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BEFORE THE ARIZONA CORPORATIC

IN THE MATTER OF THE APPLICATION )  
OF CHAPARRAL CITY WATER COMPANY, )  
INC., AN ARIZONA CORPORATION, )  
FOR A DETERMINATION OF THE FAIR )  
VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN )  
ITS RATES AND CHARGES FOR )  
UTILITY SERVICE BASED THEREON. )

DOCKET NO.  
W-02113A-07-0551  
  
**EVIDENTIARY  
HEARING**

At: Phoenix, Arizona  
Date: December 8, 2008  
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1 BE IT REMEMBERED that the above-entitled and  
2 numbered matter came on regularly to be heard before the  
3 Arizona Corporation Commission, 1200 West Washington  
4 Street, Phoenix, Arizona, commencing 10:00 a.m. on the  
5 8th day of December, 2008.

6

7 BEFORE: TEENA WOLFE, Administrative Law Judge

8

9 APPEARANCES:

10 For the Arizona Corporation Commission Staff:

11 Ms. Robin Mitchell, Ms. Amanda Ho,  
12 and Mr. Wesley Van Cleve  
13 Staff Attorneys, Legal Division  
14 1200 West Washington Street  
15 Phoenix, Arizona 85007

14

For Chaparral City Water Company:

15

16 FENNEMORE CRAIG  
17 By Mr. Norman D. James  
18 Mr. Jay L. Shapiro  
19 3003 North Central Avenue, Suite 2600  
20 Phoenix, Arizona 85012

18

19 For the Residential Utility Consumer Office:

20 RESIDENTIAL UTILITY CONSUMER OFFICE  
21 By Ms. Michelle L. Wood  
22 1110 West Washington, Suite 220  
23 Phoenix, Arizona 85007

22

23

24

MICHELE E. BALMER  
Certified Reporter  
Certificate No. 50489

25

1 ALJ WOLFE: Good morning. Welcome to the Arizona  
2 Corporation Commission. This is the time and place set  
3 for the public comment and hearing in the matter of the  
4 application of Chaparral City Water Company, Inc., an  
5 Arizona corporation, for a determination of the fair value  
6 of its regulated utility plant and property and for  
7 increases in its rates and charges for utility service  
8 based thereon. The Docket No. is W-02113A-07-0551.

9 My name is Teena Wolfe, and I'm the  
10 Administrative Law Judge assigned to this proceeding. We  
11 may have Commissioners joining us this morning.

12 I'll begin by taking appearances of the parties  
13 this morning, beginning with the company.

14 MR. JAMES: Thank you, Your Honor. Norman James  
15 and Jay Shapiro with Fennemore Craig for the Applicant,  
16 Chaparral City Water Company.

17 ALJ WOLFE: Thank you. Is there anyone here  
18 representing Pacific Life Insurance Company, an  
19 intervenor?

20 (No response.)

21 ALJ WOLFE: Let the record reflect no appearance.  
22 For the Residential Utility Consumer Office?

23 MS. WOOD: Michelle Wood.

24 ALJ WOLFE: Thank you. And for the Commission's  
25 Utilities Division Staff?

1 MS. MITCHELL: Good morning, Judge Wolfe. Robin  
2 Mitchell, Amanda Ho, and Wesley Van Cleve on behalf of  
3 Commission Staff.

4 ALJ WOLFE: Thank you. We will be going to  
5 public comment very soon, but before we do that I would  
6 like to just explain a little bit about the process, the  
7 hearing process. Some of you may not be familiar with how  
8 that will work.

9 What has happened is the company has filed an  
10 application, and they did provide public notice of what  
11 they were requesting in their application. Since then,  
12 there have been several filings back and forth between all  
13 of the parties, so what the company may have originally  
14 requested may not be what they're requesting right now.  
15 And, of course, what is requested is not necessarily what  
16 the Commission will be ordering.

17 What I'll be doing is after the public comment  
18 today, we'll begin taking evidence. And after  
19 consideration of all of the evidence, I'll be preparing a  
20 recommended opinion and order, and that will be submitted  
21 to the Commissioners for their final disposition at an  
22 Open Meeting. I'm sure that you'll be keeping up on that  
23 and so you'll know when that Open Meeting is.

24 So today what we're going to do is take public  
25 comment, and then after everyone who wants to speak has

1 had an opportunity to speak, to have your oral comments on  
2 the record, then we'll go to opening statements of the  
3 parties. And so after you have made your public comment,  
4 you may want to stay around and listen to what the parties  
5 are saying in their opening statements. And, of course,  
6 you're welcome to stay for the entire proceeding if you  
7 want. It's scheduled to last three or four days, and  
8 possibly more, into January at this point.

9           Okay. I have a list of public comment slips  
10 here. And the order they're in, I'll just go through and  
11 call. And whenever you come up to the podium, please be  
12 sure and pronounce your name because the court reporter  
13 will be taking down everything that you say.

14           Oh, there's one other thing I did want to make  
15 sure that I mentioned to you today, is that all of the  
16 written comments that have been docketed with the  
17 Commission, I have been reading those and they will be  
18 considered whenever I draft the recommended opinion and  
19 order. And, of course, the Commissioners will be  
20 considering all of the public comment in addition to the  
21 evidence on the record before rendering their final  
22 decision. We do appreciate all of the public involvement  
23 in this case.

24           With that, I'll call the first speaker slip  
25 person that I have here, and I hope I pronounce the names

1 right. Stephen Dausch?

2 MR. DAUSCH: Yes.

3 ALJ WOLFE: You can come up to the podium,  
4 Mr. Dausch.

5 MR. DAUSCH: My name is Stephen Dausch. I'm a  
6 resident of Fountain Hills. I live on Acacia Way in  
7 Sunridge Canyon.

8 And I'm opposed to this increase from a consumer  
9 and customer point of view. And again, I'm going on the  
10 basis of the original submittal, which was a request of a  
11 41 percent increase, impacting the average customer by  
12 36 percent. To me, that sounds extremely excessive.

13 The documentation shows that the company is  
14 earning a 2.8 percent return on capital invested  
15 currently, and this proposal would increase that to 9.3.  
16 And to me, that sounds -- I feel that that is very much  
17 excessive. These are economic times that are difficult  
18 for everybody, and this is no time to lay an increase of  
19 any significant magnitude at all on the customer base in  
20 Fountain Hills. Thank you.

21 ALJ WOLFE: Thank you, Mr. Dausch.

22 Mayor Jay T. Schlum. I didn't realize you had a  
23 speaker slip here, Mr. Mayor. I would have called you  
24 first.

25 MAYOR SCHLUM: Thank you very much. I appreciate

1 the Commission hearing us and the parties, and the Hearing  
2 Officer. I'm Jay Schlum, Town of Fountain Hills. I'm the  
3 mayor. I'm also here with our Vice Mayor Henry Leger, and  
4 Council Member Cassie Hansen.

5 I strongly oppose the proposed rate hike. I  
6 believe the hike sought is unreasonable and will have an  
7 adverse effect on our community, including, but not  
8 limited to, our schools, residents, government, civic  
9 organizations, and each and every business owner.

10 I support RUCO's efforts toward a reasonable  
11 increase that will not dramatically impact commerce and  
12 residents negatively but does allow for the assurance of a  
13 reliable water supply.

14 We are a small town of 25,000 residents. We've  
15 had to date for this fiscal year zero single-family home  
16 permits. We are growing extremely slowly at this time,  
17 and we are a community of many seasonal residents. So I  
18 think those are items that are relevant to water usage in  
19 our community, and appreciate the opportunity to speak  
20 before you today.

21 ALJ WOLFE: Thank you, Mayor Schlum.

22 I have a speaker slip here for Richard Campbell.  
23 It says: I do not want to speak. If you want to change  
24 your mind, this is the time. And it's opposed.

25 Another one that says does not want to speak,

1 Marianne Wiggishoff, for Firerock Community Association,  
2 opposed.

3 MS. WIGGISHOFF: I have changed my mind.

4 ALJ WOLFE: Okay.

5 MS. WIGGISHOFF: My name is Marianne Wiggishoff.  
6 I'm a community association manager for Firerock Country  
7 Club Community Association and Eagle's Nest Community  
8 Association. That's nearly 1,000 homes represented there.

9 One aspect that kind of goes beyond -- you will  
10 hear from the golf course people and our consumers and our  
11 local government, but there is another level of grassroots  
12 responsibility in the neighborhoods. Many associations,  
13 community associations, homeowners associations, are  
14 responsible for quite a bit of common area. Much of that  
15 in Fountain Hills is desert. We don't necessarily have  
16 turf, but we do have extensive irrigation systems that do  
17 consume a bit of water.

18 So any sort of increase would greatly impact  
19 neighborhoods and at yet another level in their homeowners  
20 association dues. So that is sort of an unintended  
21 consequence that many people don't think about, and I  
22 would appreciate your taking that into consideration.

23 Thank you.

24 ALJ WOLFE: Thank you, Ms. Wiggishoff.

25 Amy Roberts, the community manager for Sunridge

1 Canyon Community Association. It says: I do not want to  
2 speak, but I'm opposed.

3 Richard V. Kloster.

4 MR. KLOSTER: Yes, good morning. Thank you. My  
5 name is Richard Kloster. I'm a resident on 9215 North  
6 Long Feather in Fountain Hills, the Eagle Mountain  
7 Community Association. I'm also the president of the  
8 Eagle Mountain Community Association.

9 I represent 550 homes. We're not totally built  
10 out, but very close. Some 1,100 people as a part of the  
11 Eagle Mountain community. And we've met with RUCO, and  
12 we've met with some of the other HOAs in the vicinity in  
13 Fountain Hills. And while we expect an increase, we do  
14 not expect any increase in the proportion that Chaparral  
15 City has recommended or petitioned for. 36 to 40 percent  
16 is just outlandish in these times, as you have already  
17 heard. I won't repeat that.

18 And the increase does impact homeowners twofold.  
19 One in their own watering, whether it's a pool or their  
20 yard, but also in the assessments as Marianne just spoke  
21 and mentioned. Because we have a large common area, and  
22 it's extremely well-groomed and maintained, but it takes  
23 water to keep it that way: Irrigation.

24 By now you should have received quite a few  
25 public comments from the folks in Eagle Mountain, as well

1 as Fountain Hills, because we tried to interest the  
2 community in terms of what was going on and the impact to  
3 them directly. So I thank you for the opportunity to  
4 speak and address the issues.

5 ALJ WOLFE: Thank you, Mr. Kloster.

6 Sue Nelson. It says: I do not want to speak but  
7 am opposed.

8 Ann Flynn Duncan: Do not want to speak but  
9 opposed.

10 Richard Bauerle.

11 MR. BAUERLE: Good morning, and thank you for  
12 this opportunity. I'm Richard Bauerle. I'm a member of  
13 the board of directors and treasurer of the La Vida Buena  
14 Property Owners Association.

15 La Vida Buena is a property owners association  
16 consisting of 101 units with a significant common area.  
17 There are no age restrictions, but the majority of our  
18 residents are seniors with perhaps a quarter being widows.  
19 Many in our community live on a fixed income. We take  
20 pride in the appearance, upkeep and maintenance of our  
21 property individually and collectively.

22 On behalf of the members of our association, the  
23 board of directors is unanimously opposed to the  
24 unjustified and unreasonable rate increase proposed by the  
25 Chaparral City Water Company owned by American States

1 Water Company of California.

2           The proposed rate increase of 41.14 percent will  
3 hurt our property owners in two ways. First, such a high  
4 increase will raise the association's water bill by about  
5 \$6,000 a year, or about \$5 per month per resident for no  
6 increase in service.

7           Secondly, according to the public notice from  
8 Chaparral City Water, each individual owner, residential  
9 customer will see his or her personal water bill increased  
10 by an average of 36.45 percent, or about another \$12 per  
11 month.

12           Chaparral City has not shared with the  
13 residential water users the justifications for their  
14 proposed rate increase. According to the RUCO, the reason  
15 cited by the company for requested increase in rates  
16 include higher operating expense, the recovery of new  
17 plant additions, and Chaparral's inability to earn its  
18 authorized rate of return.

19           In a recent newspaper article, it also said these  
20 rate increases were driven by the cost to acquire  
21 approximately 1,900 acre-feet of water annually. Now, I  
22 assume that they're going to sell this water to the  
23 consumers, and at the present rate structure they'll  
24 recover the cost of acquiring the water, processing the  
25 water, their infrastructure, and have a rate of return of

1 profit. So that the acquisition of 1,900 acre-feet of  
2 water, to me, seems to be a profit-maker for them and not  
3 a justification for a rate increase.

4           The La Vida Buena Association has to replace a  
5 third of our individual water regulators each year at a  
6 cost of about \$150 each, for a total expense of  
7 approximately \$5,000. These replacements and expenditures  
8 are because Chaparral has been unable to or unwilling to  
9 reduce the water pressure from the supply lines as the  
10 water enters our area. One pressure regulator at that  
11 point would solve our problem, but they won't solve the  
12 problem. We have not been given any indication that  
13 Chaparral City Water plans to make the necessary  
14 improvements in their water pressure control.

15           In summary, La Vida Buena joins other residential  
16 users in Fountain Hills in opposition to the Chaparral  
17 City Water Company proposed unreasonable and unjustified  
18 water rate increase. We urge the Arizona Corporation  
19 Commission to deny the water rate proposed by Chaparral  
20 City Water Company.

21           Thank you for your assistance in protecting the  
22 water users in Fountain Hills, and thank you.

23           ALJ WOLFE: Thank you, Mr. Bauerle.

24           John M. Fenley. This says: I do not want to  
25 speak, but is opposed.

1 Delilah Filip, opposed, do not want to speak.

2 Leona Johnston, opposed, do not want to speak.

3 MS. JOHNSTON: May I change my mind?

4 ALJ WOLFE: Yes.

5 MS. JOHNSTON: I never miss an opportunity to  
6 speak when I have a chance.

7 You have heard from some of the larger homeowners  
8 associations in Fountain Hills. I represent a small  
9 group. We only have 30 units. Saguaro Ridge Homeowners  
10 Association is located on Zephyr between Kingstree and  
11 Amhurst. And we have a lot of -- I think sometimes  
12 proportionally our problems are in greater -- how can I  
13 put it? A small organization where we don't have very  
14 high assessments has a major impact on our residents.

15 We also have a couple of units in foreclosure.  
16 And when they're in foreclosure, we can't go back and  
17 reclaim, you know, homeowners associations that haven't  
18 been paid, so that's hurting our small community.

19 And we feel that this increase would definitely  
20 impact our community, and I just wanted to represent them  
21 today. Thank you.

22 ALJ WOLFE: Thank you, Ms. Johnston.

23 Jerry Butler.

24 MR. BUTLER: My name is Jerry Butler. I  
25 represent the smallest group here, myself. I'm retired, a

1 retired civil engineer. I started my career 40 years ago  
2 plus in the water business doing the things that we're  
3 here to talk about today.

4 It seems to me, based on the documentation that I  
5 have read, that the rate relief that is being sought by  
6 Chaparral is strictly profit driven. They've only  
7 identified to this point, that I have been able to find,  
8 one project that may be in jeopardy if a rate increase is  
9 not approved.

10 Having been in business my entire life in private  
11 business, I didn't have anyone like the Corporation  
12 Commission that might guarantee me a 9 percent plus profit  
13 each year. I wish there would have been. I would have  
14 retired much earlier.

15 I do have several questions that I would like to  
16 present at this time, and I know that there are not  
17 answers. I'm not expecting an answer, but maybe people  
18 could look into it.

19 First, what is a fair and reasonable profit  
20 percentage given today's economy? A little bit of that  
21 was addressed by some of the previous speakers.

22 And why does the company not make the CAP water  
23 payment over a five-year period rather than in one year,  
24 and this would save \$1 million in the first year.

25 And how does the company's operating costs

1 compare with other Arizona communities? Is it being  
2 operated efficiently? Hopefully, RUCO has been able to  
3 find that out for us.

4 And what happened to the money that they received  
5 from the Fountain Hills Sanitary District, the  
6 \$1.52 million to compensate for an equivalent cost of  
7 water to replace the water that would have been produced  
8 over the remaining life of Wells No. 8 and 9?

9 And last, how much does water really cost in  
10 other Valley communities? Is \$2.29 per thousand gallons  
11 reasonable? How about \$4.13? Is it reasonable?

12 Thank you very much for the opportunity to  
13 present. I also had filed a letter or document earlier,  
14 and I won't repeat what was in that. So thank you very  
15 much.

16 ALJ WOLFE: Thank you, Mr. Butler.

17 Beth Mulcahy.

18 MS. MULCAHY: Good morning. My name is Beth  
19 Mulcahy. I'm with the Mulcahy Law Firm, and I'm an  
20 attorney for the Eagle Mountain Community Association.  
21 Thank you for the opportunity to be here today to speak in  
22 front of you.

23 There are over 90 community associations in  
24 Fountain Hills. This proposed rate increase will  
25 significantly negatively affect these 90 community

1 associations in Fountain Hills. I represent at least 20  
2 of the community associations, 20 of the community  
3 associations of the 90 that I mentioned in Fountain Hills.  
4 Specifically, I am here today on behalf of Eagle Mountain  
5 Community Association.

6 The proposed increase in rates and charges  
7 proposed by Chaparral City Water Company will  
8 significantly affect community associations in Fountain  
9 Hills. Specifically, it's going to affect their bills and  
10 their budgeting processes.

11 As you have heard from some of the testimony here  
12 today, many of these associations are already struggling  
13 to make ends meet, especially with the horrible economy  
14 and the current state that it is right now. An increase  
15 as large as Chaparral City Water Company is proposing,  
16 which appears to be profit driven, will significantly  
17 affect homeowners and associations in these communities.

18 Many of the associations that I represent already  
19 are operating on a deficit. They don't have enough money  
20 to pay their bills, and a water rate increase of this  
21 nature for many of these associates with significant  
22 common areas, they won't be able to pay their bills, which  
23 will result in increased assessments, which will need to  
24 be paid by the homeowners.

25 This in light of the fact that it appears that

1 this proposed increase is profit driven seems unjust and  
2 inequitable to many of my clients, myself, and to Eagle  
3 Mountain Community Association.

4 As such, we are here today to make a statement  
5 that Eagle Mountain Community Association is opposed to  
6 this increase, as are the other 20 associations I  
7 represent in Fountain Hills. Thank you.

8 ALJ WOLFE: Thank you, Ms. Mulcahy.

9 Ken Watkins.

10 MR. WATKINS: Good morning. My name is Ken  
11 Watkins. I represent Firerock Country Club, along with  
12 some of the other golf courses.

13 We believe that the rate increase that Fountain  
14 Hills -- that Chaparral has put to us is unfair. They're  
15 asking the golf courses to put up a 112 percent increase  
16 for the golf courses. The ACC Staff recommended a  
17 73 percent increase, and RUCO recommended a 67 percent  
18 increase.

19 The proposed rate for the use generally increased  
20 between 8 to 12 percent, but we believe that the golf  
21 courses are taking the biggest burden for this increase.  
22 And if the golf courses lose revenue, the value of our  
23 properties decrease, you know, so if you look at the  
24 income and value of our property, we can lose from, you  
25 know, a million dollars to half a million dollars just on

1 the value of our property.

2 So compared to using -- the sanitary district  
3 uses a 75 percent difference between the Chaparral cost  
4 and what they charge us. If Chaparral's increase goes up  
5 to 112 percent and the sanitary district does follow  
6 through with that suit, you know, there's just no way we  
7 could afford water. We would have to cut back on grass  
8 and cut back on the condition of the golf course.

9 If the condition of the golf course loses value  
10 and we lose income, it also reflects the tax income for  
11 the town. If we're not producing any people to play golf,  
12 the town is not getting any revenue from us either.

13 So we believe that Chaparral City and the ACC  
14 Staff and RUCO have all ignored the golf courses in this  
15 regard and the impact this would have on us. If the  
16 proposed rate is approved, it is likely the golf course  
17 conditions will suffer and force lower quality standards  
18 for the community so less people are coming out to play  
19 golf on the golf course. Also the value of the property  
20 decreases on the homes around the golf course.

21 I'm not a very good speaker.

22 ALJ WOLFE: You're saying what you meant to say,  
23 I believe.

24 MR. WATKINS: Well, yeah. But anyway, you know,  
25 the normal increase, you know, I understand. I mean, cost

1 of doing business is tough. But, you know, 8 to 10 to  
2 even 50 percent would be nice, but 112 percent increase is  
3 just going to -- it really hurts. I mean, I know the  
4 homeowners are getting hit, too, but for the big users,  
5 all of the golf courses, the city, the school district, I  
6 mean, you know, a 112 percent increase is really tough for  
7 everybody.

8           And I know that, you know, the state -- I  
9 understand the state has asked for 13 percent increase on  
10 the CAP water, and supposedly APS has asked for an  
11 increase, too. But if you look at the APS increase for  
12 30 percent, what they're asking, the state, 13 percent, it  
13 still doesn't come out to 112 percent increase.

14           It would be interesting to see where all of their  
15 revenue really is going. Because like everybody else,  
16 developers pay for everything. We turn all of the  
17 subdivision stuff over to the utility companies after we  
18 do all of the infrastructure.

19           You know, I know I stood here in front of you in  
20 '05, and they claimed that they double capacitated the  
21 plant to put in this new water line. I haven't seen any  
22 new development in Fountain Hills that the water company  
23 has done. You know, it's not a big community, so it's  
24 easy to drive around and see any improvements done on that  
25 piece of land.

1           So I don't really know exactly where they're  
2 coming up with a 120 percent increase. By the time you  
3 figure in their water meter charges and everything else,  
4 they're looking at the golf courses and the schools. So  
5 hopefully I got everything pretty much covered.

6           ALJ WOLFE: Mr. Watkins, you said something that  
7 raised a question for me. You said that you have another  
8 water supplier? The golf courses have another water  
9 supplier as well?

10          MR. WATKINS: The sanitary district. You know,  
11 most of the golf courses there, we all use sanitary  
12 district, but their rate is based on Chaparral's rate at  
13 75 percent. So if Chaparral rates go up, you know,  
14 120 percent total, then the sanitary district follows the  
15 same suit. They raise their rates way up.

16          That puts us -- you know, using effluent water,  
17 it puts us into, you know, \$500 to \$700 an acre-foot for  
18 reclaimed wastewater. We're there to help get rid of the  
19 water, too. But if we have to start cutting back on  
20 water, it kind of binds up where they're going to put  
21 their water also.

22          ALJ WOLFE: So you buy effluent from the sanitary  
23 district?

24          MR. WATKINS: When it's available, we take as much  
25 as we can. There are some days that, you know, like for

1 an overseeding or something that we have to subsidize with  
2 fresh water to get by, you know, because there's three  
3 golf courses and then the parks that all use effluent.  
4 We'll take it as long as it's available.

5 ALJ WOLFE: And the sanitary district is a public  
6 entity not regulated by this Commission; is that correct?

7 MR. WATKINS: As far as I know they are.

8 ALJ WOLFE: Thank you, Mr. Watkins.

9 MS. MITCHELL: Excuse me, Judge Wolfe. I was  
10 just informed that it is not streaming over the Internet,  
11 so you may want to announce if there are people that want  
12 to listen, I'm assuming they have to call in to the Listen  
13 Line. I imagine we had that power outage over the weekend  
14 and that could have affected some things.

15 ALJ WOLFE: Thank you, Counsel. I'll take care  
16 of it. We're going to take a break as soon as everyone  
17 has had an opportunity to speak who wants to speak this  
18 morning.

19 That was my last speaker slip. Is there anyone  
20 else who didn't fill out a speaker slip or who would like  
21 to speak? You're welcome to come up and put your comments  
22 on the record at this time.

23 I don't see anyone waving their hands or coming  
24 up to the podium. I appreciate all of the public comment.  
25 I appreciate the time that you took to come out here.

1 We're going to take a short break, and following  
2 that break we'll start with the opening statements of the  
3 parties to this case, so I invite you to stick around.

4 We'll be back here in 10 minutes.

5 (A recess was taken from 10:28 a.m. to 10:41 a.m.)

6 ALJ WOLFE: Let's come back to order.

7 Are there any procedural matters that the parties  
8 need to discuss before we go to opening statements?

9 MR. JAMES: No, Your Honor.

10 ALJ WOLFE: Okay.

11 MS. MITCHELL: None for Staff. Thank you.

12 MS. WOOD: None for RUCO. Thank you.

13 ALJ WOLFE: Thank you. Mr. James, are you  
14 prepared to begin?

15 MR. JAMES: Yes, I am, Your Honor. Thank you.

16 Again, Norman James representing Chaparral City  
17 Water.

18 Just briefly, Your Honor, by way of background,  
19 as some of the comments indicated, Chaparral City's  
20 service territory is primarily Fountain Hills. It serves  
21 a small amount of customers in the City of Scottsdale.

