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BEFORE THE ARIZONA CORPORATION

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COMMISSIONERS

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

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AZ CORP COMMISSION
DOCKET CONTROL

320

IN THE MATTER OF THE
APPLICATION OF PERKINS
MOUNTAIN WATER COMPANY FOR
A CERTIFICATE OF CONVENIENCE
AND NECESSITY IN MOHAVE
COUNTY.

DOCKET NO. W-20380A-05-0490

IN THE MATTER OF THE
APPLICATION OF PERKINS
MOUNTAIN UTILITIES COMPANY
FOR A CERTIFICATE OF
CONVENIENCE AND NECESSITY IN
MOHAVE COUNTY.

DOCKET NO. SW-20379A-05-0489

**PERKINS MOUNTAIN WATER
COMPANY AND PERKINS
MOUNTAIN UTILITY COMPANYS'
NOTICE OF FILING DIRECT
TESTIMONY**

Pursuant to the Procedural Order dated January 8, 2008, in the above-captioned consolidated matters, Perkins Mountain Water Company and Perkins Mountain Utility Company hereby file the Direct Testimony for each of the following witnesses:

- John D. Williams
- Ray L. Jones
- Paul Burris

RESPECTFULLY SUBMITTED this 14th day of April, 2008.

SNELL & WILMER L.L.P.

By

Jeffrey W. Crockett
Bradley S. Carroll
One Arizona Center
400 East Van Buren
Phoenix, Arizona 85004-2202
Attorneys for Perkins Mountain Water
Company and Perkins Mountain Utility
Company

Arizona Corporation Commission
DOCKETED

APR 14 2008

DOCKETED BY

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ORIGINAL and 15 copies filed this
14th day of April, 2008, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

COPY of the foregoing hand-delivered
this 14th day of April, 2008, to:

Dwight D. Nodes, Assistant Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

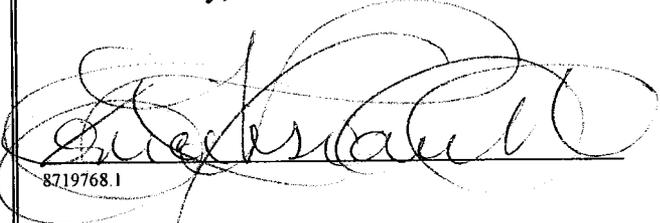
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COPY of the foregoing mailed this
14th day of April, 2008, to:

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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DOCKET NO. SW-20379A-05-0489

PRE-FILED DIRECT TESTIMONY OF JOHN D. WILLIAMS

ON BEHALF OF PERKINS MOUNTAIN WATER COMPANY

AND PERKINS MOUNTAIN UTILITY COMPANY

APRIL 14, 2008

1 Q. PLEASE STATE YOUR NAME AND EMPLOYER.

2 A. My name is John D. Williams. I am employed as Director of Governmental
3 Affairs at Utilities, Inc. ("UI" or "Company").

4 Q. PLEASE STATE YOUR BUSINESS ADDRESS.

5 A. My business address is 121 N. Monroe Street, #1210, Tallahassee, Florida 32301.

6 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK
7 EXPERIENCE.

8 A. I have a Bachelor of Science degree in Business Administration from the
9 University of Florida. From 1974 until January 2007, I was employed by the
10 Florida Public Service Commission ("FPSC"). At the FPSC, most of my
11 responsibilities involved the economic regulation of water and waste water
12 utilities. I was the Bureau Chief of Rates, Certification, and of Policy
13 Development and Industry Structure. I testified and made recommendations in
14 hundreds of cases before the FPSC. I was also responsible for the FPSC's water
15 legislative program and was frequently called upon to testify on behalf of the
16 FPSC at the Florida Legislature.

17 During my employment at the FPSC, I was a member of the National
18 Association of Regulatory Utility Commissioners ("NARUC") Staff
19 Subcommittee on Water. I was the Vice Chairman and Chairman of the Water
20 Subcommittee. I have been on the Faculty of the NARUC Water Committee's
21 Eastern and Western Utility Rate Schools since 1986. I have also been on the
22 faculty of Michigan State University's "Camp NARUC" program. I was also a
23 member of the American Water Works Associations Rates and Charges
24 Subcommittee and was involved in writing portions of the association's Rate
25 Manuals.

26 I retired from my position at the FPSC in January 2007 and was employed
27 by Utilities, Inc., shortly thereafter.

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1 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS MATTER?

2 A. I am testifying on behalf of Perkins Mountain Water Company ("PMWC") and Perkins
3 Mountain Utility Company ("PMUC") (collectively the "Applicants" or the "Perkins
4 Companies").

5 Q. ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF THE APPLICANTS?

6 A. Yes.

7 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA
8 CORPORATION COMMISSION (THE "COMMISSION")?

9 A. No, I have not.

10 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE UTILITIES COMMISSIONS
11 IN OTHER STATES?

12 A. Yes. As I stated above, I have testified before the FPSC, the Florida Legislature,
13 and before Florida Administrative Law Judges.

14 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

15 A. My testimony will generally discuss the following:

- 16 • UI and its utility operations experience throughout the United States and in
17 Arizona;
- 18 • The reasons behind UI's decision to acquire the Perkins Companies; and
- 19 • The Applicants' positions on the conditions recommended in the March 28, 2008,
20 Staff Report ("Staff Report").

21 Q. WHO ELSE HAS FILED TESTIMONY ON BEHALF OF THE APPLICANTS
22 AND WHAT ARE THE SUBJECT MATTERS OF THAT TESTIMONY?

23 A. Ray Jones of Aricor Water Solutions has filed testimony that discusses the rate and
24 financial information that was filed with the Amended Applications. Mr. Jones also
25 elaborates on Staff's recommendation that at least 50 percent of Applicants' utility plant
26 be financed with equity. Mr. Paul Burris, a Regional Vice President of UI, has filed
27 testimony relating to UI's experience in operating Bermuda Water Company

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1 (“Bermuda”) in Mohave County, Arizona, as well as the operational issues associated
2 with the intended operation of the Perkins Companies.

3 **Q. PLEASE DESCRIBE UTILITIES, INC.**

4 A. UI is a holding company for regulated utilities providing water and waste water
5 service to approximately 311,000 customers through 90 operating subsidiary
6 companies in 17 states. UI’s revenue is split approximately in half between its
7 water and waste water service. Overall, UI has approximately 535 employees. UI
8 is an industry leader in providing reuse of reclaimed water at many of our
9 facilities. Our customer base is primarily residential, representing approximately
10 92% of total utility revenue. UI is one of the largest investor-owned water utilities
11 in the United States on the basis of customers served and investment in plant. UI is
12 committed to providing safe, reliable, and cost-effective service to our customers.

13 UI provides a safe, challenging, and enjoyable work environment for our
14 employees and strives to provide a fair return for our shareholders. Our
15 underlying commitment is to act with integrity at all times, protect the
16 environment, and enhance the communities we serve. It is the Company’s vision
17 to retain and grow our position as a leading investor-owned water and waste water
18 utility in the United States.

19 UI was founded in 1965, and, in the early years of its existence, focused on
20 water and waste water acquisitions and utility formations in the Midwest. During
21 the 1970s, UI expanded its operations into high growth areas in the southeast. By
22 the 1980s, UI had sufficient growth in size to where it was able to successfully
23 pursue large, multi-state acquisitions. Many systems were acquired that needed
24 significant facility improvements to comply with environmental requirements.

25 UI’s corporate headquarters is located in Northbrook, Illinois, where
26 centralized functions include executive, accounting regulatory, payroll, MIS,
27 billing, and human resources. In addition to the corporate headquarters, there are
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1 regional and divisional offices throughout the Company's service area. The
2 centralized control of a large number of separate companies minimizes duplication
3 of efforts and produces significant economies of scale. In turn, these efficiencies
4 directly benefit customers through reduced operating costs and reduced cost of
5 capital through economies of scale.

