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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

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2009 AUG - 6 P 3: 31
AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR
A HEARING TO DETERMINE THE FAIR
VALUE OF THE UTILITY PROPERTY OF THE
COMPANY FOR RATEMAKING PURPOSES,
TO FIX A JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP SUCH
RETURN

DOCKET NO. E-01345A-08-0172

NOTICE OF FILING REPLY
SETTLEMENT TESTIMONY
OF PETER M. EWEN

On May 11, 2009, the Commission issued a Procedural Order in the above captioned matter that required the supporting parties to submit reply testimony by August 6, 2009. Arizona Public Service Company hereby submits the attached Reply Settlement Testimony of Peter M. Ewen.

RESPECTFULLY SUBMITTED this 6th day of August, 2009.

PINNACLE WEST CAPITAL CORP.
Law Department

Thomas L. Mumaw
Meghan H. Grabel

Attorneys for Arizona Public Service Company

Arizona Corporation Commission
DOCKETED

AUG - 6 2009

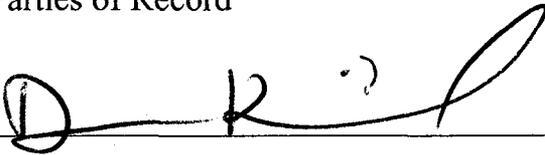
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1 ORIGINAL and 13 copies of the foregoing
2 filed this 6th day of August, 2009 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, AZ 85007

7 AND copies of the foregoing emailed or mailed
8 this 6th day of August, 2009 to
9 Parties of Record

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A handwritten signature in black ink, consisting of a large, stylized 'D', followed by a 'K', a small circle, and a long, sweeping flourish that extends to the right. The signature is written over a horizontal line.

Copies of the foregoing emailed or mailed
This 4 day of August 2009 to:

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REPLY SETTLEMENT TESTIMONY OF PETER M. EWEN

On Behalf of Arizona Public Service Company

Docket No. E-01345A-08-0172

August 6, 2009

Table of Contents

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

I. Introduction 1

II. Summary 2

III. Line Extension Policy Impact on Growth..... 3

Deposition of Richard Charles Merritt and Deposition of Daniel Court
in Docket No. E-01345A-08-0172 dated August 3, 2009..... Attachment PME-1-S

1 **REPLY SETTLEMENT TESTIMONY OF PETER M. EWEN**
2 **ON BEHALF OF ARIZONA PUBLIC SERVICE COMPANY**
3 **(Docket No. E-01345A-08-0172)**

4 I. INTRODUCTION

5 Q. **PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

6 A. My name is Peter M. Ewen. My business address is 400 N. 5th Street, Phoenix,
7 Arizona, 85004. I am the Chief Economist for Arizona Public Service Company
8 ("APS" or "Company") and manage the Revenue and Fuel Analysis and
9 Forecasts Department for APS. In that role, I am responsible for preparing the
10 Company's economic outlook and corresponding short-range and long-range
11 forecasts of system peak demand and energy sales, as well as projecting the
12 optimal dispatch of available resources to minimize the cost of meeting those
13 energy requirements.

14 Q. **WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
15 **BACKGROUND?**

16 A. I received Bachelors and Masters degrees in Economics from Arizona State
17 University in 1985 and 1988, respectively. I have analyzed and forecasted
18 electric energy and demand growth since 1988, first as a Staff member of the
19 Arizona Corporation Commission ("Commission") and, since 1990, as an
20 employee for APS. I was formerly President of the Arizona Economic Round
21 Table, a group of Arizona-based economists that specialize in studying the
22 Arizona economy, and I am still a member of that organization. I also serve on
23 the Joint Legislative Budget Committee's Finance Advisory Committee. This
24 advisory committee consists of a group of state economists who advise the Joint
25 Legislative Budget Committee staff on the adequacy of the economic
26 projections underlying their state revenue projections.

1 Q. **WHAT IS THE PURPOSE OF YOUR REPLY TESTIMONY?**

2 A. The purpose of my testimony is to address the assertions made in Direct
3 Testimony in Opposition of the Settlement Agreement by Ms. Barbara Wyllie-
4 Pecora and Mr. Carl Faulkner that APS's current line extension policy (also
5 known as Schedule 3) is somehow limiting growth in the state of Arizona.

6 Additionally, I will comment on the report by Elliot D. Pollack & Company
7 entitled "Arizona Utilities – Modifications to Infrastructure Extension Policies
8 Impact Analysis" ("Pollack Report") that was included in Ms. Wyllie-Pecora's
9 opposition testimony. In order to gain a greater understanding of this report,
10 APS deposed authors Mr. Richard C. Merritt and Mr. Daniel Court on August 3,
11 2009. Pertinent responses from Mr. Merritt regarding the scope of his report
12 and its conclusions have been included in my testimony, and the entire
13 deposition is attached as Attachment PME-1-S.

14
15 II. SUMMARY

16 Q. **PLEASE SUMMARIZE YOUR TESTIMONY.**

17 A. I have seen no reports, analyses, or other information demonstrating that the
18 Company's current line extension policy is in any material way affecting growth
19 in Arizona. Neither the Pollack Report nor the other testimony filed by the
20 opposing parties has provided any additional evidence that indicates, let alone
21 proves, that Schedule 3 is having any quantifiable or material negative impact
22 on state incomes, tax revenues or housing demand, or that the policy is
23 somehow undermining the ability of the state to recover from the economic
24 recession being felt around the country. Mr. Merritt, the author of the Pollack
25 Report, acknowledges that he "... did not conduct any analysis of land values
26 or the potential impact of the ... changed Service Schedule 3 on the value of

1 land.”¹ The Pollack Report also fails to consider the positive economic benefits
2 likely created by keeping base rates lower than they otherwise would need to be
3 for other customers. I conclude that housing demand has been primarily
4 affected by the overall poor economy and in particular by the real estate bubble
5 in Arizona.

6 **III. LINE EXTENSION POLICY IMPACT ON GROWTH**

7 **Q. DO YOU BELIEVE THAT APS’S LINE EXTENSION POLICY HAS**
8 **NEGATIVELY AFFECTED GROWTH IN THE COMPANY’S SERVICE**
9 **TERRITORY?**

10 **A.** No. There is absolutely no evidence to suggest that the change in the line
11 extension policy has materially affected growth in the APS service territory. A
12 simple review of the change in growth rates in the APS service territory over the
13 last several years compared to the change in growth rates in the Salt River
14 Project (“SRP”) service territory confirms that the slowdown in growth is
15 widespread and economy-wide, and not related only to one utility’s service
16 territory (or line extension policy). The following table displays the growth in
17 annual residential customers for APS and SRP since 2004.

18 **Growth in Average Annual Residential Customers**

	<u>APS</u>		<u>SRP</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
19 2004	30,703	3.7%	26,721	3.7%
20 2005	37,403	4.4%	32,436	4.3%
21 2006	39,992	4.5%	29,078	3.7%
22 2007	29,549	3.2%	20,088	2.5%
23 2008	11,931	1.2%	4,701	0.6%

24
25
26 ¹ Deposition of Richard Charles Merritt and Deposition of Daniel Court, dated August 3, 2009, page 37 lines 2-5.
See Attachment PME-1-S.

1 For reference, SRP's present line extension policy is similar to APS's previous
2 line extension policy. Most importantly, it is readily apparent from the data that
3 SRP has experienced a decline in growth that is similar to, if not a little more
4 pronounced than, the decline seen in the APS service territory. One would not
5 expect this to be the case if the line extension policy were responsible – or even
6 partly responsible – for the decline in growth and the decline in housing
7 demand. In fact, one would quite naturally expect to see the opposite.

8 **Q. BUT YOU DO AGREE THAT GROWTH HAS SLOWED CONSIDERABLY THROUGHOUT THE STATE IN THE PAST FEW YEARS?**

9
10 **A.** Yes, there is no doubt that both population and housing growth have slowed
11 dramatically in the past three years. In fact, APS is experiencing the slowest
12 growth in percentage terms now that we have seen in the last 50 years. The
13 principal driver of this slowdown was the overbuilding that occurred in single
14 family housing from 2004 to 2006. When it became apparent that our economy
15 was building too many homes, the bubble popped, home prices and land values
16 began to fall, and construction began to slow. As construction workers and
17 others tied to the construction industry lost their jobs, many of them sought work
18 outside the state. With more people leaving the state and fewer people moving
19 into the state due to the poor job climate, net migration slowed down and the
20 demand for housing declined even further. The net result is that we have an
21 excess physical supply of housing in the APS metropolitan Phoenix service
22 territory of over 30,000 homes and apartments. From the available housing
23 permit data and customer data, it appears that SRP has had a similar experience
24 in terms of housing construction and trends in occupied housing. Since APS
25 accounts for just under half of the metro Phoenix residential electric customers,
26

1 a good approximation of the amount of vacant housing in metro Phoenix is on
2 the order of 65,000 to 70,000 units.

3 **Q. ARE THESE UNITS VACANT BECAUSE OF THE CHANGE IN THE**
4 **LINE EXTENSION POLICY?**

5 A. No. Virtually all of these constructed homes have electrical service to them. In
6 fact many of the vacancies have occurred in the interior of the APS system in
7 established developments and in apartments. The Company's line extension
8 policy is not inhibiting residents from moving into them. To the contrary, it
9 likely encourages residents to fill these vacancies thus helping alleviate the most
10 significant problem facing the housing market.

11 **Q. DOES THE POLLACK REPORT INDICATE THAT THE CHANGE IN**
12 **THE LINE EXTENSION POLICY IS RESPONSIBLE FOR THE**
13 **DOWNTURN IN GROWTH?**

14 A. No. Essentially, the Pollack Report presents a hypothetical scenario that
15 answers the question, "What would the economic impact to Arizona be if 100
16 average-size single family homes were not built in a year?" The Pollack Report
17 does not claim, let alone prove, that the change in the line extension policy
18 results in fewer homes being built.

19 **Q. IS THIS SIMPLY YOUR INTERPRETATION OF WHAT THE POLLACK**
20 **REPORT SAYS?**

21 A. No. In addition to drawing my own conclusion from reviewing the report, Mr.
22 Merritt also acknowledges that his report does not attempt to draw such a
23 conclusion. In his deposition with the Company, he was asked a series of
24 questions on this point:

25 Q. Your study is thus not intended to present evidence that
26 the change in line extension policies actually caused the
economic impact you described in section 5 of your report?

1 A. Correct. Our -- for us to determine precisely what the
2 impact of Service Schedule 3 is we would have to get into the
3 mind set of people who own land in the rural areas that are
4 impacted, people who would be potentially buying land,
5 building homes in those areas. And we did not. Once again, it
6 was a limited scope so we did not get into any of the detail on
7 how the service schedule may impact the thought process of
8 those people.

9 Q. Do I take it then that your study is not intended to
10 present evidence that the change in line extension policies
11 actually caused the impacts described in section 5?
12

13 A. Our analysis says that there is not enough information
14 available to determine what the impact would be of Service
15 Schedule 3. But for every 100 homes that may not be built in
16 this, in the APS service area or other service areas, there is a
17 particular impact on jobs and revenue that would be
18 developed and generated to cities, state, counties.

19 Q. Do you have any evidence that 100 homes will not be
20 built as a result of the changes to service schedule 3?
21

22 A. No, we do not.

23 Q. Do you have any evidence that 10 homes will not be
24 built as a result of the change to service schedule 3?
25

26 A. No, we do not.²

27 Q. **DOES A DECLINE IN HOUSING VALUE COINCIDE WITH A
28 DEPRESSED HOUSING MARKET?**

29 A. Yes, a decline in both housing and land values goes hand in hand with a
30 significantly overbuilt market. In fact, the Pollack Report acknowledges that
31 "The main cause of the decline [in housing values] stems from the collapse in
32 the housing market and the flood of distressed properties placing downward
33 pressure on sales prices. The lack of demand for developable private land has
34

35 ² *Id.*, page 37, line 9 to page 38, line 14.

1 driven land prices down steeply.”³ These are the true reasons for the decline in
2 growth and land values we are experiencing today, not a public policy decision
3 on the cost of line extensions.

4 **Q. THE POLLACK REPORT INCLUDES A SPECIFIC LIST OF HOUSING**
5 **TRANSACTIONS THAT PURPORTS TO SHOW THAT THE DISTANCE**
6 **FROM ELECTRICAL SERVICE HAS A NEGATIVE EFFECT ON**
7 **SALES PRICE. IS THIS LIST RELEVANT?**

8 A. Without significantly more detailed analyses, I don't see how it could be. The
9 Pollack Report provides no evidence at all that the sale prices contained in the
10 table on page 19 bear any relationship to the cost of a line extension to these
11 properties. The report contains no detailed analysis that would confirm or
12 disprove that an extension policy affected these prices. By my rough
13 approximation, the geographic area covered by these transactions appears to be
14 close to 12 miles from north to south and 11 miles from east to west, or over 130
15 square miles. In my opinion, that appears to be a fairly broadly defined region
16 in which one would not expect that land values would be directly comparable
17 across the entire region. Furthermore, there is no indication as to the
18 representative nature of the transactions. Are they representative of all
19 transactions in the region? Could some of the sales been made under financial
20 distress and others not? At the very least, one needs to know when these
21 transactions occurred to have an idea of why the prices may differ – and there is
22 no discussion of any other differences in amenities or improvements that may or
23 may not have been available at the time of the sale. Simply stating that prices
24 decline in conjunction with distance to electrical service does not make it so.

