



1 BEFORE THE ARIZONA CORPORATIC

2

3 IN THE MATTER OF THE APPLICATION OF)
4 COMMUNITY WATER COMPANY OF GREEN)
5 VALLEY FOR A DETERMINATION OF THE)
6 CURRENT FAIR VALUE OF ITS UTILITY)
7 PROPERTY AND FOR AN INCREASE IN ITS)
8 WATER RATES.)

DOCKET NO.
W-02304A-08-0590

EVIDENTIARY
HEARING

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9 At: Tucson, Arizona

10 Date: October 28, 2009

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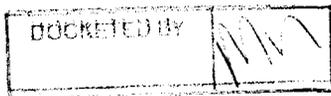
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1 BE IT REMEMBERED that the above-entitled and
2 numbered matter came on regularly to be heard before the
3 Arizona Corporation Commission, in Room 222 of said
4 Commission, 400 West Congress Street, Tucson, Arizona,
5 commencing at 10:00 a.m., on the 28th day of October,
6 2009.

7

8

9 BEFORE: BELINDA A. MARTIN, Administrative Law Judge

10

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1 ALJ MARTIN: Good morning. This is the time set
2 for the hearing in Docket No. W-02304A-08-0590 in the
3 matter of the application of Community Water Company of
4 Green Valley for a determination of the current fair value
5 of its utility property and for an increase in its water
6 rates and charges for utilities service.

7 Good morning everyone. Welcome to the Arizona
8 Corporation Commission. My name is Belinda Martin. I'm
9 the ALJ assigned to this matter.

10 At this time what I would like to do is take
11 appearances for the parties.

12 On behalf of the applicant?

13 MR. GELLMAN: Good morning, Your Honor.
14 Jason Gellman from Roshka DeWulf & Patten on behalf of the
15 applicant, Community Water Company of Green Valley.

16 ALJ MARTIN: Thank you.

17 And on behalf of Staff?

18 MR. VAN CLEVE: Good morning, Your Honor.
19 Wes Van Cleve on behalf of Staff.

20 ALJ MARTIN: All right. Thank you.

21 I would like to ask Mr. Gellman and Mr. Van Cleve
22 if there are any preliminary matters to discuss before we
23 get started.

24 MR. GELLMAN: I don't believe so, Your Honor.

25 ALJ MARTIN: Mr. Van Cleve?

1 MR. VAN CLEVE: None for Staff, Your Honor.

2 ALJ MARTIN: At this time what I would like to do
3 is ask if there is anyone present who would like to
4 provide public comment in this matter.

5 Okay. Please let the record reflect that there
6 is no one who has appeared to provide public comment.

7 Then we will go ahead and get started, and I will
8 take opening statements.

9 Mr. Gellman.

10 MR. GELLMAN: Thank you, Your Honor.

11 Your Honor, this isn't a case with a lot of broad
12 policy implications for the Commission or Your Honor.
13 This case really boils down to a not-for-profit water
14 company trying to meet its operations costs to continue to
15 provide safe and reliable service to its customer base.

16 Community Water Company has provided service
17 since the mid to late '70s. It is a nonprofit
18 corporation. It provides groundwater service mainly
19 through four groundwater wells that are part of its
20 operating system, and it currently serves approximately
21 10,500 customers.

22 The vast majority of those customers are
23 residential customers, and the majority of those
24 residential customers are retirees, but there is a growing
25 minority of those customers that are families or customers

1 from other demographics and walks of life.

2 The remaining 5 percent are mostly retail,
3 commercial or small business customers. So we are not
4 dealing with a water company with large industrial
5 customers or a vastly diverse customer base; it's mainly
6 residential customers who are mainly retirees.

7 The company, however, has been in compliance with
8 Arizona Department of Water Resources requirements as well
9 as the Arizona Department of Environmental Quality
10 requirements. And for being a relatively small water
11 company its track record has always been to provide safe
12 and reliable water to its customers, and we believe its
13 customers appreciate that.

14 But that is why we are here, so that the company
15 can continue to provide that reliable service in the wake
16 of operating costs it is experiencing and it will continue
17 to experience.

18 To give Your Honor a quick tale of the take, so
19 to speak, the Company is asking for approximately
20 3,825,000 in total revenue requirement. That is a revenue
21 increase of \$803,000 or an increase of 26.5 percent.

22 Staff has come back recommending an approximately
23 \$3,798,000 total revenue requirement or revenue increase
24 of about \$790,000 and a percent increase of 26.27 percent.

25 So we are pretty close, and there is not many

1 revenue requirement issues out there in this case. There
2 is basically two. But even though we are close, we are
3 not quite to the cigar, and what would it take to get to
4 that nice Havana Cuban would be settling basically two
5 issues that unfortunately we haven't been able to settle.

6 And one is the, what I think is a relatively
7 esoteric issue of CIAC in rate base. This is maybe an
8 issue that has been in front of the Commission before, but
9 usually in a panoply of other issues; in our case it's
10 pretty much a big different in revenue requirement setting
11 aside for a second the construction water issue.

12 And to characterize, I think, the argument of the
13 two companies, I think it's fair to say that Staff
14 believes that the funds that contributed, regardless of
15 what they are contributed for, should be part of the rate
16 base calculation. That includes contributions for --
17 related to plant that is presently in service and
18 contributions towards plant that perhaps may be in service
19 in the future but it's not part of the rate base
20 calculation here.

21 The number is about \$537,000 that we are talking
22 about, and I think the company has a different point of
23 view, that funds going towards future projects should not
24 be included in the rate base calculation. And
25 specifically contributions that are towards future

1 projects should not be included in the rate base
2 calculation. We believe there are -- there is a mismatch
3 in more ways than one.

4 Beyond the rate base calculation there is also
5 the effect on amortization and depreciation expense.
6 Mr. Bourassa went to some length in his testimony about
7 that.

8 Even though the revenue requirement impact is not
9 great, this is a real difference, and it results in a real
10 difference in the rate base numbers that the Company and
11 Staff have come out with.

12 To summarize our position we believe that funds
13 towards future projects -- contributions towards future
14 projects should not be included in the rate base
15 calculation.

16 That moves me to the part of my opening talking
17 about rate design, and again, there is not a whole lot of
18 difference here. We are not talking about abandoning the
19 three-tier rate design. We see the merit in balancing the
20 need to promote conservation with a need to have first
21 tier or, quote/unquote, life-line rate for those customers
22 that are not well off and need water for the necessity of
23 life.

24 And there is really no great difference between
25 the break-over point for residential customers. There is,

1 however, a difference between what the company recommends
2 and what Staff recommends for commercial rate design -- or
3 for the commercial meters and for meters one inch and
4 larger.

5 I believe Staff's, its break-over points are now
6 lower than what they are in the current rate design. And
7 the Company's rate design is basically keeping the rate --
8 the break-over points that were adopted in the last rate
9 case, which was decided, I believe, December of '06, and
10 the rates have been in effect in 2007.

11 The Company's rates and Staff's rates shift
12 burden from the residential customers, but the company's
13 does so more gradually by keeping the current break-over
14 point, by having a less of a difference in the commodity
15 rate for the different tiers. The first tier commodity
16 rate and the second tier commodity rate, there is less of
17 a difference in the company's rate design proposal than
18 Staff's.

19 And the company simply believes there was really
20 nothing broken in the rate design that was adopted by the
21 Commission back in December of 2006, and there is no need
22 to change those break-over points, that the break-over
23 point that the Commission adopted are fine, they are
24 reasonable, and they should be kept going forward.

25 In the broad panoply of what rate issue could

1 come up in a rate case, this one is probably not the
2 biggest in the world, but it is the rate design issue that
3 we have in this case.

4 I guess the other rate design issue that also
5 goes into revenue requirement is the issue of construction
6 customers. And to make it perfectly clear, the Company
7 understands that it should not have been charging monthly
8 minimums for construction customers from January of 2007
9 going forward through the end of this rate case. There
10 was some issue looking at that docket at what tariff was
11 approved; the Company understands it made a mistake and of
12 course will work with Staff to refund that money owed to
13 those construction customers.

14 The issue that the Company has going forward is
15 what to do regarding a monthly minimum for construction
16 customers. And the Company believes that having a monthly
17 minimum for construction customers is appropriate and just
18 and reasonable, that it is in line with the Commission's,
19 I guess, general policy of growth paying for growth, since
20 construction is usually related to growth.

21 And the big issue for the Company is that, even
22 with zero water usage the Company still has to go out and
23 read the meters. The Company still has to send bills to
24 those customers, and there is a cost associated to those.
25 And we believe that the construction customers should bear

1 the burden of that cost, even with the fact that commodity
2 rates for construction customers may be the highest out of
3 any of the customer classes or equal to the highest out of
4 any of the customer classes.

5 There has been an issue about deposits that is
6 kind of intermingled with this issue of construction
7 customers. We understand that Staff doesn't want to
8 change the 6 percent deposit interest. We believe that
9 perhaps that should be changed because it doesn't
10 accurately reflect the interest rate going forward.

11 Mr. Bourassa talks about that in his testimony,
12 about CDs and money market rates being below 3 percent.
13 But whatever incentive there is for customers to return
14 meters with a deposit is offset by the fact that there is
15 this favorable interest rate on those deposits that the
16 Company must incur.

17 So we do not believe that Staff's argument to
18 that particular point is persuasive and we hope that Your
19 Honor and the Commission does not find it persuasive as
20 well.

21 Miscellaneous charges, the call-out charges, the
22 reconnection fees, those -- I won't get too much into
23 those here except to say these are the actual costs for
24 the Company. We understand that they may be lower for
25 some other companies, but I think we are supposed to be

1 looking at, what are the actual costs incurred by the
2 Company? And Mr. Gabaldon testified in his rebuttal and
3 rejoined testimony that, look, we get charged for a
4 two-hour minimum, and on Sundays and holidays it's double
5 time, and for certain other services that they perform
6 they need two servicemen.

7 So the evidence hasn't been controverted that
8 these are the actual costs that the Company incurs. The
9 question is, do we adopt those actual costs or do we stick
10 with what apparently has been the costs that other
11 companies may or may not incur for those same services?

12 Conservation, there has been a lot of talk about
13 it. It's not really an issue in this case, but we
14 understand that the Commission is looking for ways to seek
15 how companies are promoting conservation. And
16 Mr. Gabaldon can talk more about this, but he mentioned in
17 his rebuttal testimony about the rollout of radio-read or
18 AMR meters, which has been catching attention as of late.
19 And this is a new effort by the Company to replace current
20 meters, either meters that are running to the end of their
21 service life and would need to be replaced anyway, and
22 meters that are not quite at the end of their service
23 life, could probably last a couple more years, but there
24 is benefit in replacing those meters now because those
25 meters can help track high water usage, can help track

1 leaks, can help customers see their own usage patterns,
2 especially if they buy the device that Mr. Gabaldon
3 referenced in his rebuttal testimony.

4 So this is a very real conservation effort that
5 the Company is rolling out gradually, which has to roll
6 out gradually because the cost of doing it all at once, I
7 think, reaches the range of 2.5 million. So it's gradual
8 but significant, but we believe that is again a real
9 effort that the Company has undertaken.

10 Where it ties into the rate case is sort of a
11 collateral issue, but it relates into the meter and
12 installation charge. We know we mentioned it a little
13 late in the game, but in rebuttal testimony we requested
14 an \$83 increase in the service and meter installation
15 charge related to installing radio-read meters for
16 five-eighth-inch residential customer.

17 We don't believe that Staff agrees with that. We
18 would ask that the Commission adopt that. That is for new
19 customers, new subdivisions. We believe it also fits into
20 the policy of growth paying for growth, but it's paying
21 for growth in a way that promotes conservation. So we
22 believe that that is a reasonable charge to adopt, and we
23 obviously are able to talk more about it during our
24 testimony.

25 I think the evidence shows here that there is a

1 need for a rate increase. There's a need for rate
2 increase so the Company can continue to drive to provide
3 safe and reliable service, which it has done for over 30
4 years that it's been in service and in business providing
5 service to customers, to a company that has met the
6 EPA arsenic standards for new facilities.

7 There is also the need to get this increase done
8 as soon as possible, around January 1st of 2010. I do not
9 say that lightly knowing the resource constraints and
10 difficult times that the Commission finds itself under.
11 We are expediting transcripts in this case. We understand
12 that maybe that is an unattainable goal to have a rate
13 increase in effect by January 1st of 2010. We simply ask
14 that whatever efforts that we need to do, that Staff and
15 Your Honor and the Commission are willing to do or can do
16 to get the rate increase in as soon as possible to that
17 date, that we do so. Again, that is not something that I
18 say lightly. We certainly understand, again, the times
19 that we are under.

20 We have two witnesses in this case;
21 Arturo Gabaldon, who is the president of this Company and
22 has been so since 2006 but has served in various
23 capacities during his time at Community Water to this
24 time, he will testify about the need for the increase,
25 construction water issues, miscellaneous charges, and

1 conservation.

2 We also have Tom Bourassa, who is no stranger to
3 Commission proceedings, to talk about the more, what I
4 call, hardcore revenue requirement and rate design issues
5 that are typically a part of any rate case.

6 With that, we thank Your Honor for your time and
7 consideration of this matter. We also thank Staff for
8 their efforts, their willingness to listen, and really
9 their willingness on the majority of the issue that we
10 have seen through this rate case to negotiate and where we
11 ultimately have come to an agreement on a lot of the
12 adjustments.

13 Thank you.

14 ALJ MARTIN: Thank you, Mr. Gellman.

15 Can we change the celebratory Cuban cigars to a
16 celebratory Snickers?

17 MR. GELLMAN: We can do that.

18 ALJ MARTIN: Thank you.

19 Mr. Van Cleve.

20 MR. VAN CLEVE: Your Honor, you will hear a lot
21 of the same things from Staff that you just heard from
22 Mr. Gellman.

23 Community Water Green Valley filed an application
24 for an increase in its rates using a 2007 test year. As
25 you will see in the testimony presented by Community

1 Water, it is seeking an \$803,315 or 26.8 percent increase
2 in revenue for a total annual operating revenue of
3 \$3,825,058 in total and in revenue. This would produce
4 \$573,759 on a 15 percent operating margin and 7.65 percent
5 rate of return.

6 The Company is seeking a fair value rate base of
7 \$7,504,829. Staff, on the other hand, is recommending a
8 \$709,351, or 26.27 percent increase, very similar to what
9 the Company is seeking as a total increase, for a total
10 annual operating revenue of \$3,798,000. This revenue
11 would produce an operating income of \$569,000 on a
12 15 percent operating margin and an 8.4 percent on rate of
13 return.