22 At the end of the test year in this case, which  
23 was 2006, the company had about 13,500 customers. Most of  
24 those customers are residential. I believe the percentage  
25 is about 99 or 94 percent of the customers are

1 residential.

2 I think as also was alluded to during the  
3 comments, Your Honor, Chaparral City is somewhat unusual  
4 compared to most of the water utilities that the  
5 Commission regulates in that Chaparral City relies almost  
6 entirely on Central Arizona Project water as its primary  
7 water source. It does have some groundwater wells that it  
8 uses to supplement its water service, but over 90 percent  
9 of the water that Chaparral City delivers is renewal  
10 surface water that's imported from the Colorado River via  
11 the Central Arizona Project, which is good from the  
12 standpoint of Arizona Water policy. We're not pumping  
13 groundwater. But Central Arizona Project water is more  
14 expensive than other water sources.

15 Frankly, it would be cheaper to pump groundwater.  
16 But again, that would be contrary to Arizona Water policy,  
17 which particularly in active management areas, and  
18 Chaparral City's service territory is located within the  
19 Phoenix active management area, there is a decided  
20 preference for substituting renewable water sources for  
21 groundwater.

22 I also want to talk briefly about the company's  
23 prior rate cases. And this again is somewhat unusual,  
24 particularly for persons like myself and probably some  
25 other people here in the hearing room today that receive

1 water service from a municipality like Phoenix, like  
2 Scottsdale.

3           Because our rates are set, Chaparral City's rates  
4 are set by the Corporation Commission, there have actually  
5 been a relatively small number of rate cases in the  
6 Fountain Hills area. Our last rate case, Your Honor, as  
7 you recall, rates became effective on October 1, 2005.  
8 Those rates were based on a 2003 test year. In other  
9 words, rate base and investment in plant, operating  
10 expenses, revenues and so on during calendar year 2003,  
11 with some appropriate pro forma adjustments.

12           Prior to that decision, the company's last rate  
13 case occurred in the early 1990s. I believe new rates  
14 became effective in 1991 and were based on a 1988 test  
15 year. So over approximately the last 20 years, as you can  
16 see, there are essentially three rate cases. This is the  
17 third one, and rates will become effective sometime next  
18 spring.

19           In this particular case, Your Honor, we're  
20 requesting an increase in revenues of about \$2.9 million.  
21 That's based on a fair value rate base, again using a 2006  
22 test year, a fair value rate base of about \$27 million.  
23 As was alluded to, I think, in some of the comments, the  
24 company's current operating income, adjusted operating  
25 income is about \$980,000. The current return on fair

1 value rate base is about 3.5 percent. The current return  
2 on equity is less than 4 percent.

3 The company is requesting an increase in its  
4 revenues of about 38 percent. That's the company's  
5 rejoinder position. That produces a return on rate base  
6 of about 9.9 percent.

7 The impact on a typical customer being served by  
8 Chaparral City is between 33 and 34 percent at average  
9 use. For example, a three-quarter inch meter customer,  
10 which is the company's largest customer class, the  
11 increase would be \$10.90 cents per month.

12 There are actually a relatively small number of  
13 issues that are in dispute. With respect to the company's  
14 rate base, Your Honor, one issue -- and again, this was  
15 alluded to, I believe, in one of the comments earlier.  
16 The first issue relates to the company's acquisition of an  
17 additional 1,900 acre-feet of Central Arizona Project  
18 water.

19 As explained by Mr. Hanford in his testimony,  
20 this was a one-time opportunity to acquire the right to  
21 additional Central Arizona Project water that was  
22 authorized by congressional legislation, the Arizona Water  
23 Settlement Act. And again, the company acquired this  
24 right because, as we all know, water is becoming  
25 increasingly scarce. Regardless of whether you believe in

1 global warming or similar phenomena, the simple reality is  
2 that the Colorado River is overallocated and the  
3 availability of Colorado River water is becoming more and  
4 more uncertain.

5 In addition, the Central Arizona Project, because  
6 of the legislation that was enacted authorizing the CAP,  
7 actually has the lowest priority on the river. So as a  
8 consequence of that, the company saw this as an  
9 opportunity to ensure that it will have a reliable water  
10 source and acquired the additional CAP allocation and had  
11 to pay a capital cost of \$1,280,000 to do so.

12 The company will accept Staff's recommended  
13 approach. It will treat the capital investment as a water  
14 right, and it will agree to recover one-half of the annual  
15 water service capital charge.

16 RUCO disagrees with this treatment. RUCO would  
17 capitalize only one-half of the company's investment and  
18 allow recovery of one-half of the annual water service  
19 capital charge. Unfortunately, that will put the company  
20 in a position of having to make a very difficult decision.  
21 Because while certainly the company believes that from a  
22 public policy standpoint it made a very prudent decision  
23 to acquire the additional CAP allocation, obviously, if  
24 you can't receive reasonable cost recovery, it simply  
25 can't retain it.

1           The second rate base issue is the settlement with  
2 the Fountain Hills Sanitary District. And the sanitary  
3 district was mentioned also by commenters earlier today.  
4 As was indicated, the Fountain Hills Sanitary District is  
5 a separate public entity. It's not affiliated in any way  
6 with the water company, and it provides for sewer service  
7 in the Fountain Hills community. It also provides treated  
8 sewage effluent to turf facilities in the Fountain Hills  
9 area.

10           Several years ago the sanitary district impaired  
11 two of the company's groundwater wells by discharging  
12 treated effluent in their vicinity. Ultimately -- and  
13 this is discussed by Mr. Hanford in his testimony --  
14 ultimately, the district and the company negotiated a  
15 settlement that involved the payment of \$1.5 million to  
16 the company.

17           The company has proposed all along in this case,  
18 Your Honor, to split that benefit with the customers. The  
19 company has proposed to take half of the settlement amount  
20 and deduct it from rate base, effectively lowering the  
21 rate base. Staff and RUCO propose that the entire benefit  
22 should be allocated to the ratepayers by effectively  
23 reducing the company's rate base.

24           It's our position, Your Honor, that that is bad  
25 from a policy perspective. The approach that the company

1 has recommended, Your Honor, is consistent with the  
2 approach approved by the Commission in the Arizona Water  
3 Company's Eastern Group rate case where there's a similar  
4 settlement that was based on groundwater contamination  
5 caused by mining activities in the Globe/Miami area, and  
6 in that decision the Commission allowed a similar  
7 settlement to be -- proceeds to be split.

8           In addition, Your Honor, I think logic indicates  
9 that if you simply deduct the entire amount of the  
10 settlement from the rate base, you have created  
11 effectively zero incentive for the company to pursue  
12 claims of this nature. There's simply no purpose. And it  
13 effectively punishes the company, I think, in this case  
14 for being proactive and doing the right thing.

15           With respect to operating expenses, again, I just  
16 want to highlight a couple of issues. One issue concerns  
17 the normalization of test year expenses. As explained in  
18 the testimony of both Mr. Hanford and Mr. Bourassa, both  
19 Staff and RUCO have proposed to use expense levels prior  
20 to the 2006 test year in this case, 2004, 2005 expense  
21 levels, to normalize, to in effect recompute test year  
22 expenses. We think that's unnecessary and inappropriate.  
23 It's certainly backward looking, and there's no particular  
24 reason in this case to normalize.

25           The expense levels during the test year were not

1 unusual or unique. And as Mr. Hanford explains, expenses  
2 for things like chemicals and repair and maintenance  
3 expense have actually increased since the 2006 test year.

4           Once again, property tax expense is an issue.  
5 The company is adopting Staff's method of adjusting  
6 property taxes based on proposed revenue. RUCO continues  
7 to oppose use of the Staff's method as it's done in a  
8 number of prior cases. We would suggest that the  
9 Commission should again reject RUCO's opposition to this  
10 adjustment.

11           With respect to rate case expense, the company is  
12 requesting rate case expense that is slightly lower than  
13 it was actually authorized in its prior rate case. It's  
14 requesting rate case expense of \$280,000. In the last  
15 rate case, the company was authorized \$285,000 as rate  
16 case expense.

17           Staff's recommending only \$150,000, but provided  
18 no real support for doing so, particularly in light of  
19 what the Commission authorized in the company's prior  
20 case.

21           We also had sort of an anomalous issue in the  
22 company's prior case, which, as you know, Your Honor, was  
23 appealed to the Court of Appeals and then remanded back to  
24 the Commission. The decision was issued by the Commission  
25 last July. We were ordered to seek recovery of additional

1 rate case expense associated with the appeal and remand in  
2 this case.

3           The company has requested recovery of  
4 approximately half of its actual costs, about \$250,000.  
5 Staff is recommending recovery of \$100,000. RUCO is  
6 recommending that zero should be recovered because the  
7 appeal was a business decision. Of course, this rate case  
8 and just about every rate case, unless the Commission  
9 orders it, is a business decision.

10           I'm not going to say much about cost of capital  
11 since that is going to be bifurcated and we're going to  
12 have witnesses testifying at a later date on cost of  
13 capital. I will say just very briefly that the company is  
14 asking for return on equity of 11.5 percent, and its fixed  
15 cost of long-term debt, which is about 5.3 percent.

16           And by comparison, I think there are two real key  
17 drivers, I think, with respect to the cost of equity.  
18 First, Your Honor, there has been a significant increase  
19 in the riskiness of an investment in the water utility  
20 industry. And that's illustrated very graphically by the  
21 fact that in the company's prior rate case, the beta of  
22 the sample group of six publicly traded water companies  
23 that the Staff and company used in that case and are using  
24 again in this case, the beta which reflects the risk of  
25 the water utility industry relative to the market as a

1 whole has gone up from .68 to approximately 1.

2 Now, that may sound small in the sense that the  
3 difference appears very small, but if you think about it,  
4 that's a case where the risk has gone up by about  
5 50 percent over the last four or five years.

6 The water utility industry right now, Your Honor,  
7 the bottom line is just a very risky industry to be in.  
8 In addition, as we know, the current market has become  
9 extremely risky. But I wanted to emphasize the change in  
10 the beta risk, because while as we'll discuss, I'm sure,  
11 in the second phase of this case, the current market risk  
12 requires a higher return on equity. Simply the increase  
13 in beta risk by itself and the fact, for example, that  
14 water utilities are now more risky than gas utilities I  
15 think is a critical driver.

16 Finally, rate design. And there was a lot of  
17 comments, Your Honor, on rate design. As I indicated  
18 earlier, the basic increase requested by the company, the  
19 basic increase if the company's recommendations were  
20 approved for a typical customer is around 33 to 34 percent  
21 based on average usage.

22 The problem suggested by some of the comments  
23 lies in the fact that for many years -- and I think this  
24 goes back to a fact that I probably should have mentioned  
25 in my introductory comments. Until late 2000, Chaparral

1 City was owned by MCO Properties, which is the original  
2 developer of Fountain Hills, and Chaparral City was  
3 acquired by American States Water in 2000.

4 And some of the rate design -- the company, in  
5 effect, inherited a somewhat unusual rate design that had  
6 a very low rate for irrigation and construction water use.  
7 That was an issue, you may recall, in the last rate case.  
8 The last rate case adopted an inverted block rate design  
9 to encourage water conservation. And the three-quarter  
10 inch residential customer class, which is about 8,500  
11 customers, they have three rates, and the rates get  
12 progressively higher for the more water that is used.

13 There is a -- effectively what you could call a  
14 lifeline rate for the first 300 gallons of water use,  
15 which is \$1.68, and the rate then goes up. There's  
16 another rate block, two other rate blocks, above that.  
17 All other customers have two rate blocks. And again, the  
18 rate at the lower usage is lower than the rate at the  
19 higher usage, again, to encourage conservation.

20 Well, the basic problem, Judge Wolfe, is that the  
21 current rate for irrigation and construction water use is  
22 \$1.56 per thousand gallons. Now, that's lower than the  
23 \$1.68 rate, the lifeline rate for the first rate block for  
24 the smaller residential customer class.

25 So what we had proposed in the last case and are

1 proposing again is to bring that rate up so that it is at  
2 least at, if you will, if you look at the residential  
3 class, it's at least up to the middle tier. Not the upper  
4 tier, but at least up to the middle tier. And if you  
5 compare that rate to commercial and industrial customers,  
6 it would at least be up to the lower tier. Again, not the  
7 higher tier but the lower tier.

8           Staff, I think, agrees with the company's  
9 position that that rate needs to be increased, both as a  
10 matter of simple cost of service principles and also as a  
11 water policy matter. Because what that low rate does,  
12 obviously, is encourage use of potable water for turf and  
13 landscape irrigation. Staff, however, does not propose to  
14 bring it up as high as the company, but I think that the  
15 company and Staff both recognize that there needs to be an  
16 increase.

17           Now, I don't want to make it sound like a bigger  
18 issue than it is. Obviously, at the end of the day, if  
19 the company is able to earn its revenue requirement,  
20 that's the most critical thing. But it does strike us as  
21 being a bit of an anomaly to be charging, in effect, a  
22 discounted rate for irrigated turf.

23           Now, again, that's not to say we're not  
24 unsympathetic to the golf courses. We understand that  
25 they're businesses, too. We don't want to see the golf

1 courses shut down.

2           There is, as was indicated by one of the  
3 commenters, there has been a dramatic change in potable  
4 water use by the golf courses since the last rate case.  
5 In fact, we have an adjustment to our test year revenues  
6 to account for the fact that the golf courses are using  
7 significantly more treated effluent than were used in the  
8 last rate case.

9           And, you know, I think part of the problem, and  
10 you heard one of the commenters indicate this, one of the  
11 problems is the fact that apparently the sanitary district  
12 charges 75 percent of the water company's rate for water.  
13 And again, that's not something that we support or  
14 benefits us in any way. That apparently is a policy that  
15 the sanitary district has implemented, and that's  
16 unfortunate. Again, we're not trying to raise our rates  
17 so the sanitary district can raise its rates.

18           We're trying to come up with a fair rate design  
19 that's fair for the golf courses, is fair for other  
20 irrigation and landscape water users, but is also fair for  
21 other customers as well. And we think that there needs to  
22 be an increase in that rate.

23           So with that, Your Honor, again, I understand  
24 there will be some additional testimony later on cost of  
25 capital. I think that will -- in terms of giving you an

1 overview of our case and what we're requesting, we do  
2 think our request is reasonable.

3 And again, I understand people are concerned,  
4 expenses have gone up, but again, this is not a company  
5 that's been raising its rates on a regular basis.  
6 Frankly, we're trying to, as I indicated, we're simply  
7 trying to really catch up.

8 And one other last point I should have made  
9 earlier. One customer had asked, well, you know, I didn't  
10 see -- I haven't really seen much going on. Why are rates  
11 going up?

12 Well, the company has, between the two test  
13 years, 2003 and 2006, the company did invest an additional  
14 \$6 million in plant. Again, that may not sound like a  
15 huge amount, but remember the company's fair value rate  
16 base in this case is about \$27 million, so that's a  
17 significant percentage change. So the company is  
18 continuing to invest money in plant. Its expenses are  
19 continuing to increase. And again, no one likes  
20 significant rate increases, but we think our proposal is  
21 reasonable. Thank you.

22 ALJ WOLFE: Thank you, Mr. James.

23 Ms. Wood.

24 MS. WOOD: Your Honor, good morning. My name is  
25 Michelle Wood. I'm appearing on behalf of RUCO.

1           Among the issues in dispute today, as you heard  
2 from Mr. James, the four that stand out because of the  
3 large amount at issue, they are the distribution of the  
4 proceeds from the Fountain Hills Sanitation District, the  
5 treatment of the additional CAP allocation, the amount of  
6 rate case expense, and cost of capital, which I understand  
7 that portion of the case is bifurcated and will be  
8 considered at a separate time.

9           The first issue that I talked about deals with  
10 the \$1.5 million paid by Fountain Hills Sanitation  
11 District to the company to replace water sources supplied  
12 by Wells 8 and 9. Originally, RUCO took the position that  
13 this would be distributed as a gain on a sale, which would  
14 be a 50/50 split.

15           However, after reviewing Staff's testimony, RUCO  
16 has changed its position, and RUCO agrees with Staff that  
17 the wells are fully depreciated. The company has  
18 recovered its investment at a reasonable return on that  
19 investment, and that we now agree with Staff that the  
20 company should be entitled to nothing further. And  
21 therefore, we believe that the entire 1.5 million in  
22 proceeds should be allocated 100 percent to the  
23 ratepayers.

24           The second issue is the treatment of the  
25 additional CAP allocation. As the evidence will show,

1 pursuant to the Water Settlement Act, the company has been  
2 allotted, I think it's 1,931 additional acre-feet from the  
3 CAP, Central Arizona Project.

4           The expense for the allocation is approximately  
5 1.28 million. RUCO originally disagreed with any rate  
6 base treatment for the additional CAP allocation because  
7 the water was not used and useful. However, the evidence  
8 will show the company believes that the allocation may act  
9 as a drought buffer.

10           Staff has proposed a compromise position in which  
11 the entire CAP allocation would be booked in a  
12 non-depreciable land and land rights account, which would  
13 allow the company to earn a return on its investment in  
14 perpetuity, but would disallow any amortization expense.  
15 RUCO appreciates Staff efforts to strike a balance, but  
16 RUCO disagrees that the entire allocation is used and  
17 useful.

18           Even considering the broader purpose of a drought  
19 buffer, Chaparral City has held a certificate of assurance  
20 of water availability since 2004 with its current  
21 allocation of water. The designation indicates that the  
22 company has assured 100-year water supply to satisfy its  
23 anticipated water demands.

24           In addition, as the evidence will show, the  
25 company recently filed an ADWR, which is the Arizona

1 Department of Water Resources, report that shows  
2 approximately 1,000 acre-feet lost and unaccounted for.  
3 Resolution of the lost and unaccounted water would provide  
4 a sufficient drought buffer.

5           Chaparral's anticipated growth is, as you can  
6 derive from some of the comments today, right now Fountain  
7 Hills is experiencing almost zero growth with regard to  
8 residential development. The mayor indicated that they  
9 had, I think, zero residential permits in the first four  
10 months of this quarter. On these facts, none of the CAP  
11 allocation is used and useful and the Commission should  
12 deny the rate base treatment.

13           However, in the spirit of compromise, RUCO has  
14 recommended that if you feel that it's appropriate that a  
15 CAP allocation of 50 percent be booked in the  
16 non-depreciable land and land rights account -- and that's  
17 more than generous -- the remaining 50 percent should be  
18 rate based when the company could show that it's used and  
19 useful.

20           The last issue or the next issue concerns rate  
21 base -- excuse me -- rate case expense. There are two  
22 components of the rate case expense. The first rate case  
23 expense is generated from the appeal and remand  
24 proceeding. RUCO objects to the inclusion of any of these  
25 expenses. There can be no doubt that the appeal was

1 pursued by the company to obtain greater operating income.  
2 The appeal was not to benefit ratepayers but to benefit  
3 shareholders. And as such, the shareholders should have  
4 to bear the burden of the cost of their appeal.

5           The other component of rate case expense is  
6 associated with the current application, and RUCO and the  
7 company agree that the unamortized rate case expense most  
8 likely will be denied, I think in part because -- for  
9 different reasons, but I think their reason is related to  
10 the fact that so much time has elapsed and they've nearly  
11 recovered it all. RUCO's position is that if you haven't  
12 recovered it by now in this case, we go forward from here.

13           The other issue on this aspect is the \$280,000  
14 that the company has submitted as the expense for this  
15 proceeding, and RUCO recommends that expense is fair under  
16 the circumstances of this case and they should recover  
17 that. But they have submitted information related to a  
18 \$40,000 increase in that rate case expense, and to that  
19 RUCO does not believe that's reasonable.

20           RUCO recommends an overall weighted cost of  
21 capital of 6.38 percent. In calculating its cost of  
22 capital, RUCO utilized the company's existing capital  
23 structure and the methodology adopted by the Commission  
24 Decision 70441.

25           RUCO believes that the Commission's approved

1 methodology should be consistent from case to case. No  
2 other expert analyzed the cost of capital in the manner  
3 prescribed by the Commission in Decision 70441. We ask  
4 you to approve Mr. Rigsby's overall cost of capital of  
5 6.38 percent.

6           There are other lesser issues in dispute that  
7 includes the amortization of contributions in aid of  
8 construction and the methodology for computing property  
9 tax expense. I know that the issue of property tax  
10 expense is one, even though I'm new in this forum, I know  
11 this is one that the Commission has spent considerable  
12 time on. And while the Commission has been consistent  
13 with the method of computing property tax, this case is  
14 further proof that RUCO's proposed methodology is more  
15 accurate.

16           The methodology currently used by the Commission  
17 has resulted in a windfall for this company of \$112,000 in  
18 2008, 92,000 in 2007, and 57,000 in 2006. These are not  
19 minor sums. The current system of computing property tax  
20 results in a windfall to the company. Moreover, the  
21 amount of the future windfall will only increase given the  
22 statutorily mandated decrease in the assessment ratio.

23           Accordingly, we would ask you to consider the  
24 matter again and determine if the Arizona Department of  
25 Revenue methodology for calculating property tax expense

1 would result in a more accurate property tax expense. And  
2 should the Commission decide against the ADOR method, RUCO  
3 recommends an alternative methodology based on the average  
4 gross revenues of two historical test years and one  
5 proposed test year.

6 And finally, with regard to the amortization of  
7 CIAC, RUCO submits that the Commission determines  
8 depreciation amortization rates on a going-forward basis.  
9 And in its last decision involving Chaparral, the  
10 Commission set that rate.

11 The company has used a different rate, which has  
12 a negligible monetary impact, but it nonetheless, we  
13 believe, matters that the Commission has directed a rate  
14 to be used on a going-forward basis and it wasn't.

15 So with that, we are concluded.

16 ALJ WOLFE: Thank you, Ms. Wood.

17 Ms. Mitchell.

18 MS. MITCHELL: Good morning, Judge Wolfe.

19 Chaparral filed a rate application for an increase in its  
20 rates using a test year of 2006. The company proposes  
21 rates that will produce operating revenues of a little  
22 over \$10 million and operating income of 2.7 million, for  
23 a 9.9 percent rate of return on a fair value rate base of  
24 a little over \$27 million. The company's proposal would  
25 increase annual operating revenues by about \$2.9 million,

1 which results in about a 39 percent increase over test  
2 year revenues.

3 Staff recommends a total annual operating revenue  
4 of a little over \$9 million, an operating income of  
5 \$2 million, for a 7.6 rate of return on a fair value rate  
6 base of a little over \$27 million. Staff's recommended  
7 revenue represents an increase of about \$1.7 million or  
8 23 percent over test year revenues.

9 As Mr. James has stated, there are very few  
10 contested issues in this case. It's been a long road.  
11 There's been a lot of discovery, but the company and Staff  
12 have managed to resolve a number of issues. The company  
13 has accepted a number of Staff recommendations regarding  
14 rate base such as the reclassification of the costs paid  
15 for the acquisition of the additional 1,931 acre-feet of  
16 CAP water, and we have reclassified that as a water right.

17 The company has accepted a number of other Staff  
18 adjustments related to the allocation of general plant,  
19 and it's accepted Staff's calculation of property tax,  
20 although the amount is different because of the revenue  
21 requirement.

22 The company, to its credit, has proposed a low  
23 income tariff, and Staff is supportive of a low income  
24 tariff. As Mr. James mentioned, the company has sought an  
25 increase in the commodity rate for exterior irrigation and

1 construction water. Staff has recommended an increase,  
2 but not nearly in the amount that the company is  
3 requesting.

4 With respect to the rest of the rate design, the  
5 company is adopting the rate design that was adopted in  
6 the prior rate case.

7 However, although the road has been long, there  
8 are a number of issues that remain unresolved.

9 Among the major issues are the treatment of the  
10 settlement of the company -- of the settlement proceeds of  
11 the company with the Fountain Hills Sanitary District.  
12 Staff has disagreed with the company's characterization  
13 and proposes that the settlement proceeds flow through to  
14 the ratepayers. It's not Staff's intention to punish the  
15 company for the settlement as was suggested in their  
16 testimony, but it's Staff's position that the settlement  
17 should benefit the ratepayers.