26 ³ See Pollack Report, Executive Summary page ii.

1 Q. **DO ANY OF THE PARTIES OFFERING TESTIMONY IN SUPPORT OF**
2 **MS. WYLLIE-PECORA, INCLUDING MR. FAULKNER, PROVIDE ANY**
3 **EVIDENCE TO SUPPORT THEIR ASSERTIONS THAT THE LINE**
4 **EXTENSION POLICY IS AFFECTING GROWTH IN THE STATE?**

5 A. No. They have provided no studies or analyses as evidence that the change in
6 the line extension policy has affected growth in Arizona in a material way.

7 Q. **DO YOU BELIEVE THAT, AS SUGGESTED BY BOTH THE POLLACK**
8 **REPORT AND MR. FAULKNER, THE CHANGE IN THE LINE**
9 **EXTENSION POLICY MAY HAVE AN AFFECT ON CERTAIN**
10 **LANDOWNERS?**

11 A. As I indicated previously, I believe that there are many factors that go into the
12 determination of land values, so I believe that it is very difficult to generalize to
13 an entire group of customers without solid evidence, which Mr. Faulkner and
14 others have failed to provide. Having said that, I do believe that it is possible
15 that certain individuals may have been affected by the change in the line
16 extension policy, but even so, anecdotal evidence can not be extrapolated to the
17 sweeping generalizations contained in their testimony.

18 Q. **DOES THE INTERVENOR TESTIMONY AND POLLACK REPORT**
19 **IDENTIFY AND ADDRESS ALL THE RELEVANT ECONOMIC**
20 **ISSUES YOU BELIEVE THE COMMISSION SHOULD CONSIDER AS**
21 **IT ADDRESSES THIS ISSUE?**

22 A. No. In my opinion, the Commission should rely on the best economic criteria it
23 can to set a policy that applies equally to everyone. Without trying to be
24 exhaustive, I would suggest that some of the factors to be considered would
25 include:

- 26 • The impact on base revenue requirements caused by exempting certain
customers from the full cost of extending service.
- The impact on allocative efficiency, meaning resources (land, labor,
materials) are expended when consumers and businesses are willing to

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pay those resource costs, and not expended when willingness to pay is too low.

- Related to the first point, whether costs are allocated to those who cause or create them.
- The impact on the economy generally if subsidies are to be used, meaning capturing the impacts on the level of economic activity of higher electric rates overall resulting from cost-shifting subsidies.
- The impact on specific sets of consumers if subsidies are to be used.
- The impact on the type of development that may occur in the state, including the amount of infill development that may occur.
- Slightly different from the previous point, the short-run impacts on the housing market and its potential path to recovery.

There are almost certainly other factors that could and should be considered in the review of the line extension policy, and those factors should be brought out. I am quite confident that the intervenor testimony offered in this case has not done this.

Q. DOES THIS CONCLUDE YOUR REPLY SETTLEMENT TESTIMONY?

A. Yes.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE)
APPLICATION OF ARIZONA)
PUBLIC SERVICE COMPANY FOR A)
HEARING TO DETERMINE THE) DOCKET NO.
FAIR VALUE OF THE UTILITY) E-01345A-08-0172
PROPERTY OF THE COMPANY FOR)
RATEMAKING PURPOSES, TO FIX A)
JUST AND REASONABLE RATE OF)
RETURN THEREON, TO APPROVE)
RATE SCHEDULES DESIGNED TO)
DEVELOP SUCH RETURN.)
) PERMANENT

DEPOSITION OF RICHARD CHARLES MERRITT

and

DEPOSITION OF DANIEL COURT

Phoenix, Arizona
August 3, 2009

ARIZONA REPORTING SERVICE, INC.
Court Reporting
Suite 502
2200 North Central Avenue
Phoenix, Arizona 85004-1481
By: COLETTE E. ROSS
Certified Reporter
Certificate No. 50658

Prepared for:

1 INDEX TO EXAMINATIONS

2 WITNESS PAGE

3 RICHARD CHARLES MERRITT

4 Examination by Ms. Grabel 4

5 Examination by Ms. Mumaw 23

6 Examination by Ms. Grabel Continued 34

7 Examination by Ms. Grabel Continued 74

8 Examination by Mr. Hains 85

7 DANIEL COURT

8 Examination by Ms. Grabel 70

9

10 INDEX TO EXHIBITS

11 NO. DESCRIPTION MARKED IDENTIFIED

12 1 Arizona Utilities - Modifications 34 34

13 to Infrastructure Extension

14 Policies Impact Analysis

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16

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1 DEPOSITION OF RICHARD CHARLES MERRITT and DANIEL COURT
2 was taken on August 3, 2009, commencing at 9:33 a.m., at
3 the offices of ARIZONA PUBLIC SERVICE COMPANY, 400 North
4 Fifth Street, Phoenix, Arizona, before COLETTE E. ROSS,
5 Certified Reporter No. 50658 for the State of Arizona.

6

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17 For the Intervenor Wyllie-Pecora:

18 Ms. Barbara Wyllie-Pecora and Mr. Todd Wyllie
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20

21

22 ALSO PRESENT:

23 Messrs. David Rumolo, Pete Ewen, APS
Mr. Ralph Smith, appearing via teleconference
24 Ms. Jody Jerich, RUCO, appearing via teleconference

25

1 (Whereupon Richard Charles Merritt was duly
2 sworn by the Certified Reporter.)

3 THE WITNESS: Can I just ask you the format?

4 MS. GRABEL: Oh, sure. Shall we go off the
5 record, please.

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

7

8 RICHARD CHARLES MERRITT,
9 a witness herein, having been previously duly sworn by
10 the Certified Reporter to speak the truth and nothing
11 but the truth, was examined and testified as follows:

12

13 EXAMINATION

14 BY MS. GRABEL:

15 Q. My name is Meghan Grabel. I am an in-house
16 attorney here with Pinnacle West. This is my colleague,
17 Tom Mumaw, also an in-house attorney with Pinnacle West.

18 I will ask you preliminary questions. Tom will
19 ask you additional questions. And then it is going to
20 come back to me for other questions. Because of the
21 short time, we tag teamed here.

22 Mr. Smith, you can't hear?

23 MR. SMITH: I can't hear very well.

24 MS. GRABEL: I will speak louder. And at a
25 break we will see if we can get you a different number

1 that you can call that will hopefully solve this. Does
2 that work?

3 MR. SMITH: Yes, that works.

4 MR. RUMOLO: Ralph.

5 MR. SMITH: Yes.

6 MR. RUMOLO: What number are you at? Let me see
7 if I can call you on this speaker line.

8 MS. GRABEL: Let's go off the record.

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

10 (The record was read by the reporter as
11 requested as follows:

12 Ms. Grabel: I will ask you preliminary
13 questions. Tom will ask you additional questions.
14 And then it is going to come back to me for other
15 questions. Because of the short time, we tag teamed
16 here.)

17 BY MS. GRABEL:

18 Q. And then Mr. Hains from the Arizona Corporation
19 Commission will also have the ability to ask questions
20 when we are done.

21 A. Okay.

22 Q. So you understand that you are under oath today
23 and testifying the same as you would if you were at any
24 trial or hearing?

25 A. Yes.

1 Q. It is important for our purposes that we
2 maintain a clean record here. So if we could, please,
3 try not to talk over one another. I will try to extend
4 that courtesy to you as well.

5 A. Sure.

6 Q. In the same vein, please answer yes or no, not
7 uh-huh or huh-uh.

8 Are you taking any medication that would affect
9 your ability to understand the questions that I ask you?

10 A. No.

11 Q. We hope not to go too long today. As I said
12 earlier, we hope to be done about 12:30. But if you
13 need a break, feel free to take one for any reason, just
14 let me know.

15 A. Okay.

16 Q. Would you please state your full name for the
17 record.

18 A. Richard Charles Merritt.

19 Q. And what is your address?

20 A. My home address?

21 Q. Yes.

22 A. 17478 north 100th Way in Scottsdale, Arizona.

23 Q. Have you ever had your deposition taken before?

24 A. Yes.

25 Q. When?

1 A. The last time was probably six to seven years,
2 something like that.

3 Q. What context was that deposition?

4 A. It was in a mediation.

5 Q. Personal matter or business matter?

6 A. No, business matter.

7 Q. Were you acting as an expert consultant in that
8 matter?

9 A. I was acting as an employee of the principal in
10 a real estate matter, is what it was.

11 Q. Have you had your deposition taken prior to that
12 time?

13 A. Yes.

14 Q. How many times have you been deposed?

15 A. Probably four to five times.

16 Q. All personal -- all business, rather, related?

17 A. All business, yes.

18 Q. Have you ever testified at the Arizona
19 Corporation Commission?

20 A. No.

21 Q. Have you ever testified in court or in any other
22 legal proceeding?

23 A. Yes.

24 Q. When?

25 A. In court, it was probably, it has been as long

1 as 25 years ago, probably.

2 Q. What was the context?

3 A. It was a zoning matter. I was employed by the
4 Town of Gilbert at the time.

5 Q. Were you called to speak in an expert capacity
6 there?

7 A. Yes.

8 Q. What was the subject?

9 A. It was, it was a question of legitimacy of
10 zoning on a particular piece of property.

11 Q. How long did you prepare for your deposition
12 today?

13 A. I spent probably a total of eight to ten hours
14 last Friday and the weekend.

15 Q. What did you do?

16 A. Mainly reviewed the report and background
17 material that was provided to us.

18 Q. What specific background material did you
19 review?

20 A. Mainly just boning up on the various schedules,
21 information that was provided in the document, the study
22 itself, those types of things.

23 Q. Were any of the documents that you reviewed to
24 prepare for your deposition today not attached to the
25 report that has been filed in the Arizona Corporation

1 Commission docket?

2 A. Yes. There were some, and schedules. The
3 schedule, Service Schedule 3 was not attached to the
4 documents.

5 Q. Did you review anything in addition to Service
6 Schedule 3 that was not also attached to your report?

7 A. There were various documents that we collected
8 along the way in the study that are in, mostly in your
9 electronic files that I went through, yes.

10 Q. Would it be possible for us to have a copy of
11 those documents?

12 A. Sure.

13 Q. Did you bring copies with you today?

14 A. Not all copies, no.

15 Q. You can follow up?

16 A. Yes.

17 Q. Did you meet with anyone to prepare for your
18 deposition?

19 A. No, other than spoke to Danny Court.

20 Q. Did Mr. Court work with you on this matter?

21 A. Yes.

22 Q. How long did you speak with Mr. Court?

23 A. Probably no more than, in total, no more than
24 half an hour or something like that.

25 Q. What is your educational background?

1 A. I have a bachelor's of community planning from
2 the University of Cincinnati and I have an MBA from
3 Arizona State.

4 Q. Are you an economist?

5 A. Technically not, no.

6 Q. Did you take any economics courses as part of
7 your bachelor's?

8 A. Very little as part of the bachelor, more as
9 part of the master's, yes.

10 Q. How long have you worked for Pollack &
11 Associates, and forgive me, Elliott D. Pollack &
12 Company?

13 A. Well, formally the company started, Elliott and
14 I started the company in about 1990. Prior to, I was
15 working for him in charge of managing various real
16 estate investments that he had, starting in about 1986,
17 1987.

18 Q. What is your current position with Elliott D.
19 Pollack & Company?

20 A. I am the president.

21 Q. What are your duties and responsibilities?

22 A. Primarily there are two parts of our business.
23 One is the consulting business, Elliott Pollack &
24 Company. And I spend probably, you know, over the
25 course of a year, about half my time on that aspect of

1 the business, just overseeing various studies and
2 analyses that we do. And the other half of my time is
3 still spent in the real estate investment area, managing
4 the properties that we have acquired over, well, some go
5 back 20 years or so now.

6 Q. Who are your clients in the real estate
7 investment portion of Elliott D. Pollack &
8 Associates -- & Company?

9 A. We have a wide variety of private and public
10 clients. We work for many of the major cities around
11 the valley. We have worked for the state, for the
12 county. We are the basically the economic forecasting
13 arm for Maricopa County. We do a lot of work with the
14 City of Phoenix.

15 And then we have a lot of private clients that
16 range from big companies like Del Webb to small
17 independent landowners, investors, developers who may be
18 asking questions about the real estate market.

19 Q. And do you recommend investments that should be
20 made?

21 I am trying to understand. You said you managed
22 the properties in your portfolio. What does that mean
23 specifically?

24 A. Well, that is totally separate from Elliott
25 Pollack & Company.

1 Q. Okay.

2 A. And the properties that we -- well, they are,
3 they are limited partnerships or LLCs that are formed by
4 Elliott and some of his other partners. And basically
5 it is managing the properties anywhere from just letting
6 it sit as an agricultural property to developing
7 properties, rezoning, master planning and whatever it
8 may be.

