OF INDEBTEDNESS
15 PURSUANT TO A.R.S. § 40-302(A).

DOCKET NO: W-03512A-07-0362

16 **DIRECT TESTIMONY**
17 **OF**
18 **ROBERT T. HARDCASTLE**

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

TABLE OF CONTENTS

	Page
I. INTRODUCTION AND QUALIFICATIONS	1
II. TESTIMONY IN SUPPORT OF APPLICATION	2
A. Background on K2 Agreement.	2
B. Requested Commission Approvals	3

1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TELEPHONE**
3 **NUMBER.**

4 A. Robert T. Hardcastle, 3101 State Rd., Bakersfield, California 93308. My telephone
5 number is (661) 633-7526.

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am the President of Brooke Utilities, Inc. ("BUI"). BUI is the sole shareholder of
8 the Applicant, Pine Water Company, Inc. ("PWCo" or the "Company"). I am also
9 the Company's President.

10 **Q. PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES AS THEY**
11 **RELATE TO THE COMPANY.**

12 A. As the Executive Officer, I am generally responsible for managing all operational,
13 administrative, financial, and regulatory matters of BUI and its subsidiaries,
14 PWCo, Strawberry Water Co., Inc. ("SWCo"), Payson Water Co., Inc., Tonto
15 Basin Water Co., Inc., Navajo Water Co., Inc., Brooke Water, L.L.C., and Circle
16 City Water Co., L.L.C. Each of these subsidiaries is a public service corporation
17 providing water utility service under regulation by the Arizona Corporation
18 Commission ("Commission").

19 **Q. HOW LONG HAVE YOU BEEN INVOLVED WITH BUI AND ITS**
20 **SUBSIDIARIES?**

21 A. I have overseen BUI's interests in Arizona since 1995, including our operations in
22 Pine and Strawberry, Arizona since the mid-1990s.

23 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA**
24 **CORPORATION COMMISSION?**

25 A. Yes, on several prior occasions.
26

1 **II. TESTIMONY IN SUPPORT OF APPLICATION.**

2 **A. Background on K2 Agreement.**

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
4 **PROCEEDING?**

5 A. To support the Company's application for two approvals related to the K2
6 Agreement.

7 **Q. WHAT IS THE K2 AGREEMENT?**

8 A. The Joint Well Development Agreement ("K2 Agreement") between PWCo and
9 the Pine-Strawberry Water Improvement District ("PSWID"), dated May 1, 2007.
10 A copy of the K2 Agreement is attached to the Company's Application as
11 **Exhibit 1.** Under the K2 Agreement, PSWID and PWCo have agreed to jointly
12 invest in a deep well project.

13 **Q. WHAT DO YOU MEAN JOINTLY INVEST?**

14 A. PSWID has agreed to fund the first \$300,000 of the K2 Project, which amount is
15 the estimated cost of drilling of a test well at the K2 well site in Strawberry,
16 Arizona.

17 **Q. WHAT HAPPENS AFTER THE TEST WELL IS DRILLED?**

18 A. After the test well is completed and all of the necessary well tests have been
19 conducted, the Project Hydrologist will review the data and a determination will be
20 made of the estimated sustainable yield that may be obtained from a production
21 well to be drilled at the K2 site. If the estimated sustainable yield is at least 150
22 gpm, then a production well will be drilled at the K2 site.

23 **Q. WHO WILL PAY FOR THE PRODUCTION WELL TO BE DRILLED?**

24 A. The Company. If the test well results in an estimated sustainable yield of at least
25 150 gpm, PWCo is committed under the K2 Agreement to spend up to \$1 million
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

to drill, equip and interconnect a production well and up to 300,000 gallons of new storage to the PWCo system.

Q. HOW WILL THE INTERCONNECTION OCCUR?

A. The well will be interconnected to both the PWCo and SWCo water systems by direct connection to Project Magnolia, which pipeline is located adjacent to the K2 site.

Q. WILL WATER FROM THE WELL BE DELIVERED TO CUSTOMERS OF BOTH COMPANIES?

A. We hope so. Under the agreement, excess water is to be provided by PWCo to SWCo.

B. Requested Commission Approvals.

Q. IS THE COMPANY SEEKING COMMISSION APPROVAL OF THE K2 AGREEMENT?

A. No. As Staff recognized early in the history of this case, the Commission's role is limited to the two specific approvals sought by PWCo.