6 **Q. IN YOUR CURRENT POSITION WITH UI, WHAT ARE YOUR DUTIES AND**
7 **RESPONSIBILITIES?**

8 A. As UI's Director of Governmental Affairs, it is my responsibility to serve as the
9 Company liaison between Company personnel and the individual state regulatory
10 agency staffs. I attend state commission public meetings when possible and
11 participate on behalf of the Company. I provide expert witness testimony on
12 behalf of the Company at state commission hearings. I monitor state agency
13 rulemaking proceedings and monitor state legislative matters as they relate to our
14 Company. I monitor and attend all of the NARUC meetings, as well as the
15 NARUC regional conferences. I coordinate any requested presentations from our
16 Company at these meetings. I coordinate UI's participation in industry
17 organizations such as the National Association of Water Companies and monitor
18 Federal Government activities involving the USEPA and Congress as they relate
19 to our industry and the Company. I also provide regulatory training to UI
20 employees.

21 **Q. WHAT IS THE RELATIONSHIP BETWEEN UI AND THE APPLICANTS?**

22 A. UI is the parent company of the Applicants as the Company owns 100 percent of the
23 stock.

24 **Q. WHAT ARE AND WILL BE YOUR RESPONSIBILITIES WITH RESPECT TO**
25 **THE APPLICANTS?**

26 A. As the Director of Government Affairs for Utilities, Inc., I will be the regulatory liaison
27 between the Applicants and the Commission, as well as other regulatory agencies in the
28 State of Arizona.

1 **Q. WHAT OTHER WATER OR WASTE WATER COMPANIES DOES UI**
2 **CURRENTLY OWN IN ARIZONA?**

3 A. In Arizona, Utilities, Inc., owns Bermuda. Bermuda provides water service to
4 approximately 7,900 customers south of Bullhead City in Mohave County,
5 Arizona, and has approximately \$12 million in gross plant. As indicated in the
6 Staff Report, Bermuda had no Arizona Department of Environmental Quality
7 deficiencies, and the system is currently delivering water that meets the water
8 quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
9 In his direct testimony, Paul Burriss provides additional information about
10 Bermuda.

11 **Q. WHEN AND HOW DID UI ACQUIRE BERMUDA?**

12 A. UI acquired Bermuda in 1999 through a stock acquisition.

13 **Q. DOES UI ANTICIPATE ACQUIRING OTHER UTILITIES IN ARIZONA**

14 A. While UI has no immediate plans to acquire any other utilities in Arizona, it would not
15 discount that possibility should an appropriate opportunity arise in the future.

16 **Q. WHERE ELSE IN THE UNITED STATES DOES UI OWN AND OPERATE**
17 **WATER OR WASTE WATER COMPANIES?**

18 A. UI currently owns and operates 90 utilities in 17 states. A copy of the organizational
19 chart for UI and its subsidiaries was provided to Staff and attached to the Staff Report as
20 Attachment M. I have also attached as Exhibit JDW-1 to my testimony, an updated
21 version of the organizational chart as of April 11, 2008.

22 **Q. HAVE THERE BEEN ANY FORMAL COMPLAINTS FILED WITH THE**
23 **COMMISSION AGAINST BERMUDA IN THE LAST THREE YEARS?**

24 No. Although as indicated in Attachment G to the Staff Report, there have been several
25 inquiries/informal complaints that have since been resolved and closed, there have been
26 no formal complaints filed against Bermuda during the same three year period and there
27 are no outstanding Commission compliance issues.

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1 Q. **HAVE THERE BEEN ANY FORMAL COMPLAINTS FILED AGAINST ANY OF**
2 **UI'S OPERATING UTILITIES IN THE LAST THREE YEARS?**

3 A. Yes. Since January 2005, there have been only seven (7) formal complaints filed against
4 UI-owned operating utilities in three (3) states. Considering that UI owns and operates
5 90 utilities in 17 states, we are very proud that we have been able to resolve most issues
6 before they reach a formal complaint stage. Attached to my testimony is Exhibit JDW-2
7 that summarizes the seven complaints referred to above.

8 Q. **WHY DID UI DECIDE TO ACQUIRE THE PERKINS COMPANIES FROM**
9 **RHODES HOMES ARIZONA ("RHODES HOMES")?**

10 A. As one of the largest investor-owned water and waste water providers in the United
11 States, UI continues to look for opportunities to grow its business to provide reliable,
12 cost-effective service to its customers. As discussed above, UI already has a presence in
13 Arizona and in Mohave County through its successful ownership and operation of
14 Bermuda. The proposed master planned developments for Golden Valley South and the
15 Villages at White Hills presented a unique and exciting opportunity for UI to expand its
16 service in Mohave County through the acquisition of the Perkins Companies from Rhodes
17 Homes.

18 Q. **WHY DID UTILITIES, INC., AND RHODES HOMES CHOOSE A STOCK**
19 **PURCHASE, RATHER THAN AN ASSET TRANSFER, AS THE MEANS OF**
20 **TRANSFERRING THE PERKINS COMPANIES TO UTILITIES, INC.?**

21 A. Although I cannot speak for Rhodes Homes, there were discussions with Rhodes Homes
22 regarding the form of acquisition of the Perkins Companies. Because Perkins had no
23 assets to transfer, a simple stock transfer seemed the logical, expedient, and most cost-
24 effective way for UI to acquire Perkins Companies and move forward with the Certificate
25 of Convenience and Necessity ("CC&N") applications.

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1 Q. DO YOU KNOW IF RHODES HOMES OR THE PERKINS COMPANIES
2 APPROACHED OTHER ENTITIES TO PROVIDE SERVICE TO THE
3 PROPOSED SERVICE AREA AND IF SO, WHAT WERE THERE RESPONSE?

4 A. As I said above, I cannot speak for Rhodes Homes, however UI was told that Rhodes
5 Homes had confidential discussions with other Arizona certificated water and/or waste
6 water companies to provide service to the Mohave County project. Although we are not
7 privy to the specific reasons why Rhodes Homes chose UI over another provider, we are
8 aware that the factors that Rhodes Homes was considering included the economics of the
9 transaction, an integrated water and waste water provider, and the ability of the utility to
10 meet Rhodes Homes' timetable in order to move forward with the project once the
11 Commission issued a CC&N.

12 Q. PLEASE DESCRIBE UI'S FINANCIAL CAPABILITY TO PROVIDE SERVICE
13 IN THE STATE OF ARIZONA AND IN THE PROPOSED SERVICE AREA.

14 A. UI provided to Staff confidential financial information pursuant to the terms of the
15 August 11, 2006, Protective Agreement. As indicated in the Staff Report, following its
16 review of the financial information, Staff concluded that UI has substantial assets and net
17 income and has adequate financial capability to provide the requested service. Moreover,
18 UI's auditors have issued an unqualified opinion on our financial statements.

19 Q. HAVE YOU REVIEWED THE VARIOUS STAFF RECOMMENDATIONS
20 CONTAINED IN THE STAFF REPORT WITH RESPECT TO THE APPROVAL
21 OF THE CC&N FOR THE PERKINS COMPANIES?

22 A. Yes, I have.

23 Q. WHAT IS APPLICANTS' POSITION REGARDING THE STAFF
24 RECOMMENDATIONS?

25 A. With the exception of the recommendation for the Applicants to achieve 50 percent
26 equity as part of their capital structure discussed below, the Applicants will agree to
27 comply with all of the conditions recommended by Staff.

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Q. AS PART OF THE NOVEMBER 30, 2007, AMENDED APPLICATION FOR THE PERKINS COMPANIES, APPLICANTS STATED THAT STAFF'S PROPOSED REQUIREMENT THAT THE PERKINS COMPANIES FINANCE AT LEAST 50 PERCENT OF ITS PLANT WITH EQUITY WAS NO LONGER NECESSARY. PLEASE EXPLAIN THE BASIS FOR THIS POSITION?

A. Prior to UI's acquisition of the Perkins Companies, Staff had recommended that at least 50 percent of the Perkins Companies' utility plant be financed with equity. Staff made this recommendation because the Perkins Companies were new utilities where the developer-owner had no prior utility operating experience. Staff stated that the requirement would insure that the Perkins Companies were substantially financed by the owner and would have significant investment at risk. The new owner of the Perkins Companies, UI, is a large national utility holding company with existing operations in Arizona. Accordingly, the mandate for a minimum equity investment is no longer necessary. Consistent with Staff's desire, the Perkins Companies will finance its utility plant with a significant equity investment projected to total \$12.4 million by Year-5 and approximately \$140 million by Year-20. The Perkins Companies investment has been structured to match utility investment with customer and revenue growth. This structure provides a sound financial base for the Applicants and protects customers by placing utility investment at risk *only* after each customer has begun taking service.