14 Here is where the big difference exists. Staff
15 is recommending a fair value rate base of \$6,998,00, and
16 as Mr. Gellman mentioned, the big difference is due to the
17 varying treatments of CIAC in this case. And to digress
18 just a little, I do believe, while it doesn't have a huge
19 impact in this case, the Commission's decision on how to
20 treat CIAC in this case can have implications in other
21 cases in the future where CIAC may have bigger
22 implications.

23 The Company and Staff have resolved almost, I
24 would say, the majority of the issues in this case. We
25 are seeking very similar rate increase percentages, the

1 same operating margin. In some cases Staff has accepted
2 the Company's position and in other cases the Company has
3 accepted Staff's position. And in other instances it was
4 just corrections in calculations.

5 That being said, there are still a few issues in
6 this case that still need to be dealt with. One is the
7 CIAC issue. The other big issue is the monthly minimum on
8 construction meters. And on the CIAC issue, Staff has --
9 I should say the Company has excluded \$537,000 in CIAC.
10 That amount represents CIAC that is associated with
11 construction work in progress that both the Company and
12 Staff agree should not be in plant-in-service; the
13 difference is in the treatment of the CIAC.

14 Staff believes because the CIAC is associated
15 with construction work in progress and not post-test-year
16 plant or excess capacity that it should not be removed.
17 The CIAC associated with the CWIP should not be removed
18 because there hasn't been a determination as to what that
19 plant that is currently CWIP will be treated for in the
20 future.

21 There is also a slight difference between
22 accumulated depreciation that the Company is proposing and
23 what Staff is recommending. This difference appears to be
24 due to differences in depreciable amount of transportation
25 equipment at the end of 2006.

1 Regarding adjustments to revenues and expenses,
2 there is really only one contested issue between Staff and
3 the Company regarding adjustment to test-year revenues,
4 and that has to do with the removal of \$13,000 in metered
5 revenues that the Company collected from construction
6 customers.

7 The Company is seeking approval in this case for
8 a monthly minimum for construction customers. It's my
9 understanding that they agree that this adjustment is
10 appropriate if the Commission ultimately decides that a
11 monthly minimum is not appropriate for construction
12 customers.

13 There is a difference in the amount of
14 depreciation expense that the Company is seeking and what
15 Staff is recommending. The Company and Staff are in
16 agreement on the depreciation rates and the method of
17 computation. The difference is due to the differing
18 recommendation regarding the treatment of CIAC.

19 Similarly, with regard to property tax, the
20 Company accepts Staff's method of calculating property
21 tax. The differences is in the property tax expense are
22 due to differences in adjusted and proposed revenues
23 between the Company and Staff.

24 The final issue in this case, overriding issue,
25 is that of rate design, and there are actually a lot of

1 similarities between what the Company is proposing and
2 what Staff is recommending. For instance, both the
3 Company and Staff are recommending inverted tier designs,
4 both include three tiers for five-eighth-inch by
5 three-quarter residential meters and two tiers for
6 five-eighths-inch and three-quarter-inch commercial, as
7 well as one-inch and larger meters.

8 In fact, the break-over points that both the
9 Company and Staff are recommending are the same for the
10 three-quarter-inch meters. Unfortunately that is where
11 the similarities end. The Company is recommending higher
12 break-over points for other meter sizes and appears to be
13 building more revenue into the monthly minimum charges in
14 the lower tiers; whereas Staff is recommending lower
15 break-over points for the other meter sizes and is
16 building more revenue into the higher tiers in order to
17 promote conservation or efficient use of water. Staff
18 believes this is best for the needs of the Company in
19 being able to meet its revenue requirement and also
20 provides just and reasonable rates to customers while
21 promoting the efficient use water.

22 In the same vein as rate design, the Company is
23 also seeking permission to charge a monthly minimum for
24 construction meters. Staff does not believe a monthly
25 minimum is warranted given the nature of construction

1 meters and due to the fact that the Company already
2 collected a deposit from its customers for the use of
3 those meters and is already charging a higher commodity
4 rate for the use of water through those meter.

5 The Company is also seeking to reduce the deposit
6 interest amount that the customers -- that it must pay to
7 customers. The Company is also seeking a significant
8 increase in its miscellaneous charges and meter service
9 line installation charges from what they were in the last
10 rate case and what are well above the amounts charged by
11 other companies. Staff is recommending against any of
12 those changes.

13 Staff will be calling two witnesses. Jian Liu,
14 with any luck, will be appearing telephonically today, and
15 will testify regarding engineering issue. And then
16 Pedro Chaves will discuss revenue requirement, rate base
17 adjustments, income adjustments, rate design, and whatever
18 other issues may exist in the case.

19 Thank you, Your Honor.

20 ALJ MARTIN: Thank you, Mr. Van Cleve.

21 Okay. Mr. Gellman, if you would please call your
22 first witness.

23 MR. GELLMAN: The Company will call
24 Arturo Gabaldon.

25

1 president did you take part in preparing an application
2 that is currently before Your Honor and this Commission
3 for a rate increase?

4 A. Yes, I did.

5 Q. And you should see in front of you -- it's in the
6 rubber-banded exhibits marked for identification
7 purposes -- Exhibit A-1.

8 Is that the application that the Company
9 submitted?

10 A. Yes, it is.

11 Q. And was that prepared by you or under your
12 direction?

13 A. It was prepared under my direction, and elements
14 of it were prepared by me.

15 Q. Okay. And in addition, and it's part of the
16 binder, I believe, to your -- probably straight ahead of
17 you is copies of testimony.

18 Did you prepare testimony as part of your
19 responsibilities?

20 A. Yes, I did.

21 Q. And do you see testimonies marked as exhibits --
22 marked for identification as Exhibits A-2, A-3, and A-4?

23 A. A-4 is not marked. I see A-2 marked and A-3
24 marked and A-6 and A-7.

25 Oh, wait a minute. It's the second page. Yes,

1 it is.

2 Q And are those respectively your direct rebuttal
3 and rejoinder testimonies in this case?

4 A Yes, they are.

5 Q And were they all prepared by you or under your
6 direction?

7 A These were -- these were prepared by me.

8 Q Okay. And they are part of your sworn testimony
9 today?

10 A They are.

11 Q And do you have any changes, additions, deletions
12 to make to those testimonies at this time?

13 A No, I don't.

14 MR. GELLMAN: Your Honor, I would move for
15 admission of Exhibits A-2, A-3, and A-4.

16 ALJ MARTIN: Okay. Mr. Gellman, just for
17 clarification purposes, I don't have -- you provided me a
18 binder, but I don't have them marked.

19 So if you could tell me, Exhibit A-2 again is
20 what?

21 MR. GELLMAN: I apologize, Your Honor.

22 A-2 would be a copy of Mr. Gabaldon's direct
23 testimony.

24 ALJ MARTIN: Direct. Okay.

25 MR. GELLMAN: A-3 would be a copy of his rebuttal

1 testimony, and Exhibit A-4 would be a copy of
2 Mr. Gabaldon's rejoinder testimony.

3 ALJ MARTIN: Okay. And you have offered those
4 for admission?

5 MR. GELLMAN: Yes, Your Honor.

6 ALJ MARTIN: Mr. Van Cleve, any objection?

7 MR. VAN CLEVE: None.

8 ALJ MARTIN: Okay. Thank you. So admitted.

9 (Exhibits A-2, A-3, and A-4 were admitted into
10 evidence.)

11 Q. (BY MR. GELLMAN) Mr. Gabaldon, instead of asking
12 you to summarize your testimony, which I think has already
13 been done, could you describe the customer base of
14 Community Water Company of Green Valley?

15 A. Community Water Company -- let me give you a
16 little bit of history.

17 Community Water Company began -- purchased from
18 Arizona Water Company, and was generally a retirement
19 community. We are for the most part a retirement
20 community to this day. There is an element of, since
21 2005, of non-age-restricted communities that have joined
22 the system. So about 80 percent of our service area is
23 age-restricted and 20 percent of it is nonrestricted. And
24 in the age-restricted they are retirees that have moved in
25 from different parts of the country.

1 Q. And is it fair to say that the majority of your
2 customer base is residential?

3 A. Yes, it is.

4 Q. And what percentage would you say is residential
5 versus other customer classes?

6 A. At least 85 percent, if not a little bit higher
7 than that, is residential.

8 Q. What about the commercial class? Could you
9 describe the nature of the commercial customers for the
10 Company?

11 A. Green Valley has three malls in it, and these are
12 different malls. There are different stores in there.
13 Community Water Company, when it was establishing these
14 malls or -- and before we came in also -- the policy has
15 been one meter for each unit.

16 So these are commercial units in these malls,
17 three mainly malls. There are, I think, two other
18 business centers in our area, and I think there are 350
19 customers, about that, that are commercial.

20 Q. Are the majority of those commercial customers
21 either retail customers or small business customers?

22 A. That is correct. They serve the retirement
23 communities. There is a lot of insurance agents. There
24 are some furniture. We have now a Wal-Mart and we have a
25 movie theater. These are just within the last two or

1 three years. The Green Valley Mall consists of
2 restaurants, a Safeway, McDonald's.

3 Q Let's turn to the issue of radio-read meters.

4 Do you have some knowledge of those meters?

5 A Yes, I do.

6 Q Can you describe for the record what those meters
7 do, how they are different from your, quote/unquote,
8 garden-variety meter?

9 A The basic technology behind the two meters is the
10 same. It's push technology; as water goes through it, it
11 pushes the read up. Thus we don't have overreads. But if
12 the measurement stops, there is an underread potentially.

13 What the radio-read does is it replaces the dial.
14 It adds to the dial a signal that measures what the dial
15 is at so that we don't need to physically open up the
16 meter box, open up the meter to get it read and then
17 having to reverse the process for closing it for each
18 meter.

19 Thus, from a meter reader's perspective, they are
20 more effective for us because a meter reader doesn't spend
21 as much time reading them.

22 On the other hand there is data that is being
23 collected within each of the meters, a data log which
24 maintains about three months of consumption information.
25 This information can then be used when we talk to the

1 customers to describe what their water usage has been.

2 So they will tell us, well, I never use that kind
3 of water. And so the graphs that the meter reads provides
4 us what time of day. Well, what were you doing at 5:00 in
5 the morning that would consume water? And that just
6 happens to be the time that their irrigation is set up
7 for.

8 And that gives the customer a better idea of how
9 much water they are actually using in their irrigation
10 whereas they may not normally be aware of it.

11 *Q.* I think you touched on it, but I want to have you
12 talk about it more directly.

13 How does the Company see these radio-read meters
14 benefiting the issue of water conservation?

15 *A.* The Board established a policy that all new
16 subdivisions will now have the radio meter reads. That is
17 going to be our goal.

18 When we first put in these reads into these
19 subdivisions -- and this is during -- actually the first
20 indication that this is going to be a great idea was
21 during the actual construction. We were able immediately
22 upon putting these meters in -- about a week later we were
23 able to find meters that were running 24/7 and there is no
24 home there. So they are obviously leaking. That was the
25 first indication.

1 Then after the homes there were, the radio-reads
2 have been very helpful to us in that they have been able
3 to tell the customers if there has been any variations.
4 You know, what has been their change in their water usage.

5 *Q.* Can these meters, the AMR, the radio-read meters,
6 help customers track their own usage pattern and provide
7 them with some more, quote/unquote, real-time information
8 about their water use?

9 *A.* Yes, they can. There is -- in addition to the
10 radio unit that is on the meter there is -- and it's
11 optional for the customer; they cost about \$100 -- the
12 customer can either borrow the one that we have at the
13 Company or they can purchase this for \$100, and from their
14 home they can actually pick up what the current read is
15 and what the change in the read has been.

16 Community Water Company in an effort to educate
17 our own customers, this last month -- well, it wasn't this
18 month -- last week during the country fair we actually had
19 a display of the radio-reads and how they work and how
20 this unit can be helpful.

21 What is more valuable has been when a customer
22 has a question and we show on the laptop and we are able
23 to download the information and provide them with more of
24 a graph computation of how they are using their water.
25 And the customers who have received this have been very

1 appreciative.

2 Q How does the Company plan to, quote/unquote, roll
3 out its plan to install radio-read meters throughout its
4 service territory.

5 A I need some water. I'm sorry.

6 Community Water Company began looking about five
7 years ago at the benefits and the costs of the radio-read
8 program. We met with several vendors, and we knew we were
9 upgrading our own meters -- I'm sorry -- we knew we were
10 going to be upgrading our hand-held meter reading system.

11 And so in anticipation of the radio-reads,
12 Community Water Company very much focused on a study of
13 the radio-read software that could already be bundled into
14 what we already have so there is no additional costs to
15 the members. So if you are going to buy something, let's
16 buy the right one the first time.

17 Community Water Company took out bids, and we
18 selected the meter system that we wanted. And we then
19 evaluated the cost of how much it would cost to put into
20 our system. We estimated the cost to be about
21 \$2.5 million; needless to say we didn't have the funding
22 for \$2.5 million. If we -- but even if we had the funding
23 for the 2.5 million, there would still be an issue of,
24 with regular meter change-outs, would it be better -- the
25 Company debated should we change things out over time, and

1 therefore the maintenance of these items will be more
2 consistent over time and they would impact our revenues
3 and expenses consistently throughout the years.

4 So we didn't have the 2.5 million, but what we
5 did have is we had a policy in place that has been in
6 place since the Company was first formed in 1977. We
7 have -- to avoid meter revenue losses, we have a meter
8 change-out program. And the meter change-out program we
9 change out the chamber of every meter after 15 years of
10 use, and we change out the entire meter after 30 years.
11 The numbers of 15 years and 30 years are based on the
12 warranties of the meter manufacturers. Again, Community
13 Water Company has been doing this since 1977, when it was
14 formed.

15 Our current budget for the meter change-outs is
16 approximately 100- to \$150,000 a year. So what we have
17 decided to do, and as a better management tool, is we are
18 going to continue the meter change-out program, but this
19 time we are going to be changing them out with
20 radio-reads, being consistent with the policy that the
21 Board asked, which was, let's get radio-reads in.

22 So at about \$100,000 a year of radio-reads, we
23 are working them in. The process that we are using then
24 is we are picking where it's most beneficial to us,
25 customers with the highest consumptions or the most

1 difficult meters to read within our system. So we are
2 targeting the meter change-outs.

3 Q And in terms of new customers or new
4 subdivisions, how does the Company's intent to install
5 radio-read meters throughout its service territory affect
6 the service and installation charges that it is requesting
7 in this rate case?