9 Q. Does part of your compensation from your Elliott
10 D. Pollack & Company branch, so to speak, come from the
11 investment position that you have?

12 A. Yes, yes.

13 Q. Who did you work for prior to Elliott D. Pollack
14 & Company?

15 A. I worked for an company called Northern
16 Equities.

17 Q. What do they do?

18 A. They were in the development business here in
19 the Phoenix area.

20 Q. What were your duties and responsibilities?

21 A. It was, once again, managing properties, taking
22 them from perhaps a raw piece of land to a developed
23 piece of property so it could be sold.

24 Q. For how long did you work -- what was the name
25 of the business again?

1 A. Northern Equities.

2 Q. For Northern Equities?

3 A. How long?

4 Q. For how long?

5 A. I worked for them for about three years.

6 Q. Why did your employment end?

7 A. Well, we were in a pretty huge real estate
8 recession and they were in a mode to scale down. And at
9 that time I started working for Elliott on similar
10 matters.

11 Q. For whom did you work prior to Northern
12 Equities?

13 A. For the Town of Gilbert, I was the planning
14 director for the Town of Gilbert.

15 Q. What does that mean?

16 A. Well, the planning director is in charge of,
17 responsible for the general plan of the city, of the
18 community, zoning, processing of development plans,
19 things of that nature.

20 Q. For whom did you work prior to the Town of
21 Gilbert?

22 A. I worked for the City of Chandler.

23 Q. In what capacity?

24 A. As -- I don't remember my exact title but I was
25 a staff planner.

1 Q. What did you do as a staff planner in the City
2 of Chandler?

3 A. Many of the similar things of zoning,
4 development, review, general plan analysis, things of
5 that nature.

6 Q. For whom did you work prior to the City of
7 Chandler?

8 A. I worked for Hamilton County, Ohio after I got
9 out of school in Cincinnati.

10 Q. What year was that?

11 A. I graduated in '74 and moved here in 1979, went
12 to work for the City of Chandler.

13 Q. You received your MBA in '74?

14 A. No, my --

15 Q. Okay.

16 A. -- my bachelor's in '74.

17 Q. What year did you receive your MBA?

18 A. 1990.

19 Q. Are you the author of the report entitled
20 Arizona Utilities - Modifications to Infrastructure
21 Extension Policies Impact Analysis?

22 A. Yes.

23 Q. Who retained you to complete your analysis?

24 A. The entity we are familiar with is Arizonans for
25 Fair Power Policy.

1 Q. When were you retained?

2 A. That's a good question.

3 MR. COURT: January.

4 THE WITNESS: Yes, it was probably around the
5 beginning of the year.

6 BY MS. GRABEL:

7 Q. 2009?

8 A. Yes.

9 Q. Do you work primarily with any one individual or
10 two individuals with the Arizonans for Fair Power
11 Policy?

12 A. We primarily work with a gentleman, Mike Wyllie.

13 Q. How often did you meet with Mr. Wyllie?

14 A. Personally I met with him one time, I believe.

15 Q. Did you have any telephone conversations with
16 Mr. Wyllie?

17 A. Yes, we had telephone conversations. My
18 assistant had numerous conversations with him directly,
19 too.

20 Q. Over the course of your analysis about how often
21 do you believe you had any interactions with Mr. Wyllie
22 or Mr. Court? Let me ask that a better way.

23 Over the course of your analysis, how often do
24 you believe that you personally had any interactions,
25 e-mail, telephone, in-person meetings, with Mr. Wyllie?

1 A. I would say probably once a month.

2 Q. And over the course of your analysis how often
3 do you believe that Mr. Court may have had
4 communications of any type --

5 A. It was --

6 Q. -- with Mr. Wyllie?

7 A. At some point it was very little. At other
8 times it was weekly at the very least.

9 Q. What did Mr. Wyllie ask you to do?

10 A. He asked us to provide him an impact analysis of
11 the revision to the schedule, Service Schedule 3.

12 Q. Was his request specific to APS or did it
13 include the other utilities that you have included in
14 the scope of your report?

15 A. It was initially directed at APS, yes.

16 Q. What caused you to broaden the scope of your
17 assignment?

18 A. Well, as we got into a more -- and spoke with
19 Mr. Wyllie, we understood that there were additional
20 changes made to other service schedules by the other
21 utilities. And at that point we broadened the study a
22 little bit.

23 Q. Did you share drafts of your work with
24 Mr. Wyllie?

25 A. Yes.

1 Q. Did you revise those drafts based on
2 Mr. Wyllie's input?

3 A. There were some minor revisions made along the
4 way.

5 Q. In what areas did you revise the report based on
6 Mr. Wyllie's feedback?

7 A. I, to tell you the truth, I cannot remember
8 specifically what the major changes were, but they are
9 very minor.

10 Q. Would you be willing to take a look?

11 A. Yes.

12 Q. To what extent was Mr. Wyllie or anyone else
13 with the Arizonans for Fair Power involved in
14 formulating the analysis that you submitted in this
15 report?

16 A. He was a primary one, but we did have one
17 meeting where he brought in some additional associates,
18 and we probably spent an hour listening to their
19 concerns about the service schedule.

20 MS. GRABEL: Can we take a quick break.

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

22 (Ms. Jody Jerich joins the proceedings via
23 teleconference.)

24 BY MS. GRABEL:

25 Q. Thank you for your prior answer, Mr. Merritt.

1 To what extent was your client involved in
2 formulating the analysis that was a part -- that you
3 reached in this report?

4 A. Well, mainly in providing information on what
5 they thought the impact was of the revisions to the
6 service schedule. And that was the provision of a lot
7 of different testimony from people, mainly real estate
8 investors or sales agents regarding what it meant to
9 them, to clients and property owners, what the impact
10 was of the service schedule.

11 Q. Did you look at any data that was not provided
12 to you by your client in preparing your analysis?

13 A. Yes, I am sure we did.

14 Q. I sense a little hesitation. Why do you
15 hesitate?

16 A. Well, there is not a lot outside of the actual
17 economic impact analysis. I think that's the main thing
18 that we, we evaluated and worked on.

19 Q. I don't think I fully understand your
20 distinction. What in your impact analysis, what data
21 that you relied upon in devising your impact analysis
22 was not provided to you by your client?

23 A. What was not provided? It was primarily the --
24 there was statistical reports. There were annual
25 reports that we pulled out off the internet regarding

1 APS. And then primarily it was the remaining economic
2 impact analysis that is shown throughout the study.

3 Q. And are those documents documents that you will
4 be providing to us pursuant to my earlier request?

5 A. Sure.

6 Q. Thank you.

7 What is your compensation arrangement with the
8 Arizonans for Fair Power Policy?

9 A. We were paid a flat fee of \$8,000 to do the
10 study. If there is any testimony at the ACC, they would
11 be responsible for payment of that as well.

12 Q. Is this deposition part of the \$8,000 flat fee?

13 A. No. It was our understanding that APS was
14 paying for my time.

15 Q. It was my understanding, too. I was just sort
16 of hoping. Just kidding.

17 How much have you been paid to date of that
18 \$8,000?

19 A. I know we received a \$4,000 retainer. And I
20 believe the other, I know we billed for the remaining
21 4,000. I just don't know if we have been paid.

22 Q. And how much do you estimate you will be paid by
23 your client for the duration of your assignment?

24 A. I don't know that we have come to a complete
25 estimate at this point.

1 Q. Do you expect that you will be testifying in
2 this case?

3 A. I have been told that we are expected to
4 testify, yes.

5 Q. Do you have any estimate about how long it will
6 take you to prepare for that testimony?

7 A. It depends on whether there is a written
8 testimony that goes along with it as well in addition to
9 a verbal testimony. You know, I think we thought maybe
10 it would be another 10 to 15 hours of work, something
11 like that.

12 Q. And is the compensation past the \$8,000 flat fee
13 an hourly basis?

14 A. Yes.

15 Q. How much per hour?

16 A. For -- it would probably be between, my rate and
17 Danny's rate would probably be an average of \$175 an
18 hour, something like that. And thee would be a higher
19 fee for the direct testimony at a hearing.

20 Q. I wish I could do that.

21 Do you have any prior experience conducting any
22 analyses similar to the one completed on behalf of the
23 Arizonans for Fair Power Policy?

24 A. Yes.

25 Q. Will you elaborate.

1 A. We, as probably the largest part of our business
2 is economic and fiscal impact analyses, and we virtually
3 do them in our sleep at this point. We have various
4 models that we use to conduct these analyses. And it is
5 a matter of figuring out what the assumptions are of the
6 particular issue and then developing a model around
7 that.

8 Q. Have you ever attempted to analyze the impact of
9 a government tax or fee on the Arizona economy?

10 A. We have looked at impact fees, city impact fees,
11 yes.

12 Q. Are the reports public that were devised?

13 A. They were all done for private clients. We have
14 done a fiscal impact analysis for, not a fiscal impact
15 analysis, a development fee study for the Town of Gila
16 Bend. We have done one for La Paz County. Those are
17 the two that I remember offhand. But other than that,
18 we have worked in the private side for developers, home
19 builders who were protesting the imposition of impact
20 fees by cities.

21 Q. I guess I meant my question a little bit
22 differently. Are the results of those studies publicly
23 available? Are you able to give those --

24 A. The private ones, I would have to check to see
25 if they were submitted to the cities. Then I would

1 assume they are public information, yes.

2 Q. If they are, would you be willing to provide us
3 with a copy of those as well?

4 A. Sure.

5 Q. Thank you.

6 Do you have --

7 A. Will you give me a list at the end of this
8 information?

9 Q. Sure, absolutely.

10 Do you have any past experience analyzing
11 utility economics?

12 A. No.

13 Q. Does anyone at Elliott D. Pollack & Company have
14 past experience analyzing utility economics?

15 A. Yes. We have done work for utilities. I am not
16 sure that we focused on the type of analysis you are
17 talking about. But we have done work for Southern
18 California Edison on various issues, but they have
19 mostly been in the field of economic impact analysis.

20 Q. Economic -- when you did work for Southern
21 California Edison, for example, what was the impact
22 analysis they asked you to do?

23 A. They have, we have done some extensive models
24 for them that showed what the impact would be of a
25 particular company coming into their service area, for

1 instance.

2 Q. Do you have any past experience analyzing
3 utility policies regarding line extensions?

4 A. No.

5

6

EXAMINATION

7 BY MR. MUMAW:

8 Q. You indicated that you had not previously
9 conducted studies regarding utility line extension
10 policies, is that correct?

11 A. Yes.

12 Q. Has Mr. Court conducted such a study?

13 A. No, I don't believe so.

14 Q. Is Mr. Court the only person at Elliott Pollack
15 who assisted you in this study?

16 A. In this particular study, Jim Rounds is our
17 senior economist, he reviewed the study prior to its
18 final completion and provided us some comments on it.

19 Q. Do you know whether Mr. Rounds had previously
20 conducted any studies regarding the impact of utility
21 line extension policies?

22 A. To my knowledge he has not conducted any such
23 study.

24 Q. Mr. Merritt, are you aware of any similar
25 studies being conducted for other utilities elsewhere in

1 the country?

2 A. No, I am not aware.

3 Q. So to your knowledge yours is the first and only
4 study of this kind?

5 A. To my knowledge, it is the only one. We have --
6 we did not as part of our study do any further research.

7 Q. Mr. Merritt, with regard to APS' Schedule No. 3,
8 the so-called 1,000 free footage provision, are you
9 familiar with that provision?

10 A. Yes.

11 Q. And in your understanding, in that version of
12 Schedule 3, to what sort of applicants did that free
13 footage apply?

14 A. Well, it primarily applied to single-family
15 residences that were not being built in a traditional
16 subdivision, if you want to call it that.

17 Q. Isn't it true that it only applied to those
18 sorts of applicants?

19 A. To my knowledge, I can't say for sure that's the
20 only, that's the only one. We are, you know, we are
21 very, if I can just clarify a little bit, we were very
22 specific on the type of analysis we were conducting.
23 And it was primarily targeted at the economic impact.
24 We did not do extensive analysis of what Service
25 Schedule 3 was all about other than what we did to

1 understand the overall picture of what was going on.

2 Q. Okay. So is it your understanding that
3 developers, for example, did not receive free footage
4 allowance?

5 A. Developers?

6 Q. Yes.

7 A. Subdividers?

8 Q. Yes.

9 A. They did not collect such.

10 Q. And commercial applicants for service did not
11 receive any free footage?

12 A. That's correct.

13 Q. And Schedule 3 also covers upgrades of service
14 from existing customers?

15 A. I am not aware of that provision.

16 Q. If -- could I ask you to assume that it does
17 cover upgrades of service?

18 A. Okay.

19 Q. You would agree in that circumstance free
20 footage would not be a relevant concept?

21 A. It would not be a relevant concept?

22 Q. Yes, that we are not talking about those --
23 people who upgraded service did not get any sort of free
24 allowance.