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1 Q. THE STAFF REPORT RECOMMENDS THAT THE APPROVAL OF THE
2 CC&N BE MADE CONDITIONAL UPON THE PERKINS COMPANIES
3 FINANCING AT LEAST 50 PERCENT OF THEIR UTILITY PLANT WITH
4 EQUITY. IN YOUR EARLIER RESPONSE, YOU INDICATED THIS WAS THE
5 ONLY CONDITION THAT THE APPLICANTS COULD NOT AGREE TO.
6 WHAT IS THE APPLICANTS' POSITION ON THAT RECOMMENDATION?

7 A. The Perkins Companies believe the recommendation should be rejected. As more
8 fully discussed in Mr. Jones' testimony, the Perkins Companies are subsidiaries of
9 UI, a large national public utility holding company with existing operations in
10 Arizona. As such, the Perkins Companies are not "new" utilities and are well
11 positioned to fund future capital needs on terms favorable to its customers.
12 Second, the Perkins Companies will make a substantial investment in utility plant,
13 projected to be approximately \$140 million by Year-20 of development. The
14 Perkins Companies believe their investment is sufficient to insure that quality
15 plant is installed and properly maintained and that operating expenses and capital
16 improvement can be funded without steep increases in customer rates. Third,
17 adopting Staff's recommendation shifts development risk, which is more
18 appropriately borne by the Developer, to the Perkins Companies and their
19 customers. This shifting of risk exposes customers to potentially steep rate
20 increases to fund investment in utility plant operating below its design capacity.

21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

22 A. Yes. Thank you very much.

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Exhibit JDW-1

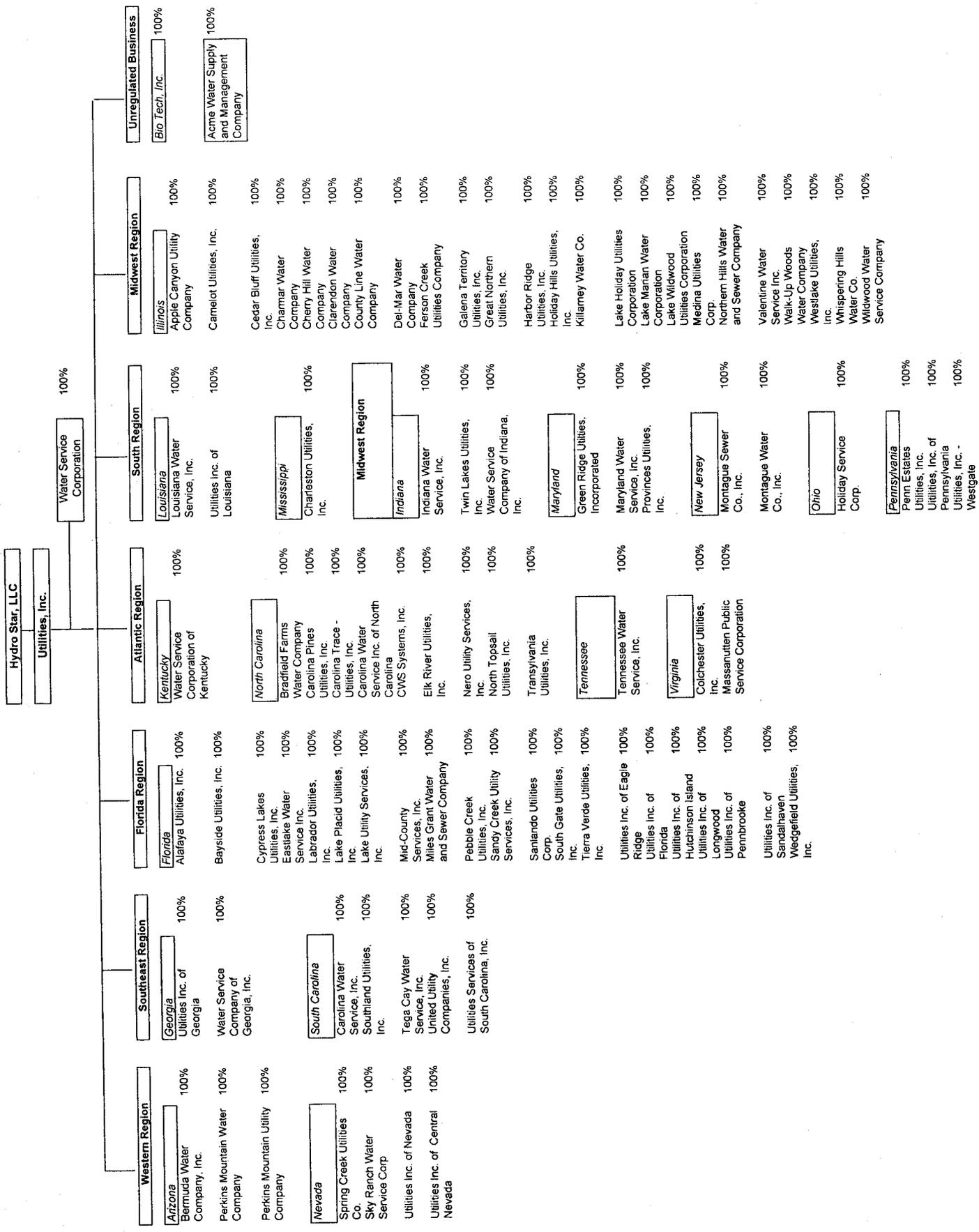


Exhibit JDW-2

Utilities, Inc.
Summary of Formal Public Utility
Commission Complaints by State
for the Period January 1, 2005 through March 25, 2008

State	Company Name	Total
AZ	Bermuda Water Co.	0
FL	Alafaya Utilities, Inc.	0
	Bayside Utility Services, Inc.	0
	Cypress Lakes Utilities, Inc.	0
	Eastlake Water Service Inc.	0
	Hutchinson Island Irrigation Company	0
	Labrador Utilities, Inc.	0
	Lake Placid Utilities, Inc.	0
	Lake Utility Services, Inc.	0
	Mid County Services, Inc.	0
	Miles Grant Water & Sewer Co.	0
	Pebble Creek Utilities, Inc.	0
	Sandy Creek Utility Services, Inc.	0
	Sanlando Utilities, Inc.	0
	South Gate Utilities, Inc.	0
	Tierra Verde Utilities, Inc.	0
	Utilities Inc. of Eagle Ridge	0
	Utilities Inc. of Florida	0
	Utilities Inc. of Hutchinson Island	0
	Utilities Inc. of Longwood	0
	Utilities Inc. of Pennbrooke	0
	Utilities Inc. of Sandalhaven	0
	Wedgfield Utilities, Inc.	0
GA	Utilities Inc. of Georgia	0
	Water Service Co. of Georgia	0
IL	Apple Canyon Utility Co.	0
	Camelot Utilities, Inc.	0
	Cedar Bluff Utilities, Inc.	0
	Charmar Water Co.	0
	Cherry Hill Water Co.	0
	Clarendon Water Co.	0
	County Line Water Co.	0
	Del Mar Water Co.	0
	Ferson Creek Utilities, Inc.	0
	Galena Territory Utilities, Inc.	0
	Great Northern Utilities, Inc.	0
	Harbor Ridge Utilities, Inc.	0
	Holiday Hills Utilities, Inc.	0
	Killarney Water Co.	0
	Lake Holiday Utilities Corp.	0
	Lake Marian Water Corp.	0
	Lake Wildwood Utilities Corp.	0
	Medina Utilities Corp.	0
	Northern Hills	0