18 Staff has also recommended normalization of a  
19 number of test year expenses. And as Mr. James indicated,  
20 the company opposes Staff's treatment of those expenses.

21 Rate case expense is another disputed item.  
22 Staff is recommending rate case expense for the current  
23 case of \$150,000, and \$100,000 for rate case expense  
24 related to the appeal and remand proceeding. The company  
25 has requested recovery of rate case totaling \$280,000 for

1 the current case, and \$258,000 for the remand and appeal  
2 proceeding.

3 I would imagine the biggest contested issue is  
4 always, in most of these cases, is cost of capital, which  
5 we will address in the bifurcated proceeding, and we will  
6 address that at the later phase that will be held in  
7 January.

8 Staff has recommended a cost of equity of  
9 10 percent in contrast to the company's recommendation of  
10 11.5 percent. The company's weighted average cost of  
11 capital is 9.96 percent. Staff has calculated the  
12 weighted average cost of capital at 7.6 percent.

13 The company continues to maintain that the  
14 weighted average cost of capital should be applied to the  
15 company's fair value rate base to determine the company's  
16 required operating income without any adjustment, which  
17 was rejected by the Commission's ruling in Decision  
18 No. 70441. The company's method overstates the impact of  
19 inflation, resulting in rates that are not just and  
20 reasonable.

21 Staff recommends the method of calculating  
22 operating income as set forth in Decision No. 70441, with  
23 some adjustment to symmetrically match the inflation  
24 components recognized in the fair value rate of return and  
25 fair value rate base. Staff's method, which we've

1 designated as Method 2, includes an adjustment to remove  
2 the inflation component from the cost of debt.

3 Staff notes that Method 1, which is the method  
4 that was adopted by the Commission in Decision No. 70441,  
5 is still viable, but Staff interpreted that decision to  
6 recognize that the method adopted may benefit from  
7 refinements, and that refinements to that method were  
8 envisioned and invited.

9 Staff will present four witnesses. Marlin  
10 Scott -- oh, I wanted to talk about engineering issues  
11 just briefly. I had a note here.

12 The company has experienced a significant amount  
13 of water loss, but they indicate that they believe that  
14 the CAP water intake meter is not accurately registering,  
15 and they intend to install their own CAP water meter.  
16 Staff recommends that, you know, after they complete the  
17 installation that they monitor and report back if their  
18 water loss is more than 10 percent. I just noted that  
19 when I was going to tell you about my four witnesses.

20 Marlin Scott will discuss the engineering issues,  
21 Marvin Millsap, revenue requirement, rate base, and income  
22 adjustments. Gordon Fox will discuss Staff's Method 2.  
23 Elijah Abinah will discuss the policy implications  
24 regarding Method 1 and Method 2, and Dave Parcell will be  
25 testifying on cost of capital at a later date.

1 Thank you.

2 ALJ WOLFE: Thank you, Ms. Mitchell.

3 Mr. James or Mr. Shapiro, I think we can go ahead  
4 and put Mr. Hanford on the stand and get some of his  
5 testimony before we break for lunch. If you would like to  
6 call your witness now.

7 MR. SHAPIRO: We will. The company will call  
8 Robert Hanford.

9 ALJ WOLFE: Off the record a moment.

10 (A brief recess was taken.)

11 ALJ WOLFE: We went off the record for a moment  
12 because of the noise involved with lots of public  
13 commenters leaving. So at this time the court reporter  
14 will swear you in, Mr. Hanford.

15

16 ROBERT N. HANFORD,  
17 called as a witness on behalf of the Applicant, having  
18 been first duly sworn by the Certified Reporter to speak  
19 the truth and nothing but the truth, was examined and  
20 testified as follows:

21

22 DIRECT EXAMINATION

23

24 Q. (BY MR. SHAPIRO) Good morning, Mr. Hanford.

25 Would you please state your full name and your business

1 address for the record.

2 A. Yes. Robert N. Hanford, 12021 North Panorama  
3 Drive, Fountain Hills, Arizona.

4 Q. And that address is the home office of Chaparral  
5 City Water Company in Arizona?

6 A. Yes, that is correct.

7 Q. And what is your position with Chaparral City  
8 Water Company, Mr. Hanford?

9 A. My title is district manager.

10 Q. And just briefly, what are your responsibilities?

11 A. They include management of the overall daily  
12 operations of a surface water community system. We have  
13 about 13 -- a little over 13,400 accounts. I'm  
14 responsible for both the operating and the capital budget,  
15 water quality issues, customer service issues, and the  
16 daily operations.

17 Q. Do you have in front of you what has been marked  
18 as Exhibits A-1 and A-2?

19 A. Yes, I do.

20 Q. Let's start with Exhibit A-1. Is that a copy of  
21 your prefiled direct testimony?

22 A. Yes, it is.

23 Q. Was this testimony prepared by you or under your  
24 supervision, Mr. Hanford?

25 A. Yes, it was.

1 Q. Okay. Do you have any corrections or changes  
2 that need to be made to your testimony at this time?

3 A. No, I do not.

4 Q. If I asked you the same questions as were asked  
5 of you in Exhibit A-1, would your answers be the same  
6 today?

7 A. Yes, they would.

8 Q. Okay. Let me direct your attention to Exhibit  
9 A-2. Is that, in fact, a true and correct copy of your  
10 prefiled rebuttal testimony?

11 A. Yes, it is.

12 Q. And was this also prepared by you and/or under  
13 your direct supervision?

14 A. Yes, it was.

15 Q. And do you have any corrections or changes to  
16 make to Exhibit A-2?

17 A. No, I do not.

18 Q. Therefore, if I asked you the same questions  
19 today as you were asked in Exhibit A-2, would your answers  
20 be the same?

21 A. Yes, they would.

22 MR. SHAPIRO: Your Honor, so I don't lose track,  
23 I'll move for the admission of Exhibits A-1 and A-2.

24 ALJ WOLFE: There having been no objection made  
25 at the prehearing conference, A-1 and A-2 are admitted.

1 (Exhibits A-1 and A-2 were admitted into  
2 evidence.)

3 Q. (BY MR. SHAPIRO) Mr. Hanford, I just want to  
4 follow up real quickly on a couple of things that were  
5 said this morning.

6 There was a gentleman that made public comment  
7 that spoke, a Mr. Bauerle spoke of the need to have --  
8 that they need to replace regulators because the company  
9 will not reduce the pressure in the line.

10 Do you have any comment about that customer  
11 service complaint?

12 A. I think two responses come up. One is we take  
13 customer concerns very seriously. We have a 24/7 call  
14 center available. Obviously, it's something that we'll  
15 look into, but as we -- when people complain about  
16 pressure, we have to point out the fact that this was a  
17 developer-designed system. And due to the topography,  
18 there are some things that we can do and some things that  
19 we can't.

20 The other thing is the water we serve is hard.  
21 And just as a normal maintenance procedure, PRVs need to  
22 be replaced between every three and five years by the  
23 homeowner.

24 Q. And PRV is a pressure --

25 A. -- regulating valve.

1 Q. Thank you.

2 A. Yes.

3 Q. Has Mr. Bauerle made this concern known to you to  
4 your knowledge?

5 A. I have not spoken to him on this matter. Again,  
6 with our customer information system, I'll go through and  
7 see if we've had any previous contact with him, and we  
8 will respond to his concerns.

9 Q. Also, Ms. Mitchell mentioned some water loss  
10 concerns. Is the company's position that it's having a  
11 problem with its meter and that that's where the fact of  
12 water loss is coming from rather than an actual water  
13 loss?

14 A. If I could take a moment to explain. The CAP  
15 meters are in bunker-like enclosures that we have no  
16 access to. They're essentially a black box. And what CAP  
17 does, they share an output signal with us. And what we've  
18 been requesting of them for some time is we know we agree  
19 on the output signal. Let's say it's a number, 5  
20 milliamps. What we haven't been able to obtain from the  
21 CAP is the chain of custody or the verification, the  
22 documentation from that meter that 5 milliamps means an  
23 output of 3,000 gallons a minute.

24 So we were actually getting nowhere there. We  
25 installed in end of November our own meter on the raw

1 water CAP supply line. And right now the readings are  
2 only available manually, but we intend to integrate into  
3 our SCADA, S-C-A-D-A, supervisory control and data  
4 acquisition system, and automate the collection of that  
5 data. The initial findings for the one day showed the CAP  
6 meter was overreading by 20 percent.

7 Q. And how much was the recorded water loss that  
8 Staff raised as a concern?

9 A. I would have to look back at our '07 annual  
10 report, but it is high.

11 Q. Was it lower than the amount, though, that is  
12 being shown as overreading on the meter?

13 A. It's hard to say with only a few days' worth of  
14 data, and that's why it was something we were planning to  
15 proceed with, once we were able to automate the collection  
16 of this data, is to both share this with the CAP and the  
17 Commission.

18 Q. And Staff's recommendation is that you monitor  
19 this situation for a year and then file a report. Are you  
20 comfortable with that recommendation?

21 A. Yes, we are.

22 Q. And when do you believe that you could begin to  
23 collect a full year's worth of data? Starting when?

24 A. I would have to check with our engineering, but I  
25 believe we would be able to automate it sometime in

1 January or February.

2 Q. And then that's the point at which you would like  
3 to begin collecting the year's worth of data?

4 A. Right. And there's nothing -- again, since it is  
5 being pulled from a database, there's nothing to say that  
6 we can't on an interim basis share four months or six  
7 months worth of data and see where we are.

8 Q. But starting with the January/February, you'll be  
9 able to automatically retrieve that data?

10 A. Correct. It will go into our SQL database.

11 MR. SHAPIRO: Thank you very much, Mr. Hanford.

12 Mr. Hanford is now available for cross-  
13 examination, Your Honor.

14 ALJ WOLFE: Thank you.

15 Ms. Wood, do you have questions for this witness?

16 MS. WOOD: Thank you, Your Honor. I do. I'm  
17 not -- because this is my first hearing with you, I do not  
18 know how you handle exhibits. Shall I walk the exhibits  
19 up and distribute them to everybody as a group or  
20 individually? How do you want to do it?

21 ALJ WOLFE: Usually there's a copy made available  
22 to everyone. These are exhibits that you want to  
23 introduce through this witness?

24 MS. WOOD: Yes.

25 ALJ WOLFE: Are they exhibits that will be

1 entered into evidence later, that you know of?

2 MS. WOOD: Through this witness, yes.

3 ALJ WOLFE: Okay. We can go off the record while  
4 you have the court reporter help you with marking them.  
5 Okay?

6 MS. WOOD: I have marked them already for her.  
7 Is that okay?

8 ALJ WOLFE: Okay. Then there's no need to go off  
9 the record. Thank you.

10 You may go ahead.

11 MS. WOOD: Thank you, Your Honor.

12

13 CROSS-EXAMINATION

14

15 Q. (BY MS. WOOD) Mr. Hanford, my name is Michelle  
16 Wood. We met last week for the first time. I had a few  
17 questions for you, and I'm going to start with the issue  
18 of the CAP allocation.

19 A. Very good.

20 Q. How did -- what was the amount paid? Did you pay  
21 in increments or all in one fell swoop?

22 A. We made a lump sum payment.

23 Q. And that payment was for?

24 A. The retroactive capital fees. With our current  
25 CAP allocation, there's two components. One is the

1 capital charge, and one is the -- which is paid  
2 irregardless of how much water you actually take from the  
3 CAP. The other is a commodity charge analogous to a  
4 customer's commodity charge. And as part of the Arizona  
5 Water Settlement Act, the CAP needed to be made whole from  
6 the date that that initial allocation would have been made  
7 available.

8           And I don't have the exact breakdown between  
9 principal and interest, but it's similar to a mortgage. A  
10 retroactive capital payment was due to bring people that  
11 acquired this new allocation to make the CAP whole in the  
12 same manner as if someone had been paying for that  
13 allocation since it was available, I believe, sometime in  
14 the 1980s.

15       Q.   And how much did the company pay? Or how much  
16 was paid, I guess, is my first question.

17       A.   I'm looking at my testimony. \$1,280,000.

18       Q.   Okay. And when was that paid?

19       A.   I believe in January. Again, I could refer to my  
20 testimony. There's a copy of the bank transfer. Excuse  
21 me. It looks like it's showing here November 30, 2007.

22       Q.   Okay. And can you tell me what account was that  
23 drawn on?

24       A.   I would have to refer to the record. I am not  
25 typically involved in that on a daily matter.

1 Q. Can you look at what has been marked as  
2 Exhibit R-1, and identify it for me, please.

3 A. Yes, I see that.

4 Q. Okay. Is this a copy of your data response to  
5 RUCO Data Request 1.10?

6 A. Yes, it is.

7 Q. And it's dated February 1, 2008?

8 A. Yes, it is.

9 Q. Okay. And in part of this request was (c) please  
10 provide documentation verifying the lump sum purchase  
11 price, correct?

12 A. Correct.

13 Q. And you provided copies of that, correct?

14 A. Yes, we did.

15 Q. Okay. Can you turn to Page 2 of Exhibit R-1.

16 A. Yes, I see that.

17 Q. Is this a copy of the lump sum payment that you  
18 provided?

19 A. I believe that it's an entry from our JD Edwards  
20 software. I believe that with the data request we also  
21 provided a copy of the check.

22 Q. And down below it says what bank account it was  
23 drawn on. What bank was it drawn on?

24 A. On the exhibit it's circled, Wells Fargo Bank.

25 Q. And what company is noted beneath there?

1 A. It says Golden State Water Company.

2 Q. Okay. Because I'm not as up to date on your  
3 company's structure as other people might be, can you  
4 explain to me why that would be?

5 A. We have a holding company, American States Water.  
6 AWR is our ticker on the New York Stock Exchange. And  
7 under AWR there's four subsidiaries, Chaparral City Water  
8 Company being one of the four.

9 And why this says Golden State Water Company, I  
10 do not know. For example, my paychecks say Chaparral City  
11 Water.

12 Q. Okay. This transaction, though, says Golden  
13 State Water Company?

14 A. Correct. But I don't know if there were other  
15 transactions between Chaparral City and Golden State.

16 Q. Okay. Thank you. Now, you don't disagree with  
17 the Staff's method of resolving the CAP allocation issue,  
18 do you? The putting it into a non-depreciable account for  
19 land and land rights?

20 A. No, I do not.

21 Q. Do you file reports with the Arizona Department  
22 of Water Resources?

23 A. Yes, every year.

24 Q. Okay. And can you look at what has been marked  
25 as R-2 and identify that for me?

1 A. Yes, I see that.

2 Q. What is it?

3 A. It's a fax to Michelle Wood from Mary Picket:  
4 Here is the annual report from 2007 on the Chaparral City  
5 Water.

6 Q. Okay. And attached to that it looks like 16  
7 pages of fax?

8 A. Yes, that was correct.

9 Q. All right. And this is -- looking on the second  
10 page of Exhibit R-2, whose signature appears below?

11 A. That is my signature.

12 Q. Okay. And that was submitted on August 25, 2008?

13 A. August 28.

14 Q. Excuse me. August 28, 2008; is that correct?  
15 Because up above it says August 28, 2007, and down by your  
16 signature it says August 25, 2008. Which is it?

17 A. I believe I signed it on August 25, 2008, and it  
18 was received on the AMA on August 28. Is that your  
19 question?

20 Q. Well, if you look up above, there's some  
21 intradelineations to the document. It looks like it was  
22 corrected. It says August 28, 2007. Is that a typo? You  
23 actually signed it in 2008 as opposed to 2007?

24 A. That is a typo, yes. I'm sorry.

25 Q. Yeah. So that should be 2008 on the intra-

1 delineations in the boxes of the -- kind of the left side  
2 of the page?

3 A. That is correct.

4 Q. Okay. On this second sheet, you disclosed to the  
5 Department of Water Resources how much groundwater you  
6 pumped? How much groundwater did your company pump?

7 A. For 2007, we pumped 95 acre-feet.

8 Q. And how much water did you receive from other  
9 rights?

10 A. 7,080.

11 Q. And that's acre-feet?

12 A. Acre-feet, that is correct.

13 Q. Okay. And let's see. Do you have a calculator?

14 A. I do in my briefcase.

15 Q. Can we give you one? I just want to ask you --

16 A. That's about 2 billion gallons.

17 Q. Okay.

18 A. Is that your question?

19 Q. Well, actually, I was just wondering how many  
20 total acre-feet you accepted or -- either accepted from  
21 CAP or you pumped during this time period of this report.

22 A. Well, it would be the sum of the groundwater and  
23 of the CAP.

24 Q. And that would be?

25 A. Roughly 7,175 acre-feet.

1 MS. WOOD: May I approach the witness for a  
2 moment --

3 ALJ WOLFE: Yes.

4 MS. WOOD: -- to give him the calculator?

5 THE WITNESS: Hopefully it's an HP.

6 MS. WOOD: Yes, it is.

7 Q. (BY MS. WOOD) I make a joke, Mr. Hanford, that I  
8 went to law school so I would never have to do math again,  
9 and here I sit.

10 So I'm going to ask you a few questions related  
11 to this report, and some of them are going to require some  
12 calculations. So if you need to use the calculator,  
13 please do so.

14 So the total amount of water that you either  
15 pumped or took delivery of was 7,175; is that correct?

16 A. Yes.

17 Q. Okay. Can you now move to -- I think it will be  
18 marked as Page 10 of 16 of this fax.

19 A. Yes, I see that.

20 Q. What does this particular page reference?

21 A. This is Schedule F-1, Part 2, municipal provider  
22 of water deliveries, annual report 2007.

23 Q. Okay.

24 A. And this is for the Chaparral system.

25 Q. And how much water did Chaparral actually deliver

1 to customers?

2 A. Based upon the summary of all of the accounts,  
3 6,145 acre-feet.

4 Q. Okay.

5 A. Excuse me. You said delivered to customers. I  
6 take that back. We also have water used in operations.

7 Q. All right. Let me ask it a different way.

8 How much water that you either pumped or received  
9 from CAP can you account for?

10 A. 6,100. Well, this includes total deliveries, so  
11 this includes groundwater as well.

12 Q. Uh-huh.

13 A. Our system is a commingled system.

14 Q. Yes.

15 A. So water from both the CAP and the well are  
16 commingled.

17 Q. And how much is the total commingled amount that  
18 you can account for through this report?

19 A. 6,145.

20 Q. And what is the difference between that amount  
21 and the amount that you actually pumped and/or received  
22 from CAP?

23 A. About 1,000 acre-feet.

24 Q. 1,030?

25 A. I would accept that, yes.

1 Q. Now, you said that you had installed a meter?

2 A. Yes.

3 Q. Okay. Tell me, when was that installed?

4 A. That was brought on line at the end of November.  
5 I would have to check for the exact date it was installed  
6 on our property. There is an approximately five-mile  
7 pipeline between our intake on the CAP canal and our  
8 surface water treatment plant.

9 And in addition, for the water loss issues, we  
10 wanted a way to know if there was a break on that main.  
11 And through our SCADA system and some programming, we get  
12 some alarm capability that we didn't already have, as well  
13 as hopefully resolved the CAP consumption issue.

14 Q. Now, is this issue a new issue, or is it one that  
15 you have been dealing with for a period of time?

16 A. It's been one -- again, I would have to check our  
17 records. I think I have e-mails dating back to 2006.

18 Q. Okay. In fact, in the last rate case, didn't the  
19 Commission actually make a finding in your order related  
20 to the unaccounted water?

21 A. Yes.

22 Q. Okay. And what did they find at that point? Do  
23 you recall what you were supposed to do at that juncture?

24 A. We had to file a finding or report with the  
25 Commission.

1 Q. Okay.

2 A. On the water loss issue.

3 Q. Okay. And were you supposed to resolve the  
4 issue? In other words, reach a certain point? Was there  
5 a goal?

6 A. I believe there was target amounts.

7 Q. Okay.

8 A. I don't remember the exact requirements of the  
9 order from the Commission.

10 MS. WOOD: Your Honor, when you have a decision  
11 that has already been considered by the Commission, it's  
12 part of the public records, do you mark it as a separate  
13 exhibit or just take judicial notice of it?

14 ALJ WOLFE: It can be done either way. I'll take  
15 judicial notice of it if you have -- do you have copies to  
16 distribute?

17 MS. WOOD: I do for everyone, yes. I just want  
18 to take a moment to hand those out.

19 ALJ WOLFE: Okay.

20 MS. WOOD: Do you want me to mark this as a  
21 separate --

22 ALJ WOLFE: No, thank you. But I appreciate the  
23 copies.

24 Q. (BY MS. WOOD) Now, in front of you, Mr. Hanford,  
25 you have a copy of the Commission's Decision No. 68176, do

1 you not?

2 A. Yes, I do.

3 Q. Okay. Can you please turn to Page 36.

4 A. There.

5 Q. There is a paragraph on Page 36, is there not,  
6 that's entitled Paragraph E, non-account water, correct?

7 A. Yes, I see that section.

8 Q. Could you please review that so that I can ask  
9 you a few questions about it.

10 A. I have reviewed that section.

11 Q. Okay. Have you sufficiently refreshed your  
12 recollection of what the Commission's decision was in that  
13 prior case?

14 A. Yes, I have.

15 Q. What was the Commission's decision in this case?

16 A. It says that the company docket results of meter  
17 monitoring as a compliance item, in this case by July 30,  
18 2006. That if the reported water loss for the period from  
19 June 1, 2005, through June 1, 2006, exceeds 10 percent,  
20 the company will be required to provide either a report  
21 providing a detailed analysis and a plan to reduce  
22 non-account water to below 10 percent, or to submit a  
23 cost-benefit analysis.

24 Q. Okay. So you had this water loss or non-account  
25 water issue back when this decision was issued, correct?

1 A. Correct.

2 Q. Now, looking to the last page of this decision,  
3 on what date did the Commission issue this decision?

4 A. It was 30th September '05.

5 Q. So from the time period of this decision forward,  
6 you had a water loss issue, correct?

7 A. Yes.

8 Q. Is there any period of time during that period  
9 where it disappeared or you resolved it or it went below  
10 10 percent?

11 A. I don't know. I would have to review the  
12 records.

13 Q. Okay. Have you filed documents with the  
14 department or the Commission?

15 A. No. We haven't been requested to. We filed a  
16 filing in compliance with this decision by the due date.  
17 And again, water loss is something that's hard to just  
18 take a snapshot of. You really need cumulative data to  
19 see trends. That's why I was cautious about the  
20 preliminary results we got from the CAP.

21 Q. Okay. Then what prompted you to, you know, put  
22 the meter in in late November?

23 A. Of 2008?

24 Q. Uh-huh.

25 A. Just good operational management.

1 Q. Okay.

2 A. Just something that -- we monitor the system,  
3 issues come up, we investigate, we pursue them.

4 Q. Okay. And have you in your investigation, as a  
5 result you put the system in, determined that you have a  
6 reoccurring water loss issue?

7 A. I think that's not accurate to describe it as  
8 water loss. The common connotation of water loss I think  
9 of in Arizona is hydrants that are leaking, main repairs  
10 that go on for days or weeks. You only have to look at  
11 examples in the newspaper from water utilities that have  
12 those kinds of experiences. We don't have that in our  
13 system.

14 Q. So then would you characterize the water issue as  
15 more of a non-account? You're not able to identify where  
16 the water is either coming in in certain or specific  
17 amounts or where it's going, or what is the issue then?

18 A. You have to remember that the consumption is  
19 based on the calculus of -- nexus of 13,000 meters being  
20 read every month. We also go through and rehabilitate and  
21 maintain our large irrigation meters and anything above  
22 2-inch. Those are reviewed every year, and the 4- and  
23 6-inch meters are overhauled once a year.

24 So with that and with our meter retrofit program,  
25 we believe the issue points more to the fact of all of.

1 this calculation is based on one number, which is --  
2 calculating in acre-feet -- 330,000-gallon increments  
3 versus 1,000-gallon increments we read on 13,000 meters.  
4 So this issue is all relied on one number that we are  
5 given, not generated by us, and have to assume and rely on  
6 its viability.

7 Q. So in light of that issue, you installed your own  
8 meter?

9 A. Correct. We installed a probe-type meter on the  
10 24-inch water line at our Shea surface water treatment  
11 plant just before the line terminates into our raw water  
12 storage tank so we could have control. And it's not down  
13 at the CAP site. It's up on our property within our  
14 control.