8 A It does add a little more cost to the meters
9 because now those meters will have a radio-read on them.
10 It's not a full replacement of the meter because we are
11 buying meters that actually work with radio.

12 The difference that the customers -- well, it's
13 actually going to be the developers -- they will simply
14 have a higher refundable advances in aid of construction,
15 but all of these advances are refundable.

16 Q The higher refundable advances means basically
17 the extra \$83 that the Company is requesting from your
18 rebuttal testimony?

19 A That is correct, per each service.

20 Q Finally, Mr. Gabaldon, I don't want to go too
21 much into this topic, but could you explain very generally
22 the need that the Company sees for the rate increase that
23 it's requesting?

24 A Community Water Company has been operating in a
25 deficit for the last few years, and we have had rising

1 costs of electricity. We have had increased costs related
2 to the treatment of the water with the new arsenic
3 facility being put in. There has also been a change in
4 the way Community Water Company is -- the system design.

5 A couple years ago we were strictly a -- we had
6 only distribution mains, and that would mean that where
7 wells were, we would have customers right there. So there
8 was very -- the transport of water was immediate.

9 Today we have two of our wells -- well numbers 10
10 and 11 -- connected to what is called a transmission main.
11 We transmit the water now three and a half miles to a
12 higher elevation where we have 4 million gallons of water
13 storage.

14 What this does is this provides additional
15 reliability and security for the customers of Community
16 Water Company because it allows for gravity feed into our
17 system. Our area has had a lot of experiences with
18 outages, and we are not affected by those because our
19 system is now gravity fed through these transmission
20 systems.

21 Q. So the increased reliability through the
22 transmission mains or gravity feeds comes at an increased
23 cost?

24 A. Of power to get the water up.

25 Q. And that is part of the reason why the Company

1 has sought this rate case?

2 A. That is part of the formula of what the Company
3 is looking at.

4 There has also been other additional expenses.
5 There has been a real general increase in the cost of
6 employee coverages, for health benefits. There has been
7 the cost of our communications, of our cell phones. And
8 there is also at different times, following the schedule
9 of Department of Environmental Quality, the level of
10 testifying that we need to do. There is kind of peaks and
11 valleys to the testing, which we recognize, but there is
12 generally more expenses because there is always more
13 testing than before.

14 MR. GELLMAN: Mr. Gabaldon, that is all the
15 questions I had for you. Thank you.

16 And I tender the witness for cross-examination.

17 ALJ MARTIN: Thank you.

18 Mr. Van Cleve.

19 MR. VAN CLEVE: Before I begin, might I move this
20 out of the way?

21 ALJ MARTIN: Yes. Yes.

22

23 CROSS-EXAMINATION

24

25 Q. (BY MR. VAN CLEVE) Good morning, Mr. Gabaldon.

1 A. Good morning.

2 Q. I want to start off, I guess, with the topic that
3 Mr. Gellman discussed with you, the radio-read meters. I
4 want to get some clarification on them.

5 From what you were saying, do these meters --
6 they still involve a meter reader to go by; he just
7 doesn't have to physically open the vault or whatever and
8 read the meter; there is some sort of an electronic device
9 to read them? Is that how it works?

10 A. Yes.

11 Q. So it's not equivalent to a smart meter in the
12 electric utility industry where it's read without a meter
13 reader?

14 A. That is correct. There are options in the
15 industry, if you wire an entire community with relay
16 stations and -- but Green Valley, rural as it is, does not
17 have an Internet over the whole area.

18 Q. Okay. And you mentioned something about being
19 able to download information for the customers, graphs and
20 charts and stuff to show water usage.

21 Is that something that is done free of charge or
22 is there an extra fee for that type of service or for
23 having that done for a customer?

24 A. Currently what we have is simply the month-end
25 read; you use this much every month.

1 The radio-reads are very new to our system, and
2 it has been -- it shows a lot of promise that these things
3 will be coming in.

4 And I guess what I'm trying to say is that we
5 don't know right now what the long-term effects would be
6 of more time with the customers regarding these, but I'm
7 actually of the opinion that it will be the equivalent
8 amount of time for when a customer has a problem, and it
9 might be a smaller amount of time because it will be a
10 smarter answer.

11 Q And on that same issue or topic, do you
12 anticipate there being additional information provided in
13 the customer's bill as far as their water usage and how
14 they use their water?

15 A Not at this time. The trade-off is when you walk
16 up to a meter, the function as a meter reader, the
17 download time that it takes to pick up the read takes -- I
18 know it takes only moments, but we would like a truck to
19 drive by. So they do not collect the full data from the
20 customer because there is no use for it.

21 The use comes in when you can relate it to an
22 individual customer. So we will take the time to take a
23 laptop there, the three minutes that it takes to download
24 all the data, and there is a package that I will
25 illustrate this graphically.

1 To answer your question, right now we have no
2 fees for this additional charge. We do this during
3 regular working hours, and we are still actually very much
4 in a learning curve on all of the ways to use this data.

5 Q. And when -- and I think you mentioned this, but
6 if you could just tell me again. When did you say you
7 started rolling out these radio meters?

8 A. I'm not sure of the exact date, but it's been at
9 least a year -- over a year.

10 Q. Okay.

11 A. It would have been after we got on the new
12 software. I just couldn't tell you the date. It wouldn't
13 affect this rate time period, this rate case.

14 Q. So it was --

15 A. This test year.

16 Q. So it was approximately a year ago, maybe more or
17 maybe less?

18 A. Probably more.

19 Q. Okay. And when was the first time you discussed
20 this radio meters as it relates to this case? Was it in
21 your rebuttal testimony?

22 A. Yes. The questions came up as to what tools are
23 you using for water conservation.

24 Q. Okay.

25 A. And we have been really investigating putting in

1 an additional feed for conservation -- you know,
2 conservation fees for these radio-reads, but we didn't
3 want to do that because we kept thinking, well, you don't
4 want to do the change-out of all of this at one time; it's
5 too much money. So if we integrated it with our existing
6 meter change-out program, we will be consistent with how
7 we have been spending funds, and it will give the
8 customers more reliability, I think.

9 Q And if this is something that the Company was
10 doing, why wasn't it something that was put -- well,
11 strike that.

12 As I understand it, as of the rebuttal, you are
13 seeking an additional increase as far as the meter charge;
14 is that correct?

15 A That is correct.

16 Q Why wasn't that something that was included in
17 the application if this is something that the Company's
18 been doing for over a year now?

19 A It was an oversight.

20 Q Okay. And did you provide anything in your
21 rebuttal testimony to justify an increase of \$83 to the
22 meter charge?

23 A I don't know.

24 Q So you had indicated previously that you went
25 through a bidding process to determine which -- was it the

1 brand of meter or who you were going to use for supplying
2 the meter?

3 A. Correct. It's the supplier. It's the meter.
4 It's the radio-read element. But it's the software for
5 the meter reading and the hand-held units all have to
6 work -- those have to work together.

7 Q. Okay. Do you think it would have been beneficial
8 to provide some type of documentation as part of your
9 request in this case for Staff to consider?

10 A. I don't know what we did turn in. I apologize
11 for that. We went to our operations staff to pull out the
12 invoices to get us to actual costs, and the amount that we
13 submitted was -- is actual costs. And this is going to be
14 the cost, at least until there is some future bidding
15 process, on the purchase of the meter.

16 Q. And the radio meters, are they just for the
17 residential customers at this point or is this something
18 that you anticipate holding out for all customers for the
19 water company?

20 A. There is only about 350 more commercial
21 customers; everybody else is residential.

22 We don't treat commercial as different than
23 residential. We never segregated them as we wouldn't use
24 them for radio-reads.

25 Depending -- I would like at -- for earlier

1 implementation of a radio-read, I would look at their
2 water usage. If they are an insurance office and all they
3 have is a little sink, there is not much use for them for
4 the radio-read; however, a business that has irrigation on
5 it, I think it would be very, very useful to them. I
6 think it's more of a usefulness idea and effectiveness on
7 conservation.

8 Q And is it something that -- maybe this might be
9 my lack of knowledge, but is this something that you
10 anticipate for all meter sizes or is it just a certain
11 meter size that you are seeking this additional increase
12 in the meter charge?

13 A I believe we only put it in for the five-eighth
14 meter, which is the lion's share of all of our meters.

15 Q Okay.

16 A I don't believe there was an adjustment for the
17 others. It's just very few.

18 Q Okay. And switching gears to a new topic or the
19 next topic, in your testimony, I believe both your
20 rebuttal and your rejoinder, you discuss the construction
21 meters and the monthly minimum charge that the Company is
22 seeking.

23 And again, this is something that Mr. Gellman
24 mentioned in his opening.

25 Is it correct to say that the -- well, again the

1 Company is proposing to implement a monthly minimum charge
2 for construction meters?

3 A. We would like a monthly minimum charge to cover
4 the monthly ongoing operating charges. Because if the
5 consumption is zero and it can stay at zero, we still need
6 to read that meter and we still need to send out a bill.
7 Those are required by the statutes.

8 Q. And then on that same -- in that same vein, the
9 Company, in fact, was charging a monthly minimum but has
10 agreed to refund that amount; is that correct?

11 A. That is correct.

12 Q. And in your rebuttal testimony on page 6 you
13 discuss sort of five reasons why a monthly minimum is
14 appropriate for a construction meter. I want to address
15 those with you.

16 The first one you give is an incentive for
17 construction customers to return meters when not in use.
18 I think you just mentioned that briefly.

19 But isn't it accurate or fair to say that
20 currently the Company does collect a deposit from the
21 construction customers that get these meters from the
22 Company to insure the return of the meter?

23 A. The Company currently does not collect any
24 deposits.

25 Q. Okay.

1 A. And the deposits that it has collected have
2 been -- the only deposits we have been doing are the
3 commercial ones, like the pumpkin people that come in
4 during Thanksgiving or the Christmas tree people because
5 of the very real flight risk.

6 Community Water Company, prior to this last rate
7 case, beyond the prior one, construction was just business
8 customers. We have always charged minimum, and that is
9 why we made the error. We didn't realize the change, and
10 that our mistake.

11 Q. Now, would you agree that the Company currently
12 does have a tariff that allows it to collect a deposit?

13 A. Yes, it does.

14 Q. Which, I guess, leads to my next question.

15 If you haven't been collecting deposits
16 consistently, how do you know or how does the Company know
17 that deposits would be sufficient for insuring the return
18 of meters when they are not in use?

19 A. If there is -- in discussion with the
20 construction companies there have been times where the
21 Company has run low a meters. These are larger meters.
22 They are more expensive meters, and we have had to say,
23 hey, wait a minute; who is using meters right now, you
24 know. We are at zero.

25 So we will call up some people who are not using

1 their meters and say, hey, we kind of need those meters.
2 We need to know, are you going to do this or not? And
3 that was with a minimum. Without a minimum, I could only
4 see it being even worse. Because right now the fact that
5 there is a minimum, they want to give up that monthly
6 charge.

7 Construction is a feast and famine. Sometimes
8 they are; sometimes they aren't. The convenience of a
9 meter is an expense to the utility to plant so much asset
10 at the end of a fire hydrant.

11 Q. Well, and I guess again my question is, how do
12 you know that a deposit wouldn't have that same effect if
13 you haven't been consistently collecting deposits from
14 customers that you provided these meter to?

15 A. I don't.

16 Q. And then in that same -- on that same question,
17 did you provide any sort of information as part of this
18 application that somehow demonstrates that customers were
19 not returning their construction meters when they weren't
20 in use?

21 A. We have never had that problem.

22 Remember, the meters are at the end of a hydrant
23 and they are chained to the hydrant. The flight risk of
24 construction meters is not as prevalent as the pumpkin
25 patch and the Christmas tree lot, which they just

1 disappear.

2 The meters, given a monthly bill, encourage the
3 construction people to, when they are done, to return them
4 to us, to say, hey, you can have the meter back.

5 Q. But wouldn't a deposit have the same effect?
6 Here, you can have your meter back; please return my
7 deposit?

8 A. It may. I don't know. But the challenge is
9 going to be at a 6 percent return, well, heck, I make a
10 lot more leaving my meter with the deposit than I would in
11 any of my savings accounts.

12 Q. Okay. And on that question, are you suggesting
13 that, I guess, customers that use construction meters are
14 going to start investing their money in construction
15 meters because they earn a 6 percent return?

16 MR. GELLMAN: I would object; that
17 mischaracterizes Mr. Gabaldon's testimony.

18 ALJ MARTIN: Sustained.

19 Q. (BY MR. VAN CLEVE) Well, is it the Company's
20 position that construction meter customers are investing
21 their money in construction meters?

22 MR. GELLMAN: That is the same objection.

23 ALJ MARTIN: Can I attempt to rephrase the
24 question?

25 MR. VAN CLEVE: Certainly, Your Honor.

1 ALJ MARTIN: Has it been your experience that
2 this has happened with other companies, that they have
3 kept a meter because they were earning a greater return?

4 THE WITNESS: We have had very few experiences
5 with this, which is collecting a deposit or paying the
6 interest on it. I don't have enough information to tell
7 you one way or another how this would impact them.

8 We are now going to refund the minimum bills, and
9 we have agreed to that. How this is going to impact their
10 future behavior, I do not know.

11 ALJ MARTIN: Okay. But I do understand
12 Mr. Van Cleve's -- the nature of Mr. Van Cleve's question
13 because in reading your testimony -- perhaps I'm wrong and
14 you can correct me if I'm wrong -- there seems to be that
15 inference; that is the question that Mr. Gellman objected
16 to.

17 If we misunderstood your testimony such that we
18 did mischaracterize your testimony, then that is our
19 problem. But there did seem to be that insurance there,
20 or do you not believe that to be the case?

21 THE WITNESS: I apologize if there is any
22 confusion in it.

23 But we believe that if they keep -- if they do
24 keep the meters longer, the Company will have to invest in
25 more meters. And that doesn't necessarily mean that we

1 will sell any more water. It simply means that there
2 would be more of them out there paid for by the minute.

3 ALJ MARTIN: Mr. Van Cleve, was that close to
4 what you were grabbing at or not?

5 MR. VAN CLEVE: That is fair enough, Your Honor.

6 ALJ MARTIN: Okay.

7 Q. (BY MR. VAN CLEVE) And is it correct that, I
8 think, both the Company and Staff are suggesting that for
9 construction meter water that the Company be able to
10 charge a higher commodity rate for the water for
11 construction meters?

12 A. The rates that the Company has designed -- and
13 Mr. Bourassa will be able to answer this a lot better --
14 were designed based on water flows.