State	Company Name	Total
	Valentine	0
	Walk Up Woods	0
	Westlake	0
	Whispering Hills	0
	Wildwood	0
IN	Indiana Water Service, Inc.	0
	Twin Lakes Utilities, Inc.	0
	Water Service Co. of Indiana, inc.	0
KY	Water Service Corp. of Kentucky	0
LA	Louisiana Water Service, Inc.	0
	Utilities Inc. of Louisiana	0
MD	Green Ridge Utilities, Inc.	0
	Maryland Water Service Corp.	0
	Provinces Utilities, Inc.	0
	UI of Maryland (Sold 12/2006)	0
MS	Charleston Utilities, Inc.	0
NC	Bradfield Farms Water Co.	0
	Carolina Pines Utilities, Inc.	0
	Carolina Trace Utilities, Inc.	0
	Carolina Water Service Inc. of North Carolina	1
	CWS Systems, Inc.	0
	Elk River Utilities, Inc.	0
	Nero Utility Services, Inc.	0
	North Topsail Utilities, Inc.	0
	Transylvania Utilities, Inc.	1
NJ	Montague Sewer Company	0
	Montague Water Company	0
NV	Sky Ranch Water Service Corp	0
	Spring Creek Utilities Corp.	0
	Utilities Inc. of Central Nevada	3
	Utilities Inc. of Nevada	0
OH	Holiday Service	0
PA	Penn Estates	0
	UI of Pennsylvania	0
	Utilities, Inc.- Westgate	0
SC	Carolina Water Service, Inc.	2
	South Carolina Utilities, Inc.	0
	Southland Utilities, Inc.	0
	Tega Cay Water Service, Inc.	0
	United Utility Companies, Inc.	0
	Utilities Services of SC	0
TN	Tennessee Water Service	0
VA	Colchester	0
	Massanutten Public Service Corp.	0
Grand Total		7

**NORTH CAROLINA
PUC FORMAL COMPLAINTS (1/1/05 – 3/25/08)**

Docket No.	Utility	Date Complaint Filed	Description/Nature of Complaint	Date of Disposition	Final Resolution/Status
W-354 Sub 279	Carolina Water Service Inc. of North Carolina	8/14/2004	Complainant alleged that utility did not supply adequate water quantity or quality to the RiverPointe community and had done little to correct the problem.	Order Held in Abeyance as of 11/6/06	The utility has taken steps to resolve the issues including installation of two 25,000 gallon water storage tanks, drilled several prospective wells, sought restrictions on water use to encourage conservation, secured an emergency interconnection with a local municipality (CMU) and engaged in negotiations for a permanent interconnection or a system transfer to CMU. The Commission ordered that the matter be held in abeyance and that the utility shall continue its efforts to supplement the supply of water and address water quality issues.
W-1012, Sub 9	Transylvania Utilities, Inc.	1/10/2008	Complainant asserted that there are occasional water pressure surges in his water line that has resulted in two ruptures.	3/3/2008	Commission denied Complainant's request for hearing and ordered Staff to further investigate the matter and file a report in 30 days to include recommendations on how the Commission should proceed.

**NEVADA
PUC FORMAL COMPLAINTS (1/1/05 – 3/25/08)**

Docket No.	Utility	Date Complaint Filed	Description/Nature of Complaint	Date of Disposition	Final Resolution/Status
05-5019	Utilities, Inc. of Central Nevada	5/20/2005	Complainants alleged that utility was obligated to provide water and sewer	11/15/2005	Matter resolved through Settlement Agreement and Stipulation between the parties. The Commission approved the Stipulation and dismissed the complaint.

NEVADA CONT'D.

Docket No.	Utility	Date Complaint Filed	Description/Nature of Complaint	Date of Disposition	Final Resolution/Status
05-5020	Utilities, Inc. of Central Nevada	5/20/2005	Complainant alleged that utility was obligated to provide water and sewer services to two planned unit developments.	11/15/2005	Matter consolidated with above matter. See above.
06-4019	Utilities, Inc. of Central Nevada	4/14/2006	Complainant sought interpretation of a prior Commission approved Stipulation alleging that the utility engaged in practices delaying water service commitments.	11/17/2006	Matter resolved through a Stipulation to Settle the Docket entered into between the parties. Commission accepted the Stipulation and dismissed the complaint.

SOUTH CAROLINA

PUC FORMAL COMPLAINTS (1/1/05 – 3/25/08)

Docket No.	Utility	Date Complaint Filed	Description/Nature of Complaint	Date of Disposition	Final Resolution/Status
2007-294-WS 2007-764-WS	Carolina Water Service, Inc. of South Carolina	8/10/2007	Complainant alleged that the utility violated various South Carolina codes and requested revocation of the utility's certificate of service.	11/19/2007	Commission granted the utility's motion to dismiss the complaint on multiple grounds.
2005-391-WS	Carolina Water Service, Inc. of South Carolina	12/5/2005	Complainant alleged various problems relating to his account.	2/14/2006	Case was resolved between the parties with the Commission issuing a Stipulation of Dismissal with Prejudice. Parties stipulated that insofar as the matters alleged in the complaint, there is no act or thing that has been done or omitted to be done by the utility for which a complaint may be brought.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON – Chairman
WILLIAM A. MUNDELL
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IN THE MATTER OF THE
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DOCKET NO. W-20380A-05-0490

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MOHAVE COUNTY.

DOCKET NO. SW-20379A-05-0489

**PRE-FILED DIRECT TESTIMONY OF RAY L. JONES
ON BEHALF OF PERKINS MOUNTAIN WATER COMPANY
AND PERKINS MOUNTAIN UTILITY COMPANY**

APRIL 14, 2008

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

3 A. My name is Ray L. Jones, and my business address is 25213 N. 49th Drive, Phoenix,
4 Arizona 85083. My business phone is 623-341-4771.

5 Q. IN WHAT CAPACITY AND BY WHO ARE YOU EMPLOYED?

6 A. I am the Principal of ARICOR Water Solutions LC ("ARICOR"), a consulting firm
7 providing planning, engineering, and regulatory support services.

8 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK
9 EXPERIENCE.

10 A. I have a Bachelor of Science in Civil Engineering from the University of Kansas and a
11 Master of Business Administration from Arizona State University. I am a Registered
12 Professional Engineer in Arizona and California. I am also a certified Grade 3 operator in
13 Arizona for Wastewater Treatment, Wastewater Collection, Water Treatment, and Water
14 Distribution.

15 I formed ARICOR in 2004. Before forming ARICOR, I was President of Arizona-
16 American Water Company from 2002-2004. From 1998-2002, I was Vice President and
17 General Manager for various subsidiary companies and divisions of Citizens Utilities
18 Company ("Citizens"), providing water and wastewater services in Arizona. Before that,
19 from 1990-1998, I was Engineering and Development Services Manager for Citizens.
20 Before that, from 1985-1990, I was a civil engineer for Citizens.

21 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS MATTER?

22 A. I am testifying on behalf of Perkins Mountain Water Company ("PMWC") and Perkins
23 Mountain Utility Company ("PMUC") (collectively the "Applicants" or the "Perkins
24 Companies").

25 Q. ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF THE APPLICANTS?

26 A. Yes.

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1 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA
2 CORPORATION COMMISSION (THE "COMMISSION")?

3 A. Yes. I have testified in numerous matters before Commission.

4 Q. WHAT IS YOUR RELATIONSHIP WITH THE APPLICANTS?

5 A. ARICOR has been retained by the Applicants to provide consulting services and
6 testimony in support of its application to obtain initial certificates of convenience and
7 necessity for proposed water and wastewater service areas in Mohave County, Arizona.

8 Q. DID YOU PREPARE THE UPDATED FINANCIAL AND RATE SCHEDULES
9 THAT WERE SUBMITTED TO THE COMMISSION AS EXHIBIT E TO THE
10 APPLICANTS NOVEMBER 30, 2007, AMENDED APPLICATION FOR A
11 CERTIFICATE OF CONVENIENCE AND NECESSITY?

12 A. Yes, I did.

13 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

14 A. The primary purpose of my testimony is to:
15 ♦ Describe how the Perkins Companies water and wastewater infrastructure will be
16 developed and financed;
17 ♦ Discuss the similarities and differences between the proposed developments and
18 the master-planned community known as Anthem; and
19 ♦ Discuss the Applicants' objection to the Staff recommendation that the Perkins
20 Companies finance a minimum of 50-percent of their plant with equity.