15 Q. When was that installed?

16 A. Again, at the end of November.

17 Q. A week ago?

18 A. No. I think it was before Thanksgiving.

19 Q. Okay. So a couple of weeks ago?

20 A. Correct.

21 Q. And do you believe or is it your intention or  
22 your goal that as a result of installing this meter, your  
23 company would have greater availability of water that's  
24 currently not being properly accounted for through either  
25 CAP, or whoever it is you're relying on for your data?

1 A. Correct. If -- and again, that's a big if --  
2 it's to be decided, we'll have our data, CAP will have  
3 their data, and we'll have our day with each other and see  
4 if we can determine what is going on.

5 Q. Because greater than 10 percent water loss is not  
6 the standard, correct?

7 A. No.

8 Q. Okay.

9 A. When you say the standard, I believe you're  
10 referring to the American Water Works Association.  
11 Typically, for systems of our size, that's a target, a  
12 goal they try to achieve. I think it's also on the  
13 10-state standard in Bulletin No. 10.

14 Q. Okay. I had one other question. With regard to  
15 the Commission Decision 68176, on Page 36 it does direct  
16 that you report the water loss on or before July 30, 2006.

17 Is it your testimony that you did file the report  
18 or you did not?

19 A. It's my understanding that we did file with  
20 Docket Control that report.

21 Q. And did you in that report include a detailed  
22 analysis and a plan to reduce your non-account water below  
23 10 percent?

24 A. I believe -- and I would have to refer to the  
25 record, but I believe for that particular period the water

1 loss was less than 10 percent.

2 Q. Okay. If it was less than 10 percent, why did  
3 you file the report?

4 A. Because the Commission ordered us to.

5 Q. It says here if your reported water loss for the  
6 period of June 1, 2005 through June 1, 2006 exceeds  
7 10 percent, then you have to file the report.

8 So by the very nature of you having filed the  
9 report, as you're testifying you did, your water loss must  
10 have been in excess of 10 percent?

11 MR. SHAPIRO: Objection. Assumes facts not in  
12 evidence. Speculation on the part of counsel for RUCO.

13 ALJ WOLFE: Well, I think that the company was  
14 required to file the results of the meter monitoring,  
15 whether they filed --

16 MS. WOOD: If it exceeded?

17 ALJ WOLFE: No.

18 MR. SHAPIRO: No.

19 ALJ WOLFE: No. The meter monitoring results  
20 were required to be filed in the first sentence of the  
21 ordering paragraph.

22 Q. (BY MS. WOOD) Okay. So you believe that you did  
23 file the report, Mr. Hanford?

24 A. Yes, we did.

25 Q. Okay. Thank you.

1 Now, going back to the Exhibit R-2, on the pages  
2 labeled in the fax, it says Page 10 of 16. How many  
3 residential customers did you deliver to in this time  
4 period?

5 A. I think it would be helpful if you go to -- did  
6 you say Page 10 of 16?

7 Q. Yeah.

8 A. On Schedule F-1, Part 1, Page 9 of 16, we list  
9 the number of residential units, both multifamily and  
10 single family, to be responsive to your request.

11 Q. Okay. Then we can go to that page, Page 9 of 16.  
12 Why don't you tell us how many residential units you  
13 delivered to.

14 A. Well, this gets a little confusing. DWR in their  
15 forms, the annual report, the consumption is through the  
16 calendar year 2007. For this schedule I would assume  
17 we're going to be close, but just to be accurate for this  
18 schedule, they used the 12-month period July 1, '06,  
19 through July 1, '07, rather than the calendar year, where  
20 the report is actually filed through the end of December  
21 '07.

22 Q. I think that's why I wanted you to go to 10 of  
23 16, because you'll agree with me that 10 of 16 is the  
24 annual report for the entire year of 2007; correct?

25 A. That is correct.

1 Q. Let's go to the bottom of where it says total  
2 active connections, residential.

3 A. Yes.

4 Q. How many residential connections did you have in  
5 2007?

6 A. It would be the sum of 8,191 and 4,225.

7 Q. Okay. And how much water did you deliver to  
8 those customers?

9 A. It would be the sum of, in acre-feet, 2,994 and  
10 1,497.

11 Q. And would you accept that that amount would be  
12 4,491-acre-feet?

13 A. Yes.

14 Q. Okay. Now, does Chaparral promote water  
15 conservation with its customers?

16 A. Yes. I would say so, yes.

17 Q. What kind of efforts have you made?

18 A. Varied. We do read meters every month. I know  
19 that some systems read them every two months. And one  
20 thing, we read them manually, so we actually go out and  
21 are reviewing the system as we go along.

22 When a read comes in that's higher than  
23 25 percent, and I believe it's of the 12-month running  
24 average, a flag will go off in our handheld meter reading  
25 device. And we will, as time allows, generate a work

1 order, call the customer and alert them that something may  
2 be amiss here.

3 Sometimes it was, you know, a misread on our  
4 part. Usually it's what we found, and more often than  
5 not, it is a leak in their irrigation system.

6 Q. All right. Based on those efforts, do you expect  
7 to see a decrease in the total water demand for these  
8 customers?

9 A. Not necessarily. Well, once they've been alerted  
10 to a leak, yes. I mean, it happened to me. I had a \$107  
11 water bill one month, and my irrigation system leaked  
12 thanks to the javelina chewing off the drip meters. So it  
13 can happen to anyone.

14 And yes, I mean, going forward, for an individual  
15 account we would expect that once their irrigation leak  
16 has been fixed that their consumption would return to a  
17 more normal level.

18 Q. All right. What is the projected 2007 population  
19 for Fountain Hills?

20 A. I would have to look at some part of this report.

21 Q. Can you look at page --

22 MR. SHAPIRO: Excuse me. Are you asking for a  
23 projected population in the past? Did I understand that  
24 question correctly?

25 Q. (BY MS. WOOD) Why don't I rephrase the question.

1 Can you go to Page 14 of 16 of the fax.

2 This is a page that you also prepared?

3 A. Yes, that is correct.

4 Q. Okay. I'm going to start at the top of the page  
5 because that's easier. The top of the page deals with, it  
6 says, committed demand. What is that about?

7 A. Committed demand is a term, I believe, defined in  
8 the water code. And on this particular form that DWR  
9 provides for us to complete, and I believe that is the --  
10 it takes -- committed demand is the demand excess of your  
11 current demand looking forward, I believe, for two years.

12 Q. And as of your area in -- it says December 31,  
13 2007, what was the number of residential lots that I guess  
14 had not yet been -- they weren't developed? How many did  
15 you identify?

16 A. A little over 1,000. We identified 1,011.

17 Q. Okay. And then you also have identified a demand  
18 per lot as acre-feet per year of .359, correct?

19 A. Correct.

20 Q. And you derived that figure by dividing your  
21 total deliveries to residential customers by the number of  
22 accounts you have?

23 A. Well, it gets a little tricky, because we have  
24 master meter single family residences with multifamily  
25 housing. So that's our best estimate what that demand

1 would be for a typical lot.

2 Q. Okay. Getting to the typical lot, you have  
3 approximately 20 -- how many customers do you have as of  
4 the reporting period here? Total you said -- you said it  
5 was the total of 8,191 plus 4,225?

6 A. That's the number of residential customers, yes.

7 Q. Yes. I'm only talking about residential at this  
8 point.

9 A. Okay.

10 Q. Just so we can clarify.

11 A. Very good.

12 Q. All right. Would that -- would you accept that  
13 that's 12,416 residential accounts?

14 A. Yes.

15 Q. Okay. What do you project in terms of an  
16 increase in demand? Here you wrote 2007 was in this  
17 report. What did you project for an increase in  
18 population?

19 A. Fairly nominal increases. Again, at best I think  
20 this approach could be heuristic in nature. It's our best  
21 estimate of what we see.

22 Q. Okay. So here you had a projected population for  
23 2007 of 25,391, correct?

24 A. Yes, that was our estimate.

25 Q. And how many customers do you have? You said

1 12,416 residential customers?

2 A. Correct.

3 Q. Now, when you measure population, that's  
4 measuring the number of people who reside here and not who  
5 do business here, correct?

6 A. I'm not sure I understand your question.

7 Q. When you hit the population figure, you're  
8 hitting your residential customers, correct?

9 A. I'm not sure, because we have people who come in  
10 on a daily basis and they live in the community. I would  
11 have to think about that.

12 Q. Well, is that figure including commercial  
13 population, or is that the population of a town, which is  
14 typically based on the number of people that actually  
15 reside there, correct?

16 A. Yes, it is.

17 Q. Okay. All right. So you have, according to this  
18 document, projected a population of 2007 of 25,391, and by  
19 the same documents you're reporting 12,416 residential  
20 accounts.

21 A. Yes.

22 Q. Okay. Would you accept, then, that basically per  
23 household you have about 2.4 -- 2.04 people in the town  
24 represent one account for you. Each household has  
25 approximately two people in it?

1 A. Again, that's difficult to say. Because of  
2 seasonal use, the number of people, I think that's  
3 difficult to make that leap.

4 Q. Okay. Can you with your calculator, then, take  
5 the current population of 25,391, which you have  
6 acknowledged would represent residents as opposed to  
7 people that travel to the town, and divide that by 12,416.

8 MR. SHAPIRO: I'm going to object. Are we just  
9 having him do math here or -- I mean, I know he has a  
10 calculator now, but maybe we could pose questions rather  
11 than just asking the witness to do calculations.

12 ALJ WOLFE: I think she's asked questions that  
13 have elicited these numbers.

14 But if you would like to clarify, Ms. Wood.

15 MS. WOOD: Just trying to get him to identify  
16 from his own documentation how many in population are  
17 represented by each one of his accounts, and that's his  
18 data.

19 MR. SHAPIRO: Well, this is -- I mean, this is a  
20 form that is filed with DWR. This doesn't necessarily  
21 represent the kind of calculation and extrapolation that  
22 Ms. Wood is trying to get from the witness.

23 ALJ WOLFE: Well, Mr. Shapiro, maybe we should  
24 let the witness testify about that, if he wants to answer  
25 the question.

1           Could you pose the question that you just stated,  
2 Ms. Wood?

3           MS. WOOD: Yes.

4           Q.    (BY MS. WOOD) Assuming the current population  
5 that you have identified in 2007 to be 25,391, and the  
6 number of residential accounts you have also identified in  
7 the same report, what are the number of population per  
8 account do you currently have as represented by this  
9 document?

10          A.    It would be the amount of 25,391, which is,  
11 again, this is a projected population. This is an  
12 estimate. No one has gone through and counted parked cars  
13 or anything else.

14          Q.    Uh-huh.

15          A.    So just with that caveat, the 25,391 divided by  
16 the sum of those two amounts, the single family and the  
17 residential.

18          Q.    Okay. So could you please tell me what the  
19 number would be if you divided 25,391 by 12,416?

20          A.    Whatever that divisor is. I can't use this  
21 calculator. I'm sorry. I'm used to my own HP.

22          Q.    Do you have your own HP with you?

23          A.    Yes, it's in my briefcase.

24          Q.    Would it be possible for you to get that?

25               MR. SHAPIRO: I don't have an objection to the

1 witness getting his own calculator. I have an objection  
2 to the line of questioning that's misstating both the form  
3 and it appears to be irrelevant. But the witness is  
4 certainly free to get his own calculator.

5 ALJ WOLFE: Your objection is that the form is  
6 being misstated?

7 MR. SHAPIRO: Yeah. I mean, for instance,  
8 Ms. Wood is representing that these numbers mean things  
9 they're not. Right here on Page 9 of 16 of her document,  
10 it says single family housing units, not service  
11 connections. Same thing below in the multifamily housing  
12 units, not service connections.

13 So she's got the witness extrapolating numbers  
14 that she's characterizing as meaning one thing, and the  
15 very form says that they don't mean that. This is not a  
16 representation of service connections. And therefore,  
17 dividing something that is not a representation of service  
18 connections to come up with a household population, again,  
19 I think it's an exercise in confusion, frankly, and I'm  
20 concerned that the record will reflect as such.

21 So I'll make my objection that we're not  
22 accurately characterizing what the information in the form  
23 stands for.

24 ALJ WOLFE: Ms. Wood, would you like to respond?

25 MS. WOOD: Just it's a speaking objection. He's

1 basically testifying for his own witness.

2           The fact of the matter is I'm entitled to ask  
3 them where they come up with their projected need for  
4 1,931 acre-feet. This is a document this witness filed.  
5 I just want to examine how he came up with his  
6 projections.

7           ALJ WOLFE: And I'll allow that line of  
8 questioning. Mr. Shapiro, could you get the witness his  
9 calculator, please.

10           Mr. Hanford, you're free to answer the questions  
11 in any way that you feel is necessary to make the record  
12 clear.

13           THE WITNESS: Okay. And I believe this is  
14 covered in my rebuttal testimony as well on the value of  
15 that CAP allocation. Again, this is based on 2007 data,  
16 and I'll be happy to do the calculation for counsel.

17           Q. (BY MS. WOOD) Thank you, Mr. Hanford.

18           A. That calculation is 2.045.

19           Q. And I want you to be very clear. What does the  
20 2.045 represent?

21           A. That is the 2007 projected population of 25,391,  
22 divided by the sum of 8,191 and 4,225 connections.

23           Q. Okay. Now, on this form you also indicate or you  
24 project a population for 2010, correct?

25           A. That is correct.

1 Q. And the projection you gave was 27,388 correct?

2 A. That is correct.

3 Q. The difference between 27,388 and 25,391 you  
4 would acknowledge is 1,997?

5 A. That is correct.

6 Q. Okay. We've already established by our talking  
7 that not every single new warm body represents a new  
8 account in Fountain Hills, correct?

9 A. That is accurate.

10 Q. Okay. And keeping in mind all you're doing here  
11 with the Department of Water Resources is you're  
12 projecting, I understand that, because you have indicated  
13 that the division of the population by the accounts is  
14 roughly 2.04, and assuming that remains stable, would that  
15 equal a number of new accounts if you divided that 1,997  
16 by the 2.045 of approximately 978 new accounts?

17 A. Could you repeat that question? I'm not sure I  
18 understand.

19 Q. Sure. You said that in your growth projections  
20 you agreed that between 2010 and 2007, these two figures  
21 indicate a growth expected of 1,997 in population,  
22 correct?

23 A. 27,388.

24 Q. Uh-huh.

25 A. Minus 25,391?

1 Q. Uh-huh.

2 A. 1,997.

3 Q. Okay. And if you divided that by two, which is  
4 essentially what you acknowledged at the current time  
5 period of 2007 is the number of people per household or  
6 connection, that is 2.04, correct?

7 A. That is correct.

8 Q. And then if you divided 1,997 by the 2.04, that  
9 would arrive at 978, correct?

10 A. Correct.

11 Q. And 978, would that be a fair indication of how  
12 many new connections you could expect in this time period?

13 A. Well, all other things being equal, because we're  
14 assuming that the historical trends will project forward  
15 through the years.

16 Q. Yes, with that assumption.

17 A. Uh-huh. Approximately, yes.

18 Q. Uh-huh. Now, up above you have indicated that  
19 demand per lot for acre-foot is .359, correct?

20 A. That is what we estimated, that is correct.

21 Q. And you determined that estimate both residential  
22 multifamily and single family, correct?

23 A. Yes, though most of the remaining lots are single  
24 family in Fountain Hills.

25 Q. So you have some pretty good data that tells you

1 what the average acre-foot per year is for residential  
2 lots and that's how you arrived at that figure, or is  
3 it --

4 A. We do have a breakdown. The town has a GIS  
5 system. They're able to help us identify single family  
6 versus multifamily. The trick is we don't have a CIS  
7 system.

8 Q. What is your CIS system?

9 A. Customer information system. It's the database  
10 that does all of our billing, all of our customer contact,  
11 all of our maintenance work orders. And we don't have a  
12 flag between a single and multifamily in our CIS.

13 Q. Okay.

14 A. So that makes the accounting difficult, as  
15 opposed to in the irrigation account versus a commercial  
16 account, those are easily identifiable and separable.

17 Q. If these 978 new accounts, which based on these  
18 projections you could assume from your figures, each use  
19 the same amount of demand per lot that you have identified  
20 up above as .359, would you accept that that would result  
21 in an increased demand between 2007 and 2010 of  
22 351-acre-feet?

23 A. Approximately, yes.

24 Q. Okay. Now, if we did the same analysis with -- I  
25 think at the bottom here you have a projected -- and I

1 understand it was projections, you have a projection of  
2 population in 2016 of 28,843, correct?

3 A. That is correct.

4 Q. Would you accept that the difference between the  
5 28,843 and the 25,391 is approximately 3,452?

6 A. That is correct.

7 Q. Okay. And if you divided that by the 2.045 that  
8 you indicated below, or before, it would be -- the number  
9 of those people that would actually result in a connection  
10 would be approximately 1,692?

11 A. That is correct.

12 Q. And if you multiplied that by what you have  
13 identified as the demand per lot, which is .359, which you  
14 indicated was for residential lots, that would result in  
15 an increased demand between the years 2007 and 2016 of  
16 607-acre-feet?

17 A. That is correct.

18 Q. Thank you. Now, when you were responding to the  
19 data request, which is in Exhibit R-1 --

20 A. Yes, I see that.

21 Q. -- RUCO had asked you for that information, and  
22 you had responded that you weren't able to respond with  
23 the definitiveness that is indicated in the Arizona  
24 Department of Water Resources report.

25 A. I'm sorry. What is the question?

1 Q. Okay. Let me be more specific. Looking at  
2 Exhibit R-1, did RUCO ask you in what year the company  
3 would expect to use all or any portion of additional --  
4 or excuse me -- use all of the additional 1,931 acre-feet  
5 per year referenced in 1.1 above, including the company's  
6 current CAP allocation referenced in 1.9 above, right?

7 A. Yes, I see that.

8 Q. And at that time your response was given in  
9 Section A, and what was that response?

10 A. There's two parts to the response.

11 Q. Okay.

12 A. One is that it does depend on a variety of  
13 factors, including future growth and water use rates  
14 within our service area. And second, the impact of any  
15 curtailments that may be imposed on future CAP deliveries  
16 by the Central Arizona Water Conservation District.

17 Q. And by curtailments are you talking about the  
18 reduction in the availability of CAP water as a result of  
19 drought like they did in 2004 and 2005?

20 A. Yes.

21 Q. Okay. And at that time it was approximately a  
22 30 percent curtailment, correct?

23 A. I don't know. I would have to review the record.

24 Q. Oh, okay. Okay. It wasn't 50 percent, though,  
25 right?

1 MR. SHAPIRO: Objection. He just stated that he  
2 doesn't know the answer.

3 Q. (BY MS. WOOD) Do you know any range of what the  
4 curtailment was?

5 A. I'm not sure I understand the question.

6 Q. Okay. Have you experienced curtailments from CAP  
7 before?

8 A. No, we have not.

9 Q. Oh, okay. Thank you very much.

10 Now, we've talked about if population figures and  
11 connections reach the levels we've discussed that you  
12 would need some, oh, 607 acre-feet by 2016.

13 What would your company do with any additional  
14 waters that you have that you receive from CAP but that  
15 you cannot use? What would you do with that water?

16 A. It depends if it's allowed in rate base.

17 Q. Okay. Please be more specific. If it's allowed  
18 in rate base --

19 A. If it's allowed in rate base, we'll use it for  
20 the benefit of our existing and future customers. If it's  
21 not, we'll have to look at that and perhaps dispose it.

22 ALJ WOLFE: Could you repeat that last word, the  
23 last two words?

24 THE WITNESS: It may have to be disposed of.

25 Excuse me.

1 ALJ WOLFE: Thank you.

2 Q. (BY MS. WOOD) Now, do you know what the Arizona  
3 Water Bank is?

4 A. Yes.

5 Q. What is it?

6 A. It's a mechanism that allows, I believe,  
7 individuals within AMAs that don't have access to CAP  
8 water to pump groundwater in lieu of a renewable surface  
9 supply and obtain certificates, designation of an assured  
10 supply. Excuse me. Certificates of an assured supply,  
11 not designation. Excuse me.

12 Q. (BY MS. WOOD) Okay. And does it allow the  
13 entity also to generate what is called long-term credits?

14 A. I believe so.

15 Q. Okay.

16 A. We don't participate in the Arizona Water Bank  
17 currently, so I'm not very familiar with their procedures.

18 Q. But you would acknowledge that if you did  
19 participate in the bank that you would be able to sell,  
20 lease or assign those long-term credits under the  
21 statutes?

22 A. Again, it's not a matter that we've pursued, so I  
23 would have to do that analysis.

24 Q. Are you now or have you ever been -- which I  
25 think the answer is perhaps no because of the way you

1 answered the last question -- been in any discussions,  
2 written, oral, anything, with anybody with regard to the  
3 sale, lease, or assignment of long-term credits that could  
4 be generated by the 1,931 acre-feet of water?

5 A. No, I have not.

6 Q. Has anyone else from your company been involved  
7 in any discussions or written --

8 A. Again, to my knowledge, I'm not aware of that.

9 Q. Who in your company would be responsible for that  
10 type of discussion?

11 A. I would hope initially myself.

12 Q. All right. If you received this allocation of  
13 water and compensation through this rate case for it, what  
14 is your notion of how your company will treat that? Will  
15 you be disposing of any of it, or will you be pursuing  
16 these other means of banking and earning long-term  
17 credits?

18 A. To be sure I understand the question, is the  
19 question that if this allocation were to be included in  
20 rates, how would we use that resource? Is that the  
21 question?

22 Q. Yes, thank you. And you stated it much better  
23 than I did.

24 A. I have no desire to be an attorney.

25 We would use it for our existing and future

1 customers within our existing Certificate of Convenience  
2 and Necessity.

3 Q. In your data responses or requests for data  
4 responses, there was a discussion of bulk water sales. I  
5 just want to explore this without belaboring the point.  
6 Do you have a notion of making bulk water sales of this  
7 water if it's not used and useful by the current  
8 customers?

9 A. That could be one option, yes.

10 Q. All right. Have you had any discussions with  
11 anybody regarding that possibility?

12 A. No, we have not.

13 Q. All right. I want to move on to another exciting  
14 topic, the Fountain Hills Sanitary District settlement  
15 proceeds.

16 ALJ WOLFE: Ms. Wood, I'm sorry to interrupt you,  
17 but I think this might be a good time for us to break for  
18 lunch.

19 MS. WOOD: I agree with you.

20 ALJ WOLFE: We'll come back at 1:30.

21 MS. WOOD: Your Honor, would it be possible to  
22 get these exhibits admitted just so that I get it done?

23 ALJ WOLFE: Passed out?

24 MS. WOOD: I passed them out, the 1, 2, 3. Could  
25 I move their admission?

1 ALJ WOLFE: Yes. Let's stay on the record.

2 R-3 have you identified through this witness?

3 MS. WOOD: I apologize. I haven't done 3. Just  
4 1 and 2. I apologize.

5 ALJ WOLFE: Exhibits R-1 and R-2 have been  
6 offered. Is there any objection?

7 MR. SHAPIRO: No.

8 MS. MITCHELL: None.

9 ALJ WOLFE: Exhibits R-1 and R-2 are admitted.  
10 (Exhibits R-1 and R-2 were admitted into  
11 evidence.)

12 MS. WOOD: Thank you.

13 ALJ WOLFE: And we'll break for lunch and come  
14 back at 1:30.

15 (A recess was taken from 12:15 p.m. to 1:33 p.m.)

16 ALJ WOLFE: Okay. Let's go back on the record.

17 Do we have someone new here to enter an  
18 appearance? No. This is one of your witnesses?

19 MR. SHAPIRO: Keith Switzer from American States,  
20 the VP of regulatory affairs, part of the client  
21 contingency.

22 ALJ WOLFE: He was kind of separated there so --

23 MS. SWITZER: Should I go back there?

24 ALJ WOLFE: No. I just thought that you might be  
25 an attorney for a party that hadn't made an appearance.

1 Ms. Wood, you can continue with your questioning.

2 MS. WOOD: Thank you, Your Honor.

3 Q. (BY MS. WOOD) Mr. Hanford, the exciting topic we  
4 were going to proceed with before the break was the  
5 Fountain Hills Sanitation District settlement proceeds.

6 These proceeds revolve around Wells 8 and 9,  
7 correct?

8 A. That is correct.

9 Q. Okay. If I had been efficient I would have  
10 handed out this exhibit before we started, but let me just  
11 do that now.

12 Now, this is a -- for the record has been  
13 identified as Exhibit R-5. Do you see that -- well, I  
14 think I marked the exhibit I gave the court reporter. I  
15 apologize for not marking it for you, Mr. Hanford. It's  
16 R-5. And just so we're on the same page, it's a copy of  
17 Schedules B-4 and Schedule C-2 from Mr. Bourassa.