15 A construction customer brings in a water truck,
16 and they open that thing full throttle. And their demand
17 on our system has been calculated by engineering in
18 increasing our main size, increasing our reservoirs, and
19 thus they -- their capacity needs have increased a burden
20 onto the Company that is not now being passed on in the
21 rates.

22 That is why we are seeking the rate recovery that
23 we are looking for for construction customers.

24 Q. Okay. Then the second reason that you give in
25 your rebuttal testimony is that for every month that a

1 construction customer holds a meter, the utility is
2 required to obtain reads for each meter and mail out a
3 regular monthly statement.

4 Is that a fair characterization of what you put
5 in your testimony?

6 A. That is correct. And I believe I was writing it
7 with the assumption that they are not really paying us
8 anything. If it's at zero consumption, we are still
9 obligated to do the administrative overhead.

10 Q. And roughly how many construction meter customers
11 does the Company have?

12 A. Mr. Bourassa might be able to answer that. I do
13 believe we are at 40. I might think there is about 40 of
14 these meters out. And it all depends on what our growth
15 is.

16 I believe in this last year or my earlier
17 calculations, we are looking at a 4 percent growth in our
18 service area.

19 Q. And for the sake of this discussion, if it is 40
20 customers, do you have an approximation as to how many of
21 those customers keep meters and don't use any water?

22 A. No, I do not.

23 Q. You don't know if it's zero, 10, 20?

24 A. I don't know. I would have to look at their
25 detail.

1 Q. Okay. And would you agree that being able to
2 charge a higher commodity rate for the usage of that water
3 would cover some of the Company's costs in having to read
4 those meters?

5 A. My understanding of the commodity cost is the
6 cost for the system and for the water, and I was
7 understanding that the minimum bills were very much geared
8 for the regular operating of the utility, kind of theories
9 here.

10 Tom Bourassa could address these issues a lot
11 better than I can.

12 Q. And I will move on to the third reason you gave,
13 which is even at zero consumption the Company incurs costs
14 for retaining the reads, administering those accounts, and
15 issuing regular billing statements for an accurate
16 account?

17 A. Yes.

18 Q. Is that a fair characterization of that?

19 A. Yes. We are required to read the meters within
20 25 or 35 days of every month. We are required to tell the
21 customer what their status is on their bills.

22 Q. And did you provide any sort of information in
23 this application that shows the frequency of this
24 occurrence, as to how often you have a meter that hasn't
25 been used but the Company still had to go read that meter

1 and prepare a bill and send it to a customer?

2 A. I don't believe we did. I don't know.

3 Q. And did you provide any sort of data in the
4 application or in your testimony that demonstrates that
5 the Company is having some sort of a problem with
6 construction water customers in getting their meters back
7 from those customer?

8 A. Not to my knowledge.

9 Q. Okay. And then the fourth reason you give is
10 these costs must be absorbed by other ratepayers if the
11 developers are not charged a monthly minimum, even though
12 they still hold their respective meters.

13 Is that a fair characterization of your
14 testimony?

15 A. Right. They are reserving the meter within the
16 system does add additional burdens and cost that there
17 will be zero revenue, but the asset is still out there
18 requiring to be addressed by the utility.

19 Q. And would you agree that that only applies in the
20 case of a construction customer, a water customer that
21 doesn't use any water?

22 A. That all depends on the rate design, and Tom
23 should be able to answer that better.

24 Q. Okay. And did you provide any sort of analysis
25 in this case that demonstrates that the Company is

1 experiencing some sort of a problem with having to absorb
2 these costs?

3 A. I think the issue is more to do with setting a
4 good rate structure to address the different time periods
5 that we are going to be facing.

6 Community Water Company during 2005/2006 had
7 tremendous growth. There were developers all over the
8 place. There was a lot of use of meters. We were seeing
9 subdivisions of 800, 300, 200 being added onto our system.

10 Community Water Company currently has indications
11 from some of the landowners of areas within our CC&N that
12 they do plan to develop, and we will be seeing additional
13 growth in our area.

14 So I think this is related to setting the right
15 rates to meet when the demands go up and when the demands
16 will go down.

17 Right now I would say that we are in a very
18 normal time period for Green Valley. So maybe the data
19 right now doesn't indicate an issue, but it probably could
20 given a lot more construction in our area, a lot more
21 trucks, and a lot more meters.

22 Q. And I'm not sure you answered my question. I
23 guess my question was: Did you provide any sort of
24 analysis or documentation or information in this case that
25 demonstrates that the Company is experiencing some sort of

1 a problem with this?

2 A. I'm not sure. I don't believe we did.

3 Q. Okay. And then the final reason you give is you
4 say that the Company will be required to increase its
5 investment in the number of meters because the developers
6 will not return them when not use.

7 Is that a fair characterization of your
8 testimony?

9 A. That is what I believe.

10 Q. Okay. Has the Company had to increase its
11 investment in these construction meters?

12 A. When I approached this subject with my operations
13 manager and we were talking about this, he had informed me
14 that there had been times where we actually had to go call
15 people who were not really using the meters with
16 consumption so we could put them into a proper place.

17 These were based on discussions with my
18 operations manager, but I'm not aware of right now of any
19 particular problem with these.

20 Q. And so is this something that's attributable to
21 growth or is this something attributable to customers not
22 using the meters, that you have experienced this shortage?

23 A. It would be typical to growth.

24 Q. Switching gears -- well, same subject -- I want
25 to revisit something we were discussing earlier, and the

1 Judge had asked you a few questions on.

2 In your rejoinder testimony on page 2 you
3 indicate the customers will recognize that leaving a
4 construction account open and reserving the use of a meter
5 will generate interest income while incurring not cost or
6 risk.

7 That was something in your testimony. That is
8 page 2 of your rejoinder, if you want to look at it.

9 MR. GELLMAN: Your Honor, may I approach?

10 ALJ MARTIN: Yes.

11 THE WITNESS: What area again?

12 Q. (BY MR. VAN CLEVE) It's on page 2, and you make
13 reference -- you say that customers will recognize that
14 leaving a construction account open and reserving the use
15 of a meter will generate interest income while incurring
16 no costs or risks.

17 MR. GELLMAN: For the record, I believe that is
18 line 11 through line 13 on page 2.

19 ALJ MARTIN: Thank you.

20 Q. (BY MR. VAN CLEVE) Is that what your testimony
21 says?

22 A. Yes, it is.

23 Q. To the best of your knowledge, are construction
24 companies and developers in the business of investing
25 their money in construction meters?

1 A. I don't know.

2 Q. Okay. Did you provide any data in this case that
3 demonstrates the Company's construction water customers
4 are using construction meters as a way of earning money?

5 A. I don't believe I did.

6 Q. Did you provide Staff with any kind of statistics
7 that show the Company's customers are not returning their
8 meters in a timely manner?

9 A. No.

10 Q. And currently -- I think we discussed this
11 earlier -- but currently the Company has tariffs that
12 allows it to collect a cost for construction meters; is
13 that correct?

14 A. That is correct, we are allowed to.

15 Q. And are you familiar with the range of deposits
16 that the Company is allowed to collect depending on the
17 meter size?

18 A. Yes, I am.

19 Q. Is it fair to say that it ranges all the way from
20 \$238 all the way up to \$6,920?

21 A. Yes, it is.

22 Q. Now, moving on to the subject of miscellaneous
23 charges, the Company is proposing to change its
24 after-hours and Saturday call-out charges from \$10 to \$70;
25 is that correct?

1 A. That's correct.

2 Q. And in your rebuttal testimony on page 7 you
3 indicate that the currents are below cost; is that
4 correct?

5 A. Yes, sir, that is correct.

6 Q. Okay. Did the Company perform any sort of cost
7 of service study in this case?

8 A. What we did was ask ourselves what is the minimum
9 expense this is going to cost the Company? And in our
10 policy when an employee is called out they are in these
11 off hours -- they are paid for two hours. So -- and if
12 they are working more than that, they are paid more than
13 that. They are paying actual or the two hours.

14 So that's how the 70 was determined. There was
15 no study to determine whether the costs were actually
16 higher.

17 Q. Did the Company provide any sort of analysis or
18 data in this case that shows the actual costs that occurs
19 for after-hours and Saturday call-outs is actually \$70?

20 A. No, only my testimony.

21 Q. Do you think it would be useful for Staff, the
22 ALJ, and the Commission to have that information before
23 deciding whether to increase this charge?

24 MR. GELLMAN: I would object. I think it calls
25 for speculation.

1 MR. VAN CLEVE: I was asking whether he thinks it
2 would be useful.

3 ALJ MARTIN: Yes. I was trying to see where the
4 speculation was. So no, overruled.

5 THE WITNESS: Repeat the question.

6 Q. (BY MR. VAN CLEVE) Sure. Do you think it would
7 be useful for Staff, the ALJ, and the Commission to have
8 this information before deciding whether to increase this
9 charge to \$70?

10 A. Yes.

11 Q. And then for call-out charges for Sundays and
12 holidays, the Company is seeking to increase this charge
13 from \$20 to \$140; is that correct?

14 A. That is correct.

15 Q. And again, did the Company provide any sort of
16 data or information to the Commission or to the Judge or
17 Staff that demonstrates that this is the cost that the
18 Company incurs?

19 A. Just our testimony.

20 MR. VAN CLEVE: Okay. No further questions, Your
21 Honor.

22 ALJ MARTIN: Thank you, Mr. Van Cleve.

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EXAMINATION

Q. (BY ALJ MARTIN) Good morning, Mr. Gabaldon.

A. Good morning.

Q. How are you, besides thirsty?

A. Yeah, I know.

Q. Okay. Just a few -- starting with a few general questions.

The area your company serves, is it all within an unincorporated area or within the town of Sahuarita?

A. Community Water Company straddles -- so, yes, part of our service area is within the town of Sahuarita, and part of it is in the unincorporated Pima County.

Q. And part of your testimony you talk about the Company's CAP allocation, but you are not using that; you are still using the aquifer.

Is that correct?

A. That's correct.

Q. What efforts is the Company making to begin the use of the CAP water?

A. Community Water Company has committed to the Central Arizona Project in 1985, at which time to the Bureau of Reclamation, Community Water Company submitted a plan for the use of CAP water.

The Central Arizona Project was deemed complete

1 in 1984. Community Water Company was the chairperson of
2 committee in the area that developed what is now called
3 the Malcom Pirnie Report.

4 Q Could you spell that for the court reporter?

5 A Actually, I do have trouble spelling.

6 P-i-e-n-i-e-r?

7 MR. GELLMAN: Why don't I, after a break, try to
8 find the spelling for that.

9 ALJ MARTIN: Okay. Just for the court reporter's
10 benefit --

11 THE WITNESS: I'm sorry.

12 ALJ MARTIN: -- and mine, too.

13 I'm sorry. Continue.

14 THE WITNESS: The Malcolm Pirnie Report was a
15 collaborative effort sponsored by the Department of Water
16 Resources, the Bureau of Reclamation, major water users in
17 our service area, and it set forth a plan for the use of
18 the Central Arizona Project to our area.

19 The plan called for a phased approach to bring
20 in, as growth was developing in our area, that it would do
21 a Phase I, II, III, and IV, covering our entire area.
22 That was completed -- that study was completed in 1998,
23 and it is about six inches thick of data and very good
24 information.

25 In -- since 1998 Community Water Company has been

1 seeking funds to bring the Central Arizona Project uphill
2 from its present location at the Pima Mine Road and I-19
3 area. This is approximately six, seven miles downhill
4 from our existing service area.

5 Community Water Company has right now 2,858 acre
6 feet of Central Arizona Project water. Community Water
7 Company has been looking for funding to bring in the CAP.

8 In 2007 Community Water Company announced that it
9 had signed a letter of intent with the Rosemont -- well,
10 actually the Augusta Resource Corporation, which is now
11 Rosemont Copper Company, which is an Arizona Corporation.
12 And in that letter of intent we spell out that they have
13 agreed to fund a pipeline at no cost to the utility, to
14 the customers from Pima Mine Road to an area approximately
15 close to our service area.

16 The agreement is that it is to be a Community
17 Water Company pipeline and that it is to be owned by
18 Community Water Company. It is designed to bring down
19 7,000 acre feet per year and will include a recharge
20 facility. All of the money per the agreement is to be
21 placed up front by Rosemont Copper Company and is not to
22 impact the cost -- not to impact the customers of
23 Community Water Company.

24 Community Water Company has entered into this
25 agreement where it says that we will wheel water in for

1 recharge for the first 15 years of an amount equal to what
2 the Rosemont will be pulling from the area. In other
3 words, a safe yield in a hydrological area of impact.

4 What happened was -- the story behind it really
5 was that our board, who are all volunteers, became aware
6 that Rosemont would be pulling out approximately, per
7 their plan of operation, 100,000 acre feet of water from
8 our area. Community Water Company's board instructed me
9 to begin talking to them as to how they can mitigate their
10 impact upon the aquifer.

11 Community Water Company, which resulted in this
12 letter of intent. Community Water Company is currently
13 looking for the recharge site for placing this water.

14 And after 15 years, the pipeline, the recharge
15 facility, would be owned by Community Water Company per
16 the letter of intent. This is estimated today to be about
17 \$20 million of pipeline. That would be at no cost to the
18 ratepayers.

19 After the 15 years the Board would decide on the
20 best use of CAP water: direct use, local recharge,
21 different options it will evaluate.

22 Q. So right now the status of it is just that there
23 is this letter of intent out there; is that correct?

24 A. Yes.

25 Q. Okay. And there is nothing in the letter of

1 intent indicating when all of this might begin, when it
2 might come on-line.

3 And I am wondering also if Rosemont is -- I am
4 wondering if Rosemont is capable of entering into any
5 further agreement pending what happens with their actually
6 being able to move forward with the mine.

7 What is in the relationship -- very briefly, you
8 don't need to go into a lot of detail -- very briefly what
9 is the relationship of getting approval for the mine to go
10 further and the approval of the CAP line?

11 A. Rosemont has agreed actually to a timetable where
12 as soon as the environmental assessment is complete and
13 the plan is finalized, they would be funding it at that
14 moment. Community Water Company, right now we are
15 anticipating that we will have that ready by
16 February 2009 -- I'm sorry -- 2010.

17 By this next February the environmental
18 assessment would be complete. Community Water Company is
19 trying and working very hard to get this entire pipeline
20 placed and in position long before Rosemont has any
21 permit. And, in fact, the letter of intent specifies that
22 there is no connection between the approval and this
23 funding, that Rosemont will fund it whether or not there
24 is going to be permits for them. And the way we can
25 ensure that is let's get it in now.