25 A. Okay, yes.

1 Q. Okay. Was it your understanding that for those
2 customers to whom the free footage applied, that there
3 was a dollar cap?

4 A. Yes.

5 Q. And what was that dollar cap?

6 A. \$25,000.

7 Q. And what is your understanding, if the project
8 was in excess of \$25,000, how do you believe Schedule 3
9 applied in those circumstances?

10 A. That the applicant, homeowner, whoever it was,
11 would make up the difference between the actual cost and
12 the \$25,000 allowance.

13 Q. Isn't it in fact true, Mr. Merritt, if the
14 project exceeded \$25,000 it was moved out the footage
15 category, if you will, into the economic analysis?

16 A. I am not --

17 Q. -- category?

18 A. I am not aware of that provision.

19 Q. Okay. Do you know whether it was true that in
20 most instances which a project exceeded \$25,000 the
21 applicant was required to advance the full cost of that
22 project?

23 A. No. I was not aware of that provision.

24 Q. If you had been aware that that's how previous
25 versions of Schedule 3 applied, would that have affected

1 your analysis?

2 A. I don't believe so, no.

3 Q. Do you know when it was first proposed by APS to
4 get rid of the free footage allowance?

5 A. I don't know the exact date. I believe that it
6 was in 2007, was my understanding.

7 Q. Would it surprise you if it was as early as
8 2003?

9 A. No.

10 Q. Was it your understanding that APS originally
11 proposed to substitute for the free footage a specific
12 dollar allowance, dollar equipment allowance, I think it
13 was called?

14 A. I did read something, yes, I did read a
15 provision like that.

16 Q. Is it your understanding that APS proposed to
17 substitute for the thousand free foot allowance a \$5,000
18 equipment allowance?

19 A. I am not aware of that, no.

20 Q. Did you do any analysis as to whether or not the
21 change from the free footage allowance to the flat
22 dollar equipment allowance would have had the same
23 impacts that you discussed in your study?

24 A. We did not go into detail like that, no.

25 Q. Would it be fair to say, Mr. Merritt, that if

1 this had been proposed by the company as far back as
2 2003, it shouldn't have come as any particular surprise
3 that the policy was changed?

4 A. I am not, I am not able to comment on the
5 aspects of it.

6 Q. In your study you discuss the line extension
7 policy of Tucson Electric Power and UniSource Electric,
8 is that correct?

9 A. Yes.

10 Q. And I believe you made mention in the Tucson
11 Electric Power line extension policy that this
12 previously allowed 500 foot?

13 A. Yes, I believe that's correct.

14 Q. And UniSource, I think, was kind of an
15 inside/outside of 400 foot, I think, of primary and 150
16 feet of secondary, is that correct?

17 A. That sounds familiar, yes.

18 Q. And again, as I asked you with regard to APS, do
19 you know to which applicants for service in the case of
20 Tucson the 500 foot applied?

21 A. No, I do not know the specifics on that.

22 Q. So you don't know whether it applied to
23 developer or commercial applicants?

24 A. No.

25 Q. Same answer with regard to the UniSource policy?

1 A. Yes, right.

2 Q. You would agree that the Tucson and UniSource
3 policies were less generous than the old APS policy?

4 A. Yes.

5 Q. Did you do any sort of analysis to determine
6 whether these policies of Tucson Electric Power and
7 UniSource had any sort of adverse impact on real estate
8 values within their respective service territories?

9 A. No, we did not.

10 Q. Did you make any analysis as to whether, with
11 regard to the APS service territory, that something less
12 than a thousand feet would avoid the adverse impacts on
13 real estate that you discuss in this study?

14 A. We did not look at those aspects, no.

15 Q. So would it be fair to say your study was kind
16 of an all or nothing sort of analysis?

17 A. It was a very specific study of what happens if
18 100 homes are not built as a result of these policies
19 and what is the impact of the loss of those 100 homes.
20 That's basically very straightforward as to what it is.

21 Q. In fact, if no homes were lost because of this
22 policy, it stands to reason there would be no impact,
23 correct?

24 A. If that is the case, yes.

25 Q. You indicated earlier in response to a question

1 from Ms. Grabel that Pollack & Company had utility
2 companies as clients, is that correct?

3 A. Yes.

4 Q. Do you recall your firm being retained by
5 Arizona Public Service Company several years back?

6 A. I, personally, I don't remember the case. I am
7 not involved in every case that goes through the
8 company.

9 Q. So you don't know whether or not Mr. Pollack
10 himself performed a study analyzing the impact on
11 Arizona should Arizona Public Service Company not be
12 able to maintain an investment grade debt rating?

13 A. I am not aware of that study, no. I don't doubt
14 that it was, we did produce it, yes.

15 Q. Mr. Merritt, I know you testified as to your
16 extensive experience in the real estate industry. Have
17 you actually ever appraised property?

18 A. In the past, yes. We were an appraisal firm.
19 We are not anymore.

20 Q. Appraising residential real estate?

21 A. It was primarily more land and commercial
22 property.

23 Q. Okay. Now, you are aware, are you not,
24 Mr. Merritt, that Arizona Public Service Company and a
25 number of other parties to its pending rate case have

1 entered into a settlement agreement?

2 A. Yes.

3 Q. And are you aware that that settlement agreement
4 proposes to keep Schedule 3 as it presently is, in other
5 words, with no free footage allowance and no equipment
6 allowance?

7 A. As far as I know, that's my understanding, yes.

8 Q. And is it your understanding that with some,
9 other than some changes in structure of the schedule,
10 that the primary change in the settlement is the
11 accounting of proceeds being changed from being a
12 customer contribution being treated as a revenue?

13 A. I am not aware of that provision, no.

14 Q. You would agree that from the, from the
15 viewpoint of the applicant for service, how the company
16 accounts for those proceeds, whether it is contribution
17 or revenue, should be a matter of indifference?

18 A. Yes.

19 Q. Would you agree that it probably is not a matter
20 of indifference to Arizona Public Service Company?

21 A. Yes, I am sure it is.

22 Q. And are you aware that in the settlement that
23 the assumption has been that Schedule 3 will provide the
24 company with a certain degree of revenues?

25 A. Yes.

1 Q. And do you know what the level of those revenues
2 are?

3 A. No, I don't know.

4 Q. If I asked you to accept that the company has
5 estimated that the revenues would be approximately
6 \$100 million over the next three years, would you agree
7 that that's substantial?

8 A. If that's an accurate number, yes, that's
9 substantial.

10 Q. And if in fact the Commission were to accept the
11 arguments of the Wyllies and revert the schedule back,
12 Schedule 3 back to some version prior to the existing
13 one, do you believe Arizona Public Service Company
14 should be compensated for that loss of revenue?

15 A. I don't -- I really think that's out of the
16 purview of what we looked at and studied. I don't
17 really have a comment on that, no.

18 Q. You would agree that if the company were not
19 being -- strike that.

20 You would agree that if the company is not
21 compensated for that loss of revenue that that would
22 have a substantial negative impact on APS?

23 A. I, I really cannot comment, because I don't, I
24 don't know the structure, financial structure of APS or
25 how it all fits together. I really would not -- we did

1 not do any study of the APS, APS as a company. And I
2 just would really have no opinion on it, no knowledge of
3 it.

4 Q. So let me ask this, Mr. Merritt: You were not
5 asked to examine the impact of a change in Schedule 3 on
6 APS?

7 A. No.

8 Q. And is it possible, Mr. Merritt, that the impact
9 on APS could be sufficiently negative that it would cost
10 a lot more than a hundred lost new homes?

11 A. I, once again, I have -- I don't know that I
12 have any kind of conclusion on that at all.

13 Q. One last area, Mr. Merritt, and then I will butt
14 out here. You compared Schedule 3 to Tucson Electric
15 and UniSource. Did you compare APS' line extension
16 policy to any other Arizona utilities?

17 A. No.

18 Q. Did you compare APS' line extension policy to
19 any utilities outside of Arizona?

20 A. No.

21 Q. So you have no opinion as to whether or not APS'
22 current Schedule 3 is more in tune with national
23 practice than its previous one?

24 A. No.

25 Q. Do you know whether there are any line extension

1 policies as generous as APS' was when it allowed a
2 thousand free foot?

3 A. No, I do not.

4 MS. GRABEL: Back to me.

5 MR. MUMAW: Thank you, Mr. Merritt.

6 THE WITNESS: Thank you.

7

8 EXAMINATION CONTINUED

9 BY MS. GRABEL:

10 Q. Mr. Merritt, we would like to turn now to your
11 report, which I would like to mark as APS Exhibit No. 1.

12 (Exhibit APS No. 1 was marked for
13 identification.)

14 BY MS. GRABEL:

15 Q. Mr. Merritt, do you recognize this document?

16 A. Yes.

17 Q. We have established that you were the author of
18 this report, correct?

19 A. Yes.

20 Q. Did you conduct the analysis described herein?

21 A. Mr. Court primarily conducted a lot of the
22 analysis and I oversaw the study.

23 Q. What is Mr. Court's background?

24 A. Mr. Court has a bachelor's of economics from ASU
25 and has worked for the company for two years, two years

1 now.

2 Q. Did Mr. Court come to the company straight out
3 of school?

4 A. Yes, yes.

5 Q. What does he do primarily?

6 A. He is one of our economic analysts that provide
7 a lot of the background information and content and
8 analysis that goes into the studies.

9 Q. Are the conclusions reached within the report
10 your conclusions?

11 A. Well, they are the company's conclusions, yes.

12 Q. And by the company, in this case it would be you
13 and Mr. Court discussing together with, I believe you
14 said earlier, Mr. Rounds?

15 A. Right, yes.

16 Q. What is Mr. Rounds' background?

17 A. He has a bachelor's and a master's of economics
18 from ASU.

19 Q. How long has he been practicing with your
20 company?

21 A. I believe it is about eight years now.

22 Q. What was he doing before that?

23 A. He worked for the joint legislative budget
24 committee at the state.

25 Q. Would you agree that the study summarized

1 primarily the potential impact of line extension
2 policies on individual residential properties?

3 A. Yes.

4 Q. If you could, turn first to the executive
5 summary in Romanette one, Romanette i I guess you call
6 it. And underneath the purpose, in the second sentence
7 in the first paragraph you describe your analysis as
8 limited, a limited impact analysis. What do you mean by
9 that?

10 A. What I mean primarily is that we are taking a
11 very short general look at the issue. We did not have a
12 large enough budget to get into a lot of detail about
13 the issue and about the potential impact. And that's
14 why we considered it to be limited in scope.

15 Q. You note a couple of times in your report that
16 you did not conduct a, quote, detailed statistical
17 analysis of land prices in the rural parts of greater
18 Phoenix.

19 A. Right.

20 Q. What would a study like that have entailed?

21 A. It would have entailed collecting a large amount
22 of sales information on rural properties and trying to
23 evaluate what the various circumstances are that
24 determine the value of those properties.

25 Q. And how did what you did in this case compare to

1 that type of analysis?

2 A. Well, we did not conduct that analysis. We did
3 not conduct any analysis of land values or the potential
4 impact of the service schedule, the changed Service
5 Schedule 3 on the value of land.

6 Q. You did not analyze the potential impact of
7 Service Schedule 3 on the value of land?

8 A. Correct.

9 Q. Your study is thus not intended to present
10 evidence that the change in line extension policies
11 actually caused the economic impact you described in
12 section 5 of your report?

13 A. Correct. Our -- for us to determine precisely
14 what the impact of Service Schedule 3 is we would have
15 to get into the mind set of people who own land in the
16 rural areas that are impacted, people who would be
17 potentially buying land, building homes in those areas.
18 And we did not. Once again, it was a limited scope so
19 we did not get into any of the detail on how the service
20 schedule may impact the thought process of those people.

21 Q. Do I take it then that your study is not
22 intended to present evidence that the change in line
23 extension policies actually caused the impacts described
24 in section 5?

25 A. Our analysis says that there is not enough

1 information available to determine what the impact would
2 be of Service Schedule 3. But for every 100 homes that
3 may not be built in this, in the APS service area or
4 other service areas, there is a particular impact on
5 jobs and revenue that would be developed and generated
6 to cities, state, counties.

7 Q. Do you have any evidence that 100 homes will not
8 be built as a result of the changes to Service
9 Schedule 3?

10 A. No, we do not.

11 Q. Do you have any evidence that 10 homes will not
12 be built as a result of the change to Service
13 Schedule 3?

14 A. No, we do not.

15 Q. Do you have any evidence that one home will not
16 be built as a result of changes to Service Schedule 3?

17 A. We do not have any direct evidence other than
18 the testimony we have heard from various parties that
19 are involved in real estate in the rural areas.

20 Q. Why didn't, why didn't you conduct a detailed
21 statistical analysis of land prices from the rural parts
22 of greater Phoenix?

23 A. Just it would have been, well, it was beyond the
24 scope of what we could have done with the budget we had
25 basically. And in order to do that, it would have been

1 a very costly type of study for the client.

