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ARIZONA CORPORATION COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

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

NOTICE OF FILING RAY PUGEL
REBUTTAL TESTIMONY

ASSET TRUST MANAGEMENT, CORP.
Complainants,
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

Arizona Corporation Commission
DOCKETED

JAN 25 2008

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

7 Copies of the foregoing mailed/delivered
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EXHIBIT A
Rebuttal Testimony
Of
Ray Pugel

1 **REBUTTAL TESTIMONY OF RAY PUGEL**

2

3 Question: State your full name.

4 Answer: Ray Pugel

5

6 Q: You are a party to this proceeding before the Arizona Corporation Commission?

7 A: Yes

8

9 Q: You have been present during the testimony given in this matter and have reviewed the transcript of
10 these proceedings?

11 A: Yes

12

13 Q: On Page 926 – Line 18 of the Transcript Mr. Hardcastle states that he is sick of paying legal bills.
14 He has also repeatedly stated that he only makes prudent business decisions. Do you believe that the
15 expenditure of water customer monies in this case is a prudent decision by Mr. Hardcastle?

16 A: If our property is not deleted from the Certificate of Convenience and Necessity, and if it is
17 developed in a manner which would require connections to the Pine Water Company, the number of
18 connections which would be available probably would never generate sufficient funds to recover his
19 legal expenses in this matter. I do not believe that this is a prudent decision.

20

21 Q: On Page 933 – Lines 11 to 25 Mr. Hardcastle states that the engineering firm came up with the
22 proposal to hook up the Milk Ranch Well. Do you believe that this is true?

23 A. On page 1465 lines 1-24 Mr. Hardcastle rebuts himself when he states that he instructed the
24 engineers regarding what he wanted looked at in the proposal to hook up the Milk Ranch Well. Clearly
25 he chose an expensive alternative.

26

27 Q: On Page 938 of the Transcript Mr. Hardcastle discusses Interconnection costs. Do you believe that
28 the decisions he is making concerning the costs of interconnection are prudent?

29

1 A: The land Pine Water Company sold to Richey used to be a distribution point for Pine Water
2 Company. This property is located 311' from our well. It would have been more prudent to have
3 retained ownership of that property and use it for distribution point coming from the Milk Ranch Well or
4 a well that could have been drilled there by PWC. In addition, the 300,000 gallon storage tank should
5 have been retained on the site and refurbished.

6
7 Q: have you found other examples of Pine Water Company making less than prudent business
8 decisions?

9 A: Yes. On Page 941 and 942 Mr. Hardcastle points out that they have made a entered into a contract
10 regarding the K2 well before the analysis of that project is completed.

11
12 Q: On Page 948 – Line 12 of the Transcript Mr. Hardcastle claims that the Milk Ranch Well is not fully
13 developed. Is that correct?

14 A: It is fully developed for a minimum of 150 gpm with a possible sustainable yield of 300 gpm. We
15 just need sand filters. A common situation according to the Flagstaff water department.

16
17 Q: On Page 952 Lines 6 through 13 of the Transcript Mr. Hardcastle expressed his concern about losing
18 production in the wells he had recently drilled by going deeper. To your knowledge can you regain
19 production in a well if you go too deep and lose it?

20 A: If you lose production, you can seal off a well and regain it.

21
22 Q: On Page 957 Lines 5 through 18 of the Transcript Mr. Hardcastle indicated that the peer reviews of
23 the K2 wellsite did not indicate a better alternative to the K2 site. Is that correct?

24 A: At least 2 of the peer reviews said Pine was a better alternative and so did Mike Plough

25
26 Q: Did you provide information to the Pine Strawberry Water Improvement District and Mr. Hardcastle
27 about your well prior to their making a decision about the K2 wellsite?

1 A: The 24 hour test on our well was completed on 9/25/06. I handed this document out at the Oct.
2 PSWID meeting and gave a presentation to the PSWID board. Mr. Hardcastle was in attendance. The
3 meeting date was Oct 19, 2006.
4

5 Q: On Page 974 Line 12 of the Transcript Mr. Hardcastle testified that the K2 well site is large enough
6 to have all the drilling operations contained on it. Do you believe that is true?

7 A: No. I know he doesn't because I have drilled a deep well. You need room for the drilling rig, the
8 casing, the drill rod, and a compressor the size of a small RV. In addition, you have to dispose of the
9 effluent and on that property you cannot have a hole big enough to percolate and dispose of it. It is
10 improbable that there is sufficient room on the K2 site to hold all these things..
11

12 Q: On Page 978 Line 21 through Page 979 line 7 of the Transcript Mr. Hardcastle indicates that it is not
13 unusual to require a developer to provide a deposit to the utility before the utility will beginning review
14 the property owner's proposal. In your experience is this a usual or normal activity?