1 Q Okay. Thank you. And just so you understand, my
2 questions that I'm asking are tending toward the Company's
3 considerable efforts towards water conservation. I know
4 the aquifer out there, because of the growth, is, you
5 know, in danger of completion. And that is what my
6 questions were geared toward, because I know you have the
7 CAP allocation.

8 And also, as you are aware, the Commissioners are
9 very interested in the CAP and what the mine's
10 interconnection is with that.

11 I believe it was your testimony in your direct
12 testimony that the Company had a growth rate of 2 percent
13 in 2007, but I recall that your testimony here this
14 morning was that it was, you believe, to be around
15 4 percent?

16 A My preliminary numbers for this year projecting
17 out to year-end are indicating a little higher rate than I
18 had originally anticipated, which is coming as a big
19 surprise, and I need to double-check my numbers.

20 Q But the number you said earlier was 4 percent.
21 What does that relate to then?

22 A No. My numbers right now are saying that 2009 we
23 will be looking at a 4 percent growth.

24 Q Okay. There was some discussion about the
25 removal of purchased power because of an agreement that

1 you had with TEP.

2 Can you just briefly summarize what that issue
3 was and what the resolution was?

4 A. Community Water Company put in two new wells, 10
5 and 11. TEP charged us the wrong rates, and it was -- it
6 took a long time to figure out how TEP does their billing
7 so that we could figure out, is this the interruptible
8 rate or is it not. Because when we would run through our
9 calculations, it was very difficult; the numbers were just
10 too high.

11 And so we had to keep going back to them, and
12 even though we had already told them once and then a
13 couple months later told them again, they still had not
14 corrected what they had already agreed to even. And
15 frankly they overbilled us because Community Water Company
16 is what is called an interruptible rate, which is a lower
17 rate.

18 Q. So that situation has been completely resolved,
19 and the Company is now being charged the correct rate?

20 A. That is correct. We are now being charged the
21 interruptible rates.

22 Q. So the Company and Staff's projections as for
23 purchased power are now, as I recall, both agreed upon?

24 A. Yes, they are.

25 Q. Oh, one of the things I noticed in the Staff

1 engineering report was that there was a water loss of
2 9 percent, and that is getting close to the threshold of
3 10 percent.

4 Do you have any ideas as to why it seems to be
5 high? That seems like a high number to me.

6 A. Yeah. It was actually high to me, too, and what
7 we did is, currently we are now inching back to the
8 8 percent and 7 percent. And we are starting -- we
9 believe that it had more to do with unaccounted for water
10 and some of the construction.

11 We found that during the -- during high
12 construction, when a lot of water is being used, those
13 meters don't pick up the low flows of water. Those meters
14 aren't as accurate as small meters are -- these are very
15 large meters -- and we believe that it was just an
16 accumulative of unbilled water.

17 But we have gone through our system. We do
18 regularly review it. We are actually a very good system,
19 and we continue to look for leaks and broken mains.

20 Community Water Company in the 1970s put in a lot
21 of polyethylene services. Currently we are budgeting
22 about \$150,000 a year for change-outs of these leaks. The
23 estimated losses of these leaks is an estimate because
24 this plastic is breaking up in different places.

25 We have been changing the services since the '70s

1 when we first put it in. We've only put in copper since
2 1990, I believe. And this loss, due to the service leaks,
3 which is a lot, is slowly diminishing. But again, we are
4 back to estimates of the service leaks, and that is very
5 difficult.

6 Q Okay. Thank you.

7 In your testimony, rejoinder, rebuttal, I don't
8 recall which, you indicated you were willing to work with
9 Staff on a plan to refund the monthly charge for
10 construction customers.

11 Has that moved forward at all? Have there been
12 any discussions about how that is to be implemented?

13 A We haven't talked to -- I don't believe we have
14 met with Staff yet. We have developed our list and the
15 revenues and the dates that are applicable. And we are
16 prepared to go sit down and talk to them. It's been just
17 a very busy time.

18 We want to reconcile to make sure that we are all
19 in agreement.

20 Q Okay. Because that does give me a little of
21 discomfort to prepare a Recommended Opinion and Order to
22 the Commissioners saying that they will work together,
23 because I suspect the Commissioners may want to see some
24 sort of definitive plan of attack on that end. But that
25 is my editorial comment on that, but I may have a little

1 difficulty writing a Recommended Opinion and Order without
2 something more concrete, just so you know.

3 And then you talk in your testimony about that
4 there may be additional costs related to Department of
5 Water Resources modified month capita conservation
6 program.

7 Do you recall that?

8 A. Yes, I do.

9 Q. What sort of additional expenses do you expect to
10 incur, and when might you incur those?

11 A. We are evaluating a list of best management
12 practices, the BMPs, and there are certain things that we
13 think we might be able to do that in the past we haven't.

14 One of those, for example, is we don't have many
15 schools in our area, but there is a charter school. And
16 the idea was that we were going to put together some kind
17 of educational plan for this little charter school.

18 There are schools, but they are Continental and
19 then Sahuarita High School and the schools are kind of far
20 away, and they actually have more customers from other
21 service areas.

22 The other area that we had been investigating was
23 our own display garden and an increase in the advertising
24 at the country fair and different things that we are
25 doing.

1 There were not very many more of the BMPs that we
2 felt could be done, but we are examining everything on the
3 list to see what could be done. But those costs have not
4 been determined yet and have not been built into this rate
5 case.

6 *Q.* But you also haven't decided on any sort of
7 timeline for the roll out of these?

8 *A.* No, but we do meet the BMPs.

9 We have more than the minimum requirements, and
10 we have been doing these BMPs since Community Water
11 Company began service in 1977.

12 A lot of that has to do with the fact that we are
13 a co-op and that we are -- the Company is owned by the
14 members, and it's very important to us to keep our
15 relations with our members. Part of that is to
16 demonstrate to them that a good use of this very important
17 resource be utilized in the best possible way.

18 *Q.* I think Mr. Van Cleve's questions regarding
19 construction meters were very, very pointed, so I'm just
20 going to ask you generally.

21 The information that you supplied about
22 the company -- construction companies hanging on to these
23 meters and what sort of cost impact that may have on the
24 Company, all of your testimony is basically anecdotal as
25 opposed to statistical or data related; is that correct?

1 A. That's correct.

2 Q. Okay. And when you have -- you testified that
3 sometimes you would call these companies who appear to be
4 just hanging onto the meters and not using any water and
5 that you called them to get the meters back.

6 Did anyone say no?

7 A. No. We will work with people. We work with
8 these contractors, and they end up working for us too.
9 There is a very small pool of these people. So we are
10 talking about a very rural area, 20 minutes south of
11 Tucson.

12 Q. Okay. So if you are running short on
13 construction meters, it's not that hard to pick up a phone
14 and call companies and say, you know, you haven't been
15 using this; we need this for something else; can you just
16 return it?

17 A. That is correct. We maintain good relationships.
18 With all of our vendors we do our very best.

19 Q. Okay. At what point did the Company stop
20 charging the monthly minimum to the construction
21 customers?

22 A. We began -- I believe we stopped about a month
23 ago or two months ago.

24 Q. It was about the time --

25 A. It was at the time that Staff brought it to our

1 attention that we shouldn't have been billing that per the
2 latest rate case.

3 Q Okay. And on a side note, I believe the Company
4 has just recently filed a financing application; is that
5 correct?

6 A Yes. We have filed an application related to the
7 replacement of Well No. 6, and it's -- and also certain
8 other infrastructure that we need to fund.

9 Q Okay. Has the Company done any analysis of how
10 that -- how approval of that financing application may
11 affect its finances in terms of this rate increase? Is
12 that going to cut into what we are doing here today? How
13 is it going to affect the finances?

14 A Yes, it will.

15 We need the -- we need a rate increase in order
16 to be able to meet the necessary covenants for what the
17 1.9 million would cost into the future. So -- but that is
18 going to be for 2010.

19 Q Okay. So the numbers for any sort of, for
20 example, debt service or anything like that have not been
21 built into this rate application?

22 A Yes, they have been. We anticipated the debts --
23 you know, I will give that one to Tom to talk about
24 because I believe we -- we anticipated Well No. 6 would
25 need replacement, and in our figures we have incorporated

1 that debt.

2 Q Okay. All right.

3 You have talked about in the past year how you
4 have been rolling out the radio-read meters.

5 How has the Company been absorbing the higher
6 cost of those meters to this point?

7 A Well, on all of the new developments, the
8 developer is paying for those, and they will be refunded
9 through the normal refund mechanism.

10 For the other change-outs, Community Water
11 Company has been doing a meter change-out program, so in
12 some respects you can say we are stealing from Peter to
13 pay Paul, in that it's a better use of meter change-out to
14 change it out to the radio to be more effective at this
15 time.

16 Q Okay. And these are the radio-read meters?
17 These are not the remote read meters where they transmit
18 signals?

19 A Well, they do transmit signals. There is a
20 radio. It's like a regular meter, but it's connected to a
21 radio signal. The meter reader comes by with a hand-held
22 unit, and the read shows up on his unit and he goes to the
23 next meter.

24 Q I'm sorry. Then I misunderstood your testimony.

25 I thought there was something out there. You

1 said that there was a meter out there that could be read
2 from a central office?

3 A. Yes. There are systems set up like that, but
4 those are not even -- we would have to wire all of Green
5 Valley with Internet.

6 Now, in some places -- my understanding is that
7 in some cities where there are already tours throughout
8 the communities, they are able to take advantage of that.
9 Because if there were tours nearby to read them, then you
10 could do things.

11 Q. Got you. Okay.

12 Talking about miscellaneous charges, about the
13 reconnect services and sometimes you have to send out one
14 or two employees to handle whatever work gets done.

15 You have to pay them for two hours even if their
16 work only takes a half hour; is that my understanding?

17 A. That's correct.

18 Q. And is that -- well, strike that.

19 ALJ MARTIN: I think that is all my questions.

20 Yes.

21 So before we get to redirect, let me check with
22 our court reporter and see how she is doing.

23 (Discussion off the record.)

24 ALJ MARTIN: Let's come pack here at about five
25 until 12:00 by that clock. Okay? We are off the record.

1 (A recess was taken from 11:41 a.m. until
2 11:50 a.m.)

3 ALJ MARTIN: Let's go back on the record.

4 And I believe we are at Mr. Gellman's redirect.

5 MR. GELLMAN: Yes, Your Honor. Thank you.

6 And for the record Malcolm Pirnie is spelled

7 M-a-l-c-o-l-m P-i-r-n-i-e.

8 ALJ MARTIN: Thank you.

9

10 REDIRECT EXAMINATION

11

12 Q. (BY MR. GELLMAN) With that, Mr. Gabaldon, you
13 had some questions about meters and service installation
14 charges.

15 With regard to this \$83 increase that the Company
16 is proposing to five-eighth-inch residential meters, who
17 would pay for that increased charge?

18 A. They would be developers would pay for any new
19 subdivisions, and it would be -- on the rare occasion
20 there may be one homeowner who has bought an empty lot
21 which they wished to develop.

22 So it's only for new meters that are being
23 installed that gets impacted with this.

24 Q. In short are we talking about new installations
25 when we are talking about this increased \$83 charge?

1 A Yes.

2 Q The increase of \$83 to this charge?

3 A Yes.

4 Q You had several questions about construction
5 customers, the construction meters and deposits. I want
6 to ask you real generally, do you believe this is an issue
7 about when construction customers would attempt to return
8 the meter?

9 Do you want me to rephrase the question?

10 A Yes, would you rephrase the question.

11 Q Yes, I can do that.

12 Is it your belief that if minimum monthly charges
13 are not applied to construction water customers but we
14 have deposits for these customers that there will be an
15 issue, based on your personal knowledge, with this class
16 of customer returning meters?

17 A I believe it would be create -- it would create a
18 problem because construction people are notorious to
19 moving on and moving fast and moving from one job to
20 another, especially during high-volume times. The rates
21 are being structured for that.

22 So right now the fact that there is a minimum
23 monthly that they are paying on, they are eager to
24 release, thereby returning meters for our use.

25 Q And could you describe how your experience with

1 Community Water Company of Green Valley forms the basis
2 for your belief on this issue?

3 A. I have -- I actually walked into the Company for
4 the first time in 1985. I was the external auditor for
5 Coopers & Lybrand. Annually we performed the audit, and I
6 performed the audit for three years.

7 In 1990 I became the controller. I was hired on
8 as a controller, and I was controller until December of
9 2003. So as the controller it was my responsibility to
10 monitor how these -- the revenues for the construction
11 meters.

12 As president over the last few years, and as
13 general manager, it's been more of people reporting to me
14 how these meters are being used.

15 Q. And is it fair to say that you first became aware
16 of this particular issue or that there would be an issue
17 with Staff on this item when Staff filed its direct
18 testimony in this case?

19 A. That's correct.

20 Q. I'm trying to go in order of the questions from
21 the Judge and Mr. Van Cleve. Just one question on the
22 water pipeline.

23 Is it fair to say that the environmental process
24 for the water pipeline is separate and apart from any
25 environmental process for the mining plant of operations

1 itself that you discussed with Judge Martin about
2 Rosemont?

3 A. That is absolutely correct. In fact, the Bureau
4 of Reclamation has spent considerable time on the issue of
5 connectivity and the Bureau of Reclamation has officially
6 concluded that there is no connectivity between this
7 pipeline project to bring Community Water Company's water
8 to our area and the development of the mine.

9 Q. And just to close the lid a little bit about what
10 you were discussing regarding water loss and the
11 polyethylene pipe issue, is it fair to characterize the
12 Company as having a polyethylene pipeline change-out
13 program, similar to what you talked about in terms of the
14 meter change-out program?

15 A. That is correct. It is a standard element within
16 our budget.

17 Q. Okay. Back to construction water with regards to
18 the refunds and what the Judge raised with you.

19 Could the Company put together a proposal to
20 share with Staff within the next two weeks as to its idea
21 about how to refund these customers?

22 A. Absolutely.

23 MR. GELLMAN: And for the record, we could do
24 that in any number of ways. We could provide a document
25 to Staff as a proposal indicating we have done so within a

1 notice of filing or file the proposal in docket control,
2 as noting that it is a proposal at this time and Staff
3 hasn't had a chance to review it.

4 Q. (BY MR. GELLMAN) I think I obviously had one
5 other question about the service charges.

6 Related to the construction water issue and the
7 deposits and what we have talked about on that topic,
8 could you describe your personal knowledge as to how these
9 charges came about and why they are reasonable and
10 appropriate in your opinion?