18 A. Yes, I see that.

19 Q. Okay. And now Mr. Bourassa is, as he relates to  
20 this proceeding, a witness for your company?

21 A. That is correct.

22 Q. And these schedules were prepared by him for your  
23 company?

24 A. Yes.

25 Q. Okay. Now, I just want to get a little history

1 in terms of what Wells 8 and 9 are just historically.  
2 When were these first put in service? And for that can  
3 you look down to NARUC Account 307 on this schedule  
4 created by Mr. Bourassa.

5 A. I believe that's the first line on the first  
6 page.

7 Q. Okay. I'm looking at NARUC account, not the  
8 other class.

9 A. Oh, very good.

10 Q. Okay.

11 A. Yes, I see that now.

12 Q. And it's described as NARUC Account 307, wells  
13 and springs?

14 A. Uh-huh.

15 Q. Okay. According to this document, when were  
16 Wells 8 and 9 put into service?

17 A. I believe sometime in the early '70s.

18 Q. Okay. Would it be accurate to say that one of  
19 the wells was placed into service in 1971 and the other in  
20 1972?

21 A. I believe that could be the case, yes. I'm not  
22 sure of the order.

23 Q. All right. One of them was put in place in 1971  
24 and the other one was put in 1972. Would you agree with  
25 that?

1 A. That's my best understanding of the facts, yes.

2 Q. And what is the original expense for these two  
3 wells as identified under this schedule prepared by  
4 Mr. Bourassa?

5 A. Again, the schedule was created by Mr. Bourassa.  
6 I mean, I can just read what I see here. I'm not familiar  
7 with this. It wasn't prepared by me. I can just read it  
8 to you.

9 Q. Yeah.

10 A. Okay. I can be a scribe. For 1971, under NARUC  
11 Account 307, wells and springs, the amount was \$49,329  
12 original cost, and the RCN cost is \$214,695.

13 Q. Okay. And now for the second well.

14 A. That's also NARUC Account 307, and the year of  
15 1972, with an original cost of \$54,139, and an RCN cost of  
16 \$220,589.

17 Q. Okay. And after they were put in service, there  
18 was a depreciation? They were depreciated over a period  
19 of time? There was depreciation expense on these?

20 A. Again, I'm not -- I don't perform that function  
21 for the company. I believe we do depreciate our assets,  
22 yes.

23 Q. What is your function within your company?

24 A. My title is district manager.

25 Q. Okay. And in the course of being district

1 manager, is it your responsibility for the financial  
2 status of that company and to know it?

3 A. No, it is not.

4 Q. What is your focus?

5 A. Operations.

6 Q. Okay. So you don't understand the amount of  
7 money that you depreciate your equipment at?

8 A. I'm aware of the concept, yes.

9 Q. And you have never reviewed these documents  
10 before submitting them to the court?

11 A. I reviewed them, but I did not prepare them.

12 MR. SHAPIRO: Can we just clarify? Mr. Hanford  
13 didn't submit anything to the court, so Ms. Wood's  
14 question assumes facts not in evidence.

15 THE WITNESS: I'm sorry. Is there a question on  
16 the table?

17 Q. (BY MS. WOOD) I haven't asked one yet.

18 What is the level of depreciation for wells and  
19 springs account on Page 2, Schedule C-2?

20 A. This is Schedule C-2, Page 2, through test year  
21 ended December 31, '06. NARUC Account 307, wells and  
22 springs, shows an original cost of \$332,065 and a  
23 depreciation expense of \$11,058.

24 Q. And what was the proposed rate of depreciation?

25 A. The proposed rate from the schedule is

1 3.33 percent.

2 Q. Okay. And so that would indicate that these  
3 types of equipment are expected to have, what, a 30-year  
4 depreciation?

5 A. I would have to defer to Mr. Bourassa since he  
6 prepared this. He could give you a more accurate answer.

7 Q. Okay. Have Wells 8 and 9 been sold?

8 A. No, they have not.

9 Q. Okay. And that being the case, the company has  
10 not recognized a sale -- or excuse me -- recognized a gain  
11 or a loss on a sale. That's not what we're talking about  
12 in this case, correct?

13 A. I'm not sure. The wells have not been sold, so  
14 I'm not sure I understand the question.

15 Q. They've not been sold. So this case and the  
16 issue with the wells is not related to a sale of the  
17 wells, correct?

18 A. Correct, because they have not been sold.

19 Q. All right. That wasn't part of the deal with the  
20 sanitation district?

21 A. The settlement agreement did not include the sale  
22 of the wells. That is correct.

23 Q. If and when you sell these, you would expect to  
24 share 50/50 in the gain if there were a gain, correct?

25 A. Again, this is something that we don't do every

1 day. It's a very unusual occurrence. It's not something  
2 that's routine or normal. But I would imagine in the  
3 instance of fairness that, yes, we would share with the  
4 customers and with the company a split of 50/50.

5 Q. Okay. These wells were, you said, put in service  
6 in 1971 and 1972, correct?

7 A. Again, that's my best understanding due to the  
8 historical nature of their operations.

9 Q. And that basically means -- are they fully  
10 depreciated?

11 A. I don't know. I would have to defer to  
12 Mr. Bourassa or someone in our finance department.

13 Q. If you assume for the sake of argument they were  
14 fully depreciated, would that mean that Chaparral had  
15 recovered its cost of those wells?

16 A. I'm really not versed to respond to that. I  
17 would have to, again, defer to Mr. Bourassa or someone  
18 from our finance.

19 Q. All right. Why don't we look at your testimony.  
20 Do you have your rebuttal testimony in front of you?

21 A. What exhibit is that?

22 Q. I believe it's A-2, but I'm not certain.

23 MR. SHAPIRO: Yes.

24 THE WITNESS: Yes, I have that.

25 Q. (BY MS. WOOD) Okay. Can you look for me on

1 Page 4 of your rebuttal testimony.

2 A. Yes. I'm on that page.

3 Q. All right. This was your testimony. You drafted  
4 it, proposed it, submitted it to the Judge, correct?

5 A. That is correct.

6 Q. Just one second, Mr. Hanford. I apologize. I  
7 have lost my place.

8 I was in your direct testimony. I apologize. I  
9 couldn't find the quote I was looking for because I was in  
10 the wrong place.

11 Okay. I am looking at Page 4 of your rebuttal  
12 testimony. At Line 19 through 23, you were asked: What  
13 about Mr. Millsap's claim that the company was already  
14 compensated by ratepayers for the two wells?

15 Do you see that question?

16 A. Yes, I do.

17 Q. And what was your response?

18 A. Would you like me to read from my testimony?

19 Q. Or you can summarize it if you wish, whichever.

20 A. I'll just reiterate what I stated. It seems to  
21 me like Mr. Millsap was claiming that the customers own  
22 our assets. They don't. CCWC bought and paid for the  
23 assets in full, and through the ratemaking process it  
24 received a return on and of that capital investment.

25 Q. So in that last statement, CCWC bought and paid

1 for the assets in full and through the ratemaking process  
2 it received a return on and of that capital investment.

3 If you say the words that you have received  
4 through the ratemaking process a return of your capital  
5 investment, does that subsume that you agree that you have  
6 been paid in full for what you paid for that asset?

7 A. No.

8 Q. What do you think it means?

9 A. Well, yes, we paid for the assets in full and  
10 they were our property.

11 Q. And through the ratemaking process, "it," are you  
12 talking about the company?

13 A. Yes, that is correct.

14 Q. Okay. It received a return. So that means that  
15 you received a return on your investment, correct?

16 A. That is correct.

17 Q. And then it received a return of the capital  
18 investment. Does that mean that you received the full  
19 cost of that investment as well?

20 A. It depends. That's an accounting answer I would  
21 have to defer to Mr. Bourassa.

22 Q. Well, these are your words. What did you mean by  
23 them?

24 A. That we had -- they were not CIAC or advances in  
25 aid of construction. They were funded by the company.

1 Q. Well, you're talking about receiving something.  
2 What in your words did you receive?

3 A. I stated that I received a return on this capital  
4 investment.

5 Q. And then you also said you received a return of  
6 that capital investment. What did those words mean?

7 A. The same thing. Just rate base and earning a  
8 return on the shareholders' investment.

9 Q. So you were only talking about the return on the  
10 investment. You were not talking about the cost for the  
11 investment?

12 A. I'm not sure I understand the question.

13 Q. This was included in rate base, correct?

14 A. Yes, it was, is my understanding.

15 Q. Did you receive the original cost for this plant?

16 A. When you say original cost, I mean, we earn a  
17 rate of return on our capital investments. I don't know  
18 how else to answer you.

19 (An off-the-record discussion ensued.)

20 Q. (BY MS. WOOD) And if nobody else heard that  
21 question, let me repeat it.

22 A. No, I did not.

23 Q. Okay. Did you receive recovery of the cost of  
24 these wells through a depreciation expense?

25 A. For those wells or any other asset, yes, we earn

1 that opportunity.

2 Q. From '71 to -- they're still in rate base right  
3 now, right?

4 A. I don't know. I would have to defer to the  
5 schedules.

6 Q. The purpose of the settlement you received from  
7 the sanitation district was to compensate for the loss of  
8 the use of the wells, correct?

9 A. It was to compensate the company for impaired  
10 assets, yes.

11 Q. Okay. And you actually addressed this issue on  
12 Page 10 of your direct testimony, didn't you?

13 A. That is discussed on Page 10, yes.

14 Q. Okay. And at Lines 11 through 13, you actually  
15 say that the sanitation district agreed to CCWC --  
16 Chaparral is the name for that -- being compensated for an  
17 equivalent cost of water to replace that amount Well 9  
18 would have produced over the remainder of its useful life;  
19 is that correct?

20 A. That is how we determined the amount.

21 Q. Okay. So that is what you testified to?

22 A. That is what we -- how the amount was determined,  
23 yes.

24 Q. Okay. Have you stopped using Wells 8 and 9?

25 A. Stopped from when?

1 Q. Have you ceased using them?

2 A. They are currently not being used.

3 Q. When did you stop using them?

4 A. Well No. 8 was never used as a potable source,  
5 and it was only used to fill the Fountain Lake as an  
6 irrigation supply. And I don't know when that was  
7 stopped. I have to check the records. I think sometime  
8 in the -- could have been in the '70s or the '80s. I  
9 believe that Well No. 9 was taken off-line sometime  
10 between 2000 and 2002. I'm not sure.

11 Q. So 8 was used for storage?

12 A. No. Eight was used to fill -- only as a raw  
13 water source to Fountain Lake.

14 Q. Was 9 used for potable water?

15 A. Nine was used for potable water.

16 Q. After you stopped using that, did you have to  
17 replace that groundwater with another source?

18 A. Our supply mix includes two other wells and our  
19 surface water, so we use a combination of groundwater and  
20 surface water for our supply mix going forward from that  
21 time.

22 Q. Now, this morning I heard you say that  
23 groundwater is cheaper, correct?

24 A. I believe that Mr. Norm James made that statement  
25 in his opening remarks.

1 Q. Would you agree with his statement?

2 A. It depends. There's two components. One is the  
3 CAGRD fees for groundwater are about twice as much as  
4 surface water that we pay for from the CAP. And prior to  
5 the new regulations coming into effect for arsenic, our  
6 wells were below the MCL, maximum contaminant level for  
7 arsenic. But with the new arsenic regulations, we have --  
8 to be able to use water from Wells 10 or 11, it requires  
9 treatment to conform to the new MCL that takes effect  
10 January 1 of next year.

11 Q. Okay. So you don't agree when your attorney said  
12 that groundwater is cheaper?

13 A. I think I said it depends because, again, I just  
14 can't say on the back of an envelope. We have to treat  
15 surface water. There's chemical costs with that.

16 Currently, we're using blending for the water  
17 from Well 10 because it's the most cost effective form of  
18 treatment for arsenic since we're able to blend it with  
19 surface water. So there's a whole continuum of costs, if  
20 you will, for groundwater versus surface water, and just  
21 off the cuff I couldn't give you an analysis.

22 Q. Okay. Are the ratepayers paying the expenses  
23 associated with that CAP water?

24 A. Yes, through our rate structure.

25 Q. Okay. Now, in this case did you agree that

1 Wells 8 and 9 would be retired?

2 A. I believe in Mr. Bourassa's testimony he did  
3 state that, yes.

4 Q. Okay. So that if they're being retired, they  
5 were still there beforehand?

6 A. I would refer to Mr. Bourassa's testimony.

7 Q. Who is responsible for reviewing the financial  
8 information that Mr. Bourassa compiles?

9 A. For rate cases?

10 Q. Uh-huh.

11 A. That's reviewed by both me, by Keith Switzer our  
12 vice president of regulatory affairs, and then he may  
13 consult with other members of senior management.

14 Q. Okay. The schedules that you have been handed  
15 that are Exhibit R-5, then, are copies of schedules that  
16 you reviewed, correct?

17 A. I'm not sure of the context of review. Yes, I  
18 did look at them. But again, I'm not an accountant or a  
19 CPA, so I'm not a third party reviewing the accuracy or  
20 inaccuracy of his work. But yes, I did look at them.

21 Q. Okay. So you're familiar with them?

22 A. Yes, I'm familiar with Mr. Bourassa's schedules.

23 Q. Okay. And you can see clearly from those  
24 schedules that Wells 8 and 9 are included in rate base,  
25 correct?

1 MR. SHAPIRO: I'm sorry. Do you see -- I guess  
2 I'm still confused, because I don't see any reference to  
3 Well 8 or Well 9 in the schedule that Ms. Wood just  
4 referred to.

5 ALJ WOLFE: Ms. Wood, would you mind?

6 MS. WOOD: I already asked the witness what  
7 entries 307, 1971 and 1972 were. He said he didn't know  
8 which well was 8 or which one was 9, but he knew those  
9 were 8 and 9. So that would be my question still yet.

10 ALJ WOLFE: Overruled.

11 THE WITNESS: Could you please repeat the  
12 question?

13 Q. (BY MS. WOOD) Those entries under NARUC Account  
14 307, wells and springs, for 1971 and 1972, those are  
15 Wells 8 and 9 as you previously testified. They're in the  
16 schedules that Mr. Bourassa supplied and you reviewed, and  
17 they indicate those are included in rate base, correct?

18 A. I guess I don't have the understanding to be able  
19 to answer whether they were -- yes, I admit they're on the  
20 schedules, but whether they're included in rate base or  
21 not. Because we only list, for example, in C-2, Page 2,  
22 we say original cost, proposed rate of depreciation  
23 expense. So I don't know what is or are not depreciated.  
24 I don't have that background to be able to respond to you.

25 Q. So to the extent that you testified about those

1 financial conditions for your company, then, the Judge  
2 should not rely on your statements?

3 A. I don't know what financial conditions you're  
4 talking about.

5 Q. Regarding 8 and 9, you said that you don't know  
6 what the financial condition is.

7 A. You asked me if they were fully depreciated, and  
8 I said by looking at these two schedules I did not know  
9 based on these two pieces of paper if they're fully  
10 depreciated or not. I believe that was the question.

11 Q. Uh-huh.

12 A. So I do not know if they're fully depreciated or  
13 not.

14 Q. I actually asked if they were included in rate  
15 base.

16 A. If they are on a NARUC account, I would agree  
17 that -- if that's the question -- that yes, they would be  
18 included in rate base.

19 Q. And they've been included in rate base, according  
20 to that schedule, since 1971 for one of the wells and 1972  
21 for the second well, correct?

22 A. It appears from the schedules, yes.

23 Q. Thank you. Do you acknowledge that it was an  
24 oversight for the company when 8 and 9 were not retired  
25 from plant in service before this filing?

1 A. I believe that was admitted to in Mr. Bourassa's  
2 testimony.

3 Q. Thank you. And you agree with it?

4 A. Yes, I do.

5 Q. Okay. Even though they should have been removed  
6 and they weren't, they continued to receive -- the company  
7 has continued to receive a rate of return on these wells?

8 A. As small as the rate of return is, yes.

9 Q. Uh-huh. And they would have also received cost  
10 recovery through a depreciation expense as well, correct?

11 A. Correct, some 30 years into the future.

12 Q. The next issue I want to talk to you about,  
13 Mr. Hanford, is rate case expense, and I'll be very brief.  
14 You are not a lawyer, correct?

15 A. Yes, that is correct. I have no training in the  
16 law.

17 Q. And you do not profess to express a legal opinion  
18 about the right of recovery of legal expenses associated  
19 with the appeal of Decision 68176 or the remand proceeding  
20 that resulted in Decision 70441, do you?

21 A. What is the question? I'm sorry.

22 Q. Do you have a legal opinion about rate case  
23 expense associated with the appeal and remand?

24 A. No, I do not have a legal opinion.

25 Q. Before you filed the appeal, did you make the

1 decision to file the appeal?

2 A. I consulted with senior management.

3 Q. Who did you consult with?

4 A. Let's see. At the time it would still be Keith  
5 Switzer, and then -- I think it was primarily Keith.

6 Q. Okay. And is it a fair statement that the  
7 purpose of that appeal was generated to obtain a greater  
8 operating expense? Excuse me. Income expense. Operating  
9 income. Sorry, I'm new.

10 A. No, I disagree. I think it was to correct the  
11 Commission breaking the law.

12 Q. All right. And as a result of what you say is  
13 breaking the law by the Commission, the ultimate outcome  
14 of that would be your hope to increase the operating  
15 income for the company, correct?

16 A. And going forward to be treated fairly, yes.

17 Q. Okay. And now before you sought that appeal, did  
18 you consider the potential outcomes and determine if it  
19 would be financially prudent?

20 A. Oh, I think it would have been financially  
21 imprudent not to file the appeal. Again, both in my  
22 testimony and that of our CFO, soon to be CEO, our rate of  
23 returns are so low there's -- if we were standalone, we do  
24 not know if we could even attract debt or equity today.

25 Q. How much did you spend on the appeal?

1 A. Again, I don't have the number available. It was  
2 in a data request that we responded to. I believe it's  
3 available to you there. I don't know exactly.

4 Q. You don't know how much you spent on the appeal?

5 A. Oh, I know it was probably more than 100,000 and  
6 less than half a million, I mean, order of magnitude.

7 Q. And in relationship to what you received in  
8 return, what did you get as a result of the appeal and the  
9 remand proceeding in terms of operating income?

10 A. Where we stand right now, we gained an  
11 additional -- in the most recent decision, additional  
12 revenue requirement of, I think, 12,000. And with  
13 interest, that translated per our calculations to about  
14 50,000 per year.

15 Q. And is it your position that you want the  
16 ratepayers to pay for that decision to seek the appeal?  
17 You want them to pay for the rate case expense?

18 A. Oh, most definitely, because the Commission broke  
19 the law. They could have appealed it -- my understanding  
20 as a layperson -- to the Supreme Court. No one chose to  
21 do that. No one chose to carry the appeal any further.  
22 Your argument could be made if you went to the Supreme  
23 Court and won, maybe we didn't have a leg to stand on. No  
24 one carried the decision any further that I'm aware of.

25 Q. The outcome of the Court of Appeals decision was

1 a remand, correct?

2 A. Correct.

3 Q. And there was a remand hearing held, correct?

4 A. That is correct.

5 Q. Okay. If the ratepayers were not going to be  
6 responsible for rate case expense, do you think it was a  
7 good business decision to spend what you say is more than  
8 \$100,000 in order to recover \$12,000 of operating income?

9 A. Looking backwards with hindsight, you never know  
10 how things will prevail, and we had to do it. Again, as  
11 our attorney opening remarks, we don't file rate cases  
12 very frequently. We feel it's important to be able to  
13 provide the investment in capital to our customers that  
14 they deserve.

15 That we need the opportunity -- and this is the  
16 word that was missing in all the discussions this  
17 morning -- we need the opportunity, not the guarantee, to  
18 earn a comparable rate of return.

19 Q. I just wanted to pursue a point of clarification.  
20 I believe it's been resolved, but I wanted to ask you.

21 Chaparral is not seeking a hookup fee for future  
22 clients or customers to pay for the CAP water, correct?

23 A. We have in our existing tariff a hookup fee from  
24 the previous decision and rate case.

25 Q. In Mr. Bourassa's Schedule A-3, he says that it

1 was -- I think that he wanted either an additional hookup  
2 fee or another hookup fee for the purpose of paying for  
3 the CAP allocation. I understand from counsel that you  
4 are not pursuing that and this was a typographical error.  
5 Is that your understanding?

6 A. No. I would have to review the testimony. I  
7 really don't remember.

8 MS. WOOD: Okay. Maybe I can just seek that  
9 clarification from Mr. Shapiro. I just wanted to make  
10 sure.

11 MR. SHAPIRO: We can stipulate, I think, that  
12 Mr. Bourassa addresses it in his rejoinder that there was  
13 an errant reference in an early schedule in the direct to  
14 a hookup fee related to the CAP. We never actually made  
15 that request, nor are we making it now.

16 MS. WOOD: I just wanted to make sure that was  
17 clear for the record. Thank you very much, Mr. Shapiro.  
18 I don't have any further questions at this time.

19 ALJ WOLFE: Thank you, Ms. Wood.

20 Ms. Mitchell.

21 MS. MITCHELL: Thank you, Judge Wolfe.

22

23

CROSS-EXAMINATION

24

25 Q. (BY MS. MITCHELL) Good afternoon, Mr. Hanford.

1 A. Good afternoon.

2 Q. I just have a -- we all say we just have a couple  
3 of questions and then it goes on for hours, but I'll try  
4 to be brief.

5 On the CAP metering issue on the water loss,  
6 could I just clarify when you said you thought that you  
7 would start to monitor that new meter that you all were  
8 going to install?

9 A. There's two components to that. One is we are  
10 getting readings from the meter currently, but it's only  
11 by a manual process. So we're able to see, but it does  
12 not accumulate and store it in our SCADA database. So we  
13 can monitor it, but it's like taking a snapshot in time  
14 right now. And our hope is by sometime in January or  
15 February, we'll have the programming done and included in  
16 our SCADA database so we can do queries and have data we  
17 can work with over time.

18 Just as a point of interest, this project was  
19 budgeted in 2007 for our 2008 capital projects. We got it  
20 done in November of 2008. So it's been something that's  
21 been carrying on for some time here, and we're just seeing  
22 the fruits of our labor now.

23 Q. And I believe that you may have indicated that  
24 you were going to start doing some monitoring in January  
25 or February of next year?

1 A. Correct. As soon as we can get the data stored,  
2 if you will, we'll be starting that process.

3 Q. And you do understand that Staff has recommended  
4 a 12-month monitoring and a report to be filed subsequent  
5 to the monitoring?

6 A. Yes. And again, we would offer that if it would  
7 be helpful to Staff, I mean, there's nothing magic. Once  
8 we get the reports and we can start sharing them, we could  
9 share them on a three-month. You want to have some  
10 duration to the sampling to eliminate anomalies and to  
11 smooth out the data. But we would be willing to share  
12 even more frequently if that would be helpful.

13 Q. We would appreciate that. Thank you.

14 I'm going to move on to a subject on  
15 conservation. Just a couple of questions.

16 Is Chaparral subject to the best management  
17 practices of ADWR?

18 A. I'm not sure. And the reason I say that is  
19 because we have a designation in an AMA, and I would have  
20 to refer to the third management plan. I'm not sure.

21 Q. And in the event that you are or are not, is  
22 Chaparral undertaking any kind of education on  
23 conservation? Doing any type of public outreach?

24 A. Let me share a couple of things. One, the most  
25 important thing is someone comes back -- we have some

1 seasonal residents, and they come back and they say, Oh,  
2 my gosh, my water bill is high. And the first thing we  
3 say is check your toilets with a colored dye in the tank,  
4 because more often than not that's where the leak is or  
5 they've had a leak in irrigation. So we do the outreach  
6 through our customer service representative both for phone  
7 inquiries and when people walk through the door.

8           The most recent thing we've done are two things.  
9 In cooperation with DWR and -- oh, who are the other  
10 sponsors? I believe the town was involved, the Fountain  
11 Hills Unified School District. We participate in Project  
12 Wet, W-E-T, and we purchased some equipment that the -- I  
13 believe the town is storing for the school district.

14           They did an event recently where they set up a  
15 series of stations, and I believe that it's elementary, so  
16 fourth and fifth grade children from throughout the  
17 Valley, not just Fountain Hills, came to Fountain Hills  
18 Four Peaks Elementary School and went through a series of  
19 stations about water conservation and where our water  
20 comes from, how much you use and how much you can waste.  
21 So we're involved with Project Wet. It's so successful  
22 they're planning to do that again.