21 Q. PLEASE DESCRIBE HOW THE APPLICANTS WILL DEVELOP THE WATER
22 AND WASTEWATER INFRASTRUCTURE REQUIRED FOR THE GOLDEN
23 VALLEY SOUTH AND THE VILLAGES AT WHITE HILLS MASTER
24 PLANNED COMMUNITIES?

25 A. The Perkins Companies will enter into master agreements for both water and wastewater
26 infrastructure ("Master Agreements") with the developer of the master planned
27 communities, Rhodes Homes Arizona, L.L.C. (the "Developer"). The Master
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1 Agreements will require the following general steps be followed in the development of
2 the water and wastewater infrastructure for Golden Valley South¹ and The Villages at
3 White Hills:

- 4 1. The Developer will prepare water and wastewater master plans for both Golden
5 Valley South and The Villages at White Hills in accordance with standards
6 established by the Perkins Companies.
- 7 2. The Perkins Companies will approve the water and wastewater master plans.
- 8 3. The Developer will design the water and wastewater infrastructure in phases as
9 detailed in the approved water and wastewater master plans and in accordance with
10 standards established by the Perkins Companies.
- 11 4. The Perkins Companies will approve each set of water and wastewater construction
12 plans.
- 13 5. The Developer will obtain all required government approvals and permits, including
14 Approval to Construct from the Arizona Department of Environmental Quality
15 (“ADEQ”) for each set of water and wastewater construction plans.
- 16 6. The Developer will construct and install the water and wastewater facilities in
17 accordance with the approved construction plans.
- 18 7. The Perkins Companies will inspect construction to verify all construction is in
19 accordance with its construction standards and specifications.
- 20 8. The Developer will obtain all required governmental approvals of completed
21 construction, including Approval of Construction from the ADEQ.
- 22 9. The Developer will convey to the Perkins Companies all property and easements
23 necessary for ownership and operation of the water and wastewater facilities.
- 24 10. The Developer will warrant construction of the water and wastewater facilities for a
25 period of one year from the later of the date the facility is placed into service or the
26 date the facility is conveyed to the Perkins Companies.

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28 ¹ Golden Valley South is also referred to as Pravada.

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11. The Perkins Companies will own, operate, maintain, repair, and replace the water and wastewater facilities.

Q. IS THIS PROCESS OF DEVELOPING WATER AND WASTEWATER INFRASTRUCTURE TYPICAL FOR OTHER MASTER PLANNED COMMUNITIES?

A. Yes, the process adopted by the Perkins Companies for Golden Valley South and The Villages at White Hills is consistent with that used by many other private utilities and municipalities in Arizona.

Q. CAN YOU PROVIDE A FEW EXAMPLES?

A. Yes. Arizona American Water Company and its predecessor in Arizona, Citizens Utilities Company, have used this general process for decades. The master planned communities of Sun City, Sun City West, Sun Village, Sun City Grand, Arizona Traditions, Happy Trails, Surprise Farms, Sierra Montana, Anthem, Verrado, and other smaller projects were developed using similar development processes. Beardsley Water Company is using a similar process for the Austin Ranch community. West End Water Company is using a similar process for the Walden Ranch community. The City of Surprise and the Town of Buckeye use a similar process for development of their municipal systems.

Q. IF THE DEVELOPER IS PROVIDING THE INFRASTRUCTURE, HOW WILL THE PERKINS COMPANIES INVEST IN THE SYSTEM?

A. The Developer is providing the water and wastewater facilities as an advance in aid of construction. As such, the cost of the infrastructure will be subject to refund by the Perkins Companies. All amounts refunded by the Perkins Companies will be an investment by the Perkins Companies and be included in the rate base of each company.

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1 Q. **WHY ARE THE PERKINS COMPANIES USING REFUNDS AS A METHOD OF**
2 **INVESTMENT?**

3 A. The Perkins Companies believe that providing utility services to any large master planned
4 development is associated with certain risks that can negatively impact a water and
5 wastewater utility and its customers. One risk is housing market fluctuations and other
6 factors that affect a developer's ability to sell homes. When a developer is unable to sell
7 homes as quickly as planned, the utility is negatively impacted. Through carefully
8 structuring the utility's investment to match customer growth, a significant portion of the
9 negative impact can be avoided.

10 For example, backbone utility plant for a master planned community is commonly
11 designed to meet the long-term needs of the development. As the customer base is
12 connected and water and wastewater demands increase, the utilized capacity grows to
13 ultimately reach the design capacity of the backbone facilities. If a utility, such as the
14 Perkins Companies, invests in backbone facilities before the homes are sold and the
15 customers actually begin generating revenues, the investment per customer for backbone
16 utility plant will be high initially and decrease as each customer connects. If customer
17 growth does not meet expectations, there will be an unexpectedly high level of utility
18 investment in backbone facilities that are operating below their design capacities. This
19 high level of investment will in turn drive potentially steep increases in customer rates to
20 support the higher than expected investment.

21 By investing through refunds of a fixed amount per connected unit, the Perkins
22 Companies will link their investment level with customer and revenue growth and plant
23 utilization, insuring a relatively constant investment per customer regardless of customer
24 growth patterns. This will protect the Perkins Companies and their customers from a
25 housing market risk that is more appropriately borne by the Developer.

26 Q. **IS THIS A COMMON PRACTICE IN ARIZONA?**

27 A. Yes, it is.

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Q. WHAT ARE THE REFUNDING PROVISIONS?

A. The Perkins entities will refund \$4,300 for each residential dwelling Unit² to the Developer. The first payment will be made within 90 days following the connection of the 1,000th Unit in each master planned community. Thereafter, payments will be made semi-annually.

Q. WHAT IS THE TOTAL PROJECTED REFUND TO BE MADE BY THE PERKINS COMPANIES?

A. As shown on the 20-Year Key Data Summary in Revised Exhibit E to the Application, refunds are projected to equal \$69,629,082 and \$69,627,750 for water and wastewater, respectively, for a total of \$139,256,832.

Q. HOW DO THESE NUMBERS COMPARE TO THE PROJECTED TOTAL COST OF THE INFRASTRUCTURE FOR THE PROJECT?

A. The refunds represent a very substantial 67% and 56% of the projected total cost of water and wastewater utility plant construction, respectively, at Year-20 of operation.

Q. ARE YOU FAMILIAR WITH THE AGREEMENT BETWEEN ARIZONA AMERICAN WATER COMPANY AND PULTE/DEL WEBB FOR DEVELOPMENT OF WATER AND WASTEWATER INFRASTRUCTURE AT ANTHEM ("ANTHEM AGREEMENT")?

A. Yes, I was the Engineering and Development Services Manager for Citizens during the time in which the Anthem Agreement was negotiated and I was responsible to administer the Anthem Agreement after execution.

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² Unit is defined as a single family detached home. A condominium, townhome, patio home, apartment, or similar attached structure shall be counted as 0.75 of a Unit.

1 Q. PLEASE DISCUSS THE SIMILARITIES AND DIFFERENCES BETWEEN THE
2 ANTHEM AGREEMENT AND THE AGREEMENT BETWEEN THE PERKINS
3 COMPANIES AND THE DEVELOPER WITH RESPECT TO
4 INFRASTRUCTURE DEVELOPMENT?

5 A. As previously mentioned, certain aspects of the development of infrastructure at Golden
6 Valley South and The Villages at White Hills is similar to Anthem. Under the Anthem
7 Agreement, the Developer was responsible for master planning, permitting, and
8 constructing all of the Phase I facilities. This is similar to how the water and wastewater
9 infrastructure will be developed for the Perkins Companies. Later phase infrastructure at
10 Anthem was designed and constructed by Citizens, but paid for by Pulte/Del Webb,
11 departing slightly from the planned infrastructure development for the Perkins
12 Companies.

13 Q. WAS THE METHOD FOR UTILITY INVESTMENT AT ANTHEM SIMILAR TO
14 THE REFUND METHOD TO BE USED BY THE PERKINS COMPANIES?

15 A. While both the Anthem project and the Perkins Companies use refunds as a means of
16 utility investment, the terms of the refunds and other developer participation are
17 significantly different, creating significantly less developer risk for the Perkins
18 Companies, and their customers, as compared to the Anthem utility and its customers.