11 A. Are we talking about the construction monthly
12 charge or the minimum or the -- or the commodity?

13 Q. I'm sorry. I should have clarified my question.

14 Pertaining to the call-out charges, the
15 reconnection fees, and other miscellaneous charges -- so
16 not to the construction water issue -- could you describe,
17 based on your personal knowledge and experience, how those
18 charges came about and why you believe they are reasonable
19 and appropriate?

20 A. Yes. As the general manager and president for
21 the last five years it has been my job to make the actual
22 recommendations to the personnel committee of the board of
23 Community Water Company for all salary adjustments. So I
24 have a personal knowledge of their -- what the salaries
25 are.

1 In addition to that I was the controller from
2 1990 to 2003, and I have personal knowledge of the rates
3 of pay of the staff of employees. Annually it was my
4 function actually to calculate the average cost of an
5 employee and to review the budgets.

6 Q. And in reviewing the budgets and doing what you
7 have done during your experience at Community Water, can
8 you tell how the charges for call-outs and the charges for
9 reconnection fees, how those are the -- let me start that
10 question over.

11 Could you tell us, based on your experience, how
12 you determine those charges for those services?

13 A. Well, what we are proposing in our rate case is
14 to simply run the minimum of the two hours, assuming that
15 there are not that many that will take more than that.
16 The two hours is part of our policy manual, part of the
17 benefits package for the staff employees.

18 The rate of \$35 an hour is an average of the
19 employees who are eligible for call-out, and it includes
20 the cost -- the employee-related expenses, which would
21 include use of their vehicle and it would include their
22 taxes, elements like that.

23 Q. And have you looked at that charge as compared to
24 what other water companies have charged, as to what
25 industry groups are saying about what those charges should

1 be?

2 A. No, we did not look at other industry within the
3 water industry. What we looked at was Community Water
4 Company and our service area. And what we did is we
5 checked in with the local plumbers, and it turns out that
6 they are way more than \$70 for this work.

7 What happens is that the customers will find it
8 cheaper to call the utility than to call a plumber for
9 something that they may be responsible for. So, for
10 example, a customer was working in their backyard and they
11 broke a pipe and for some reason they need the water
12 turned off. Rather than call a plumber and pay the true
13 cost in the market what it costs to do the service, they
14 would rather call the water company on a Saturday or on a
15 Sunday, for us to take our time to turn off the meter so
16 that they can avoid the weekend charges of plumbers in our
17 area.

18 It's tremendous, what we've found in our survey
19 of the local plumbers. Granted, there are only about four
20 or five plumbers in our area that we looked at, but they
21 were the established ones.

22 The \$70 seemed very reasonable to recover the
23 cost of what it will cost to go out there. And we don't
24 want to pass that cost on to the rest of the retirees if
25 this is the individual who is generating that.

1 MR. GELLMAN: Thank you, Mr. Gabaldon. I have no
2 further questions.

3 ALJ MARTIN: Thank you.

4 Mr. Van Cleve, do you have any recross?

5 MR. VAN CLEVE: I do have a few questions, Your
6 Honor.

7 RECCROSS-EXAMINATION

8

9 Q. (BY MR. VAN CLEVE) First, I guess Mr. Gellman
10 had asked you some further questions regarding these radio
11 meters.

12 Do you recall those questions? In particular,
13 and correct me if I'm wrong in the way I characterize
14 this, that basically that as it relates to new
15 developments or maybe individual landowners that were
16 wanting meters installed that they -- the developer --
17 either the developer or that landowner would be
18 responsible for that additional \$83 for the radio meter?

19 A. Correct. It's to cover the actual cost of the
20 five-eighths meter.

21 Q. And in your prior testimony you indicated that
22 the Company was undertaking a meter replacement sort of
23 plan, where you were replacing other meters with these
24 radio meters; is that correct?

25 A. Yes. We are retrofitting the customers that

1 exist within our system.

2 Q. Okay. And who covers that cost?

3 A. That cost is being picked up by the members.

4 Q. Okay.

5 A. And we are using the funds in the budget from the
6 meter change-out program.

7 Q. Okay.

8 A. That instead of changing meters simply on the
9 warrantee, on the age of the meters, when we replace them,
10 they will be radio-read. But we are also targeting them
11 to be in places where it's most effective at this time.
12 What we are trying to be smart about is where we place
13 these radio-reads to be effective.

14 Q. Okay. And then regarding this issue of
15 construction water monthly minimums and deposits -- and,
16 again I don't know if this is an exact quote, but
17 something about the return of meters if there was a
18 monthly minimum in place, something along those lines.

19 Do you remember something like that?

20 A. Yes.

21 Q. Now, I thought the purpose of a monthly minimum
22 was to cover the cost of having to read that meter and
23 send a bill out, and not to encourage customers to return
24 meters.

25 A. If they hold it, then I need to recover the cost

1 of reading the meter and administrative overhead. If they
2 see a bill that they are going to be paying for this
3 service, where they will be paying for having to read it,
4 having to receive a bill, that might be encouragement
5 enough; oh, let's just return the darn thing.

6 So it would be eager in the sense that they would
7 save that money if there was no use for it.

8 Q Would you agree that having a deposit from that
9 particular customer would have the effect of them wanting
10 to return the meter in good working order as well?

11 A I don't know.

12 Q Okay. And then the last topic, this issue
13 regarding the call-out charges, do you recall that?

14 A Yes.

15 Q You made some indication that you based the
16 \$35 an hour -- and correct me if I'm wrong -- but it's
17 based on something along the lines that it was based on
18 what a plumber would charge to come out.

19 A No, sir. No. The calculation of the 35 was
20 based on our experience of what we paid the individuals
21 who do go out on call. This is the average cost for the
22 Company that is calculated by our Company.

23 The measure, though, of checking with the
24 plumbers was a reasonableness measure to see if we were
25 out of line. And we believe that the 70 was very

1 reasonable and would actually still be less than what
2 plumbers would be charging, but at least we will recover
3 what it's actually going to cost us.

4 Q Do you think -- and, again, correct me if I'm
5 wrong -- you indicated you didn't compare with what the
6 Company is proposing in this case with what other
7 similarly-situated water utilities are charging for this
8 service; is that correct?

9 A I'm not personally aware of what other utilities
10 are charging for that, but Mr. Bourassa would be able to
11 address that issue.

12 Q Would you -- without going further into the
13 details on that, would you agree that that would be
14 something that would also give a good measure of whether
15 the charges you are proposing in this case are reasonable?

16 A There was no formal review of other water
17 utilities, but I do know that Rancho Sahuarita has very
18 different rates and the improvement district to our south
19 have very different rates than us. And the improvement
20 district was probably the most similar to us, and they do
21 charge very different types of fees. Being an improvement
22 district they set up their own.

23 We have had conversations -- I have had
24 considerations with other utility managers, and this has
25 been an issue that they wanted to address themselves, and

1 they more than -- they will do it in their open rate
2 cases.

3 I felt that it doesn't really matter what other
4 utilities are doing. What really matters is what is it
5 that you are doing. Is it reasonable? Is it prudent? Is
6 it good for customers?

7 The thing about the \$10 is, is take the customer
8 that broke their line in their house and it is on their
9 side of the meter, I don't want that water running; I do
10 want to respond. But at \$10, that is something beyond the
11 meter, they would much prefer to call us on a Saturday
12 than to ever call out plumber. And I believe we should be
13 recovering that cost rather than passing it on to the
14 other members of the Company to pay for it.

15 Q Okay. Would you agree then that, you know, the
16 Company shouldn't be recovering nonutility charges in its
17 rates?

18 A I don't understand the question.

19 Q Well, let me rephrase it this way.

20 And again, correct me if I'm wrong, but you
21 indicate that you have customers that may have a broken
22 pipe in their backyard. They call the Company as opposed
23 to a plumber because it's -- is it because it's cheaper to
24 call the utility to come out to turn off the water than it
25 would be to call a plumber?

1 A. We are the water company, and our customers are
2 generally retirees. They are very -- they are people.

3 We call them to find out what it is. We asked
4 them to call plumbers. But if they are insistent -- we
5 are a co-op -- and we do our very best to help them that
6 we can. We don't always want to do everything we do, but
7 there is a customer service here.

8 They call because it's -- we tell them, look, if
9 we come out it's a \$10 service charge. They say, great, I
10 just talked to the plumber, and that is a lot better.
11 They don't tell us that but they think that.

12 And frankly they won't even tell us that they
13 broke anything. They will simply call us up and say there
14 is a leak and I can't tell where it is.

15 I don't believe we are doing anything as a water
16 utility that we shouldn't be doing.

17 Q. Well, in the example you give, are you merely --
18 when they call the company up and say, I have a leak and I
19 don't know where it is and they would rather have the
20 Company come out to address it, is the Company merely
21 turning off the water or is the Company undertaking some
22 sort of repair to that leak?

23 A. We will do no repairs beyond the meter.

24 Q. Okay.

25 A. We are only up to the meter, and our -- because

1 of the new demographics of our people -- it used to be
2 just retirees, and now we have these young people -- it's
3 now a policy of Community that we will not enter their
4 homes. We just don't want that kind of risk for our
5 servicemen.

6 Q Okay. And then finally, and this goes back to
7 the two-hour time frame that you are setting this
8 charge -- this \$70 charge around, how did the Company
9 arrive at a two-hour minimum?

10 A That predated me in the discussions. I do
11 believe it might have been a vestige of the policies
12 before 1977. I could not tell you. I do not know what
13 they were.

14 But I will tell you that they are discussed by
15 the Board, and through our personnel committee, the
16 different policies, and they have not shown any indication
17 that they wish to change that. And I think the whole
18 issue is more about an issue of overtime and for the
19 inconvenience of an employee coming out on a Saturday or
20 8:00 at night.

21 Q And do you have any sort of statistics on how
22 long the average time is for a call-out?

23 A No, I do not.

24 Q Okay.

25 A Because the time sheets are only going to

1 indicate that we got billed two hours or that we got
2 billed -- if it was more than two hours, then we got to go
3 back to actual.

4 Q. So it could very well be, hypothetically
5 speaking, that all of these call-outs take under an hour?

6 A. I would not know.

7 MR. VAN CLEVE: No further questions, Your Honor.

8 ALJ MARTIN: Thank you, Mr. Van Cleve.

9

10 FURTHER EXAMINATION

11

12 Q. (BY ALJ MARTIN) Just to continue beating this
13 dead horse, you do have -- not in front of you, but in
14 general the Company does have numbers on how many of these
15 sort of after-hour, weekend call-outs that they do?

16 A. Yes. I can tell you how many.

17 Q. Okay.

18 A. The recent report that I looked at is -- I
19 believe the number in the last year was 14.

20 Q. Over the course of an entire year?

21 A. Yes.

22 Q. Okay. Using your estimates of \$35 an hour versus
23 the \$10 an hour -- I do not do math in my head -- what
24 kind of loss, ballpark, does that equate to for the
25 Company?

1 A. Well, it's \$60. And then \$60 times 10 would be
2 \$600, and then another four would be \$240.

3 We are not talking about a tremendous amount of
4 money. What we are talking about, though, is the theory
5 of inequity for should we be subsidizing this kind of
6 thing by the other members. And this is an issue that my
7 staff from operations just simply doesn't understand.
8 It's very hard to explain to them why they know we are
9 only going to collect \$10 but they know what their
10 paychecks are, what they are going to be billing.

11 And it would be unconscionable to ask them to do
12 it for \$10, but that is -- it's more of a policy. It's
13 not a huge amount of money.

14 Q. Okay. But the members, your customers did not
15 negotiate the two-hour rate -- the two-hour requirement?

16 A. In effect they did because they are reaffirmed by
17 the personnel committee of the Board who has all the
18 policies of the Company. And this particular issue, I
19 believe, has been discussed with them.

20 Yeah, it always brings up, as a co-op and a
21 member-owned, you know, what we should be doing. There
22 are some members in our service who says, well, if it's
23 just broken on their side of the meter, too bad. But the
24 fact is that we are a co-op owned by the members and they
25 take our water utility very personal.

1 Customer service is our highest level. We do not
2 get many complaints, and the reason we don't is because we
3 do our very best for customer service from every point of
4 contact with our employees, every contact that they have
5 with our members.

6 We always try to remind our employees, you know,
7 in a retirement community you don't know who you are
8 talking to. These people, you know, in their day, you
9 know, they have done a lot. This is an affluent area.
10 They don't want to be worried about a \$10 charge or a \$70
11 charge really.

12 But it does boil down to customer service, and
13 it's more of an inequity. And it frankly is something
14 that has really bothered our service personnel.

15 Q Okay. You said you did not uptake a survey of
16 what other Commission-related water companies were
17 charging in this area; correct?

18 A That's correct. I don't know.

19 Q If I were to tell you that it's a Commission
20 policy to have a \$10 charge across the board, what would
21 your response be?

22 A I'm going to have some problem with some of my
23 Board members who are going to tell us that they don't
24 want -- they will -- if the Commission tells us that they
25 don't want us going out to these houses and doing the

1 call-outs, then that is how we should behave, that we
2 should not --

3 Q I'm not suggesting that that is what the
4 Commission is saying.

5 A Well, we don't know what the \$10 is trying to
6 convey to the utility.

7 Q Did you discuss that with Staff?

8 A No, I just -- no, I just -- these have just been
9 discussions with my board members as to -- their opinion
10 as to what the \$10 versus getting an actual recovery of
11 the cost.

12 No, I'm unaware. I apologize. I was not aware
13 that that was the policy, which would explain a lot.

14 Q I'm not suggesting that it is or it isn't. If I
15 were to say that -- and you can certainly talk with Staff
16 more about this -- but if that is the way it is across the
17 board, that was generally my question.

18 All right. Let's see. Before I ask any more
19 questions, let me check with Mr. Gellman to see if he has
20 anything further.

21 MR. GELLMAN: Just one question.

22

23 REDIRECT EXAMINATION

24

25 Q (BY MR. GELLMAN) Regardless what the service

1 charge will be, the Company will still continue to provide
2 services: calling out, reconnections, what have you?

3 A. Absolutely.

4 MR. GELLMAN: No further questions.

5 ALJ MARTIN: Thank you.

6 Mr. Van Cleve?

7 MR. VAN CLEVE: No further questions, Your Honor.

8 ALJ MARTIN: Thank you very much, Mr. Gabaldon.

9 I suspect that we probably want to take a lunch
10 break before we start Mr. Bourassa.

11 MR. GELLMAN: That is fine, Your Honor.

12 ALJ MARTIN: All right. We will do that. We
13 will be back here at 1:30.

14 (A recess was taken from 12:21 p.m. until
15 1:27 p.m.)