2 Q. You would agree that a number of factors
3 influence sales price and land value, correct?

4 A. Yes.

5 Q. The general state of the economy, for example?

6 A. Yes.

7 Q. What is more likely to influence the price of
8 land and land value, the general state of the economy or
9 a utility line extension policy?

10 A. Well, I don't know that I can answer that. We
11 are at a unique point in our history economically. And
12 we just didn't, did not get into enough detail to come
13 to any conclusion like that.

14 We do know that electric, electrical service is
15 the one thing you do need to basically build a house.
16 Without that, you are sunk. You can always dig a well.
17 You can dig a septic tank. You can do lots of things to
18 build a home, but if electric service isn't there, it is
19 much, much more difficult.

20 Q. Is there anything within Service Schedule 3 that
21 prohibits any landowner from --

22 A. No.

23 Q. -- receiving electrical service?

24 A. No.

25 Q. Wouldn't you agree that the main cause of the

1 recent decline in land value stems from the collapse in
2 the housing market and the flood of distressed
3 properties placing downward pressure on sales prices?

4 A. That certainly is a factor. But the change to
5 Service Schedule 3 likely had an impact as well on land
6 values. What that is we don't know, but certainly it is
7 an important factor.

8 Q. You have agreed that you have no evidence that
9 even one home will not be built as a result of the
10 change to Service Schedule 3. How can you conclude then
11 that the change in service schedules or line extension
12 policies in general had an economic impact?

13 A. Primarily coming from testimony of the people
14 that have submitted affidavits or documentation to the
15 Corporation Commission. We have done extensive
16 interviews. Mr. Court has done interviews of public
17 agencies, assessors who were involved in the business of
18 appraising property and developing property tax
19 statements, things of that nature. So there is a lot of
20 anecdotal evidence that we looked at that we considered
21 in our study.

22 Q. To what extent is anecdotal evidence proof of
23 causation between a change in line extension policies
24 and the economic impacts that you described in section 5
25 of your report?

1 A. Well, for the most part, it does help you get
2 into the head of that person who owns land or who is
3 buying land, who is talking about building a home and
4 what, what their opinions are of how the service
5 schedule did impact their thought process.

6 So it is a valid way of gauging what is going on
7 in the marketplace. But, once again, it is not a -- we
8 do not have statistical evidence of what those impacts
9 may actually be.

10 Q. Do any of the people whom you or Mr. Court
11 interviewed themselves have any study that correlates
12 the change in line extension policies to the economic
13 impacts described in section 5 of your report?

14 A. There is some information provided to us by
15 Mr. Wyllie that correlated, or, you know, once again, it
16 is not a statistical analysis, but it provided the value
17 of the price of land paid and the distance from
18 electrical service. And there is a table in the report
19 that speaks to that.

20 Q. We will turn to that table in a moment.

21 A. Okay.

22 Q. Distance from water also influences land price
23 and value, correct?

24 A. Well, I am not sure what you mean by distance
25 from water.

1 Q. The distance of a piece of property from a water
2 source.

3 A. From a water main?

4 Q. Sure.

5 A. That would have some bearing. But you can also
6 dig wells. So you can dig a private well and you may
7 not have to worry about getting service to a particular,
8 to a company or something like that.

9 Q. So I take it from your answer you suggest that
10 access to water is not that relevant to land value and
11 price?

12 A. It certainly is a factor, yes. But there are
13 alternative ways of acquiring water service.

14 Q. Would you agree that there are alternative ways
15 of acquiring electric generation apart from connecting
16 to a utility's main extension line?

17 A. I don't know of any other way except if you are
18 buying a generator or something like that.

19 Q. Access to property also influences the price of
20 land and land value, correct?

21 A. Uh-huh.

22 Q. The availability of adequate sewer or septic
23 facilities also influences the prices and land value?

24 A. Uh-huh.

25 Q. Do you mean yes?

1 A. Yes. Sorry.

2 Q. Sorry. The condition of surrounding streets,
3 paved versus unpaved for example, also influences land
4 value and sales prices, correct?

5 A. Yes.

6 Q. For residential properties, proximity to schools
7 and the quality of those schools would also influence
8 sales price and land value, correct?

9 A. Yes.

10 Q. And the use of surrounding land also influences
11 land value and sales price, correct?

12 A. Yes.

13 Q. In general, the location of property strongly
14 influences sales price and land value, correct?

15 A. Yes.

16 Q. Proximity to desirable conditions, such as a
17 popular shopping district, et cetera, would also
18 influence land value and sales price?

19 A. Yes.

20 Q. On the converse side, distance from developed
21 areas would also decrease sales price and land value,
22 correct?

23 A. Well, I don't know if it decreases, but it would
24 certainly affect the price.

25 Q. The topography of and ability to build on rural

1 land would also affect land value and sales price,
2 correct?

3 A. Yes.

4 Q. Did you attempt at all in your study to isolate
5 the potential economic impact of line extension policies
6 and differentiate them from any other influencing
7 factors?

8 A. No.

9 Q. If you could, turn to the table at the top of, I
10 am looking at -- I think it is reproduced a couple
11 times, but the one on page Romanette v. Is that
12 correct? No, I am sorry, Romanette iv.

13 A. Okay.

14 Q. I am wrong again. I am sorry. Romanette iii,
15 table at the top of the page.

16 A. Okay.

17 Q. Where did you get the data that generated this
18 chart?

19 A. Mr. Court dug up some of this information out of
20 APS annual reports. And there was a lot of
21 correspondence regarding the number of extensions that
22 were approved or permitted by APS over the last four
23 years. And I think some of it even came from Mr. --

24 Rumolo is it?

25 MR. RUMOLO: Rumolo.

1 THE WITNESS: -- Rumolo.

2 BY MS. GRABEL:

3 Q. Did you talk with anyone at APS personally when
4 preparing this report?

5 A. I did not, but Mr. Court spoke with various
6 people at APS, yes.

7 Q. To whom did Mr. Court speak?

8 A. Mr. Rumolo.

9 Q. Are you aware that the APS line extension policy
10 change that eliminated the free footage subsidy became
11 effective in July of 2007?

12 A. There were -- yes, it became effective in July,
13 but there was a phase-in period as well, yes.

14 Q. Please describe for me your understanding of the
15 phase-in period.

16 A. Well, I would have to probably get to the
17 specifics, look back at the actual service schedule.
18 But there was some allowances for if a person had
19 already executed an agreement or executed some
20 documentation with APS that they would be allowed to
21 continue forward. And there were certain dates. And
22 some of the dates allowed the transition to extend to
23 the middle of 2009, I believe, something like that.

24 Q. We refer to the provision that we just described
25 as the grandfathering provision?

1 A. Right.

2 Q. Apart from that grandfathering provision would
3 you agree that the change that eliminated the free
4 footage subsidy occurred for all other customers going
5 forward in July of 2007?

6 A. Yes.

7 Q. The impact of that change would thus be
8 reflected for the first full year in 2008, correct?

9 A. It possibly could have, yes.

10 Q. Please focus on the box of your table in the
11 second row, fourth column, so not the caption extensions
12 as a percent of customers but the first row in which you
13 actually see numbers produced. And in the fourth column
14 on the right, that fourth box in that row, it shows that
15 customers who received line extensions comprised
16 9.5 percent of APS' total residential growth in 2008,
17 correct?

18 A. Yes.

19 Q. And that same percentage of customers comprised
20 only 6.9 percent of total residential growth in 2007,
21 correct?

22 A. Right, yes.

23 Q. And the same customers comprised only
24 5.2 percent in 2006, correct?

25 A. Yes.

1 Q. And only 3.5 percent in 2005, correct?

2 A. Yes.

3 Q. Under your analysis, then, a higher percentage
4 of APS' total customer growth sought and received line
5 extensions from APS under the current policy that had
6 eliminated the footage allowances than it had
7 historically, notwithstanding the change in policies,
8 correct?

9 A. Other than some of, a portion of the extensions
10 in 2008 could have been grandfathered. I mean we do not
11 have, I do not have information on that.

12 Q. Your firm routinely analyzes current economic
13 conditions and the reasons for those conditions,
14 correct?

15 A. Uh-huh.

16 Q. And it includes in those analyses detailed
17 descriptions of the housing market?

18 A. Yes.

19 Q. Factors that would influence the housing market?

20 A. Yes.

21 Q. Are you aware of any presentation or analysis
22 that your firm has conducted that lists the change, and
23 the elimination rather, of the line extension subsidies
24 as a reason for the downturn in the housing market?

25 A. No.

1 Q. In your opinion would your firm have noted the
2 impact of line extension policies on those market
3 conditions had they been material?

4 A. Had they been material and brought to our
5 attention, possibly, yes.

6 Q. Your firm has done such studies -- let me ask it
7 this way: Has your firm done such studies since you
8 have been retained to do this analysis?

9 A. Such housing studies?

10 Q. Yes, such --

11 A. Yes.

12 Q. -- analyses and the impact on the current state
13 of the housing market.

14 A. Yes.

15 Q. I would like to ask you a few questions
16 regarding your conclusions on the theory of
17 substitution.

18 A. Yes.

19 Q. Assuming a buyer decides not to build on a
20 residential lot because of the expense of constructing
21 electric facilities. I read your report to suggest that
22 they will either build in an area not impacted by that
23 cost or purchase a lot in an undeveloped area, in an
24 already developed area. Is that a correct summary?

25 A. Those are two potential consequences, or

1 alternatives, right.

2 Q. If the landowner chooses to purchase land and
3 build in a different area that still subsidizes line
4 extensions, the home construction would still occur,
5 correct?

6 A. Yes.

7 Q. So in that case, the more global economic impact
8 to Arizona that would result from this slowdown in
9 residential construction that you describe in section 5
10 of your report would not occur, correct?

11 A. Yes.

12 Q. And taking the second prong, assume the buyer
13 decides to purchase as a substitute a home in an already
14 developed area. Do you believe that that result is a
15 bad one from an economic perspective?

16 A. No.

17 Q. As a general proposition, would the economy be
18 better off if newly constructed homes were absorbed
19 rather than bypassing those current homes and developing
20 new areas in outer lying areas?

21 A. I am not so sure it is for me to say. I mean we
22 are generally free market economists, and if someone
23 wants to pay the price to move out farther, that's our
24 prerogative. But certainly, you know, I don't know if
25 it is a good or bad thing. It certainly happens and

1 people make those choices to not move out so far and
2 move in closer and where property is already served.

3 Q. Would it be more economically efficient for
4 current housing to be absorbed as opposed to letting
5 those lots lay vacant and developing new construction in
6 outer areas?

7 A. It would resolve the problem we have right now,
8 yes. It would help resolve the problem we have right
9 now with an oversupply of housing.

10 Q. And what would be the economic impact of
11 resolving that problem?

12 A. The economic impact?

13 Q. Yes. Will you please be more specific with the
14 problem you described and how absorbing the current
15 housing would fix that problem.

16 A. Well, we, we have an oversupply of housing right
17 now that is the major cause for the decline in housing
18 values. And if housing is, existing vacant housing is
19 absorbed, bought and occupied by people, certainly that
20 is going to help resolve the imbalance we have now on
21 the market.

22 Q. And if new development was to bypass existing
23 but vacant housing in favor of new builds, what would be
24 the impact on the property value implications for
25 current housing, currently existing housing?

1 A. Well, it would start to stabilize the value, and
2 eventually, as the supply is depleted, values would rise
3 to normal values.

4 Q. You understand based on Mr. Mumaw's prior line
5 of questioning that under the, actually just in general,
6 under the prior free footage line extension policies,
7 existing customers will require to subsidize new growth,
8 correct?

9 A. Yes.

10 Q. As a result of the policy change that removed
11 the subsidy, base electric rates for service paid by all
12 customers, both existing and current customers, will not
13 increase as much as they otherwise might, correct?

14 A. In theory, that's the idea, yes.

15 Q. If I represent to you that that is true, would
16 you --

17 A. Yes.

18 Q. -- believe me? In other words, there will be a
19 cost savings to consumers and businesses in already
20 developed geographic areas as a result of the policy
21 change, correct?

22 A. Yes.

23 Q. Have these cost savings been reflected in the
24 calculation of the economic impacts described in your
25 report?

1 A. No, they have not.

2 Q. Have you analyzed the economic impact of those
3 cost savings at all?

4 A. No, we have not.

5 Q. If cost increases in certain geographic areas
6 result in lower housing construction, but corresponding
7 cost savings in other geographic areas result in more
8 economic activity, is it possible that the economic
9 activity generated from the cost savings would be
10 sufficient to offset or exceed the economic losses
11 related to the lower housing construction?

12 A. I couldn't make a conclusion like that.

13 Q. Why?

14 A. Well, I think it was just a lot of suppositions
15 as to values and what the impact would be.

16 Q. You --

17 A. I really can't make a conclusion, can't come to
18 a conclusion on it.

19 Q. You don't believe it would be possible at all
20 for the cost savings to exceed or even offset the cost
21 increases?