Q. WHAT ARE THESE TWO APPROVALS?

A. The first is approval to encumber the K2 well site and well property. The second involves approval for the Company to agree to return PSWID's investment in the K2 Project if certain conditions are met. The approvals are being sought under ARS § 40-285(A) and ARS § 40-302(A), respectively.

Q. WHY WILL A LIEN BE ISSUED?

A. The lien in favor of the PSWID secures PWCo's obligations under the K2 Agreement, including the obligation to convey the K2 well and well site to PSWID in the event that the test well is unsuccessful and PWCo elects not to move forward with the production well.

1 **Q. IS THE K2 WELL USED AND NECESSARY FOR PWCO TO SERVE ITS**
2 **CUSTOMERS?**

3 A. Not at this time, however, in the event that the test well is successful, the
4 production well and all related appurtenances are anticipated to be used and
5 necessary. So, in an abundance of caution, we sought approval to encumber utility
6 property that might become used and necessary in the future.

7 **Q. WHAT ABOUT THE SECOND APPROVAL?**

8 A. A.R.S. § 40-302(A) requires a public service corporation to first secure from the
9 Commission an order authorizing the issuance of stocks and stock certificates,
10 bonds, notes and other evidence of indebtedness. Under the K2 Agreement, the
11 Company has conditionally agreed to return PSWID's investment, along with a 6%
12 return on that investment, if a production well is developed on the site, the
13 production well is placed in service and the costs of the K2 well project are
14 included in rate base. Clearly the K2 Agreement does not require PWCo to issue
15 stocks, stock certificates, bonds or notes. However, again in an abundance of
16 caution, and because of the severity of the consequences specified in A.R.S. § 40-
17 303 if Commission approval were required but not obtained, PWCo is seeking
18 approval at this time in case the Commission concludes the K2 Agreement is an
19 "other evidence of indebtedness."

20 **Q. IS PWCO SEEKING APPROVAL IN THIS DOCKET TO INCLUDE THE**
21 **COSTS OF THE K2 WELL PROJECT IN RATE BASE?**

22 A. No, we are only seeking approval to evidence the Company's obligation to return
23 PSWID's investment in the event the conditions are satisfied.

24 **Q. WILL THE APPROVALS IMPAIR THE COMPANY'S FINANCIAL**
25 **CONDITION OR NEGATIVELY IMPACT THE COMPANY'S ABILITY**
26 **TO SERVE ITS CUSTOMERS?**

1 A. No, actually we hope that the approvals will enhance our ability to serve by
2 allowing the Company to pursue development of a deep well that is anticipated to
3 add a substantial amount of water to the Company's system. Given the history of
4 water supply shortages in the Company's CC&N, finding additional water supplies
5 certainly appears to me to be in the public interest.

6 **Q. HASN'T THE COMMISSION BEEN PUSHING THE COMPANY TO FIND**
7 **LONG-TERM WATER SUPPLY SOLUTIONS?**

8 A. Yes, in several decisions the Commission has directed the Company to take steps
9 to explore and develop long-term water supplies that can be used to serve
10 customers. *See, e.g.,* Decision No. 67166 (August 10, 2004); Decision No. 67823
11 (May 5, 2005). PSWID and PWCo have been working for several years, separately
12 and more recently together, to locate additional water supplies for the region. The
13 K2 Agreement is the latest step. It is also, in our view, the very type of effort the
14 Commission directed the Company to undertake when it ordered PWCo to work
15 with local stakeholders, including PSWID, to develop long-term solutions to the
16 region's chronic water supply shortages. *See* Decision No. 67823 at 13.

17 **Q. DO YOU HAVE ANYTHING ELSE TO ADD TO YOUR TESTIMONY AT**
18 **THIS TIME, MR. HARDCASTLE?**

19 A. Just that we urge the Commission to issue the requested approvals as soon as
20 possible. This past summer saw some of the lowest water levels in our experience
21 and if we are to have any hope of bringing this new water supply online before next
22 summer, we need to get drilling. Right now, we are waiting on the Commission.

23 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

24 A. Yes.

25

26

1996058.1/75206.015