19 Q. PLEASE ELABORATE?

20 A. There are several aspects of the Perkins Companies' financial interaction with the
21 Developer that are materially different than the process followed at Anthem. They are:
22 1. At Anthem, the developer provided a revenue subsidy to the utility for ten years,
23 reducing the revenue requirement for the utility.
24 2. At Anthem, the utility was required to refund 100% of the common/backbone plant
25 costs.

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1 3. The Anthem refund per unit started low and retroactively increased over time with
2 any remaining balance being due, in the form of a true-up payment, at build-out of
3 Anthem.

4 The provisions of the Anthem Agreement discussed above tended to reduce the
5 revenue requirement for the utility during the early years of the project and increase
6 the revenue requirement in the later years. This resulted in a business model that
7 required significant rate increases as the community grew. Additionally, due to the
8 100% refund provision, all inflationary, regulatory, and other risk affecting
9 construction costs ultimately rested with the utility, since the actual cost of facilities
10 construction, no matter how large, will become rate base once build out is reached
11 and the true up payment is made.

12 **Q. WHAT HAS BEEN THE RESULT OF THE ANTHEM AGREEMENT**
13 **PROVISIONS DISCUSSED ABOVE ON RATES AT ANTHEM?**

14 A. The utility has requested significant rate increases and projects additional significant
15 increases in the future.

16 **Q. HOW DOES THE PERKINS COMPAINES' INVESTMENT IN UTILITY PLANT**
17 **COMPARE TO THE UTILITY INVESTMENT AT ANTHEM?**

18 A. The Perkins Companies have structured their refunds to avoid the upward pressure on
19 rates experienced at Anthem. Unlike Anthem, the Perkins Companies are refunding a
20 fixed amount, \$4,300 per Unit, from the first unit through build out. As each refund is
21 made, the amount becomes part of rate base, resulting in a constant investment of \$4,300
22 per Unit, rather than the increasing investment per customer at Anthem. This allows
23 initial rates to more accurately reflect ongoing capital investment and insures that
24 variation in customer growth does not increase investment per customer and cause
25 upward rate pressure. Additionally, the Perkins Companies do not receive any revenue
26 subsidy from the Developer. This allows initial rates to better reflect expected ongoing
27 costs of operation, eliminating another upward pressure on rates. Lastly, there is no
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requirement to refund a specific percentage of construction costs. This means that all risk of increased construction cost due to inflation, increased regulatory requirements, or other factors reside with Developer, rather than the Perkins Companies and their customers. On balance, the Perkins Companies' investment strategy significantly mitigates the risk of large rate increases in the future, as compared to Anthem.

Q. HAVE YOU REVIEWED THE AMENDED STAFF REPORT DATED MARCH 28, 2008?

A Yes, I have.

Q. DO THE PERKINS COMPANIES HAVE ANY OBJECTIONS TO ANY OF THE RECOMMENDATIONS SET FORTH IN THE AMENDEDED STAFF REPORT?

A. Yes. The Perkins Companies object to the recommendation that the Perkins Companies finance a minimum of 50-percent of their plant with equity.

Q. WHAT IS THE BASIS FOR STAFF'S MINIMUM EQUITY RECOMMENDATION?

A. Staff has provided several justifications for their recommendation. In the Addendum to Staff Report dated December 15, 2006, Staff states that the 50-percent equity is recommended because the Perkins Companies are "new utilities with no prior operating experience." Staff also cites a need "to insure that the Utilities are substantially financed by the owner and that the owner has a significant investment at risk." In the most recent Amended Staff Report, Staff provides additional justification. They state that "undercapitalized investor-owned utilities may result in rate bases that are too small to generate enough revenue to pay for operating expenses and fund capital improvements without steep increases in customer rates." Additionally, Staff states that their recommendation "motivates the utility owners to protect their investment by applying proper maintenance and installing quality plant, furthering the public interest."

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1 Q. DO YOU AGREE WITH STAFF'S ANALYSIS OF THE BENEFITS OF A
2 MINIMUM LEVEL OF EQUITY INVESTMENT?

3 A. I generally agree that equity investment by an investor-owned utility will provide the
4 benefits cited by Staff in support of their recommendation. I also believe that equity
5 investment increases in importance for developer-owned companies and small
6 companies. I do not agree, however, that Staff has provided sufficient analysis to justify
7 the 50-percent level recommended in this particular case for this particular provider.

8 Q. PLEASE EXPLAIN?

9 A. Due to the acquisition of the Perkins Companies by Utilities, Inc., their situation has
10 changed since the original Staff recommendation in December 2006. They are no longer
11 new utilities without operating experience. Rather, they are part of Utilities, Inc., a well
12 capitalized group of investor-owned companies, with significant operating experience
13 throughout the country and here in Arizona. Utilities, Inc., proposes to make a very
14 significant equity investment of \$4,300 per Unit in the Perkins Companies. This
15 investment is estimated to total \$12.4 million by Year-5 and approximately \$140 million
16 by Year-20. This high level of investment results in a significant rate base that will allow
17 the Perkins Companies to meet operating expense obligations and fund capital
18 improvements without placing undue upward pressure on customer rates. It is certainly
19 sufficient to insure that the Perkins Companies will have a vested interest in installing
20 quality plant and properly maintaining the plant once installed.

21 Q. HAVE THE PERKINS ENTITIES PROVIDED A LONG-TERM PROJECTION
22 OF UTILITY INVESTMENT.

23 A. A 20-Year Key Data Summary was provided along with the required schedules projecting
24 5 years of financial data.

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1 Q. **COULD YOU SUMMARIZE THE UTILITY INVESTMENT OVER THE LONG-**
2 **TERM PROPOSED FOR THE PERKINS COMPANIES?**

3 A. The rate base to net plant ratio for the companies is projected to reach 32.9% and 33.8%
4 for water and wastewater, respectively by Year-5. Over the long-term, the ratio increases
5 to approximately 60% and 50% for the water and wastewater, respectively.

6 Q. **WHY ARE THE RATIOS LOWER IN YEAR-5 THAN OVER THE LONG-**
7 **TERM?**

8 A. Backbone utility plant for a master planned community is commonly designed to meet the
9 long-term needs of the development. Because of this, initial plant construction is
10 relatively expensive on a per-customer basis. As the customer base is connected and
11 water and wastewater demands increase, the utilized capacity grows to ultimately reach
12 the design capacity of the backbone facilities. Over this build-out period, the cost of plant
13 on a per-customer basis decreases. Since the Perkins Companies are proposing to invest
14 at a \$4,300 level per Unit, this represents a smaller portion of the overall plant cost in
15 early years as compared to later years.

16 Q. **WHAT EFFECT WILL MANDATING A MINIMUM LEVEL OF EQUITY**
17 **INVESTMENT HAVE ON RISK AND FUTURE UTILITY RATES?**

18 A. It will shift certain risks from the Developer to the Perkins Companies and their
19 customers. For instance, if inflation or regulatory requirements cause construction costs
20 to increase by 20% over current estimates, the Perkins Companies will have no option but
21 to further increase their refund to the Developer to increase their equity investment in
22 utility plant by 20%. This will in turn drive potentially large increases to customer rates
23 to compensate the Perkins Companies for the increased equity investment. The Perkins
24 Companies believe that these types of inflationary risks are more appropriately borne by
25 the Developer, rather than the Perkins Companies and their customers.

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Q. CAN YOU PROVIDE ANOTHER EXAMPLE OF RISK THAT WOULD BE SHIFTED TO THE PERKINS COMPANIES?

A. Yes. Market risk associated with home sales would also be shifted from the Developer to the Perkins Companies. As is typical of large master planned communities, initially installed backbone utility plant for Golden Valley South and The Villages at White Hills will be designed to meet the long-term needs of the development. The installed capacity for many components of the backbone plant will necessarily be in excess of what is projected to be needed in Year-5. If the Developer has not met growth projections at the end of Year-5, the cost per customer will be more than currently projected. Under Staff's proposed minimum equity model, the Perkins Companies would, despite slow home sales and associated lower revenues, be required to refund to the Developer 50-percent of the cost of the backbone plant, even though the plant is operating well below its design capacity. Staff's proposal, in effect, requires the Perkins Companies to invest in backbone facility capacity before the homes requiring the capacity are sold and occupied.