15 A: No. It is not normal. With APS you put down a deposit after you know the costs. You do not give
16 them \$10,000 to open a dialogue.
17

18 Q: On Page 993 Line 15 through Line 17 of the Transcript Mr. Hardcastle testified that the tank
19 purchased by Mr. Richie was only to be used for fire protection. Is that correct?

20 No: - The tank was refurbished for potable water.
21

22 Q: On Page 1045 Lines 2 through 9 Mr. Hardcastle indicated that the leaking line in front of your
23 building was a threat to the building. Do you agree?

24 A: There was no threat to the building. At that time we had grass and our leach field is there. I noticed
25 some wet spots and thought it was my sewage system. I discovered it was fresh water and called the
26 utility company.
27
28
29

1 Q: On Page 1058 Lines 9 through 19 of the Transcript Mr. Hardcastle gave an estimated cost to the
2 water customers for a \$4 million dollar investment. Do you believe that this estimate is universally
3 accurate?

4 A: Maybe for a private water company. But bonding by a domestic water improvement district over a
5 longer period at preferred interest rates is much less cost.

6
7 Q: On Page 1092 Line 23 through 25 of the Transcript Mr. Hardcastle indicates that you want someone
8 else to solve your water problems other than yourself. Do you believe that is correct?

9 A: I think drilling a well and litigating to get out of his CC&N is solving our own challenges.

10
11 Q: On Page 1190 Lines 8 through 14 of the Transcript Mr. Hardcastle talks about the injury to his
12 CC&N because of a smaller customer base. Do you believe that the deletion of your property will have
13 an impact upon the public interest or the customer base?

14 A: No, Pine Water Company has had a moratorium in place almost the whole time it has owned the
15 system and cannot add customers anyway, so deleting our property does not harm the CC&N? In
16 addition, he proved his own statement to be untrue by allowing 2 litigants to buy their way out of his
17 CC&N.

18
19 Q: On Page 1196 Line 1 through 3 of the Transcript Mr. Hardcastle states that he believes that the
20 sustainability of the Milk Ranch Well is in question. Is it?

21 A: Our sustainability test is what is approved by DWR for 100 year adequacy. It is the same test that is
22 to be done on the K2 to prove its sustainability and to verify the gpm.

23
24 Q: On Page 1208 of the Transcript Mr. Hardcastle advocates getting a 100 year water production
25 capacity. If you had that capacity for your well, but joined is system, would the entire system have that
26 capacity?

27 A: No probably not. Furthermore, the effect of this would be to dilute the 100 year production capacity
28 of the well because the water from it would be commingled with the Pine Water System Water and since
29 there is a shortage there it would take more of the water from the Milk Ranch Well. In essence, being

1 outside the CC&N the Milk Ranch well has more than enough water to take care of the needs of the
2 Pugel Randall Property. If the Milk Ranch Well becomes a part of the Pine System the Pugel Randall
3 Property will be served subject to the limitations placed on the Pine Water Company, and thus the
4 property will have less water availability and be devalued accordingly.

5
6 On Page 1241 Lines 1 through 4 of the Transcript, Mr. Hardcastle speaks of his incentive to invest
7 money in the company for future growth, but in other portions of the Transcript he states that Growth
8 must pay for Growth. Does this appear to be a contradiction?

9 A: Yes. Mr. Hardcastle says he has incentive to invest in company for future growth, but in being
10 adamant that growth must pay for growth there is no incentive for him to invest further in the company.

11
12 On Page 1244 Lines 9 through 22 of the Transcript Mr. Hardcastle indicates in discussing the fact that
13 his company makes no profit off of the water which is hauled, does that appear to be correct?

14 A: No. By paying commodity rate for this water to another company owned by Brooke Utilities a profit
15 is made for Brooke Utilities on hauled water.

16
17 Q: Mr. Hardcastle on Page 1247 of the Transcript indicates that there must be a "Will Serve" letter in
18 order for Pine Water Company to purchase water from Milk Ranch Well, LLC. Is that correct?

19 A: A will serve letter is not necessary for Pine to purchase water from Milk Ranch Well. What is
20 necessary is that Pine Water Company request that it be allowed to purchase water and the negotiation of
21 a reasonable agreement concerning the cost of the water purchased.

22
23 On Page 1264 Line 4 through 5 of the Transcript Mr. Hardcastle has said that you have made it clear that
24 you do not want to have any business dealings with Pine Water Company. Is that your position?

25 A: I said I would sell water to him only as a last resort. In other words, if the people of Pine's health
26 and safety were in jeopardy.

27
28 Q: On Page 1298 Line 17 through 19 of the Transcript Mr. Hardcastle indicated that he could probably
29 supply one meter to your property. Is this true?

1 A: No he can't. We applied for a meter for the RV Park and were turned down by Pine Water
2 Company.

3
4 Q: On Page 1327 Line 1 through 4 Mr. Hardcastle states they have developed 2 wells for the benefit of
5 Pine which are located in Strawberry. Are these of any benefit to Pine?