22 A. It possibly could. It possibly may not
23 depending on the circumstances. I don't really know.

24 Q. Under what circumstances would it not?

25 A. Well, there are a lot of impacts that come from

1 new construction, employment, revenue that goes to the
2 cities and the state. I mean there is a lot of things
3 you would have to consider that new construction
4 generates. And whether that offsets other aspects, I
5 just, I really don't know.

6 Q. Would bringing in new businesses and new
7 employers to the state be an influencing factor in the
8 general overall economy?

9 A. Yes.

10 Q. And if you learned that prospective employers
11 looking to locate in Arizona were deterred by the cost
12 of electricity, would that be an influencing factor that
13 might offset the impact of housing construction?

14 A. Yes, it might, yes.

15 Q. Would you agree that the removal of subsidies
16 from all or part of the economy moves the economy
17 towards optimal efficiency, the most optimal
18 distribution of resources?

19 A. Yes, in general, it does.

20 Q. You note a couple of times in your report that
21 the elimination of the no cost extension to subsidize
22 growth is, at bottom, an issue of fairness, correct?

23 A. Yes.

24 Q. Based on the costs that you have reviewed for
25 the study, would you agree that extending service to

1 more rural and less dense property is more expensive
2 than extending service to less rural property with
3 smaller lots?

4 A. Well, I don't know the cost structure of that.
5 But in general, I think there is a lot of theoretical
6 and practical work that has been done in the area, and
7 higher density generally is more efficient than low
8 density development.

9 Q. So in your opinion it probably is more expensive
10 to extend a line out the further you have to go to
11 extend the line, correct?

12 A. Yes.

13 Q. Do you believe it is fair for landowners in
14 areas of higher density to subsidize landowners in lower
15 density areas?

16 A. I don't know if it is fair or not, to tell you
17 the truth. I mean there are various circumstances that
18 go into looking at these issues. And the issue of
19 fairness that we have dealt with is more revolved around
20 certain parts of the state, certain types of development
21 that really are now illiquid investments. And that is,
22 that is the issue that I think we really spoke to, is
23 the one of fairness and how there are certain people in
24 certain areas of the state that just do not have
25 alternatives like we have talked about previously. And

1 that's the fairness issue it comes down to.

2 Q. By removing the free footage subsidy, the
3 policies now require customers to pay their actual cost
4 of service, correct?

5 A. Yes.

6 Q. What is unfair about asking them to do that?

7 A. What is unfair is that they previously were not
8 asked to do that. And many people made decisions,
9 investment decisions based on that policy. And without
10 a whole lot of ability to input into that issue, they
11 now are dealing with a whole different set of
12 circumstances for developing their homes or selling
13 their homes or selling their lots, whatever it may be.

14 Q. Would you agree that governmental entities are
15 entitled to change their policies if they believe it is
16 necessary to do so?

17 A. Sure. They do it all the time.

18 Q. Would you agree people generally know
19 governmental agencies could change policies? They do it
20 all the time.

21 A. Sure. You are not a governmental entity,
22 though.

23 Q. The Arizona Corporation Commission is a
24 governmental entity, correct?

25 A. Yes.

1 Q. Do you personally believe that there is anything
2 inappropriate about requiring a utility customer to pay
3 his or her full cost of service?

4 A. As long as it is a reasonable cost of service, I
5 think that it probably is fair for the, fair for people
6 to pay their share of the cost. But there are no
7 alternatives for some of these people in that APS holds
8 a monopoly. They pay whatever charges are created by
9 APS. In some circumstances it has created a lot of
10 hardship for people.

11 Q. You raised the issue before and it is in your
12 report that utilities other than APS have also
13 eliminated the free footage subsidy, correct?

14 A. Uh-huh.

15 Q. And that they have done so as a result of a
16 policy shift at the Arizona Corporation Commission,
17 correct?

18 A. Uh-huh, yes. Sorry.

19 Q. Your report notes the differences in the amount
20 of free footage allowances under the various utilities'
21 past service schedules. APS had 1,000 feet. I believe
22 UES had 400 feet.

23 A. Yes.

24 Q. And TEP had provided 500 feet.

25 A. Yes.

1 Q. Do you believe that those differences give rise
2 to any fairness issues?

3 A. Well, they were, they are the rules that were in
4 place at the time the change was made. So people made
5 their decisions based on what the rules were in those
6 service areas. And when the rules change, it does
7 create hardship. No matter whether it is 500 feet or a
8 thousand feet, there is still hardship that is created.

9 Q. As I understand what you are saying today is
10 that the fairness is not so much the amount that was
11 provided but the fact that it changed in general, is
12 that correct?

13 A. Yes. And in addition to that, in some instances
14 or some locations, like the more rural counties, there
15 are no alternatives for a lot of these people. They
16 can't go to a subdivision ten miles closer into the city
17 and buy a home. There just aren't the alternatives in
18 some of the more rural counties.

19 Q. If the prior APS policy had not allowed those
20 same residents you have just referred to to receive the
21 free footage subsidy, would it be unfair to not -- to
22 require them to pay that amount today?

23 A. If the rules are in place that people made
24 decisions on, then that, yes, that is, that is fine.
25 Somebody would know going in with their eyes open that

1 those are the rules of the game, so yes.

2 Q. Did any of the people -- do you have any
3 specific people in mind when you are referring to the
4 landowners in these rural areas that have no
5 alternatives?

6 A. Not specific people, but some of the counties
7 that we spoke to and received letters from that
8 expressed a lot of concern about the issue, La Paz
9 County, Coconino County.

10 Q. Are you aware of the individuals in general
11 about whom those interviewees referred, are you aware of
12 when those people would have purchased their properties?

13 A. No.

14 Q. Are you aware of whether or not they purchased
15 property that falls greater than a thousand feet outside
16 of -- a thousand feet from a currently existing electric
17 facility?

18 A. No. All I can tell you is the letters and
19 testimony we received of people caught in a, caught in
20 this particular situation.

21 Q. Your conclusion then that the change in policy
22 was unfair is based on the materials that have already
23 been provided to the Arizona Corporation Commission --

24 A. Well --

25 Q. -- correct?

1 A. To some extent, yes, and to our own just looking
2 at the situation and trying to, once again, get into the
3 head of a person who may be trying to make those
4 decisions or be in that position. And we have outlined
5 what we think some of the alternatives are. They would
6 do something different if the situation changed.

7 But there are some people who cannot make those
8 substitutions or alternative choices. And that's really
9 where it comes down to the issue of fairness. And it is
10 probably not, you know, in the overall sum of things, a
11 huge number of people, but it is people that are stuck.

12 Q. Do you believe a reasonable person could believe
13 that it is fair to change the policy under conditions
14 that might require so?

15 A. I don't know that I am really qualified to make
16 a conclusion on that.

17 Q. From what you just said, you were trying to get
18 into the head of the people who made the decision to
19 change the policy. So are there any circumstances under
20 which you might believe it is fair to do so?

21 A. The people who made the decision to change the
22 policy?

23 Q. Yes.

24 A. I think, I think it is fair. I mean that's --
25 utilities are basically following the way of government,

1 imposing impact fees and supposedly trying to make
2 development pay for itself. And in that regard, yes, it
3 is a reasonable matter to do so, to make that decision,
4 yes.

5 Q. Are you aware of APS' current financial
6 condition?

7 A. No.

8 Q. Are you aware of the impact of changing this
9 policy and eliminating the free footage subsidy on APS'
10 financial condition?

11 A. Not specifically other than I remember some
12 numbers in the report and some of the documentation we
13 received that, you know, it is in the millions of
14 dollars per year that were given away in free
15 extensions.

16 Q. Do you believe that the financial viability of
17 APS is important to the economic vitality of this state?

18 A. Sure, yes.

19 Q. Do you believe then that the financial condition
20 of APS should be a factor considered in assessing
21 whether or not the change in policy is fair to rural
22 landowners?

23 A. Yes. I think it is certainly a consideration.

24 Q. Did the change of policy impact any of your
25 company's current properties?

1 A. Well, it is my understanding it probably
2 impacted all properties throughout the state or
3 throughout the service area in one way or another.

4 Q. You have a strong role in assessing the value of
5 the properties within your company's portfolio, correct?

6 A. In assessing the value?

7 Q. In managing the portfolio.

8 A. Managing, yes.

9 Q. And are you aware of whether or not the policy
10 change has had any impact on any of those properties?

11 A. It has, other than this report, it has never
12 come up, no.

13 Q. You never thought it was important enough to
14 consider?

15 A. We didn't know about the policy.

16 Q. If you could, turn to page 19 of your report,
17 APS Exhibit 1 for the record. You indicate in your
18 report that most of the land represented in this table
19 would have been allowed free line extensions under the
20 prior APS line extension policy, correct?

21 A. That is what was provided to us by the group
22 that we represent as our client.

23 Q. Your client provided you with the data in this
24 chart?

25 A. Yes, yes.

1 Q. Did you research any of these properties
2 independently?

3 A. We checked the, the price that was paid but we
4 did not check the footage from existing service. We
5 verified the pricing that was provided there.

6 Q. Is this the only data that Mr. Wyllie provided
7 to you regarding --

8 A. Yes.

9 Q. -- these properties and these transactions?

10 A. Yes.

11 Q. And of this data, the only portion that you
12 verified was the price, is that correct --

13 A. Yes.

14 Q. -- acres?

15 A. Price and acreage.

16 Q. Price and acreage.

17 Whether the landowners existing at these
18 locations would have received line extensions depends on
19 what equipment would have been required to complete the
20 extension, is that correct?

21 A. Yes.

22 Q. And also from, the distance from the power
23 source, correct?

24 A. Yes.

25 Q. Earlier in your report you recited costs for

1 line extensions from APS that were about 900 feet from
2 power as exceeding about 25,000. Do you recall that?

3 A. Yes.

4 Q. Similarly, you note that even a 400 foot
5 extension costs about \$21,000, correct?

6 A. That's what I remember, yes.

7 Q. From your exchange with Mr. Mumaw you understand
8 that, if a customer reached that \$25,000 cap, they were
9 required to pay the entire cost of the extension,
10 correct?

11 A. I was not aware of that.

12 Q. But you are aware of it now?

13 A. Yes.

14 Q. Looking at this chart, then, assuming that
15 somewhere between 400 and 900 feet falls the \$25,000
16 amount, just to use a very rough approximate, a number
17 of these properties potentially were subject to -- a
18 number of the landowners who own these properties might
19 have been required to pay the full cost of the extension
20 even under the prior policy, is that right?

21 A. That may be, yes. I am not sure.

22 Q. When did each of the transactions listed on
23 page 19 of this report take place?

24 A. They were all in the -- there were two that we
25 could not confirm and the rest were in 2008 and 2009.

1 Q. How many transactions took place during the same
2 time period in Maricopa County?

3 A. Land transactions? I don't know.

4 Q. You do not know?

5 A. No.

6 Q. Do you know how many took place in La Paz
7 County?

8 A. No.

9 Q. Do you know how many took place took place in
10 Pinal County?

11 A. No.

12 Q. I would like to focus your attention on two
13 particular lots. Lot number 401-42-005-J, do you see
14 that?

15 A. Yes.

16 Q. That one is 990 feet from power and cost
17 \$12,000. But the price per acreage was \$9,600. Do you
18 see that?

19 A. Yes.

20 Q. Why did that property cost more per acre than
21 parcel number 504-34-064, which was only 660 feet from
22 power?

23 A. Well, and that is why we really added the
24 paragraph right below the table which explains that
25 there are so many other intervening factors that enter

1 into the valuation of land that we did not go into a
2 detailed study to particularly focus on the impact of
3 the electrical extension.

4 Q. If I understand your answer, you are saying you
5 don't know what caused the difference?

6 A. No.

7 Q. Because many factors influence price?

8 A. It could be. Some of these are in very rural
9 areas with few houses around. Others are in more
10 built-up areas.

11 Q. In what other transactions might factors other
12 than distance from power have affected the sales price?

13 A. There are a number of -- all the factors we list
14 here, whether there is good access, paved access,
15 whether there is availability of water or sewer, septic
16 tank, percolation. There is any number of things that
17 go into a valuation of land.

18 Q. I think you might of misheard my question
19 slightly. In what other of the specific transactions
20 listed in this table might have factored, other than a
21 change in line extension policy or a line extension
22 policy in general, have influenced the sales price?

23 A. I am not sure what you are asking there. There
24 is lots of factors that would influence beyond just the
25 electrical extension.

1 Q. And that's true for every single one of these
2 properties, correct?

3 A. Yes.

4 Q. Do you know whether all of these properties have
5 water service?

6 A. No.

7 Q. Do you know whether all of these properties have
8 sewer service?

9 A. No, but our assumption was they could dig a well
10 and in most cases they will dig a well or dig a septic
11 tank. Some areas I believe are served by Global Water.
12 So there may be water service there from a company, but
13 the alternative is to dig a well.

14 Q. Do you know whether all of these properties have
15 access to city or county roads?

16 A. No.

17 Q. Do you know whether telephone service, either
18 land line or cellular, is comparable amongst all of
19 these properties?