23           The other thing that we've been involved with is  
24 at the request of the town, they asked for us to help them  
25 with their -- it's an outreach where they install special

1 nozzles in commercial kitchens to help reduce the rinse  
2 water, so we've worked -- and I forgot the acronym for  
3 that program. But Councilman Jimmy Dickey was very  
4 involved and requested our assistance with that.

5           So those are two that I can name off the top of  
6 my head, in addition to the general outreach we do with  
7 our customers on an ongoing basis.

8           Q. Thank you. Would it be fair to say that  
9 Chaparral is experiencing an increase in their operating  
10 expenses?

11          A. Yes. Two things. Some of our biggest expenses  
12 are purchased water and purchased power, and purchased  
13 water is two components. The very small one is from the  
14 Central Arizona Groundwater Replenishment District for the  
15 pumping fee for the groundwater we use, and the other is,  
16 of course, the service and commodity charges for the  
17 Central Arizona Project.

18           And CAP does a five-year forecast, and it's on  
19 their website, anyone can verify it. And what we're  
20 starting to see is a reduction in the service charge and  
21 more substantial increase in the commodity charges. And  
22 again, CAP, I think, will go firm -- it's on their  
23 website -- will go firm for the first two years on a  
24 five-year cycle, and then estimate after that once they  
25 establish their rates. So we know, forecasting going

1 forward, the price increases we'll see for our purchased  
2 water.

3           And then we have two electrical providers. APS  
4 is the electrical provider at our CAP pump station, and  
5 that's a very large pump station. It's almost 500  
6 horsepower pumps and there's four of them. And to the  
7 extent possible we pump off peak, but that's a very  
8 substantial portion of your pumping power is just pumping  
9 water from the CAP five miles up hill to our Shea  
10 treatment plant.

11           And then we have SRP as a provider within our  
12 CC&N, and they provide power for our treatment plant, our  
13 wells, and our booster pump stations, and we're seeing  
14 those rates increase as well.

15           The other thing we're seeing is our chemicals.  
16 Where we used to be able to get chlorine, sodium  
17 hypochlorite solution for about 80 cents a gallon, now  
18 it's about a buck twenty a gallon, and we don't see it  
19 diminishing.

20           Q. Has the company taken any steps to mitigate any  
21 of those operating expenses? I mean, you hear everyone is  
22 laying off and people are cutting back.

23           What is the company doing to limit its operating  
24 expense?

25           A. I think that's a fair question. The first thing

1 is to the extent that we can, our chemical expenses, we  
2 installed a dynamic chemical mixer at our Shea treatment  
3 plant, and through that we've been able to reduce our  
4 chemical costs for our two most expensive chemicals,  
5 cationic, c-a-t-i-o-n-i-c, and anionic, a-n-i-o-n-i-c,  
6 polymer. And this is the chemicals that help attract  
7 particles together and allow us to better remove them in  
8 our surface water treatment plant. So if we can reduce  
9 those, that's pretty important, and this chemical mixer we  
10 installed allowed us to reduce our costs there.

11 If you look at us operational, fully staffed, I  
12 believe we have 14 employees. I do not have an office  
13 assistant. We have one CSR for 13,000-plus customers. We  
14 have one engineer that assumes multiple roles. So I think  
15 that our internal staffing is about as low a level as we  
16 possibly can go.

17 So where else can we reduce costs? Purchased  
18 water, pumping power. We try to pump off peak whenever  
19 possible. Labor, we have to respond to our customers; we  
20 have to respond to leaks. So there's not too much more we  
21 can do to minimize our expenses. I think we're reaching  
22 the point of diminishing returns.

23 Q. I want to ask just another question about other  
24 expenses on rate case expense. Do you know how much of  
25 that is attributable to legal fees?

1           A.    I would have to do an accounting in our  
2 accounting software, but most of the expense is legal fees  
3 and financial expertise. For example, on this rate case,  
4 we had spent quite a bit of money in the previous rate  
5 case on a cost of capital witness. We did not do that in  
6 this rate case.

7           Q.    And did you take any steps to try to mitigate the  
8 amount of rate case expense? You know, negotiate some  
9 flat fee or not to exceed kind of contract with your  
10 providers?

11          A.    We always are judicious in our review of our  
12 invoices. And currently, legal counsel is the only legal  
13 counsel that I have ever encountered that has actually  
14 discounted their bills to us that I have ever seen.

15          Q.    Maybe that will drum up some more business for  
16 them now that everybody knows that they discount.

17                But there was no other specific measures that you  
18 took to negotiate a special contract, flat rates,  
19 discounted rates with your other providers that  
20 contributed to a rate case expense?

21          A.    Well, of course, we tried to minimize the  
22 expense, to minimize the number of outstanding issues,  
23 which I think we've done with this case. You look at the  
24 issues matrix, I mean, you compare this case to the last  
25 rate case, I think there are far fewer number of

1 outstanding issues.

2 Q. Is the use of the rate personnel in the  
3 California subsidiary a possibility to assist you in your  
4 rate filings here?

5 A. Well, fortunately we have Keith Switzer who is  
6 both familiar with California and Arizona regulatory  
7 requirements. In California -- and again, this is a  
8 department I do not oversee and just contact with on a  
9 peer basis, but their emphasis and focus is on California  
10 regulation. And with Arizona using a historic test year,  
11 no adjustor mechanisms, no balancing accounts, it's far  
12 different and I don't think they have the expertise to be  
13 able to assist us.

14 Q. All right. And I want to talk a little bit about  
15 the Fountain Hills Sanitary District settlement.

16 As I understand it, one of the reasons for the  
17 settlement was that the district was drilling a storage  
18 facility that was close to a well that could contaminate a  
19 well; is that correct?

20 A. Correct. They constructed an ASR, aquifer  
21 storage and recovery well, in the vicinity of our Well  
22 No. 9, with our knowledge. It's not something that was  
23 trying to be done in the middle of the night or something.

24 Q. And if there were potential contaminants to any  
25 of your well sites, would you agree with me that it would

1 be in the company's interest to remedy any potential  
2 contamination?

3 A. Yes. And I could go on at length on the  
4 challenges our California operations have faced from the  
5 largest Superfund site in the United States on groundwater  
6 contamination but --

7 Q. Actually, I know about that. That was one of my  
8 past lives, but I won't talk about groundwater  
9 contamination in California.

10 And so that would be something that the company  
11 would pursue against a potential contaminant of its wells?

12 A. Correct. The trouble there is determining the  
13 cause. I mean, if it's readily apparent, it can be fairly  
14 straightforward who the party of interest is, but that's  
15 always sort of, I guess, the crux of discussions.

16 Q. And if you couldn't resolve it, would an  
17 appropriate course of action be a settlement of any kind  
18 of dispute?

19 A. To us, it appears that when possible settlement  
20 would always be more desirable than litigation.

21 Q. And so settlement isn't exactly a punishment kind  
22 of scenario as I believe -- I can't remember whether it's  
23 your testimony or Mr. Sprowls where it says that Staff's  
24 treatment of the settlement proceeds is seeking to punish  
25 the company.

1 But you would pursue settlement in any event if  
2 someone was going to contaminate your wells?

3 A. Right. I think there's two parts to that  
4 question. I'm not sure what part of the testimony you're  
5 referring to, but I would agree that yes, to the extent  
6 possible, we would pursue settlement as our first  
7 priority.

8 Q. So whether you would seek recovery or you would  
9 get an adequate recovery or treatment would not  
10 necessarily impact your ability to settle a dispute?

11 A. It depends. Again, the sanitary district and  
12 Chaparral City Water Company have a very good working,  
13 operational relationship.

14 We're trusted with the public's health and  
15 welfare, and we take that very seriously. So to the  
16 extent -- whether it's this issue or any other, we try to  
17 work in a cooperative manner.

18 MS. MITCHELL: Thank you, Mr. Hanford. I don't  
19 have any other questions.

20

21

EXAMINATION

22

23 Q. (BY ALJ WOLFE) Good afternoon, Mr. Hanford.

24 A. Good afternoon, Judge.

25 Q. You said earlier that your company doesn't file

1 rate cases very often. Do you have plans for filing your  
2 next rate case?

3 A. I'm sure it's something that we're looking at  
4 just in the general context. We would like to come in  
5 routinely and regularly to help avoid rate shock and make  
6 it -- hopefully be better able to educate our customers on  
7 the procedures in Arizona and the requirements, and yes,  
8 do it on a routine and regular basis.

9 Q. What constitutes to you a routine and regular  
10 basis?

11 A. I would think -- our test year prior was 2003.  
12 We're looking at a 2006 test year in this instance. I  
13 would imagine somewhere between every two and three years.

14 Q. Regarding monitoring the CAP meter, if it's  
15 found -- if it's discovered that the meter has been  
16 malfunctioning, what is the company's recourse against  
17 CAP?

18 A. That's an interesting question. Because  
19 remember, we're pretty small in the scheme of things. CAP  
20 has a number of these meters throughout their system. So  
21 if this issue is more prevalent it may affect our  
22 response, but it's something we take seriously enough that  
23 we would pursue.

24 All we ask is that we pay for only what we  
25 receive and it be accurate, that it truly be used and

1 useful. And I think we would pursue fairly vigorously  
2 means of being compensated.

3 ALJ WOLFE: Okay. Thank you.

4 Before we go on to redirect, Ms. Wood, did you  
5 want to move your exhibits? I believe Exhibit 5 you  
6 identified.

7 MS. WOOD: Yes, Your Honor. Actually, when it's  
8 appropriate and whenever you decide, but I had forgotten  
9 to put in R-5, and I had forgotten to talk to Mr. Hanford  
10 about -- I think it's Exhibit 3. So if I would be able to  
11 revisit that when it's my turn.

12 I don't know if you want me to do it now or after  
13 Mr. Shapiro has redirected his issues, but I would ask for  
14 the admission of Exhibit R-5.

15 ALJ WOLFE: Okay. We'll deal with that first.  
16 Is there any objection to the admission of R-5?

17 MR. SHAPIRO: R-5 is the schedule, correct?

18 ALJ WOLFE: That's correct.

19 MR. SHAPIRO: No objection to R-5.

20 ALJ WOLFE: R-5 is admitted.

21 (Exhibit R-5 was admitted into evidence.)

22 ALJ WOLFE: Now, as to what has been marked as  
23 R-3. Mr. Shapiro.

24 MR. SHAPIRO: I'm sorry. I'm still trying to  
25 figure out -- I don't have an R-3, do I?

1 MS. WOOD: It was in the original three exhibits  
2 handed out. And I apologize, I don't think I asked the  
3 witness questions about it, and I think that would be  
4 appropriate, but I'll do it when you decide it's  
5 appropriate for me to do so, and do it rather succinctly,  
6 but I don't want to interrupt anybody else.

7 MR. SHAPIRO: Okay. Am I being asked whether I  
8 have an objection to R-3?

9 ALJ WOLFE: No. Whether you have an objection to  
10 Ms. Wood asking some questions of your witness.

11 MR. SHAPIRO: No, I don't. She can follow up  
12 before I do redirect. And maybe Ms. Wood could also tell  
13 us, we have a Page 9, RUCO 1.9 that we don't see  
14 identified anywhere.

15 MS. WOOD: That's part of Exhibit R-1, yes. It's  
16 three sheets of paper that were clipped together. I  
17 apologize.

18 ALJ WOLFE: Does that clarify it?

19 MR. SHAPIRO: And we don't have an R-4, so if  
20 that was --

21 MS. WOOD: I haven't gotten there yet, but I  
22 will. I apologize.

23 MR. SHAPIRO: Okay. I don't think we have any  
24 objections, none that I can recall.

25 ALJ WOLFE: Ms. Wood, you may ask questions about

1 what has been marked as Exhibit R-3.

2

3

FURTHER CROSS-EXAMINATION

4

5 Q. (BY MS. WOOD) Mr. Hanford, do you have R-3 in  
6 front of you?

7 A. Yes, I do.

8 Q. And can you identify that for me, please.

9 A. It is a document from the Arizona Department of  
10 Water Resources, dated May 12, 2008. And it's titled:  
11 List of municipal water providers designated as having an  
12 assured or adequate water supply.

13 Q. And on Page 2 of that exhibit, is Chaparral City  
14 Water Company one of those entities?

15 A. Yes. It is listed as having an assured water  
16 supply within an active management area.

17 Q. And you're familiar with this document?

18 A. I have never seen it before.

19 Q. Are you familiar with your status?

20 A. Yes, I am.

21 Q. Is this an accurate reporting of your status?

22 A. Yes.

23 MS. WOOD: Okay. Move for the admission of  
24 Exhibit No. R-3.

25 ALJ WOLFE: Is there any objection?

1 MR. SHAPIRO: No.

2 ALJ WOLFE: R-3 is admitted.

3 (Exhibit R-3 was admitted into evidence.)

4 MS. WOOD: Now, Your Honor, the next exhibit that  
5 I have is R-4. I'm not quite sure -- it's for  
6 demonstrative purposes. I don't know if you want it  
7 marked as an actual exhibit. I'm going to distribute it  
8 and see how you want to treat it.

9 Now, Your Honor, as you can see, this is just a  
10 document which summarizes the discussions I had this  
11 morning with Mr. Hanford. I was going to just use it for  
12 demonstrative purposes, but I can also mark and have it  
13 admitted if that's the way you do it. I'm not quite sure  
14 how you do it in these forums.

15 ALJ WOLFE: Do you plan to ask this witness any  
16 questions using this at this time? Is that what you're  
17 going for?

18 MS. WOOD: I actually asked him all of those  
19 questions this morning. This would just summarize those  
20 discussions, and I thought it would be useful for the  
21 court for that purpose.

22 ALJ WOLFE: So are you --

23 MS. WOOD: I would actually like to have it  
24 offered in so that the summary is there.

25 ALJ WOLFE: So you're offering this as an

1 exhibit?

2 MS. WOOD: Yes.

3 ALJ WOLFE: Are there any objections to R-4?

4 MR. SHAPIRO: Yes. I guess I'll object first  
5 that it lacks foundation. She hasn't offered it and  
6 substantiated it in any way, shape, or form with any  
7 witness, so that's problematic. And second, she doesn't  
8 intend to ask him questions about it, so she won't be able  
9 to lay a foundation.

10 Third off, I don't know where these numbers came  
11 from. As far as I know, they assume facts not in  
12 evidence. So I understand that she had a discussion with  
13 Mr. Hanford, but I don't think this exhibit is  
14 appropriate.

15 ALJ WOLFE: Ms. Wood, I think that you have  
16 already made your demonstration. So as far as using this  
17 as a demonstrative exhibit, I think the time has passed.  
18 But I think these numbers are in the record in the  
19 transcript.

20 MS. WOOD: They are.

21 ALJ WOLFE: So I'm not going to admit it.

22 MS. WOOD: Thank you, Your Honor.

23 ALJ WOLFE: Do you have redirect, Mr. Shapiro?

24 MR. SHAPIRO: I do. Thank you, Judge Wolfe.

25

## 1 REDIRECT EXAMINATION

2

3 Q. (BY MR. SHAPIRO) Let's start with unaccounted  
4 for water. Is lost water and unaccounted for water the  
5 same thing, Mr. Hanford?

6 A. No, because we know that there's a variance that  
7 exists. We can quantify the difference.

8 Q. And isn't some level of unaccounted for water  
9 normal in a system, a water utility system?

10 A. Yes, that is correct.

11 Q. Lines do leak sometimes, and leaks aren't always  
12 readily apparent.

13 A. That is one source, as well as meters, as they  
14 age, will tend to run slow and underread.

15 Q. And what about water that's used for repairs,  
16 maintenance, line flushing, et cetera?

17 A. To the extent we have, again, another database we  
18 call SQUID, S-Q-U-I-D, that tracks all of the water used  
19 in operations, whether it be line flushing, for water  
20 quality or water quality sampling, whether it be flushing  
21 of hydrants during the annual fire hydrant inspections.  
22 The only thing we don't list is water that's stolen. And  
23 we have caught people stealing water, either through a  
24 residential connection where they have broken a locked up  
25 meter stop, or from hooking up to hydrants and filling up

1 water tanks and heading up the Beeline.

2 Q. That's a highway, correct?

3 A. Yes, sir.

4 Q. As the operator of -- the person responsible for  
5 the operations of Chaparral City Water Company, do you  
6 believe that the company at present has a problem with  
7 water loss?

8 A. No, I do not. And the reason I say that is with  
9 my experience in the system, they call it Fountain Hills  
10 for a reason. I mean, we live in basically a small  
11 mountain range between the Superstitions and the McDowells  
12 and the Mazatzals. Bedrock is very shallow and there's  
13 also caliche layers.

14 And typically when we see a break in a service  
15 line from the main to the meter to the house connection,  
16 those become evident fairly quickly. We don't see that in  
17 our system. Again, with Fountain Hills, we have operating  
18 pressures that are much higher than you see in someplace  
19 like Mesa or even maybe Phoenix, central Phoenix. So if  
20 we do have a leak, it's under pressure and usually becomes  
21 readily apparent and we go in and fix it.

22 I mentioned we go in and we do annual  
23 recalibration of our large production meters every year.  
24 We change out our meters on a routine and regular basis,  
25 you know, with the available staffing we have to keep them

1 within a nominal age.

2           The other thing is with our SQUID database, we  
3 are very conscientious about tracking water used in  
4 operations. So I just don't see our system -- because I  
5 have to admit, I'm a water geek. You go somewhere on a  
6 trip or vacation, you see how many hydrants are leaking or  
7 leaks that haven't been repaired for some time. Those are  
8 things that catch an eye, and we don't have those  
9 circumstances in Fountain Hills.

10       Q. Besides suggesting a new travel agent,  
11 Mr. Hanford, the hydrant tour wasn't on my list.

12           Do you believe, though, that then the concern  
13 that Mr. Scott expressed in his testimony regarding  
14 unaccounted for water, is it your belief that that will be  
15 resolved through the monitoring of the CAP -- the meter at  
16 the CAP intake?

17       A. Yes. And the reason I say that is with just the  
18 very preliminary data that we do have and seeing the  
19 results that were so -- in light of what we thought, that  
20 the CAP meter was overreading by as much as 20 percent,  
21 just for those few days of data that we did collect, that  
22 sort of vindicates our decision to install that meter and  
23 pursue that line of inquiry.

24       Q. Is it fair to say that the installation of the  
25 meter by Chaparral City is an effort by the company to

1 respond to concerns over unaccounted for water?

2 A. Yes. I think people lose sight sometimes that  
3 this isn't Minnesota. We live in the middle of the  
4 Sonoran Desert, and water is a very precious resource.

5 Q. If it turns out that there's something wrong with  
6 the meter readings on the CAP side and that's corrected,  
7 will that result in additional water being available to  
8 Chaparral City that's not available now?

9 A. I believe our availability of water is determined  
10 by our CAP contract. When we did get -- and this is  
11 something else that wasn't raised. When we did decide to  
12 purchase the CAP contract provided for under the Arizona  
13 Settlement Act, not only did we get an additional 1,931  
14 acre-feet, CAP reset the time clock. Our 100-year  
15 designation was reset from the original date of the  
16 contract from the mid-'80s. It was reset to 2007.

17 We just picked up almost 20 years extension on  
18 our existing CAP allocation designation. That got lost in  
19 the shuffle and the discussion. So far be it alone just  
20 the additional allocation. We reset the clock at almost  
21 7,000 acre-feet of water with that new CAP contract.

22 Q. But if it turns out that CAP's meter was reading  
23 inaccurately, you're not going to all of a sudden have  
24 1,000 acre-feet of additional water that you can deliver  
25 to your customers that you didn't have before?

1           A.    No.   The water we can deliver is based on our CAP  
2 allocation.   And prior to the Arizona Water Settlement Act  
3 and that CAP allocation, we had our six thousand -- 6,978  
4 acre-feet allocation, and we also had an excess M&I  
5 contract with the CAP.   I believe that excess M&I contract  
6 went out -- and I would have to confirm this, I believe  
7 that's no longer available to us with this additional  
8 allocation.   If we have to dispose of or lose this CAP  
9 allocation, that's something that we would want to see if  
10 we could even get an excess M&I contract again.

11           Q.    Well, let's focus on that.   Why did the company  
12 make a decision to acquire the additional CAP allocation  
13 that became available under the Arizona Water Settlement  
14 Act?

15           A.    I think you have to look at time frames.   As a  
16 water utility operator, we don't think in months or days  
17 or years.   We think in decades or centuries.   And it's not  
18 the water being necessarily available this instant or the  
19 next instant.   What is in the best long-term interests of  
20 our customers?

21                        Again, we live in the middle of the Sonoran  
22 Desert.   Southern Nevada Water Authority is spending a  
23 billion dollars in a race to lower their Lake Mead intakes  
24 before the Colorado River drops so low they can no longer  
25 pump Lake Mead water to Las Vegas.   A billion dollars.

1 They're spending 6- to \$8 billion on a water importation  
2 scheme project from eastern Nevada to supply Clark County.  
3 Judge Wagner in California cut Metropolitan Water  
4 District's allocation by a third with a stroke of a pen.  
5 By a third, southern California has less water from the  
6 Central California Project. He may reduce it again to  
7 half.

8 We just live in such an age of uncertainty and  
9 consequences that we need to plan and think very  
10 long-term. It is correct we have not experienced yet a  
11 curtailment of our CAP supply. That doesn't mean that it  
12 couldn't happen sometime in the future.

13 This CAP allocation was available once. This was  
14 years if not decades of litigation and settlement that was  
15 pounded out at the federal government level to resolve  
16 three major, contentious legal water supply issues in the  
17 Southwest. If we didn't take advantage of this one-time,  
18 one-shot opportunity, it would never have been available  
19 to us again. And that amount of water we received was not  
20 divisible. It was all or nothing, here is the package,  
21 take it or leave it.

22 Q. And how does the additional allocation help you  
23 in times of a curtailment that could occur tomorrow or at  
24 anytime in the future?

25 A. It provides a buffer, and that amount under

1 contract would be an additional almost 2,000-acre-feet  
2 that we didn't have presently.

3 I think it's important to remember how well  
4 Chaparral did for its customers. In the same Water  
5 Settlement Act, the City of Phoenix got 8,000 acre-feet  
6 with a million and a half customers. Chaparral got  
7 2,000-acre-feet for 13,000 customers. So I think that's  
8 pretty advantageous to the customers and the company to be  
9 able to do that.

10 Q. Just to make sure that everybody understands,  
11 Mr. Hanford, you're testifying, then, that if -- let me  
12 just use round numbers.

13 If the company had 5,000 acre-feet and it was  
14 reduced by 20 percent, it would only be allowed to take  
15 4,000-acre-feet, correct?

16 A. Correct.

17 Q. But by adding an additional -- again, to use  
18 round numbers -- 2,000-acre-feet, if it's reduced by  
19 20 percent, you would now take it from the larger number  
20 of 7,000?

21 A. We have a bigger piece of the pie that's being --  
22 yes.

23 Q. And to your knowledge, is the Colorado River  
24 currently overcommitted?

25 A. That's my understanding from the DWR website.

1 Q. When Ms. Wood was going through exhibit, I  
2 believe it's R-2 with you and those various numbers  
3 regarding projected population growth, et cetera, that was  
4 just -- her focus was solely on residential customers; is  
5 that correct?

6 A. I believe that was the emphasis.

7 Q. The company does have customers that are not  
8 residential as well, correct?

9 A. That is correct.

10 Q. There was some discussion regarding the ability  
11 to use -- the possibility of the company using water for  
12 the water bank. Do you recall that?

13 A. Yes, I do.

14 Q. And I believe you testified that you really don't  
15 know much about how the water bank works; is that correct?

16 A. That is accurate, yes.

17 Q. But you only take CAP water as needed, correct,  
18 to serve customers?

19 A. Correct. In the fall of each year, we prepare a  
20 delivery schedule that CAP requests of us, and from that  
21 CAP schedules their deliveries in the canal, and we only  
22 actually pump what is required. We give an estimate, but  
23 we only actually pump to meet our demands.

24 Q. So you don't pump an extra 1,000 acre-feet of  
25 water, pay for it, and then you could just send it over to

1 the water bank?

2 A. No, we do not.

3 Q. The agreement with Fountain Hills Sanitary  
4 District, they did take an option to acquire one of the  
5 two wells, correct?