6 A: So long as Pine's customers do not get this water these are of no benefit to them and are of benefit to
7 the Strawberry Water Company, yet Pine's customers paid for these wells and do not get the water when
8 they need it.

9
10 Q: On Page 1331 Line 17 and 18 Mr. Hardcastle testified that the K2 well site is about three quarters of
11 an acres. Is this correct?

12 A: No. It is only about a 1/5 of an acre.

13
14 Q: On Page 1340 Lines 1 through 10 Mr. Hardcastle states that the water hauling surcharge only
15 provides for a portion of the water hauling costs. Is this totally correct?

16 A: No. What Mr. Hardcastle fails to state is that Pine buys from a related company at commodity rates
17 and that Pine diverts PWC water to Strawberry so Pine pays more in hauling charges than it should
18 without any recovery of these costs.

19
20 Q: On Page 1352 Line 9 Mr. Hardcastle testifies that the storage tanks sold to Mr. Richie were no longer
21 useful to Pine Water Company. Do you believe that to be true?

22 A: No, one of the tanks, a 300,000 gallon one was restored by Gila County for potable water thus it was
23 useful.

24
25 Q: Do you see the benefit to Pine Customers testified about by Mr. Hardcastle on Page 1377 Line3, to
26 the arrangement whereby Pine Water stays in Strawberry?

27 A: No, there is no benefit. Pine Water Customers are paying to haul in water to replace this water at a
28 substantially higher cost so they are not benefited. .

1 Q: If the Milk Ranch Well were connected to only a portion of the Pine Water System would that
2 portion be benefited?

3 A: Yes by connecting the Milk Ranch Well to a portion of the system it would provide water for that
4 portion and relieve the remainder of the system of the requirement of providing water to that sector.

5 Q: On Page 1443 Line 16 of the Transcript Mr. Hardcastle indicated the District received the peer
6 reviews. Is this correct?

7 A: No. Only 2 members of the district got the peer review reports. Others did not see the reports until
8 they were requested by Judge Nodes and then made public.

9
10 Q: Do you agree with Mr. Hardcastle on Page 1488 Line 14 of the Transcript that he has not done
11 anything to cause the moratoria to continue?

12 A: No, Pine Water Company has not found any water. If it had the moratoria could be lifted.

13
14
15 Q: On Page 1607 Line 7 through 9 of the Transcript Mr. Hardcastle states that the Morrison Maierle
16 Study looked at all of Strawberry and Pine. Is that correct?

17 A: No, it is not true. The study looked at Strawberry.

18
19 Q: On Page 1609 Line 6 and 7 Mr. Hardcastle indicated that you drilled the Milk Ranch Well where you
20 did because you owned the property. Is that correct?

21 A: No, that is not true. The Milk Ranch Well was drilled in that location because Mike Plough said it
22 was an excellent location.

23
24 Q: On Page 1619 Line 8 of the Transcript Mr. Hardcastle says that the payment of \$10,000 is not for the
25 right to negotiate. Is that correct?

26 A.: No, the Will serve letter says you must deposit \$10,000 prior to the negotiation of any agreements.

27
28 Q: On Page 1686 Line 17 through 19 Mr. Hardcastle states that Project Magnolia was inoperative in the
29 summer of 2007. Do you agree?

1 A: Based on the testimony of Mr. Bossert it is clear that that is infact not true and that Pine Water
2 Company was sending water to Strawberry Water Company via Project Magnolia.

3
4
5 Q: On Page 1751 Line 7 through 12 Mr. Hardcastle testified that Mr. Richie did not become involved in
6 negotiations regarding the K2 wellsite until late in the fall of 2006. Is that correct?

7 A: No, I first brought up the conflict in my letter of October 24, 2006 regarding this matter.

8
9 Q: Mr. Olea testified that things are getting better in Pine regarding the water situation. Do you agree
10 with that?

11 A: No, the community is hauling more water than ever before, the lines are continuing to break,
12 customers are continuing to complain and the costs have increased, so no it is not better.

13
14 Q: Mr. Olea testified that if theK2 well was not successful it would mean that there is no deep aquifer
15 under Pine or Strawberry. Do believe that is correct?

16 A: No, Mr. Olea has not fully studied the issue, was not aware of information concerning the existing
17 wells in the community; and has merely applied an ultra restrictive approach to considering the
18 information. To hit water in Pine it is helpful to be in the vicinity of a fault line.

19
20 Q: Do you think that Mr. Olea should be allowed to testify in this case?

21 A: Absolutely not. He testified with the Staff's solution prior to hearing any of the testimony. How can
22 you formulate an opinion that affects people's lives prior to hearing the testimony of the participants.
23 The proper course should be to formulate their recommendation after hearing the facts. They issued an
24 opinion without knowing the details of the case. Evidence of this is that he had to amend his written
25 testimony twice.

26
27 Q: Does that conclude your written Testimony?

28 A: Yes