20 A. No.

21 Q. Do you know whether each of these parcels get
22 regular daily postal service?

23 A. No.

24 Q. Do you know whether each of these parcels
25 receive regular trash pickup?

1 A. No.

2 Q. Do you know whether each of these parcels
3 benefit similarly from the availability of fire
4 protection?

5 A. No.

6 Q. Ambulance protection?

7 A. No.

8 Q. Police protection?

9 A. No.

10 Q. Do you know the total area in square miles
11 created by encircling these parcels with an imaginary
12 boundary?

13 A. No, I do not.

14 Q. Did you attempt to compare the sales price of
15 any of these parcels to a similarly situated parcel
16 located in an area served by a utility that still
17 provides a free footage subsidy?

18 A. No.

19 Q. Without isolating the discrete impact of the
20 elimination of the free footage subsidy or even
21 analyzing the other influential factors, can you
22 conclude with any reasonable certainty that the data in
23 this table suggests that distance from electric sales
24 has a negative effect on sales price?

25 A. No, we can't make that conclusion precisely.

1 Q. Can you conclude it with any reasonable
2 certainty?

3 A. Not without further study.

4 Q. On page 19 of your report, the same page, in
5 section 4.3 you conclude that policy changes to
6 eliminate the line extension subsidies means that
7 proximity to existing electrical service lines will
8 likely be correlated with land value. And you note that
9 the conclusion is based on interviews and letters of
10 submission of various county assessors.

11 A. Yes.

12 Q. Are summaries of all those conversations
13 summarized in this report?

14 A. No, I don't believe they are summarized.

15 Q. What other additional communications were there
16 that are not summarized in this report?

17 A. There were direct phone conversations and there
18 were letters. I mean there may be summaries of what was
19 said. It is not like a transcript or more complete
20 description of the conversations. It is a very quick
21 summary.

22 Q. Do you have documentation of all the
23 communications you had with the various interviewees?

24 A. I don't believe we have --
25 Unless you have notes.

1 They are summarized in the report, yes.

2 Q. All of them, sum total? Yes?

3 A. Yes.

4 Q. Thank you.

5 How many assessors did you speak with to reach
6 the conclusion that proximity to existing electrical
7 lines will likely be correlated with land value?

8 A. I believe we spoke to La Paz County and received
9 letters from -- Yavapai County we spoke with.

10 Q. How did you determine to speak with the
11 assessors of those two counties?

12 A. They have been, from what I understand, have
13 been monitoring the situation, the electrical service
14 schedule situation issue, and came to our attention
15 through our clients.

16 Q. Your clients suggested that you interview those
17 two people?

18 A. Yes.

19 Q. Did you interview anyone other than those you
20 interviewed at your client's suggestion?

21 A. No.

22 Q. How long were your -- did you speak with these
23 assessors personally?

24 A. No.

25 Q. Did Mr. Court speak with them personally?

1 A. Yes.

2 Q. How long were those conversations?

3 A. Can he speak?

4 Q. Sure.

5 MR. COURT: 15, 20 minutes.

6 THE WITNESS: 15, 20 minutes.

7 MR. COURT: For Yavapai County was based on the
8 letters submitted, not an interview.

9 MS. GRABEL: What questions did you ask -- so
10 let me understand this better, Mr. Court.

11 Did you give your information to the court
12 reporter?

13 Let's do that at the end.

14

15 DANIEL COURT,
16 a witness herein, having been first duly sworn by the
17 Certified Reporter to speak the truth and nothing but
18 the truth, was examined and testified as follows:

19

20 EXAMINATION

21 BY MS. GRABEL:

22 Q. Mr. Court, how many assessors did you personally
23 speak with to provide data that allowed your company to
24 reach the conclusion that the proximity to existing
25 electrical service lines will likely be correlated with

1 land value?

2 A. Personally spoke with the assessor in La Paz
3 County.

4 Q. And how long was that conversation?

5 A. Likely 20 to 30 minutes.

6 Q. What questions did you ask him?

7 A. I asked him most basically if he believed that
8 the policy extension change was affecting the way that
9 they are valuating the land in their county.

10 Q. And how did he respond?

11 A. He responded that it was having, that the policy
12 change was affecting the way that they value land and
13 that it is devaluing land based on the proximity to
14 existing power.

15 Q. Do you know for how long that individual has
16 been the county assessor?

17 A. I do not.

18 Q. Did you ask how other factors might have
19 influenced his assessment?

20 A. Yes.

21 Q. And what was his response?

22 A. His response was that -- the main question that
23 I had was how do you separate the downturn in the
24 economy from the extension policy and the way that you
25 are valuing the land and noticing that you are assessing

1 value at a lower level. And his general response was
2 that both factors were playing a part in the assessment
3 of land, but it was his belief that the line extension
4 policy was having a significant impact on how they
5 assess land.

6 Q. Did you ask him what caused him to so conclude?

7 A. As an assessor, that is what -- I am constrained
8 to use him as an expert in knowing his field of
9 assessing land. And so his opinion or his opinion in
10 the interview is how we note, you know, a point.

11 Q. You are saying you deferred to his expertise in
12 assessing land?

13 A. Yes.

14 Q. And in his communications with you, did he list
15 any other factors other than the general real estate
16 market and the change in line extension policy that
17 would have influenced his assessment?

18 A. The conversation was directed toward the change
19 in the extension policy. So it was not a conversation
20 on how he assesses land. It was, it was a conversation
21 what the effect of, what any potential effect of a
22 policy change was having on valuation of land in his
23 county.

24 Q. Was he aware of any instance in which the change
25 actually decreased the value of land?

1 A. His responses are that policy changes are
2 actually affecting the assessment of land.

3 Q. Did you ask him to give you any examples?

4 A. No.

5 Q. Did he indicate that there were such examples?

6 A. He indicated that the process in which they are
7 assessing land is being affected by the line extension
8 policy in a negative way.

9 Q. I am struggling to understand how. Do you know
10 how?

11 A. I don't know how they are assessing land. I
12 assume that they have policies and guidelines and
13 standards to assess land.

14 Q. Okay.

15 A. And it is based on market value of land. I am
16 assuming that.

17 MS. GRABEL: I will go back now to Mr. Merritt.

18

19

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25

1 RICHARD CHARLES MERRITT,
2 a witness herein, having been previously duly sworn by
3 the Certified Reporter to speak the truth and nothing
4 but the truth, was further examined and testified as
5 follows:

6

7

EXAMINATION CONTINUED

8 BY MS. GRABEL:

9 Q. Is the sales data to which you refer in the
10 first paragraph of section 4.3 -- you talk about, this
11 is the third line from the bottom of that page, recent
12 sales data provided to this firm. Do you see that?

13 The sentence reads: Based on interviews and
14 letters of submission by various county assessors, in
15 addition to recent sales data provided to this firm --
16 which we know was provided to you by your client -- the
17 policy changes to eliminate free electrical line
18 extensions means that proximity to existing service
19 lines will likely be correlated with land value.

20 Do you see that?

21 A. Yes. Does that -- your question is whether it
22 relates to the table?

23 Q. My question is whether you have any sales data
24 other than that represented in this table.

25 A. Oh, no.

1 Q. And do you have any other evidence, apart from
2 the interviews that we have described and that are
3 summarized in this report and the data comprised of this
4 table, to support the conclusion that proximity to
5 electrical service lines will likely be correlated with
6 land value?

7 A. No.

8 Q. Are you aware of any studies that have been
9 conducted to analyze how county assessors are or may be
10 treating parcels of land with electrical service
11 compared to those without?

12 A. No.

13 Q. Do you have any specific data in this regard?

14 A. No.

15 Q. Assuming the accuracy of the conclusion that
16 proximity to electrical service lines will likely be
17 correlated with land value, wouldn't that conclusion
18 have also held true under the old line extension
19 policies?

20 A. To some extent, yes.

21 Q. With UES, any land more than 400 feet from
22 electrical service, existing electrical service lines
23 could potentially have been assessed a lower value than
24 that within that 400 footage allowance?

25 A. Yes.

1 Q. And with TEP, any land further out than 500 feet
2 from existing power facilities could have a lesser land
3 value, correct?

4 A. Yes.

5 Q. And with APS, also any land further than 1,000
6 feet from existing electric service lines might have
7 been assessed a lower land value, correct?

8 A. Yes.

9 Q. 1,000 feet is less than .2 miles, correct?

10 A. Yes.

11 Q. Would you agree that in low density rural areas
12 identified in your report, individual lots are often .2
13 or more miles away from existing electric facilities?

14 A. I wouldn't have any way of knowing that. But it
15 is my understanding that a development, home building,
16 whatever it may have been, occurred incrementally within
17 those guidelines. So instead of somebody building 2,000
18 feet away, they would buy a lot or build a home,
19 whatever, within a thousand feet of electric service.
20 And the next person would be then within that. Whether
21 you are in APS territory or TEP territory, development,
22 home building occurred kind of incrementally within
23 those free extension policies.

24 Q. Did it also consider the \$25,000 cap in your
25 estimation?

1 A. Yes, I am sure it does.

2 MS. GRABEL: If I could go back to Mr. Court for
3 just one moment. I just have been reminded that the
4 La Paz County assessor, he is the individual with which
5 you personally had the conversation, correct?

6 MR. COURT: Yes.

7 MS. GRABEL: Mr. Nault?

8 MR. COURT: Yes.

9 MS. GRABEL: Your report says that Mr. Nault
10 stated that it is difficult to separate the effect of
11 the downturn in the economy from the APS policy change.
12 Do you remember that?

13 MR. COURT: Yes.

14 MS. GRABEL: Wouldn't it be true, if it is
15 difficult to separate the effect, then any analysis
16 regarding that effect would be largely hypothetical in
17 nature?

18 MR. COURT: Well, this is a summation of the
19 interview. It is not direct testimony. So the question
20 that I had previously told you was asking him how, how
21 they separate the downturn in the economy from line
22 extension policy, that he stated yes, it is difficult,
23 but based on all those interactions and his -- and in
24 assessing land, that the policy extension was having an
25 impact.

1 MS. GRABEL: He just couldn't give you a dollar
2 amount, is that how I am reading your answer? You said
3 it may generally have an impact but he couldn't tell you
4 by how much.

5 MR. COURT: Yes, there is no dollar amounts
6 discussed.

7 BY MS. GRABEL:

8 Q. Mr. Merritt, I would like to turn briefly to one
9 of the interviews in section 4.4 of your report. And
10 that is with Spencer Kamps of the Homebuilders
11 Association of Central Arizona. It is really the
12 statements and not so much the conversation that I am
13 going to ask you about.

14 Have you reviewed all of the statements that
15 Mr. Kamps made?

16 A. I have reviewed what is in the report, yes.

17 Q. You describe what is written here as a summary
18 of what Mr. Kamps' view, what Mr. Kamps said in his
19 interview. Do you agree with all of the statements that
20 Mr. Kamps made? Is this a reproduction just what he
21 said or is it a conclusion that your firm has drawn
22 based on that interview?

23 A. As far as I am aware, it is a summary of the
24 discussion.

25 Q. You do not represent that these interviews

1 themselves and the statements that Mr. Kamps made are a
2 conclusion drawn by your firm, correct?

3 A. No, no.

4 Q. You characterize many of the statements made as
5 based on perception and speculation. For example, you
6 say that, in the second real paragraph underneath the
7 first bullet, Homebuilders Association of Central
8 Arizona, it was also speculated that commercial
9 developments would likely face much larger costs due to
10 the electrical load that some commercial operations
11 require.

12 Did any of the interviews or Mr. Kamps
13 specifically offer any studies or analysis to support
14 their statements?

15 A. No.

16 Q. And to what extent is a landowner's or
17 developer's speculation about the cause of a condition
18 relevant to the economic proof of that condition?

19 A. Well, speculation is related to commercial
20 development and they are not in the commercial
21 development business. They don't represent commercial
22 developers. And I believe he was just making a note
23 that it is not only home builders that are affected but
24 also commercial development, businesses. I think it is
25 just, you know, some added knowledge that he may have,

1 he may know or may have heard about that is represented
2 here.

3 Q. You are not intending in this section to suggest
4 that public policy should change or be based on this
5 speculation that Mr. Kamps has made in that statement?

6 A. No.

7 Q. Did you ask Mr. Kamps to speculate on the
8 economic impact of the cost savings that those same
9 commercial operations would realize once connected to
10 the system in the form of lower rates?

11 A. I would have to go back to Mr. Court.

12 MS. GRABEL: Is the answer no?

13 MR. COURT: No.

14 BY MS. GRABEL:

15 Q. If you could, please look at the last paragraph
16 on page 21. The sentence begins overall it was
17 expressed that government related costs have not
18 corrected nor responded to Arizona's current real estate
19 market conditions.

20 Do you believe that public policy should be
21 based exclusively on its potential impact on the real
22 estate market in isolation of other considerations?

23 A. Well, once again this is Mr. Kamps' opinion in
24 the situation, so...

25 Q. I am asking you now personally. Do you believe

1 that public policy should be based exclusively on its
2 effect on the real estate market?