6 A. Yes. I believe it was the Well No. 8 site.

7 Q. So that was part of what they compensated you for  
8 was the option to purchase that well, correct?

9 A. To purchase the property, yes.

10 Q. You were asked some questions regarding whether  
11 or not the company had recovered its investment on Wells 8  
12 and 9. Do you recall that?

13 A. Yes, I do.

14 Q. Do you know as you sit here today, Mr. Hanford,  
15 how much of the investment that was made in Wells 8 and 9  
16 was actually recovered by the company?

17 A. No, I do not.

18 Q. To your knowledge, has Chaparral City Water  
19 Company ever earned its authorized rate of return through  
20 its rates paid by customers?

21 A. Based on our audited financials, I have never  
22 seen that occur.

23 Q. So if you're not earning your authorized rate of  
24 return, you're not recovering everything that you're  
25 entitled to, are you?

1 A. That's my understanding of the Arizona law.

2 Q. And up until sometime a few years ago, were  
3 Wells 8 and 9 and the water from them available to be used  
4 by the company if it needed it?

5 A. Yes.

6 Q. You were asked some questions by Ms. Mitchell  
7 regarding California personnel that are affiliated with  
8 the shareholder and affiliates of Chaparral City Water  
9 Company.

10 A. Yes.

11 Q. And Golden State Water Company is one of those  
12 affiliates, correct?

13 A. Correct, one of the four.

14 Q. They don't typically pay millions of dollars of  
15 bills on behalf of Chaparral City on their own, do they?

16 A. I wish, but I don't think so, no.

17 Q. So when Ms. Wood showed you that reference to  
18 Golden State Water Company, some accounting correction or  
19 ledger would have been made to show that Chaparral City  
20 Water Company actually paid the money to CAP for that  
21 additional allocation?

22 A. Yes, that would be the case.

23 Q. Any question in your mind as you sit here today  
24 that Chaparral City didn't pay those costs?

25 A. No. I can't imagine one of the other managers

1 writing me a check for that amount.

2 Q. Okay. California personnel did help with this  
3 rate case responding to data requests and gathering  
4 information, correct?

5 A. That is accurate, yes.

6 Q. So when you said that there are differences  
7 between the way regulation of water companies is done in  
8 California and in Arizona that might preclude those  
9 personnel from coming out here and prosecuting the case,  
10 they did provide assistance in answering data requests and  
11 gathering information that would have had the effect of  
12 reducing rate case expense?

13 A. Yes. The financial and accounting people in  
14 California did assist us in data requests.

15 Q. Ms. Mitchell was also asking you some questions  
16 about whether the company would pursue a party responsible  
17 for impacting its assets. Those were the line of  
18 questioning that she was asking you. Do you recall that?

19 A. Yes, I do.

20 Q. Let's assume for the moment that the Staff and  
21 RUCO position that none of the settlement proceeds should  
22 accrue to the benefit of the shareholders was adopted.  
23 Are you with me?

24 A. Yes.

25 Q. Two weeks after that decision, somebody impairs

1 one of your assets. Do you go pursue litigation and  
2 settlement at that point in time knowing that it's  
3 unlikely that you'll be able to benefit from the pursuit  
4 of litigation or settlement?

5 A. With the lack of time and with no opportunity for  
6 a recovery, probably no.

7 Q. Who absorbed the costs of pursuing settlement  
8 with Fountain Hills Sanitary District?

9 A. The company did.

10 Q. If you had to pursue litigation or settlement in  
11 the future, who would absorb those costs?

12 A. It would have to be us as well.

13 Q. So you're being asked to take the risk of  
14 pursuing litigation or settlement for the impairment of  
15 your assets, and the recommendation is that you get  
16 nothing to gain for your expenditure of time and money,  
17 correct? Is that how you understand the recommendation?

18 A. Correct.

19 MR. SHAPIRO: Thank you. That's all I have.

20 ALJ WOLFE: Is there any recross on those issues?

21 MS. WOOD: I just have one, Your Honor. Of  
22 course, it will turn into more than that, but I just want  
23 to start with this one.

24

25

## 1 RE CROSS-EXAMINATION

2

3 Q. (BY MS. WOOD) If you account for the water  
4 that's not accounted for, the 1,030-acre-feet,  
5 Mr. Hanford, it may not result in additional CAP  
6 allocation, but wouldn't it allow you to use that  
7 1,030-acre-feet for the purposes of your clients or  
8 customers?

9 A. Well, that water may or may not exist. So again,  
10 depending upon the outcome of the analysis, we can only  
11 use the amount of water that is in our contracts with the  
12 CAP and the GRD.

13 Q. And if a portion of the water that you have from  
14 CAP is recorded as unaccounted for or non-account water,  
15 if you find out and account for it, then you can use it  
16 for the purposes of the company, correct?

17 A. That would be correct.

18 MS. WOOD: Thank you. I don't have any further  
19 questions, Your Honor. Thank you.

20 ALJ WOLFE: Ms. Mitchell?

21 MS. MITCHELL: None from Staff. Thank you.

22

## 23 FURTHER EXAMINATION

24

25 Q. (BY ALJ WOLFE) Mr. Hanford, I have a follow-up

1 to that. I'm a little confused about this 1,030-acre-feet  
2 of unaccounted for water, and maybe this will help me  
3 understand it. Does the company use its entire allocation  
4 at this time?

5 A. Your Honor, I would have to check and see where  
6 we are. Our demands have actually gone down a little bit  
7 with the golf courses using more treated effluent. So I  
8 think as through to date this year, the answer would be  
9 no, we do not use our current allocation. But I could  
10 check our water supply records and respond to you with a  
11 more accurate answer.

12 Q. But is it possible that if you don't use your  
13 entire allocation, you could have used all of the water  
14 that your customers needed without needing to ask for more  
15 water from CAP?

16 A. The only concern being that we did, prior to the  
17 Arizona Water Settlement Act, we did have an excess M&I  
18 contract which allowed us on the spot market, if you will,  
19 to on an annual basis purchase additional CAP supplies. I  
20 don't know if we have that opportunity now or not.

21 Q. Okay. But I'm talking about your CAP allocation  
22 prior to the purchase of the additional allocation.

23 A. Yes.

24 Q. Did you ever have to exercise your rights under  
25 that additional M&I?

1 A. I believe in '06 or '07, we did purchase some  
2 excess M&I, and I can provide the accounting for that.

3 Q. That would be important.

4 A. I mean, CAP has it on their invoices to us, so I  
5 can provide that for you.

6 Q. I'm sure you'll be looking for it because you're  
7 wondering now.

8 A. Well, what they do, they tend to put it on the  
9 tail end of your deliveries. So I remember seeing excess  
10 M&I in November and December, I believe of '07, if not '06.

11 Q. Okay. Regarding the Fountain Hills Sanitary  
12 District settlement, how much did the company spend in  
13 reaching that settlement?

14 A. Again, we track all of our invoices. I'm going  
15 to say -- and this would have to be an estimate, Your  
16 Honor -- somewhere between 20- and \$40,000. Fountain  
17 Hills Sanitary District was represented by counsel, so we  
18 had two counsel involved rather than just being resolved  
19 between the two managers. But a legal document was  
20 required to be prepared, so the expertise was required.

21 Q. Okay. And one more question, a different  
22 question about the CAP allocation. Just for  
23 clarification, if you don't use your total allocation,  
24 what happens to the water?

25 A. Okay. To respond to that, we pay the service

1 charge on the entire allocation whether we use one  
2 acre-feet or the entire allocation. If all of the water  
3 is not used, say we give our delivery schedule  
4 requirements to the CAP, I believe in October of each  
5 year. The CAP will go and I think market that difference  
6 to other purveyors again on the spot market for that year.  
7 That's my understanding.

8 Q. Okay. So it would never be delivered to you?

9 A. Correct.

10 ALJ WOLFE: Is there any more redirect?

11 MR. SHAPIRO: No, Your Honor.

12 ALJ WOLFE: Okay. Thank you very much for your  
13 testimony, Mr. Hanford. You're excused as a witness.

14 And we'll take our afternoon break now, and we'll  
15 come back at 3:05.

16 (A recess was taken from 2:50 p.m. to 3:11 p.m.)

17 ALJ WOLFE: Let's go back on the record. It  
18 looks like you're ready to call your next witness.

19 MR. SHAPIRO: Yes. We'll call Mr. Tom Bourassa.

20

21

THOMAS J. BOURASSA,

22 called as a witness on behalf of the Applicant, having  
23 been first duly sworn by the Certified Reporter to speak  
24 the truth and nothing but the truth, was examined and  
25 testified as follows:

## 1 DIRECT EXAMINATION

2

3 Q. (BY MR. SHAPIRO) Mr. Bourassa, would you please  
4 state your full name and business address for the record.

5 A. My name is Thomas J. Bourassa. My business  
6 address is 139 Westwood Drive, Phoenix, Arizona, 85029.

7 Q. And on whose behalf are you testifying in this  
8 proceeding?

9 A. I am testifying on behalf of the Applicant,  
10 Chaparral City Water Company.

11 Q. Do you have in front of you, Mr. Bourassa, what  
12 has been marked as Exhibit A-3?

13 A. Yes.

14 Q. Is that a true and correct copy of your prefiled  
15 direct testimony and the accompanying schedules?

16 And I should clarify, that would be Volume I of  
17 your testimony which deals with rate base, income  
18 statement and rate design, not cost of capital?

19 A. Yes.

20 Q. And was that direct testimony and those schedules  
21 prepared by you and under your direct supervision?

22 A. Yes.

23 Q. Did you have any corrections that you need to  
24 make to your direct testimony at this time?

25 A. No.

1 Q. If I were to ask you the questions that are asked  
2 in Exhibit A-3 today, would your answers be the same?

3 A. Yes.

4 Q. Do you also have in front of you what's been  
5 marked as Exhibit A-4?

6 A. Yes.

7 Q. Is that a copy of supplemental testimony that you  
8 filed to supplement your direct testimony in this case?

9 A. Yes.

10 Q. And the supplement deals with the rate case  
11 expense for the appeal and remand of the company's prior  
12 rate case decision?

13 A. Yes.

14 Q. And was that Exhibit A-4 prepared by you or under  
15 your direct supervision?

16 A. Yes.

17 Q. And do you have any corrections or changes to  
18 make to that testimony?

19 A. No.

20 Q. If I asked you the same questions as you were  
21 asked in Exhibit A-4, would your answers be the same?

22 A. Yes.

23 Q. Okay. Moving on down the line. Do you have  
24 Exhibit A-5 in front of you?

25 A. Yes, I do.

1 Q. And is that a true and correct copy of your  
2 rebuttal testimony, Volume I, addressing rate base, income  
3 statement and rate design?

4 A. Yes.

5 Q. And are your rebuttal schedules attached?

6 A. Yes.

7 Q. And was your rebuttal testimony and schedules  
8 prepared by you and/or under your direct supervision?

9 A. Yes.

10 Q. Do you have any corrections or changes to Exhibit  
11 A-5?

12 A. No.

13 Q. If I asked you the same questions that you were  
14 asked in Exhibit A-5 today, would your answers be the same  
15 today?

16 A. Yes.

17 Q. Okay. Do you have Exhibit A-6 in front of you?

18 A. Yes, I do.

19 Q. And is Exhibit A-6 a supplement that was filed to  
20 your rebuttal testimony regarding rate base, income  
21 statement and rate design?

22 A. Yes.

23 Q. And, in fact, is Exhibit A-6 the company's  
24 proposed low income tariff?

25 A. Yes.

1 Q. Okay. And was Exhibit A-6, both the proposed  
2 tariff and question and answer, prepared by you and/or  
3 under your direct supervision?

4 A. Yes.

5 Q. Do you have any corrections to make to Exhibit  
6 A-6?

7 A. No.

8 Q. If I asked you the same questions today as you  
9 were asked in Exhibit A-6, would your answers be the same?

10 A. Yes.

11 Q. Lastly, do you have Exhibit A-7 in front of you?

12 A. I do.

13 Q. And is Exhibit A-7 your Volume I rejoinder  
14 testimony addressing rate base, income statement and rate  
15 design?

16 A. Yes.

17 Q. And are your rejoinder schedules attached to  
18 Exhibit A-7?

19 A. Yes.

20 Q. And was this testimony and those schedules  
21 prepared by you and/or under your direct supervision?

22 A. Yes.

23 Q. Do you have any corrections or changes to make to  
24 Exhibit A-7 today?

25 A. No, I do not.

1 Q. If I asked you the same questions today as you  
2 were asked in Exhibit A-7, would your answers be the same?

3 A. Yes.

4 MR. SHAPIRO: Your Honor, I will move Exhibits  
5 A-3, A-4, A-5, A-6, and A-7.

6 ALJ WOLFE: Is there any objection?

7 MS. MITCHELL: Not from Staff.

8 ALJ WOLFE: Do all of the marked exhibits include  
9 the errata that were filed separately?

10 MR. SHAPIRO: I think that the errata has now  
11 been incorporated into those exhibits.

12 ALJ WOLFE: Okay.

13 MR. SHAPIRO: And just for the record, none of  
14 Mr. Bourassa's cost of capital testimony has been marked  
15 yet. We'll save that for part two.

16 ALJ WOLFE: Okay. A-3, A-4, A-5, A-6, and A-7  
17 are admitted.

18 (Exhibits A-3, A-4, A-5, A-6, and A-7 were  
19 admitted into evidence.)

20 Q. (BY MR. SHAPIRO) Other than cost of capital, you  
21 don't have any other testimonies in this case,  
22 Mr. Bourassa?

23 A. Not that I'm aware of.

24 MR. SHAPIRO: Thank you. We will tender  
25 Mr. Bourassa for cross-examination.

1 ALJ WOLFE: Thank you.

2 Ms. Wood, do you have questions for this witness  
3 on those exhibits?

4 MS. WOOD: Yes, I do, Your Honor.

5

6

CROSS-EXAMINATION

7

8 Q. (BY MS. WOOD) Could you put in front of you,  
9 Mr. Bourassa, Exhibit R-5. Do you have that? It should  
10 be two schedules.

11 A. Yes, I have that.

12 Q. And these are your schedules, correct?

13 A. Yes. This appears to be a page from the B-4  
14 schedule filed in the company's application in this case,  
15 and a copy of Schedule C-2, Page 2, which, subject to  
16 check, I think is the schedule filed in the company's  
17 application.

18 Q. All right. And you prepared these in the course  
19 of this proceeding, correct?

20 A. Yes. I prepared these on the books and records  
21 of the company, yes.

22 Q. Okay. And within there, there are two wells  
23 under NARUC Account 307, correct?

24 A. Are you referring to schedule B-4?

25 Q. I apologize. Let me be clearer. On Page 1 of

1 Exhibit R-5, is there a reference under NARUC Account 307  
2 to Wells 8 and 9, which you know to be Wells 8 and 9?

3 A. Well, first, there's no specific reference to  
4 Wells 8 and 9. This particular schedule is a summary of  
5 all of the transactions by year for each by NARUC account.  
6 And I believe, subject to check, that the summary amount  
7 for 1971 and 1972 are the costs for Wells 8 and 9.

8 Q. Okay. And what would you have to do to check to  
9 make sure?

10 A. I would have to go back into my work papers and  
11 look at the amounts that were identified in my rebuttal.  
12 And if you give me a moment, I may be able to answer your  
13 question based on the testimony.

14 Q. Thank you. I would appreciate that.

15 A. If you'll look on rebuttal Schedule B-2, Page 3.2  
16 in Exhibit A-5.

17 Q. What page did you reference, Mr. Bourassa?

18 A. Rebuttal Schedule B-2, Page 3.2.

19 Q. 3.2. So rebuttal Schedule B-3, Page 3.2?

20 A. Rebuttal Schedule B-2.

21 Q. Okay.

22 A. Page 3.2.

23 Q. I'm with you, Mr. Bourassa. Sorry for the delay.  
24 Go ahead. You were looking at this page and --

25 A. This schedule represents the retirement

1 adjustments for the Wells 8 and 9, as well as for the  
2 water treatment equipment that was proposed by Staff and  
3 accepted by the company. The first on this schedule, on  
4 Lines 4 through 6, with the subtotal on Line 7, show the  
5 costs of Wells 8 and 9 that the company has proposed be  
6 retired in this case.

7           Again, that's an agreement with Staff's proposed  
8 retirement. The \$49,329 amount shown on Line 4 of  
9 rebuttal Schedule B-2, Page 3.2, does, in fact, match the  
10 1971 Account Number 307, wells and springs amount on your  
11 Exhibit R-5.

12       Q.    Okay. And would it also be true that the entry  
13 for 1972 under Account 307, wells and springs, which says  
14 original cost 54,139, matches Well 9?

15       A.    Yes, and I was going to get to that, but now that  
16 you have pointed that out, that is correct.

17           There was also a 1986 figure of \$3,348 referring  
18 to an engine well. And I'm not an engineer, but I have no  
19 idea what that is. It was a 1986 amount, which is  
20 embedded in the 1986 cost shown on Exhibit R-5. And I  
21 believe the -- if I'm reading this right, the 1986 cost  
22 shown on Exhibit R-5 is \$8,999. So \$3,348 of that \$8,999  
23 is part of one of the wells. I couldn't tell you which  
24 one.

25       Q.    Would that be the sixth one down under wells and

1 springs, Account Number 307?

2 A. Yes, I believe I just referred to that.

3 Q. Yeah.

4 A. But what I guess what I'm saying is I don't know  
5 whether the engine well cost is associated with Well 8 or  
6 Well 9.

7 Q. All right. Thank you for that.

8 Would you agree that these wells are fully  
9 depreciated?

10 A. Well, let me preface my answer with the company  
11 depreciates its plant by account group. However, based on  
12 the 1971 and 1972 dates and that -- well, I'm not sure I  
13 can answer it now that I'm thinking about it.

14 From the period of 1971, '72, to the company's  
15 first rate case, which I believe was in 1988, the company  
16 was -- I believe had a composite depreciation rate -- and  
17 this is subject to check -- of 5 percent. And from 1991  
18 to 2000 -- well, until the last case which was decided,  
19 the 2003 case, the company's composite rate, I believe,  
20 was 2.5 percent. And then forward from there, the  
21 company, since the decision date in the last case, the  
22 company has used a 3.3 percent depreciation rate for wells  
23 and springs.

24 So I would have to go back and recompute all of  
25 the accumulated depreciation for those years to give you

1 an accurate answer. I don't know.

2 Q. Well, what does a 5 percent depreciation rate  
3 indicate in terms of the time or the years that you expect  
4 that to be useful?

5 A. Five percent is a 20-year life, a 2.5 percent is  
6 a 40-year life, and a 3.3 percent is a 33-year life.

7 Q. Now, you said that this plant was put in service  
8 in 1971, correct?

9 A. According to the information in front of me,  
10 that's correct.

11 Q. 20 years from 1971 is 1991, correct?

12 A. Sure, yes.

13 Q. And you said that from 1971 to 1988 it ran at  
14 5 percent depreciation?

15 A. I think so. I have to go back and check the work  
16 papers. That's a long time ago, and that wasn't of  
17 interest to me in this case in preparing the current case.  
18 It's very possible that these wells are fully depreciated  
19 if you were to look at them on an individual basis,  
20 correct.

21 Q. Okay. So even at the rate of 3.33, which is the  
22 depreciation rate now, they would have been depreciated  
23 within 30 years of being put in service in plant.

24 A. 33 years.

25 Q. 33 years?

1 A. 30 years. You're correct.

2 Q. Okay. 30 years. So 30 years from 1971 would  
3 have been 2001, correct?

4 A. Yes.

5 Q. Okay. So if these are fully depreciated, as you  
6 seem to be indicating, then that would indicate that the  
7 company has received the full cost of this plant through  
8 depreciation expense, correct?

9 A. The company has recognized the full cost through  
10 expense on its -- in its expenses, yes.

11 Q. And they have also had the opportunity to earn a  
12 return from 1971 to now, correct, on this investment?

13 A. Well, no. If we're going to take the narrow view  
14 that these assets were fully depreciated by 1991, then the  
15 net book cost would have been zero and the company would  
16 not have had either a depreciation recovery, nor a return  
17 on that plant since 1991.

18 Q. Okay. From your review of the records, was this  
19 plant still in the book when you reviewed them for the  
20 purposes of this application?

21 A. The costs of the plant were still on the books in  
22 plant in service and there was a corresponding amount of  
23 accumulated depreciation on the books for the wells and  
24 springs account, correct.

25 Q. Okay. So at the time that you looked at them for

1 the course of this application, they still had this plant  
2 booked, correct?

3 A. Yes.

4 Q. And they were still earning a return, whatever  
5 that return was, on it?

6 A. Well, no, they weren't. If you take the view  
7 that these two wells were fully depreciated by 1991, then  
8 the net rate base plant in service less the accumulated  
9 depreciation up to that point in time would have been  
10 zero. The company would not have recovered any return on,  
11 as there would be a zero impact on rate base, and they  
12 wouldn't have recovered any further depreciation on that  
13 plant.

14 Q. I think you have been doing this -- you have been  
15 doing this way longer than I have, so if I'm supposing  
16 that you know something that you don't, you tell me.

17 But is it fair to say that what they were  
18 entitled to on this plant is the cost -- to recover the  
19 cost of the plant and earn a reasonable return on it?  
20 That's what they're entitled to, correct?

21 A. That's true for all plant in service is an  
22 opportunity to earn a return on and of the plant  
23 investment, correct.

24 Q. Have they?

25 A. I can tell you that the plant is, looking on an

1 individual basis, has been fully depreciated on the books.  
2 Whether or not back prior to 1991 rates were adequate to  
3 provide whatever authorized return was in effect at that  
4 point in time, I don't know. And whether or not the  
5 depreciation for that plant was fully recovered, I don't  
6 know.

7 Q. Do you agree that Wells 8 and 9 should be  
8 retired?

9 A. Yes, I believe that's the position of the company  
10 in this case.

11 Q. Do you acknowledge that it was an oversight by  
12 the company to include Wells 8 and 9 as plant in service  
13 in this filing?

14 A. Could you repeat that question?

15 Q. Do you acknowledge that it was an oversight by  
16 the company to include Wells 8 and 9 as plant in service  
17 in this filing?

18 A. Yes.

19 Q. Thank you. And when were these wells removed  
20 from service?

21 A. I don't have that information. I heard testimony  
22 from Mr. Hanford that the wells up until the last case  
23 could have been used for supplying water. Well No. 8  
24 hadn't been used in quite some time, but still, it was  
25 probably capable of producing water. And Well No. 9, I

1 believe, was still capable of producing water. So I can't  
2 tell you the exact date. Mr. Hanford, I think, testified  
3 to that.

4 Q. What is the property tax expense that the  
5 Commission approved for the company in 2005? Would you  
6 agree it was \$299,495?

7 A. Subject to check.

8 Q. What would you have to do to check?

9 A. I would have to see the final order, decision.

10 Q. Okay. You should have a copy. I think that we  
11 have provided it as an exhibit. I'm not sure that it's  
12 marked, but I think it is -- the Judge has taken judicial  
13 notice of it.

14 A. Thank you.

15 MR. SHAPIRO: Is there a particular page that you  
16 want him to look at, Ms. Wood?

17 MS. WOOD: I think he said he had to check. I  
18 think it's on Page 13, in that area, but he can refresh  
19 his recollection any way that he wants to.

20 MR. SHAPIRO: I think it may be Page 15, Lines 5  
21 through 8, Your Honor.

22 ALJ WOLFE: Ms. Wood, do you want him to look at  
23 Page 15?

24 Q. (BY MS. WOOD) Whatever you have to do to refresh  
25 your recollection. Have you looked at Page 15

1 sufficiently?

2 A. I have looked at Page 15.

3 Q. What was the property tax expense approved in the  
4 last rate case?

5 A. On Line 5, approximately 5 -- and I have through  
6 7.5, it indicates that the Commission approved a property  
7 tax expense level of \$299,495.

8 Q. Is the company paying that much in property tax  
9 expense in 2006 through 2008?

10 A. No. I'm looking at Schedule E-2 in the company's  
11 application. As I recall, the last case for the company  
12 was based on a 2003 test year. The company, since the end  
13 of 2003, has experienced property tax expenses of,  
14 starting in 2004, \$280,537; 2005, \$279,529; and for 2006,  
15 \$242,105. And I'm referring to Line 23 on Schedule E-2 in  
16 the application.

17 Q. Do you know what the company paid in 2007 and  
18 2008?

19 A. I do not recall.

20 Q. Was it less than what they paid in 2006?

21 A. I do not recall.

22 Q. In 2006, since that's the year that you  
23 remembered, this tax was assessed after the 2005 order  
24 approved the property tax expense of 299,495, correct?