Under Staff's proposal, if customer growth does not meet expectations, there will be an unexpectedly high level of utility investment in backbone facilities that are operating below their design capacities. This high level of investment will in turn drive potentially steep increases in customer rates to support the higher than expected investment. The Perkins Companies believe that the cost of plant which is not yet operating at its design capacity is more appropriately borne by the Developer, rather than the Perkins Companies and their customers.

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1 Q. IF STAFF'S RECOMMENDATION REQUIRING THE PERKINS COMPANIES
2 TO FINANCE A MINIMUM OF 50-PERCENT OF THEIR PLANT WITH EQUITY
3 IS ADOPTED, WHAT ACTION WILL THE APPLICANTS NEED TO TAKE TO
4 ACHIEVE 50-PERCENT EQUITY IN YEAR-5 OF OPERATION?

5 A. The Perkins Companies have only one way to increase their equity investment. They will
6 need to increase the amount of refunds they provide to the Developer, thereby putting
7 more money in the Developer's pocket.

8 Q. HOW MUCH WILL THE REFUNDS NEED TO BE INCREASED TO ACHIEVE
9 THE 50-PERCENT EQUITY REQUIREMENT PROPOSED BY STAFF?

10 A. That amount of increase cannot be accurately predicted. If the growth rate in Golden
11 Valley South and The Villages at White Hills is exactly as predicted in the Perkins
12 Companies application, the refund would need to increase from \$4,300 per Unit to
13 approximately \$6,000 per Unit; an additional \$5,269,716 or 40.4% increase in the amount
14 to be paid to the Developer over the first 5 years of operation. If the growth is slower
15 than projected, the required additional investment will be even larger. If growth exceeds
16 projections, the increase could be more or less than the 40.4% cited above depending
17 upon many factors.

18 Q. WHAT EFFECT WILL STAFF'S PROPOSED INCREASE IN EQUITY HAVE
19 ON RATES?

20 A. Additional equity investment will increase the Perkins Companies rate base and
21 ultimately result in higher rates being needed at the rate case planned for Year-5 of
22 operation.

23 Q. WHY WILL THE INITIAL RATES PROPOSED BY STAFF BE INADEQUATE
24 IN YEAR-5 OF OPERATION?

25 A. Staff has recommended the \$5.27 million of additional equity investment but maintained
26 the rates constant. Staff simply allowed the rate of return on equity to decrease from the
27 Perkins Companies proposed 10.7% and 10.4% for water and wastewater, respectively, to
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1 7.21% and 7.38% for water and wastewater, respectively. In effect, Staff mathematically
2 “backed in” to a new lower rate of return for their proposed increase in equity investment,
3 without actually considering the long-term impact of the additional investment on the
4 Perkins Companies. When the Perkins Companies file the rate case required in Year-5,
5 they will most certainly request and likely receive a return on equity commensurate with
6 the return on equity being awarded other providers, which would almost certainly be
7 higher than the 7.21% and 7.38% contained in the Amended Staff Report.

8 **Q. WHAT IS THE PERKINS COMPAINES' POSITION REGARDING THE STAFF**
9 **RECOMMENDATION OF A MINIMUM OF 50% EQUITY INVESTMENT IN**
10 **UTILITYPLANT?**

11 **A.** The Perkins Companies believe that the recommendation should be rejected for several
12 reasons.

- 13 1. The Perkins Companies are subsidiaries of Utilities, Inc., a large national utility
14 holding company with existing operations in Arizona. As subsidiaries of Utilities,
15 Inc., the Perkins Companies are well capitalized and well positioned to meet
16 operating expense obligations and fund future capital improvements on terms
17 favorable to its customers.
- 18 2. The Perkins Companies proposed refund of \$4,300 per Unit provides a substantial
19 utility investment in the utility plant, projected to be nearly \$140 million by year
20 twenty of development. The Perkins Companies believe this investment is sufficient
21 to give the utilities a vested interest in installing quality plant and properly
22 maintaining the plant once installed.
- 23 3. Staff's proposal inappropriately shifts development risk from the Developer to the
24 Perkins Companies and their customers. This shifting of risk exposes customers to
25 potentially steep rate increases to fund investment in backbone utility plant operating
26 below its design capacity.

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4. The level of utility investment is expected to meet Staff's recommended level of 50-percent over the long term. Should the long-term level of utility investment vary due to unforeseen factors, it is more appropriately addressed in future rate cases, rather than in this proceeding.

5. If the Staff recommendation is adopted, rates will likely need to be increased in Year-5 when the Perkins Companies seek to recover a reasonable return on the additional invested equity.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. Thank you very much.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE
APPLICATION OF PERKINS
MOUNTAIN WATER COMPANY FOR
A CERTIFICATE OF CONVENIENCE
AND NECESSITY IN MOHAVE
COUNTY.

DOCKET NO. W-20380A-05-0490

IN THE MATTER OF THE
APPLICATION OF PERKINS
MOUNTAIN UTILITIES COMPANY
FOR A CERTIFICATE OF
CONVENIENCE AND NECESSITY IN
MOHAVE COUNTY.

DOCKET NO. SW-20379A-05-0489

**PRE-FILED DIRECT TESTIMONY OF PAUL BURRIS
ON BEHALF OF PERKINS MOUNTAIN WATER COMPANY
AND PERKINS MOUNTAIN UTILITY COMPANY**

APRIL 14, 2008

1 **Q. PLEASE STATE YOUR NAME AND EMPLOYER.**

2 A. My name is Paul Burris, and I am employed by Utilities Inc ("UI") as the Regional Vice
3 President for the Midwest and Western Regions, which includes Arizona, Nevada,
4 Illinois, Indiana, Ohio, Maryland, New Jersey, Pennsylvania, and part of Virginia.

5 **Q. PLEASE STATE YOUR BUSINESS ADDRESS.**

6 A. My business address is 1240 E. State Street, Suite 115, Pahrump, Nevada 89048.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
8 **EXPERIENCE.**

9 A. I have been employed by UI since January 9, 2006. Since being hired, I have
10 spent the majority of my time involved in the operation and management of the
11 Nevada systems. I graduated from Governors State University in December 2005
12 with a Master Degree in Public Administration. I have been involved in the
13 operations and management of water and waste water operations for 25 years. I
14 have operated and managed water plants from a single well system up to a
15 120MGD surface water plant. I have managed and operated waste water plants
16 from .034MGD to 1.5MGD. My duties included day-to-day operations decisions
17 on changes related to chemicals, detention times, waste flows, digester
18 management, and air requirements. I was also the Operations Manager for the
19 Lake Pleasant plant in Phoenix, Arizona when I was with American Water, and I
20 assisted in the development of the O & M manual and personnel requirements for
21 that plant. Over the years, I have worked in the water and waste water area in
22 many states, including the UI states listed above, as well as California, Texas, and
23 Washington.

24 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS MATTER?**

25 A. I am testifying on behalf of Perkins Mountain Water Company ("PMWC") and Perkins
26 Mountain Utility Company ("PMUC") (collectively the "Applicants" or the "Perkins
27 Companies").

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1 Q. ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF THE APPLICANTS?

2 A. Yes.

3 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA
4 CORPORATION COMMISSION (THE "COMMISSION")?

5 A. No, I have not.

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

7 A. The purpose of my testimony is to discuss UI's experience in operating Bermuda Water
8 Company ("Bermuda") in Mohave County, Arizona, as well as the operational issues
9 associated with the future operation of the Perkins Companies.

10 Q. PLEASE DESCRIBE UI

11 A. Although more fully described in Mr. Williams' testimony, UI is a holding company
12 for regulated utilities providing water and waste water service to approximately
13 311,000 customers through 90 operating subsidiary companies in 17 states. UI has
14 approximately 535 employees. UI's revenue is split approximately in half
15 between its water and waste water service. UI is an industry leader in providing
16 reuse of reclaimed water at many of our facilities. Our customer base is primarily
17 residential, representing approximately 92% of total utility revenue. UI is one of
18 the largest investor-owned water utilities in the United States on the basis of
19 customers served and investment in plant.