3 A. I think it should be a consideration certainly,
4 yes.

5 Q. Should it be the sole consideration?

6 A. No, but the real estate market is certainly a
7 major engine here. And government policy should take
8 that into consideration.

9 Q. Is Arizona's largest utility also a major
10 engine?

11 A. It is -- I don't know if I would call it an
12 engine from an economic perspective. It is, it
13 certainly helps the engine, but it is not the engine.

14 Q. Should the financial health of APS be considered
15 in making these kinds of policy decisions?

16 A. Certainly, yes.

17 Q. I would like to turn your attention to the last
18 sentence on this page: Additionally, the HBACA has been
19 informed by various parties that there is available
20 capital for real estate investment but the deployment of
21 that capital is awaiting the adjustment of governmental
22 costs before any such investment occurs.

23 Generally what do you understand this to mean?

24 A. What I think it means is that during the run-up
25 in the housing market, the governmental jurisdictions in

1 reaction to that had jumped on the task of raising
2 impact fees. And that also came along at the same time
3 that the service schedule did. And they are waiting,
4 the investors may be waiting for these fees now to be
5 adjusted downward so they are more reflective of the
6 situation.

7 Q. As you have just described it, do you believe
8 this suggests then that the current excess inventory of
9 homes and apartments is not the primary reason that the
10 real estate development has slowed so substantially?

11 A. Well, you were asking me what, I thought,
12 Mr. Kamps was saying. And I think that's what he is
13 saying.

14 As a representative of the home building
15 industry, you know, they are always out there looking at
16 impact fees as one of the major costs of housing. So it
17 does have an impact. It makes new housing certainly
18 less competitive with existing housing, that's for
19 certain, because of the size of the fees.

20 Q. I read that statement, and I think you have just
21 described it that way, as saying there is money out
22 there to invest in but we are not going to invest until
23 these governmental costs change, is that correct?

24 A. That's I believe what he was saying, yes.

25 Q. Are you aware of the basis for that assertion?

1 A. No.

2 Q. Are you aware of any other economist or any
3 economist that shares that view?

4 A. Well, I think there are probably home builders
5 out there that are having a difficult time selling
6 homes, building new homes and selling them in this
7 market, when the supply of homes, of existing homes, is
8 so large and cheap today.

9 Q. If the line extension policy changed back to the
10 way it used to be and there was no longer that
11 governmental fee, as some would describe it, but the
12 market stayed the same, would those people be in any
13 better predicament than they are now?

14 A. Probably not, no.

15 Q. Mr. Kamps suggests and others suggest, I
16 believe, in some of the summaries you have described
17 that a policy requiring the utilities' customers to pay
18 the full cost of a line extension is analogous to a
19 municipal or city impact fee, correct?

20 A. Yes.

21 Q. Would it surprise you to know that the suburb in
22 the greater metro Phoenix area that had highest number
23 of single family homes permitted in 2006 also had the
24 highest municipal impact fees?

25 A. No. In that kind of market you can get away

1 with a lot of things.

2 Q. Are you aware of the level of the impact fees
3 charged by municipalities and cities compared to that
4 assessed by APS now under its current line extension
5 policy?

6 A. Generally, yes.

7 Q. And what do you know about that?

8 A. Well, it depends if you are talking about an
9 impact fee in the tract subdivision versus an impact fee
10 in a rural area.

11 Q. Let's talk about rural areas.

12 A. Well, the impact -- well, in certain parts, most
13 parts of Maricopa County, unincorporated Maricopa
14 County, you pay very little, few impact fees. So the
15 main fee you would end up paying in this situation would
16 probably be the electrical extension fee. If you were
17 in a municipality, it is 20, maybe 20, 25 percent of an
18 impact fee, assuming that Mr. Kamps is representing
19 about \$3,000 a unit for the new extension policy.

20 Q. Are you aware of any evidence that the APS
21 service territory has suffered a more significant
22 decline in housing construction than a similarly
23 situated area that has not seen the same change in line
24 extension policies, such as the SRP territory?

25 A. No, I am not aware of it. We did not conduct

1 that kind of study.

2 Q. Do you know, Mr. Merritt, what the costs are
3 generally of building a well or a septic tank?

4 A. No, not off the top of my head, no.

5 Q. Can you approximate?

6 A. I don't even know if I could get in the
7 ballpark.

8 MS. GRABEL: I think those are all the questions
9 APS has.

10 Do you have any, Mr. Hains?

11 MR. HAINS: Yes. I actually have a couple, not
12 very many, as you might imagine.

13 THE WITNESS: Okay.

14 MR. HAINS: Can everybody hear me all right from
15 here?

16 Ralph, can you hear me?

17 MR. SMITH: Yes.

18

19 EXAMINATION

20 BY MR. HAINS:

21 Q. First, there is no particular order of these so
22 hopefully I won't be bouncing around too much. But the
23 first thing I wanted to ask you about was the
24 calculation of the impact from the loss of 100 homes
25 that you provided the -- approximately it was on, I

1 think it was in the table under 5.1.

2 You have it there for 100 homes at \$180,000 per
3 unit. And you calculated that there would be a loss of
4 some of that profit margin that the builder would
5 experience due to these, this impact fee for the line
6 extension policy change. And I just wanted to ask you,
7 using that average of 100 and using the average cost of
8 the cost of extending power service by APS, does the
9 average cost of extending the service, does that
10 eliminate the profit margin under the averages that you
11 developed?

12 A. Well, we don't develop any profit margins or
13 anything in the information that I know of. We are
14 basically just talking about the average cost to build a
15 home and that type of thing. So we did not get into any
16 kind of profit margin analysis.

17 Q. So it is conceivable that it is possible that
18 even with the change in the line extension policy that
19 there still could be a profit realized on the sale of a
20 home because you haven't done an analysis to see whether
21 that might not be the case?

22 A. No, we haven't, right.

23 Q. Okay. Looking at the substitution period that
24 you discussed within your report, correct me if I am
25 wrong, but my understanding of the gist of the

1 discussion is that to a certain extent the choice of
2 where to purchase a home is elastic?

3 A. Yes, right.

4 Q. And to that extent, you understand that one of
5 the reasons, one of the positions that has been
6 forwarded by parties to the settlement is for a certain
7 revenue treatment for the Schedule 3 proceeds? Are you
8 familiar with that?

9 A. Well, just nothing more than what I heard this
10 morning so...

11 Q. Okay. But based on the understanding and
12 impressions you have gathered today at least, you
13 understand that APS is planning on receiving a benefit
14 from converting that into revenue treatment?

15 A. Yes.

16 Q. Okay. Based on that understanding, do you think
17 if, if the demand for housing is elastic under the
18 substitution theory, that there might be an elimination
19 of this benefit that APS is seeking under this
20 particular revenue treatment that it is requesting?

21 A. Well, I think certainly there would be an
22 impact, yes, I mean, and that it comes down to really
23 the crux of our analysis is that people in most
24 situations, particularly Maricopa County, have
25 alternatives. And it may lead to more efficient growth.

1 And if that's something the Corporation
2 Commission wants to promote, that's their right to do
3 so, I suppose. But there are any number of ways that a
4 person can react to it. And it could have an impact on
5 APS' bottom line, that you will not get as many
6 extensions, cost extensions then because of this policy,
7 yes.

8 Q. Okay. And I appreciate that response.

9 I wanted to ask a little bit about your
10 understanding of how the old Schedule 3 worked,
11 specifically the relationship between free footage and
12 the power limit, the \$25,000 limit. I wasn't clear if I
13 understood that from your response earlier.

14 Were you not aware that there was the free
15 footage to a thousand feet or up to a \$25,000 limit
16 before?

17 A. Yes, I did know that, yes.

18 Q. You did know that?

19 A. Yes.

20 Q. Okay. And with respect to, I know it is being
21 termed as free footage here, but do you understand the
22 rate treatment and how that panned out for APS in terms
23 of it is not really free, that it is incorporated into
24 the rate base for APS?

25 A. Yes, yes.

1 Q. And to that extent, do you have any knowledge of
2 how investors who look at APS look at or looked at how
3 APS was dealing with the growth in terms of the large
4 extensions to people in remote areas, and have you read
5 anything to the extent that there may have been concerns
6 that it may have been riskier for APS because of that
7 policy?

8 A. No, we did not look at that aspect. It was
9 beyond the scope of our study.

10 Q. Are you aware of any discussions to that extent?

11 A. No, we are not.

12 Q. Okay. Do you know or would you have an opinion
13 as to whether the prior extension policy had an impact
14 on APS' bond rating?

15 A. No.

16 Q. Okay. Do you know if it is, the new policy has
17 an impact on APS' bond rating?

18 A. No, I do not.

19 Q. Is it conceivable or would you have an opinion
20 whether eliminating, to the extent that there was a risk
21 associated with the prior policy, eliminating that risk
22 may have improved APS' outlook for the purposes of
23 evaluation by bond rating agencies?

24 A. No.

25 Q. Did you review any credit rating agency reports?

1 A. No.

2 Q. Do you have any idea what APS' present credit
3 rating is?

4 A. No, I do not.

5 Q. Would you agree that if APS' bond rating were
6 downgraded to a below investment grade that that would
7 have a negative impact for Arizonans generally?

8 A. Generally, yes, I am sure it would.

9 Q. And in particular for people within APS' service
10 territory?

11 A. Yes.

12 Q. And ratepayers of APS?

13 A. Yes.

14 Q. You also discussed somewhat the impacts to the
15 public side from the change in the policy. I wanted to
16 confirm what things that you looked at in terms of
17 coming to your perspective on the benefits and the
18 losses to the municipalities, excuse me, municipal
19 entities at the various levels regarding the loss of 100
20 sales, 100 home units sold.

21 With respect to that, I just wanted to confirm,
22 you did not look at costs to the municipalities of
23 extending service to any of those lots?

24 A. No, we did not.

25 Q. You did not look at the cost of extending police

1 service?

2 A. No.

3 Q. Waste? Wastewater? Water?

4 A. No.

5 Q. No?

6 A. No.

7 Q. Have you any experience with or any knowledge
8 about the cost that could be associated with extending
9 service from the municipality out to these remote areas?

10 A. Well, it would -- no, I would not. Every city
11 is so different that you really couldn't make a
12 determination like that without a specific, looking at a
13 specific community.

14 Q. All right. Okay. I appreciate that
15 distinction. Let's take it like this: Did you -- is it
16 conceivable that the cost, the actual cost of materials,
17 of the labor and whatnot, for the municipality of
18 extending service to the same property being sold as
19 trying to be connected through APS, that you would agree
20 that does have a cost?

21 A. Yes.

22 Q. Okay. And to that extent, you did not evaluate
23 whether that cost may be greater because the property
24 lies in outlying regions?

25 A. No.

1 Q. Okay.

2 A. We did not.

3 Q. You agree that the cost does increase the
4 further away from the point of service where the service
5 is originating?

6 A. Yes, generally that's true.

7 Q. Okay. Did you evaluate whether the cost to the
8 municipalities using the averages that you considered
9 for the 100 units avoided -- excuse me, not avoided --
10 but the hundred units foregone if the cost to the
11 municipality of extending service may conceivably exceed
12 the lost revenues that would have been gained?

13 A. We did not consider that. But we have seen
14 studies like that and take that into consideration. And
15 our general conclusion is that homes and residents pay
16 for a, pay for their service, and otherwise cities would
17 go bankrupt. So in one way or another, the communities
18 are making enough money off the various businesses and
19 residents to have a positive effect on the community.

20 MR. HAINS: Sorry. I am just checking to see if
21 my consultant has any more questions here.

22 I think that actually eliminates all the
23 questions I have.

24 THE WITNESS: Okay.

25 MR. HAINS: You were too thorough, APS.

1 MS. GRABEL: We are good. Thank you very much,
2 Mr. Merritt.

3 I appreciate it, Mr. Court. Thank you. Last
4 minute impromptu witness.

5 (The deposition concluded at 11:32 a.m.)

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RICHARD CHARLES MERRITT

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DANIEL COURT

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APS / Rates - Permanent
E-01345A-08-0172

Richard Charles Merritt and Daniel Court
8/3/2009

94

1 STATE OF ARIZONA)
) ss.
2 COUNTY OF MARICOPA)

3 BE IT KNOWN that the foregoing deposition was
4 taken by me, COLETTE E. ROSS, Certified Reporter
5 No. 50658 for the State of Arizona, and by virtue
6 thereof authorized to administer an oath; that the
7 witnesses before testifying were duly sworn by me; that
8 the questions propounded by counsel and the answers of
9 the witnesses thereto were taken down by me in shorthand
10 and thereafter transcribed under my direction; that a
11 review of the transcript by the witnesses was requested;
12 that the foregoing pages contain a full, true, and
13 accurate transcript of all proceedings and testimony
14 had, all to the best of my skill and ability.

15 I FURTHER CERTIFY that I am not related to nor
16 employed by any of the parties hereto, and have no
17 interest in the outcome.

18 DATED at Phoenix, Arizona, this 3rd day of
19 August, 2009.

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COLETTE E. ROSS
Certified Reporter
Certificate No. 50658