25 A. Correct.

1 Q. Okay. How much -- what is the difference between  
2 what they paid and what they were permitted to expense?

3 You said it was 241,774? I apologize. I think  
4 you said 242,105.

5 A. Right. The difference was approximately \$57,000.

6 Q. Okay.

7 A. Less than the authorized amount.

8 Q. And you don't know what the property taxes were  
9 for 2007, 2008?

10 A. No, but just let me make one comment. In the  
11 last case, the company's miscellaneous expense amount was  
12 set at a level of about 783,000. And if you look at the  
13 E-2 schedule and compare that average that was authorized  
14 in rates, or in the company's operating expenses for the  
15 last case, the average of that miscellaneous expense line  
16 on Line 20 of E-2 averages over \$1.1 million.

17 My point is, when you start singling out  
18 individual expenses, I can point to levels of expense  
19 authorized in the prior decision that were clearly  
20 inadequate.

21 Q. But in this instance that would not be the case  
22 with regard to property tax expense?

23 A. With respect to property taxes. I can --

24 Q. Thank you.

25 A. I can point out similar instances with respect to

1 transportation equipment and outside services since the  
2 last case.

3 MS. WOOD: There isn't any question in front of  
4 you, Mr. Bourassa.

5 Mr. Bourassa, I'm finished with my questions.

6 THE WITNESS: Thank you.

7 ALJ WOLFE: Ms. Mitchell, do you have questions  
8 for this witness?

9 MS. MITCHELL: Is that a trick question?

10 ALJ WOLFE: No.

11 MS. MITCHELL: Yeah, just a couple of questions.

12

13 CROSS-EXAMINATION

14

15 Q. (BY MS. MITCHELL) Good afternoon, Mr. Bourassa.

16 A. Good afternoon.

17 Q. On the issue of property tax, is it correct to  
18 say that the company has accepted Staff's methodology in  
19 the computation of property tax?

20 A. I think it's sufficient to say -- correct to say  
21 that we agreed on using two years of the proposed -- or of  
22 the adjusted test year level of revenues and one year of  
23 proposed revenues.

24 Where I think we might have a slight disagreement  
25 since our rebuttal or our rejoinder is on the assessment

1 ratio and the property tax rate. I believe that the  
2 company has proposed an assessment ratio of 22 percent,  
3 and I think Staff at its last filing had an assessment  
4 ratio of 23.

5 And I believe that the property tax rate is a  
6 little bit lower. The company is proposing a 2008  
7 property tax amount or rate, whereas Staff, I think, is  
8 perhaps still using the 2006 property tax rate. But other  
9 than that, we're in agreement on the general methodology  
10 for using adjusted test year revenues and proposed  
11 revenues.

12 Q. And with respect to the treatment of the CAP  
13 allocation, the company is in agreement with Staff's  
14 proposed treatment of the reclassification of the account  
15 as a water right?

16 A. Correct.

17 Q. And could you explain why the -- if you can, why  
18 the company thinks that that is an acceptable treatment  
19 for the allocation?

20 A. The company agreed in part and I agree in part on  
21 Mr. Millsap's testimony regarding the fact that it is a  
22 water right purchased from Central Arizona Project. We  
23 also wanted to eliminate issues between the parties as a  
24 second reason. But it also lowered operating expenses by,  
25 I believe, \$74,000. It may have been \$64,000 a year,

1 something like that.

2 Q. And with respect to accumulated depreciation, I  
3 believe in your rejoinder testimony you indicate that you  
4 think Staff has made some mistake in its calculations.  
5 Could you just expand on that a little bit?

6 A. Sure. I discussed that in my rebuttal testimony,  
7 and I think I can describe to you some of the general  
8 reasons why I believe there's some errors, but I do  
9 address it more specifically in my rebuttal testimony on  
10 or about -- if you'll give me a moment.

11 Q. Page 9?

12 A. Yes. About the -- starting on Line 7 is one  
13 particular disagreement that I have with Staff on  
14 accumulated depreciation, and that is the fact that there  
15 was no accumulated depreciation associated with the  
16 \$34,062 amount that was reclassified from land and land  
17 rights to 320. I have a different computation as to the  
18 accumulated depreciation associated with that amount.

19 There are also some differences, specific  
20 differences pointed out with respect to the transportation  
21 equipment that was removed from the general office plant  
22 in service. In the company's direct filing, the  
23 transportation equipment was fully depreciated, and I  
24 pointed out what schedule to go look at in the company's  
25 direct filing to confirm that, yet in Staff's filing they

1 underadjusted accumulated depreciation for the  
2 transportation equipment.

3           Some of the differences between the accumulated  
4 depreciation amount between Staff and the company is due  
5 to a different allocation rate on the general office  
6 plant. The company is proposing -- is agreeing with  
7 RUCO's 2.8 percent, whereas Staff, using an updated  
8 four-factor formulation, is using a 4 percent. And part  
9 of that allocation is an allocation of accumulated  
10 depreciation.

11           There are also differences in the retirement  
12 amounts for the reclassified plant that Staff proposed.  
13 The company accepted the reclassification of plant in  
14 service, but had some differences on the associated  
15 accumulated depreciation.

16           And I think that what I have described comprises  
17 the bulk of our differences.

18       Q. All right. Well, thank you for such a thorough  
19 answer.

20           And on that allocation factor, would it be  
21 correct to say that Staff's allocation factor of the  
22 4 percent is correctly matched to the test year?

23       A. Yes, and I believe that I have stated that in my  
24 testimony.

25       Q. May I take it that the company also disagrees

1 with Staff regarding normalization of expenses; is that  
2 correct?

3 A. Yes.

4 Q. And what treatment would the company seek for  
5 those expenses if they're not being normalized? What does  
6 the company want?

7 A. Well, the test year level of expenses is presumed  
8 normal unless there is found to be a known and measurable  
9 change to the test year amount. That could be some  
10 expense included in, for example, outside services that's  
11 nonrecurring, should not be recovered from ratepayers, or  
12 should be capitalized.

13 In the instant case, Staff as one of its expense  
14 categories that it is normalizing by averaging is repairs  
15 and maintenance. Now, the company disagrees with that.

16 And you will find that RUCO's proposed adjustment  
17 to repairs and maintenance brings the level of the repairs  
18 and maintenance expense account down to a level below that  
19 recommended by Staff by its averaging.

20 So again, the test year level of expense is  
21 presumed normal unless there is a known and measurable  
22 change to that test year level amount.

23 Q. And you're done?

24 A. I'll leave it at that.

25 Q. I'm going to try to ask this question with a

1 measure of intelligence, so just bear with me. And you  
2 may not be the right witness for this question.

3           You have heard some testimony from Mr. Hanford  
4 this morning concerning the inaccuracy perhaps of the CAP  
5 meter and the water and its reading and it's showing, you  
6 know, water loss.

7           If it were shown that somehow there really was a  
8 misreading and that the company was not using as much  
9 water as the CAP meter was saying, is there a cost for  
10 reimbursement from CAP because you have been overcharged?  
11 And if so, if there's a reimbursement, what would be the  
12 rate treatment for that?

13           A. Well, first let me say the test year level of  
14 expense that the company is proposing is based on the  
15 gallons sold, not the gallons -- not necessarily the  
16 gallons delivered through CAP. So there is a sort of  
17 check and balance there.

18           I don't know what -- I'm not familiar with what  
19 the procedures would be for the company receiving a  
20 reimbursement from CAP on past CAP water. They may  
21 provide a -- frankly, I don't know. I don't know the  
22 answer to that.

23           Q. That's fine. I just was wondering. We kind of  
24 discussed it on the break, and we wondered what would  
25 happen in that event.

1 A. Frankly, this is the first time that I have been  
2 involved in a case where there was a potential for a  
3 dispute over the water delivered. And so I, frankly, have  
4 never experienced or had any experience in that area.

5 MS. MITCHELL: Well, thank you for your candor.  
6 I don't believe I have any other questions. Thank you.

7

8

EXAMINATION

9

10 Q. (BY ALJ WOLFE) Good afternoon, Mr. Bourassa.

11 A. Good afternoon.

12 Q. In your rebuttal testimony, you say that you made  
13 an adjustment that -- we're going back to Wells 8 and 9 to  
14 give you a little context.

15 You said that you did make an adjustment to  
16 accumulated depreciation to account for the retirement of  
17 Wells 8 and 9.

18 A. Are you looking at a particular page?

19 Q. Oh, sure. Page 8.

20 A. Thank you, Your Honor.

21 Q. Sure. At Lines 19 through 24, there's a  
22 paragraph that talks about --

23 MR. SHAPIRO: I'm sorry. Which testimony is  
24 that?

25 ALJ WOLFE: Rebuttal, A-5.

1 MR. SHAPIRO: Thank you.

2 THE WITNESS: Yes, Your Honor, that testimony  
3 relates to the retirement of Wells 8 and 9, and follows  
4 the regulatory accounting treatment of retirements where  
5 you remove the full cost of the wells, as well as the full  
6 amount of accumulated depreciation. Not the accumulated  
7 depreciation recorded up to that date, but accumulated  
8 depreciation equivalent to the original cost of the plant  
9 recorded. It's a ratemaking -- not ratemaking. It's a  
10 regulatory treatment of retirements.

11 Q. (BY ALJ WOLFE) Okay. So the little discussion  
12 that you had in answering the questions from RUCO's  
13 attorney about what depreciation rates were used, that  
14 doesn't enter into the calculation of accumulated  
15 depreciation adjustments?

16 A. Not at that point. Once a retirement occurs, if  
17 the -- because the original cost is removed from plant in  
18 service and that same amount is removed from accumulated  
19 depreciation, it may -- if the well were not fully  
20 depreciated, it would just have a lower accumulated  
21 depreciation by more than what was there to begin with.  
22 And it's just a part of the -- again, the regulatory  
23 accounting. That is to say that -- in fact, in fully  
24 depreciating that plant, what I'm really saying by taking  
25 the full cost out of plant is I can depreciate that plant

1 a little bit longer. Then I can eventually fully recover  
2 it through rates, only it's going to take me a longer  
3 period of time.

4 I'll give you an example. Let's say I have a  
5 \$100 widget. It's a water widget, so it's plant in  
6 service. And I retire it, but I've only recorded through  
7 expense \$50. I'm going to take -- so in accumulated  
8 depreciation I have \$50, and in my plant in service  
9 account I have 100. When I retire that plant, I'm going  
10 to take \$100 out of plant in service and \$100 out of  
11 accumulated depreciation. So theoretically, I have zero  
12 plant in service and a negative \$50 of accumulated  
13 depreciation. Okay.

14 Now, because most companies depreciate their  
15 assets by account group, then presumably within that  
16 account group that that asset sits in, there are other  
17 assets that have some accumulated depreciation on it, and  
18 that negative \$50 would effectively lower the accumulated  
19 depreciation up to that point in time on the rest of the  
20 assets. So theoretically, by lowering it, you can  
21 depreciate a little bit longer.

22 Q. So in order to retire plant it doesn't  
23 necessarily -- when something is retired, it's not  
24 necessarily fully depreciated?

25 A. Exactly. And I don't need to know whether it's

1 been fully depreciated or not.

2 Q. So that's why you would have to go back and  
3 check?

4 A. Yes.

5 ALJ WOLFE: That's the only question that I have.  
6 Do you have redirect?

7 MR. SHAPIRO: Yes.

8

9

REDIRECT EXAMINATION

10

11 Q. (BY MR. SHAPIRO) In the discussions with -- the  
12 question and answer with Ms. Wood from RUCO, you stated  
13 that it was likely that -- or appeared to be likely that  
14 these wells were largely depreciated or fully depreciated  
15 by the early '90s if we were following the 5 percent  
16 depreciation rate.

17 A. Correct. And I'm making a -- I believe I'm  
18 correct, but I'm assuming that there was a 5 percent  
19 composite rate in effect from the 1971 date forward  
20 through 1991.

21 Q. If these wells were included on the company's  
22 books at the time the last rate case decision was issued,  
23 what was the impact of those wells at that level of cost  
24 and depreciation on the rates paid by the customers?

25 A. As I said before, zero. That is to say that the

1 net plant in service in rate base would have been zero, so  
2 there would have been no return on that plant. And the  
3 net plant in service, it's possible -- let me think about  
4 this for a second.

5 It's possible that accumulated depreciation could  
6 have been overstated because including that original cost  
7 would have been in the depreciation schedule at the time,  
8 okay, that the depreciation expense for that test year was  
9 calculated. So it's possible that it was overstated.

10 Q. So what would be the impact of overstating  
11 accumulated depreciation on the company's revenue  
12 requirement? Would it have lowered the revenue  
13 requirement by lowering the amount of rate base?

14 A. I'm talking about depreciation expense included  
15 in operating expense. Now, going forward, then, what  
16 happens is you have a tendency -- you're overstating your  
17 accumulated depreciation because you're depreciating an  
18 asset that's already fully depreciated. And so it's later  
19 on where you get a rate base being lower than what it  
20 would otherwise be because of that extra depreciation  
21 that's been recorded.

22 Q. Which would be a detriment to the company?

23 A. Yes, it would.

24 Q. Okay. And the removal or the retirement of these  
25 two wells now, which all three parties agree on, what

1 impact does that have on the rates going forward?

2 A. It's been removed from rate base, the plant in  
3 service, and excluded from the depreciation schedule.

4 Q. So these two wells haven't had an impact on the  
5 company's revenue requirement for some time; is that fair  
6 to say? A significant impact?

7 A. Correct.

8 Q. And so the company took two wells, one of which  
9 was out of service, that had likely been largely  
10 depreciated and turned them into cash that they now want  
11 to share with their ratepayers, correct?

12 A. Correct.

13 Q. And the Staff and RUCO recommendation is that the  
14 company should get nothing for turning those two wells  
15 into money that can be shared?

16 A. Correct.

17 Q. What analysis did RUCO do, to your knowledge,  
18 Mr. Bourassa, of the undercollection or overcollection of  
19 the various expenses since the company's last rate case  
20 besides property tax expense?

21 A. Could you repeat the question?

22 Q. Yeah. What analysis, to your knowledge, did RUCO  
23 do of the undercollection or overcollection of individual  
24 expense items by the company since the last rate case?

25 A. None that I'm aware of.

1 Q. So RUCO just focused on property taxes?

2 A. Correct.

3 Q. Okay. The company didn't earn its authorized  
4 return in the first year the new rates approved on  
5 September 30, 2005, went into effect, correct?

6 A. Correct.

7 Q. So the company hasn't really recovered in full on  
8 any of its expenses or any of its -- let me rephrase that.

9 The company, because it did not earn its  
10 authorized return, it did not recover its entire revenue  
11 requirement, correct?

12 A. In my opinion, no.

13 Q. Has there been a change in the property tax rate  
14 and the assessment rate subsequent to the last rate  
15 decision for Chaparral City Water Company?

16 A. Yes.

17 Q. And wouldn't those two things have an impact on  
18 the amount of property tax expense that was actually  
19 incurred subsequent to the rate decision?

20 A. Yes. And they weren't contemplated as known and  
21 measurable changes in the last case because they weren't  
22 known and measurable in the last case.

23 Q. So wouldn't those two changes in the manner in  
24 which the company is assessed the amount -- the manner in  
25 which it's assessed, which affect the amount, be part of

1 the explanation as to why the company had one level of  
2 property tax expense set by the Commission but actually  
3 incurred another amount of property tax expense?

4 A. Yes.

5 Q. Did RUCO account for those adjustments in its  
6 analysis in any way?

7 A. Not based on the analysis or testimony that I  
8 saw, no.

9 Q. So all RUCO did was look at the numbers and leave  
10 it at that?

11 A. Correct.

12 Q. Ms. Mitchell asked you whether the company's  
13 methodology was consistent with Staff's methodology for  
14 determining property taxes. Do you recall that?

15 A. Yes.

16 Q. In fact, the methodology that's being used by  
17 Staff and RUCO is not only consistent with each other but  
18 consistent with a long line of cases -- I'm sorry.

19 A. Do you mean Staff and RUCO or Staff and the  
20 company?

21 Q. Staff and the company. It's consistent with --  
22 let me just start that question again.

23 The methodology that's being employed by Staff  
24 and the company in this case are not only consistent with  
25 each other, but consistent with a long line of prior

1 Commission decisions, correct?

2 A. Correct.

3 Q. Including the last decision for this company,  
4 correct?

5 A. Correct.

6 Q. You would expect that should the company receive  
7 some refund from CAWCD that the company would make efforts  
8 to appropriately address who was entitled to the benefit  
9 of that refund?

10 A. Yes.

11 Q. In other words, if the customers overpaid, then  
12 the customers would be entitled to some refund?

13 A. Yes.

14 Q. You can't know that until you figure out what has  
15 actually happened with CAWCD's meter, right?

16 A. I think that would be correct, and whether or not  
17 there's a mechanism to make a refund available to the  
18 company at all. It may be: This is what we charged you,  
19 we'll fix it going forward, but whatever you paid in the  
20 past is what you paid in the past.

21 MR. SHAPIRO: Thank you, Mr. Bourassa.

22 ALJ WOLFE: Is there any recross on those issues?

23 MS. WOOD: Just one, Your Honor.

24

25



1 tariff in our matrix. It was late-filed in between our  
2 rejoinder and our rebuttal. Staff and RUCO did not have a  
3 chance to let us know where they were at, so we don't  
4 really know if it's an issue. But it is something that we  
5 might have included had we thought about it and said: We  
6 don't know if it's an issue. But I have no objection to  
7 Ms. Mitchell following up.

8 ALJ WOLFE: Thank you. Go ahead.

9 Q. (BY MS. MITCHELL) I just have some general  
10 questions that I just wanted to get.

11 Can you just explain how the tariff will work,  
12 and I guess I would want to know how are you going to  
13 identify who is low income and what kind of discount would  
14 they receive.

15 A. The proposed tariff has a section on how to apply  
16 and how to qualify for the low income tariff. The total  
17 annual gross incomes are based upon the 2008 poverty rate  
18 guidelines published in the Federal Register, and I  
19 believe that's -- let me just take a minute and look at my  
20 testimony here. I believe I set the income guidelines at  
21 150 percent of the baseline poverty rate.

22 A customer would have to apply for the tariff.  
23 They would have to submit some sort of income  
24 verification, whether it be a tax return, a paycheck, or  
25 something of that sort. They would have to notify the

1 company if they no longer qualified for it. It would  
2 be -- the onus would be on the customer to do that. They  
3 would have to renew their application every two years just  
4 to make sure that somebody isn't taking advantage of the  
5 low income tariff when they shouldn't.

6 The bottom line is that the discount rates set  
7 forth in the company's supplemental rebuttal testimony is  
8 for a 15 percent discount. This is based upon the same  
9 discount that's provided for by other companies that  
10 American States owns: Golden State Water, Metropolitan  
11 Water, other subsidiaries. So that's where the 15 percent  
12 came from that is currently being used in California.  
13 Does that explain --

14 Q. Yes, it does. And it's not an impact on --  
15 there's not a revenue impact or it doesn't have to be  
16 spread across any of the other classes to accommodate the  
17 15 percent discount?

18 A. Well, no. The company proposes that the cost of  
19 the program, which would be the discounts given to  
20 participants, plus an administrative fee, would be  
21 recovered from nonparticipants.

22 And I think I set forth an estimate of  
23 approximately what the program would cost based upon some  
24 general information about Fountain Hills, the Fountain  
25 Hills area, and I set forth that on Page 5 and 6 of my

1 testimony. And I think I calculated that the program,  
2 based upon the estimates of what the company believes  
3 they're going to be, the number of participants would be,  
4 translate to about 4 cents to an average three-quarter  
5 inch bill.

6 Of course, if my estimates of the number of  
7 participants is way off, obviously that 4 cents could be  
8 6 cents, it could be 8 cents.

9 MS. MITCHELL: I just wanted to get that in the  
10 record. Thank you.

11 THE WITNESS: Thank you.

12 ALJ WOLFE: Anything further, Mr. Shapiro?

13

14 FURTHER REDIRECT EXAMINATION

15

16 Q. (BY MR. SHAPIRO) I just want to make sure. So  
17 if understood your explanation correctly, Mr. Bourassa,  
18 let's assume that the Commission approves the low income  
19 tariff. The company would then for one year determine the  
20 amount of reduced revenue that it obtained due to  
21 customers qualifying for the low income tariff, and then  
22 seek to collect that from the remaining customers in year  
23 two?

24 A. Yes. The company would always be behind in the  
25 collection curve there. The way I described it in the

1 testimony is the company would go a full year of  
2 implementing the program to determine the participation,  
3 and then the following year collect what it didn't -- what  
4 discounts and costs it incurred during the first year. So  
5 it would always be a year behind.

6 Q. Okay. So then in year two, the customers that  
7 received a discount, that would be recovered from the  
8 other customers in year three?

9 A. Right. After a true-up calculation was done to  
10 make sure that the company didn't overrecover in year two  
11 based on the year-one costs. And so each year there would  
12 be an annual true-up to make sure that the company hasn't  
13 over- or underrecovered based on the surcharge they might  
14 have calculated each year.

15 MR. SHAPIRO: Thank you.

16 ALJ WOLFE: Is there anything further on that  
17 issue?

18

19 FURTHER RECROSS-EXAMINATION

20

21 Q. (BY MS. WOOD) I just wanted to know, is there a  
22 limitation on the availability of this program? Is there,  
23 you know, like a cap that the company has established  
24 or -- like the availability of those funds for the low  
25 income tariff, or is it --

1 A. I don't believe that the program, as I set forth  
2 in my testimony, was that there was only, say, \$50,000  
3 available for any and all participants that might show up  
4 and apply for the program.

5 What it is, is it will -- the company will --  
6 participants will sign up for the program; they'll  
7 qualify; they'll get the discount; the company will track  
8 that over a period of a year, determine -- you know, if it  
9 turns out to be \$25,000 of discounts provided, it will  
10 then collect that \$25,000 from nonparticipants in the year  
11 following.

12 So we haven't set a dollar limit on it, but I  
13 suppose that if this turns into a program where it costs  
14 hundreds of thousands of dollars a year and that surcharge  
15 ends up being \$5, \$10 a month to the nonparticipants, then  
16 I'm sure you're going to get a reaction, but we don't  
17 anticipate that at this time. There's a very low level of  
18 poverty out in the Fountain Hills area. It's a fairly  
19 affluent community.

20 MS. WOOD: Okay. Thank you.

21 ALJ WOLFE: Anything further?

22 MR. SHAPIRO: No, Your Honor. Thank you.

23 ALJ WOLFE: Thank you for your testimony,

24 Mr. Bourassa. You're excused until cost of capital.

25 And Mr. James, I don't know which of you is

1 responsible for Mr. Sprowls tomorrow.

2 MR. JAMES: I am responsible, Your Honor. I have  
3 been told he will definitely be here and available by  
4 9:30. I don't know what time. We hadn't talked about a  
5 starting time, but we could definitely start at 9:30 and  
6 he'll be available. Does that work?

7 ALJ WOLFE: Okay. We'll start at 9:30. That's  
8 the time that's scheduled.

9 MR. JAMES: I should have looked, Your Honor. I  
10 apologize.

11 ALJ WOLFE: No. I was going to offer to start  
12 later if he wasn't going to be here, but if he can be here  
13 at 9:30, we might as well get going.

14 MR. SWITZER: Subject to airline schedules.

15 MR. JAMES: Well, he is flying in, but he is  
16 leaving early enough that that shouldn't be a problem.

17 MR. SHAPIRO: Is he on Southwest? Because  
18 they're always on time.

19 MR. JAMES: He is on Southwest for what that's  
20 worth.

21 ALJ WOLFE: We'll be back here at 9:30 tomorrow  
22 morning, then. Thank you and have a good evening.

23 (The hearing recessed at 4:15 p.m.)

24

25

1 STATE OF ARIZONA )  
 ) ss.  
 2 COUNTY OF MARICOPA )

3

4 I, MICHELE E. BALMER, Certified Reporter  
 5 No. 50489 for the State of Arizona, do hereby certify that  
 6 the foregoing printed pages constitute a full, true and  
 7 accurate transcript of the proceedings had in the  
 8 foregoing matter, all done to the best of my skill and  
 9 ability.

10

11 WITNESS my hand this 27th day of December, 2008.

12

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*Michele E. Balmer*  
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 MICHELE E. BALMER  
 Certified Reporter  
 Certificate No. 50489

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