20 Q. IN YOUR CURRENT POSITION WITH UI, WHAT ARE YOUR DUTIES AND
21 RESPONSIBILITIES?

22 A. In my current position, I am responsible for directing the safe, efficient, and
23 profitable operation of the Western and Midwestern Region assets. My duties and
24 responsibilities include the following:

- 25 ♦ Lead operations team to be in compliance with all applicable local, state,
26 and federal regulations
- 27 ♦ Maintain assets in good operating condition

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- ◆ Developing capital plan to meet customer growth and adherence to that plan
- ◆ Margin review analysis to ensure efficient operations
- ◆ Stewardship of legal issues and cases
- ◆ Foster and ensure safe work environment
- ◆ New business development
- ◆ Manage relationships with the community
- ◆ Manage and provide leadership for staff of approximately 100 people
- ◆ Provide information to national headquarters and manage management expectations
- ◆ Stay abreast of local environment and upcoming regulation

Q. WHAT IS THE RELATIONSHIP BETWEEN UI AND THE APPLICANTS?

A. UI is the holding company/parent of the Applicants. UI provides services to all its utility subsidiaries in a manner that consolidates accounting, regulatory, human resource, and management teams. This service allows the operating utilities to provide better service at a lower cost to all customers versus each individual company having its own departments listed above.

Q. WHAT ARE AND WILL BE YOUR RESPONSIBILITIES WITH RESPECT TO THE APPLICANTS?

A. In addition to my Regional Vice President responsibilities listed above, my duties will be to guide and manage UI personnel to assure that the utility infrastructure being conveyed to UI has been installed in compliance with all rules and regulations applicable to the project.

Q. WHAT OTHER UTILITIES DOES UI OWN AND OPERATE IN ARIZONA?

A. UI operates Bermuda which is certificated to provide water service to the southern portion of Bullhead City, most of Fort Mojave Mesa and the northern portion of Mohave Valley, which are located along the Colorado River in Mohave County, Arizona. Bermuda's operational office is centrally located at 4544 Highway 95 in a 4,500 square foot block building completed in 1991. The building contains our office, shop, and work areas.

1 The system spans an area 10 miles north to south and two to four miles east to
 2 west with the certificated area covering all or parts of 24 sections. The southern portion of
 3 the service area resembles a “checker board” due to land ownership of alternating sections
 4 by the Fort Mojave Indian Reservation, the State of Arizona, and the U.S. Department of
 5 the Interior, Bureau of Land Management.

6 Bermuda wholesales water to Citizens Utilities Company in Section 23, T19N,
 7 R22W, to Sunrise Vista Utility in Section 18, T19N, R22W, and to the Fort Mojave Tribal
 8 Utility Authority in Section 14, T18N, R22 W. There is also a tie-in at the Mesquite
 9 Creek subdivision on Boundary Cone Road to wholesale water to the Fort Mojave Tribal
 10 Utility Authority.

11 As of December 31, 2006, Bermuda had 149.6 miles of mains installed. The vast
 12 majority of the main installations have occurred since 1984. Transmission lines are
 13 designed so that water is available to all parts of our system in the event of well or storage
 14 outages.

15 Comparative operating statistics for customer connections and growth for 2003,
 16 2004, 2005, and 2006 are shown in table below.

Customer Demand				
	2003	2004	2005	2006
Year End Connections	5759	6504	7248	7672

21
 22 Bermuda employs the following personnel which hold the following positions with
 23 the Company:

24 Debra Fields	Area Manager
25 Jack Meister	Lead Operator
26 Glenn Kirklin	Operator in Training
27 Tom Tomlinson	Operator

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Ramon Ruiz	Service Technician
Mary Goldsmith	Customer Service Representative
Jennifer Velez	Customer Service Representative

Additionally, Bermuda has on staff the following individuals that hold the following water and/or waste water certifications:

Debra Fields	Grade 3 Water Distributions Grade 3 Water Treatment
Jack Meister	Grade 4 Water Distribution Grade 4 Water Treatment
Tom Tomlinson	Grade 2 Waste water Treatment Grade 1 Waste water Collections

Q. WILL THESE PERSONNEL LISTED ABOVE ALSO BE INVOLVED IN THE OPERATION OF THE PERKINS COMPANIES?

A. Yes. Bermuda is fortunate to have a very capable and competent staff, and it is intended that these individuals will have a significant role in the operation of the Perkins Companies. This will ensure that our customers receive the highest quality of service that we can provide.

Q. WILL EMPLOYEES OF RHODES HOMES, OR ANY AFFILIATES OF THOSE ENTITIES, BE TRANSFERRED TO OR BECOME EMPLOYED BY UI OR HAVE ANY RESPONSIBILITIES OR ROLE IN THE PROPOSED NEW UTILITIES OR IN UI FOLLOWING ANY VOTE BY THE COMMISSION IN THIS MATTER?

A. No.

Q. HAS BERMUDA HAD ANY FORMAL CUSTOMER COMPLAINTS WITHIN THE LAST THREE YEARS THAT HAVE BEEN FILED WITH THE COMMISSION?

A. No. As with all utilities, there have been customer inquiries or informal complaints to the Commission as referenced in Attachment G to the March 28, 2008, Staff Report ("Staff Report") that have been resolved and closed.

1 There is one ongoing matter that is referenced in Attachment H to the Staff Report
2 regarding Sunrise Vistas Utility Company ("Sunrise"). Bermuda sells wholesale water to
3 Sunrise. In 2007, Sunrise installed booster pumps to provide water pressure to the high
4 point of their subdivisions. This installation was completed without the knowledge of
5 Bermuda. Following the installation of the pumps, Bermuda experienced numerous water
6 main breaks on the line that supplies water to Sunrise. After many meetings between
7 representatives of Bermuda and Sunrise, including one meeting where Commission Staff
8 had representatives in attendance, in March 2008, Sunrise completed installation of
9 variable frequency drives on their pumps, and the water main breaks have since decreased.

10 **Q. HOW DOES UI INTEND TO STAFF THE PERKINS COMPANIES?**

11 A. During construction, UI will hire a third-party engineer to oversee the construction on a
12 daily basis. The intent is to have dedicated UI personnel on site by the time the system
13 becomes operational to provide water and waste water services to customers. Back-up
14 personnel will be located in Bullhead City, if needed. Final staffing decisions will be
15 made once the Certificate of Convenience and Necessity is issued and UI and the
16 developer determine the timeline for construction and conveyance of the infrastructure.

17 **Q. HOW WILL CUSTOMER SERVICE BE HANDLED FOR THE PERKINS**
18 **COMPANIES?**

19 A. Initially, customer service calls will be handled by the staff at Bermuda's office in
20 Bullhead City. If a service call is needed, a service order will be created by the customer
21 service representative and electronically sent to the on-site operations personnel at
22 PMWC or PMUC, as needed. As the project grows, UI will consider the need to
23 establish an on-site office.

24 **Q. HOW WILL NEW CUSTOMERS BE ESTABLISHED FOR PMWC AND PMUC?**

25 A. Customers will be asked to call the Customer Service office in Bullhead City to speak
26 with a customer service representative to set up a new account. Once the account is
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established, a service order will be generated so that service is initiated for the new customer in a timely manner.

Q. HOW WILL THE EFFLUENT FROM THE WASTE WATER PLANT BE UTILIZED?

A. The project has been designed for the reuse of all effluent within the confines of the communities.

Q. HOW WILL INFRASTRUCTURE BE INSTALLED?

A. The developer will construct and convey to the Perkins Companies, pursuant to a main extension agreement, all necessary infrastructures that will enable the Perkins Companies to provide water and waste water service to customers.

Q. HOW WILL THE APPLICANTS TAKE OWNERSHIP OF THE INFRASTRUCTURE?

A. During construction, utility personnel, in conjunction with a third-party engineer, will conduct daily inspections of the facilities being installed. Once completed and approved by the Perkins Companies, the developer will convey the infrastructure to the Perkins Companies. Thereafter, utility personnel will operate and maintain the facilities. There will also be a warranty that the developer will provide for a period of time. This will provide utility personnel an opportunity to re-inspect the facilities prior to the expiration of the warranty and require the developer to make any needed repairs that may be discovered. UI will not permit the conveyance of any infrastructure that it believes does not meet the high quality standards that we require.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. Thank you very much.