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

17 Good afternoon, everybody. Welcome back.

18 I believe we have just finished with
19 Mr. Gabaldon, and are you ready to start with
20 Mr. Bourassa?

21 MR. GELLMAN: Yes. And the Company would
22 formally call Mr. Thomas J. Bourassa.

23 ALJ MARTIN: Formally known as.

24 MR. GELLMAN: Of course, he is just there.

25

1 THOMAS J. BOURASSA,
2 called as a witness herein, appearing on behalf of the
3 Applicant, having been first duly sworn by the certified
4 court reporter, was examined and testified as follows:

5

6

DIRECT EXAMINATION

7

8 Q. (BY MR. GELLMAN) Please state your name and
9 business address for the record.

10 A. My name is Thomas J. Bourassa. My business
11 address is 139 West Wood Drive, Phoenix, Arizona 85029.

12 Q. And how are you employed?

13 A. I'm a self-employed CPA primarily engaged in the
14 practice of rate regulation.

15 Q. And how long approximately have you been involved
16 in Commission proceedings in rate regulation?

17 A. Full-time for -- since about 1995, but I go as
18 far back as 1989 doing copulations for small utilities in
19 an accounting firm.

20 Q. And approximately how many rate cases have you
21 been involved with in the course of your career?

22 A. Dozens.

23 Q. As part of your involvement as a consultant for
24 Community Water Company of Green Valley in this rate case
25 did you prepare schedules that are part of the application

1 marked as Exhibit A-1 for identification?

2 A. Yes.

3 Q. And do you have any changes to those schedules at
4 this time?

5 A. No.

6 Q. And did you also prepare prefiled testimony in
7 support of the schedules and in support of the Company's
8 rate request?

9 A. Yes.

10 MR. GELLMAN: And for the record those have been
11 marked as Exhibit A-5, which is Mr. Bourassa's direct
12 testimony; Exhibit A-6, which is Mr. Bourassa's rebuttal
13 testimony; and Exhibit A-7, Mr. Bourassa's rejoinder
14 testimony.

15 Q. (BY MR. GELLMAN) Mr. Bourassa, those testimonies
16 were prepared by you and under your direction?

17 A. Yes.

18 Q. And the supporting schedules in the rebuttal and
19 rejoinder testimonies were also prepared by you or under
20 your direction?

21 A. Yes.

22 Q. And are they part of your sworn testimony today?

23 A. Yes.

24 Q. Do you have any changes, corrections, additions
25 or deletions to the testimonies or to the schedules?

1 A. Nothing material. There are a few typos, but one
2 can figure those out readily.

3 MR. GELLMAN: With that, Your Honor, I would move
4 for the admission of Exhibit A-1, the application, as well
5 as Exhibits A-5, A-6, and A-7, which are respective
6 prefiled testimonies.

7 ALJ MARTIN: Okay. During Mr. Gabaldon's
8 testimony we did 2, 3, and 4, but we did not do 1?

9 MR. GELLMAN: We did not.

10 ALJ MARTIN: I apologize. I had that marked as
11 admitted already.

12 So you are asking for admission of A-1, the
13 application; A-5, Mr. Bourassa's direct testimony; A-6,
14 Mr. Bourassa's rebuttal testimony; and A-7, Mr. Bourassa's
15 surrebuttal testimony?

16 MR. GELLMAN: Correct, Your Honor.

17 ALJ MARTIN: Mr. Van Cleve, any objection?

18 MR. VAN CLEVE: No Objection, Your Honor.

19 ALJ MARTIN: All right. Then I have admitted
20 Exhibits A-1 through A-7.

21 (Exhibits A-1, A-5, A-6, and A-7 were admitted
22 into evidence.)

23 Q. (BY MR. GELLMAN) Mr. Bourassa, there has been
24 some discussion this morning into the early afternoon
25 about miscellaneous charges.

1 Could you describe the relationship between the
2 revenue requirement that the Company proposes and the
3 miscellaneous charges that the Company has proposed as
4 well?

5 A. Well, the miscellaneous charges are part of the
6 revenue requirement for the Company. We have metered
7 revenues and miscellaneous revenues.

8 And those two comprise of the test-year revenues,
9 and then from there we determine the required rate
10 increase to get to our proposed revenue requirement.

11 For example, if you take a minute and look at
12 Schedule C-1 in my rejoinder schedule -- that would be
13 Exhibit A-7 -- and if you look at Schedule C-1 page 2, C-1
14 page 1 is a summary of C-1 page 2. C-1 page 2 provides
15 details of all rate case adjustments.

16 Now, as I described, we have revenues for the
17 test year, and our rebuttal adjusted results are the same
18 as our adjusted test-year results in our direct filing.
19 And they comprise metered revenues, unmetered revenue, and
20 other water revenues.

21 And then the next column over is our proposed
22 rate increase. We are proposing a rate increase of
23 approximately \$803,000. That is comprised of
24 approximately \$775,000 through metered service -- that is
25 our monthly minimum and commodity rates -- and

1 approximately an additional \$38,000 through the increases
2 to the miscellaneous charges that the Company proposes.

3 So the miscellaneous charges that the Company
4 proposes, like, for example, the call-out charges and the
5 changes to a number of the other Company's charges are --
6 those increases are reflected and recognized in the
7 revenue requirement.

8 So rather than -- I don't want to use the word
9 extracting -- receiving the full \$803,000 from metered
10 revenues, we are receiving approximately \$775,000 of that
11 803 through the metered revenues; the balance of it from
12 the proposed increases to miscellaneous charges by the
13 Company.

14 Now, Staff is proposing no changes to the
15 miscellaneous charges, and they are proposing a rate
16 increase of about \$790,000, but that \$790,000 is coming
17 all from metered revenues because they have not proposed
18 or not adopted or accepted the Company's proposed changes
19 to the miscellaneous charges.

20 So, in fact, we are -- where the Company is
21 proposing to receive from the metered revenue customers
22 less dollars than Staff's revenue requirement -- increase
23 in revenue requirement.

24 Q. And, Mr. Bourassa, what did you look at to
25 determine the appropriateness of the Company's proposed

1 rate design in this case since a cost of service study was
2 not done?

3 A. Well, with respect to the monthly minimums and
4 the commodity charges, since the Company was not proposing
5 a drastic change or significant change to the rate design
6 that was adopted in the prior case, we -- I advised the
7 Company not to prepare a cost of service study. And cost
8 of service study was prepared in the last case by
9 Mr. Kozoman -- Ron Kozoman, who I worked with for a number
10 of years. And that cost of service study was given the
11 appropriate weight in that case so I saw no reason to
12 change the rate design in this case because presumably in
13 the last case the cost of service study was already done.

14 Q. Mr. Bourassa, do you need a cost of service study
15 to determine the appropriateness of an increase in
16 miscellaneous charges, such as call-out charges that
17 Mr. Gabaldon went into in his testimony?

18 A. No. I generally wouldn't recommend a cost of
19 service study to reflect changes in miscellaneous charges,
20 and when I say that, I mean a typical cost of service
21 study which looks at commodity rates.

22 However, when you look at miscellaneous charges,
23 you do want them to reflect what -- on average what it
24 costs to provide that service. So you do things like look
25 at, what does an average wage -- what is an average wage;

1 what is the payroll overhead; what are the benefits
2 provided in those wages; and approximately how much time
3 on average does it take an individual to perform that
4 service?

5 Q During the course of your experience analyzing
6 rate cases, formulating proposals, have you looked at what
7 other companies propose and what other companies incur in
8 terms of call-out charges or reconnection fees?

9 A No. I don't advise my clients to increase their
10 or decrease their miscellaneous charges in order to
11 reflect what another utility may or may not be charging.
12 It should be based on the particular circumstances for
13 that utility.

14 We don't, for example, set monthly minimum and
15 commodity rates based upon what other utilities charge.
16 We base it on the particular expenses and the revenue
17 requirement that is required in the case. Okay?

18 So when clients come to me and say -- I generally
19 ask them, are there any changes on the miscellaneous
20 charges that you believe are necessary to reflect the true
21 cost of providing the service? And some companies say, we
22 don't want to change them at this time; other companies
23 say, yes, we do. In Community Water's case they did and
24 proposed a number of changes.

25 MR. GELLMAN: Thank you, Mr. Bourassa.

1 I have no additional questions and tender the
2 witness for cross-examination.

3 ALJ MARTIN: Thank you, Mr. Gellman.

4 Mr. Van Cleve.

5 MR. VAN CLEVE: Thank you, Your Honor.

6

7

CROSS-EXAMINATION

8

9 Q. (BY MR. VAN CLEVE) Good afternoon, Mr. Bourassa.

10 A. Good afternoon.

11 Q. Starting, I guess, with the questions that
12 Mr. Gellman asked you, in particular referring to that
13 Schedule C-1 that you pointed to, whether the revenue or
14 proposed rate increases are in the metered revenues or
15 whether it is in, I guess in this case, the other water
16 revenues, would it be correct to say that you are going to
17 want -- the Company anticipates recovering that revenue,
18 whether it's placed in the metered revenue or whether it's
19 placed in the other water revenues in this case, the
20 miscellaneous charges?

21 A. Yes. I'm sorry to interrupt you.

22 Yes. The Company, when we proposed a rate
23 increase and our rate design, including any changes to
24 miscellaneous charges, it is reasonable to expect that the
25 Company will generate those revenues.

1 Q Okay. And how did it determine that it would be
2 able to recover those revenues in the other water revenues
3 or in this case the miscellaneous charges?

4 A Well, if you will look back on my Schedule H-3,
5 page 3.1.

6 ALJ MARTIN: In your rebuttal testimony?

7 THE WITNESS: Let me see if it's in my rejoinder.
8 I do want to be in my latest schedule.

9 It is in my rejoinder, Your Honor. It's
10 Rejoinder Schedule H-3, page 1, and that would be in
11 hearing Exhibit A-7.

12 Now, when I analyze changes to miscellaneous
13 charges, I ask the Company to provide me a bill count of
14 all of the instances or occurrences of a particular charge
15 being charged so that I know that if I make -- for
16 example, with the establishment fee, if I make a \$10
17 change or increase in that cost, I can then expect
18 additional revenues of however many occurrences occurred
19 during the test year for that charge.

20 If you look, for example, on line 5 of this
21 schedule, the proposed change to the establishment fee
22 from \$25 to \$35 is an increase of \$10. There were 1,247
23 occurrences of that, which would provide an additional
24 \$12,474.

25 Q And were you here during Mr. Gabaldon's testimony

1 here today?

2 A. Yes.

3 Q. So, for instance, if you look at what is marked
4 as -- on that same schedule, H-3, for the call-out charge,
5 for instance, for after hours or Saturday, that proposed
6 rate is \$70; correct?

7 A. Yes.

8 Q. And how do you determine whether that \$70 is an
9 appropriate amount to charge for a call-out on Saturday or
10 after hours?

11 A. Well, as Mr. Gabaldon explained, they look at the
12 average cost of an employee that is doing work after
13 hours; so they have to pay time and a half.

14 They also include in that that the payroll
15 overhead, for example, the FICA and Medicare taxes that
16 the employer pays. They also look at the benefits that
17 that employee gets, which will represent some amount
18 of overhead on top of the wages. And you look at the time
19 and transportation costs.

20 Q. Okay. But do you recall him saying -- and
21 correct me if I'm wrong on this -- but it's my
22 understanding that it's based on a two-hour time frame for
23 call-outs on Saturdays and after hours?

24 A. Yes, and I don't feel that is unreasonable.

25 Q. Is there anything that was provided to you in

1 determining whether that was a reasonable proposed rate as
2 to whether it actually takes two hours to perform that
3 task?

4 A. I don't believe that the Company has information
5 in order to prepare an accurate time study.

6 No, I did not receive any information on that.

7 Q. Okay.

8 A. I will say that service calls in other cases that
9 I have been involved in can vary from case to case
10 depending on the circumstances. But I've seen proposed
11 tariffs at cost, and I have also seen them at standard
12 rates based on the particular circumstances in that case.

13 If it's cost, you will say, well, each time you
14 have a call-out, the Company has to make that computation;
15 they will spend the time to do that -- this 1.2 hours and
16 who was it, blah, blah, blah, blah -- and it becomes very
17 laborious.

18 Using standard rates, where you assume an average
19 amount of time and an average wage and an average amount
20 of payroll and benefits, overhead, and average amount of
21 transportation costs, is a perfectly acceptable costing
22 method, that construction companies use it, manufacturers
23 use it.

24 Q. Is it accurate to say that the \$70 charge is
25 based on an assumption that it takes two hours to perform

1 that task then?

2 A. I think it's more accurate to say that it's based
3 on an assumption that on average that a service call will
4 take two hours.

5 I think more specifically the Company policy is
6 that the employee will be reimbursed or will be paid for a
7 minimum of two hours' time, whether it takes one hour or
8 an hour and a half or two hours and the actual time, if it
9 goes beyond what they consider to be the acceptable or the
10 average amount of time that it takes to do a service call.

11 Q. And correct me if you understood this
12 differently, but do you recall Mr. Gabaldon indicating
13 that he didn't remember where that two-hour period came
14 from?

15 A. I think it was more than I just don't remember.
16 It's part of the policies of the Company, that the
17 personnel committee regularly reviews the policies
18 thereof. And he doesn't recall the origination of the
19 two hours, but the payroll committee has or the personnel
20 committee has not advised that that two-hour policy be
21 changed.

22 Q. And do you recall that he was not aware whether
23 it actually took two hours on average to perform that
24 task?

25 A. Yes, I agree with that; however, whether it takes

1 two hours or not, the Company's policy and what it will
2 incur for the employee cost is a two-hour time.

3 Q And why is it based on a two-hour time -- a
4 two-hour period of time?

5 A Well, I think I answered that question.

6 That is the Company policy. I don't know the
7 origination of that, but the bottom line is that the
8 Company is going to pay the employee a minimum two hours
9 if they are called out on a holiday, a Sunday -- excuse
10 me -- after hours or Saturday. They will have to pay that
11 two-hour cost.

12 Q And that is based on the policy that the Company
13 developed?

14 A Right.

15 MR. GELLMAN: Asked and answered.

16 THE WITNESS: Correct, just as it is a policy to
17 pay, for example, a customer service rep 35- or \$40,000 a
18 year. That is a policy established that that is the
19 acceptable range of cost that the Company is willing to
20 pay. It's true for every wage that is established for a
21 company. It's a policy of the Company to pay a certain
22 level of wages.

23 Q (BY MR. VAN CLEVE) And then you -- on that same
24 topic you indicated that you didn't look at other
25 utilities to compare whether these miscellaneous charges

1 were similar to what other companies had.

2 Is that a fair characterization?

3 A. I typically do not compare miscellaneous charges
4 to what other companies are charging. What I look for is
5 the reasonableness of the charges, the miscellaneous
6 charges.

7 Q. But reasonableness compared to what? How do you
8 compare it? How do you judge reasonableness?

9 A. Well, you are setting a standard that, okay, if
10 all companies charge a \$20 minimum, then if the Company
11 proposes a \$25 minimum based on a particular circumstance
12 in the case, then it should only charge \$20 because
13 everybody else is only charging \$20. That is not a
14 standard review in ratemaking.

15 In ratemaking we look at the particular
16 circumstances for the company to determine what is fair
17 and reasonable, not what other companies charge.

18 Q. Okay. And in this case did the Company present
19 those circumstances that would warrant increasing it from
20 \$10 to \$70?

21 A. Yes.

22 Q. And what were those circumstances?

23 A. I think I have already answered that. They have
24 determined that, one, they have a policy of two hours;
25 they have computed the average time and other costs that

1 are associated with sending out an employee and have
2 determined that that \$70 is a reasonable amount.

3 Q Now moving on to other issues and in general, is
4 it fair to say in this case that both Staff and the
5 Company are proposing a 15 percent operating margin in
6 this case?

7 A Yes.

8 Q And correct me if I'm wrong, but because
9 Community Water is a nonprofit, are the rates based on
10 operating margin and not on rate base, the value of rate
11 base?

12 A Yes, although in not-for-profit we typically use
13 an operating margin approach. That operating margin can
14 vary from 10 to 20 percent. For example, in Community
15 Water's last case, I think it was around a 16 or
16 17 percent operating margin that was adopted.

17 What we then do is, because of the requirements
18 of the State of Arizona, we determine what that 15 percent
19 operating margin translates to on a fair value return
20 basis.

21 Q And that is because of the constitutional
22 requirement of a fair value?

23 A Yes, sir.

24 Q And is it fair to say, at least as of the
25 Company's rejoinder testimony, that both the Company and

1 Staff are recommending an increase in revenue of just over
2 26 percent? And I think the Staff is recommending 26.27
3 and the Company is 26.58?

4 A. Correct.

5 Q. Okay. And is it fair to say -- I think you
6 discussed this in your testimony -- but is the difference
7 between those two, what the Company is seeking and what
8 Staff is recommending, is that due mainly to the treatment
9 of CIAC in this case and the calculation associated with
10 CIAC?

11 A. Yes. And put simply, when we compute the
12 depreciation and amortization expense, the amortization of
13 CIAC -- when we compute a depreciation on the plant and
14 reduce that by the amortization of the contribution, we
15 get a net depreciation expense.

16 Q. And that is the difference -- the majority of the
17 difference between what Staff is recommending and what the
18 Company is seeking?

19 A. Correct. Because the Company is not recognizing
20 a portion of the CIAC that is funding CWIP, or
21 construction work in progress, that is not in rate base,
22 it is not computing depreciation and amortization expense
23 using that excluded amount from rate base.

24 Q. And on that issue, CIAC, you mentioned CWIP or
25 construction work in progress; correct?

1 A. Correct.

2 Q. What is construction work in progress?

3 A. Construction work in progress is like projects
4 that have not been completed and that account collects the
5 accumulated cost to date for projects that have not been
6 placed into service.

7 Q. And is the CWIP in this case, is it related to
8 multiple projects or just one? Do you know what it's
9 comprised of? Do you know?

10 A. I don't know. I think it's -- as I recall it's a
11 number of developer projects. It's not like a dozen.
12 It's a few.

13 Q. Okay. And as far as CWIP goes, would you agree
14 that there has not been a determination of whether that
15 plant, when ultimately completed, will be allowed in rate
16 base or not?

17 A. No. No determination of whether that plant would
18 be allowed in rate base has not been determined in this
19 case. But that fact does not change the mismatch that
20 will occur by including CIAC in rate base that is funding
21 it.

22 Q. And on that same -- well, on a similar note,
23 though, if you are talking about a plant, for example,
24 that has been disallowed because it's plant held for
25 future use, that is a completed plant item that a

1 determination has been made that it should be disallowed;
2 correct?

3 A. Correct. And any associated CIAC would be
4 removed from rate base also.

5 Q. And if it was plant that was determined to be
6 excess capacity, again that is a completed plant item that
7 there has been a determination to disallow that from
8 plant-in-service because it's not used and useful or not
9 serving customers; correct?

10 A. Correct. And any associated CIAC or IACC
11 funding, that excess capacity would also be removed from
12 rate base in order to maintain the proper matching rate
13 base.

14 Now CWIP -- this Commission has determined that
15 CWIP is basically not used and useful plant. It is -- so
16 a determination in essence has been made on that plant,
17 even though it's not an issue of dispute here.

18 Q. Is it that the plant or is it simply being
19 disallowed because it's not completed plant at this point?

20 A. It's like any not used and useful plant; it's not
21 used and useful whether it's completed or not.

22 Q. But there hasn't been a determination as to
23 whether it will be used and useful once it's completed;
24 correct?

25 A. Correct.

1 Q Okay. And on the issue of the mismatch, would
2 you agree that if there hasn't been a determination as to
3 whether this CWIP, once completed, will go into rate base
4 or not, then it would be more of a timing issue than a
5 mismatch issue because in the next rate case that CWIP
6 would become plant, the Company would seek to include it,
7 correct, hypothetically speaking?

8 A I disagree. It is a mismatch. It's not a --
9 it's a result of a timing perhaps, but it will result in a
10 mismatch by including, one, the CIAC in rate base, and the
11 other, the plant that is being funded by it.

12 Q But isn't that based on a timing issue?

13 MR. GELLMAN: Objection; asked and answered.

14 ALJ MARTIN: No. Have him answer it one more
15 time because I'm unclear.

16 THE WITNESS: It's still a mismatch.

17 Q (BY MR. VAN CLEVE) But is it a mismatch that
18 will ultimately be corrected with the passage of time?

19 A In the next rate case when both are recognized in
20 rate base, if that is what you mean by corrected, yes.

21 In the meantime, if we include CIAC in rate base,
22 artificially reducing operating expenses, the Company will
23 put that plant into service and will be out that
24 depreciation expense from now until the next rate case.

25 And in the meantime, if that plant is accepted in the next

1 rate case, it will come in at its depreciated value. It
2 won't come in at the cost at full value; it will come in
3 as depreciated value, so the Company will not have
4 recovered the depreciation on that plant.

5 Q. But comparing that to the situation of excess
6 capacity or plant that is disallowed because it's plant
7 held for future use, those plant items have been
8 disallowed -- completed plant items have been disallowed
9 because they are not determined to be used and useful even
10 though they are completed items; correct?

11 A. Well, plant that is not used and useful comprises
12 plant that is not completed.

13 Q. And you are not answering my question.

14 My question is: With the situation of excess
15 capacity or plant held for future use, there has actually
16 been, whether it's a recommendation by Staff or the
17 Commission ultimately adopting that, that plant in its
18 current form, even if it's completed plant, is not used
19 and useful in its current form; correct?

20 A. Yes. And again, the associated CIAC and IACC
21 would be removed from rate base.

22 Q. And on that same note, though, there is no
23 guarantee with excess capacity -- a determination has
24 already been made that it's not -- it's been disallowed
25 because it's not used and useful; there is no guarantee

1 that a company could come back in a subsequent rate case
2 and be able to ask for that to be placed into service, is
3 there?

4 A. Repeat the question. I'm not following.

5 Q. Well, for example, with excess capacity or plant
6 held for future use, in a current rate case it's
7 determined to be disallowed because it's not used and
8 useful. There is no guarantee then in a subsequent rate
9 case that the company would be permitted to come back and
10 that that plant would then be determined to be used and
11 useful, is there?

12 A. Correct. And if in a future case that plant is
13 still not found to be used and useful, the CIAC would also
14 be excluded from rate base.

15 Q. Whereas --

16 A. Nothing changed.

17 Q. Whereas in the situation of CWIP, the plant --
18 the Company will complete the construction on that plant,
19 come back and then seek a determination as to whether the
20 completed plant item is used and useful; correct?

21 A. CWIP by definition is not used and useful plant.

22 Q. And where is that reference?

23 A. I just gave you what CWIP was. It's not
24 completed plant. It hasn't been placed into service. So
25 if it's not in service, it's not used and useful. It is

1 no different than excess capacity or plant found to be not
2 used and useful for some other reason.

3 Q. But it's not completed plant.

4 You would agree with me on that?

5 MR. GELLMAN: Your Honor, I think we have covered
6 this several times. I would object on asked and answered
7 ground. I think we have been over this twice already.

8 ALJ MARTIN: Mr. Van Cleve, do you have what you
9 are looking for --

10 MR. VAN CLEVE: I think.

11 ALJ MARTIN: -- or are you just being
12 argumentative?

13 MR. VAN CLEVE: I think I do, Your Honor.

14 ALJ MARTIN: Okay.

15 Q. (BY MR. VAN CLEVE) Turning to the subject of
16 rate design --

17 A. Okay.

18 Q. -- and I think this was discussed earlier in
19 Mr. Gabaldon's testimony, but is it fair to say that the
20 majority of Community Water's customer are residential
21 customers?

22 A. Yes.

23 Q. And do you know how many residential customers
24 that the Company has on five-eighths-inch by
25 three-quarter-inch meters?

1 A. As of the end of the test-year -- well, on
2 average the average number of customers during the
3 test-year was -- for five-eighth-inch residential
4 customers was 9,302 customers. You can find that on my
5 rejoinder Schedule H-2, page 1.

6 For the year-end number of customers, if you will
7 look on my direct or the Company's direct filing schedule
8 H-5, page 1, the last page at the end of the test-year
9 there was 9,400 five-eighth-inch residential customers.

10 Q. Is it fair to say that comparing those
11 five-eighth-inch residential customers to the other
12 meters -- residential meter sizes as well commercial meter
13 sizes, that the majority of them are residential
14 customers? I think you may have already answered this,
15 but is that a fair statement? Are five-eighth-inch
16 customers residential customer?

17 A. Well, both statements are true: That the
18 majority of the customers are residential; and the
19 majority of the majority are five-eighth-inch residential
20 customers.

21 Q. And with that in mind, if you would, what are the
22 major differences in the rate design that the Company is
23 proposing and what Staff is recommending in this case?

24 A. The Company's rate design is basically the same
25 as in the last case.

1 What I did was I applied the rate increases to
2 the monthly minimums and the commodity charges evenly
3 across all customers in either size.

4 What Staff has done is to -- Staff has increased
5 the monthly minimums at a lower percentage than what I
6 have increased my monthly minimums. They have -- I don't
7 have Staff schedules up in front of me.

8 Could I have them?

9 MR. GELLMAN: Your Honor, may I approach?

10 ALJ MARTIN: Of course.

11 MR. GELLMAN: If I could have one moment, Your
12 Honor.

13 ALJ MARTIN: Sure.

14 THE WITNESS: Your Honor, this is our testimony.

15 MR. GELLMAN: Your Honor, may I approach one more
16 time?

17 ALJ MARTIN: Yes.

18 MR. GELLMAN: And if I could have Staff counsel
19 repeat what schedule he was referring to.

20 ALJ MARTIN: Yes, I forgot myself.

21 MR. VAN CLEVE: Well, I was referring to -- well,
22 my question was: What is the major difference between
23 what the Company is proposing and what Staff is proposing,
24 and I think Mr. Bourassa went through what the Company was
25 proposing and then was going to go through what Staff was

1 proposing and the schedules weren't available. The
2 schedules weren't available.

3 MR. GELLMAN: Thank you, Mr. Van Cleve.

4 THE WITNESS: Let me go back and start over.

5 The Company's -- both Staff and the Company rate
6 designs are inverted tier designs with a monthly minimum:
7 three tiers for the small residential customers, two tiers
8 for the larger meter sizes.

9 I basically tried to maintain the differential in
10 the commodity rate from the last case and this case. And
11 so my first tier commodity rate for the smaller
12 residential goes up by about 23 percent. Staff's goes up
13 by less than --

14 Q. (BY MR. VAN CLEVE) And on that subject,
15 referring specifically to the Company's rate design, would
16 you agree that the Company's rate design builds more of
17 the revenue into the monthly minimum charge in the
18 lower-tiered commodity charges for the
19 five-eighths-inch-by-three-quarter-inch meters and the
20 three-quarter-inch meter customers than it does the other
21 meter classes?

22 A. Yes. As I was going to say, Staff increases its
23 first tier commodity rate for the smaller residential by
24 5 cents. I'm proposing a 29 cent increase to smaller
25 meter size.

1 Basically I'm trying to get a more uniform rate
2 increase across the board, including the first tier
3 commodity rate.

4 *Q.* And have you heard of the first tier referred to
5 as being the nondiscretionary tier or sometimes -- I don't
6 think Staff uses this term -- but like the lifeline tier?
7 Have you heard that testimony before?

8 *A.* Yes, I have.

9 *Q.* Do you agree that the Company's five-eighth-inch
10 residential customers use an average of 3500 gallons a
11 month and a median amount of 4,898 gallons a month?

12 *A.* Could you repeat that?

13 *Q.* Sure. Do you agree that the Company's
14 five-eighths-inch residential customers use an average of
15 3500 gallons a month and a median amount of 4,898 gallons
16 a month?

17 *A.* No, unless I misheard you. Did you say
18 five-eighths-inch meter average use was 4898 or 3500?

19 *Q.* The average was 3500 and median was -- oh, I'm
20 backwards.

21 *A.* That is what I thought. That is why I said no.
22 The average is 4,899. The median is 3500.

23 *Q.* Now, does that usage, both median and the
24 average, put the majority or the average customer,
25 five-eighths residential customer, within that second tier

1 of both the Staff's proposed rate design and the Company's
2 proposed rate design?

3 A. Well, the median usage of 3500 gallons, half of
4 the bills, half of the customers are below 3500; half of
5 the customers have a usage above 3500.

6 Q. Well, using the hypothetical average-user
7 customer, would it be fair to say that if the average use
8 was 3500, if you have an average user that they will fall
9 within that second tier, for both Company and what Staff
10 is proposing for its rate design?

11 A. Yes, both Staff and the Company agree upon the
12 3,000-gallon first tier break-over point.

13 Q. Okay.

14 A. So an average user on a five-eighths-inch
15 residential meter would see the second tier commodity
16 charge.

17 Q. And the same with the median user; you would also
18 see that second tier commodity charge?

19 A. Yes, but to a lesser extent.

20 Q. Okay. And what is the second tier commodity
21 charge that the Company is proposing in this case?

22 MR. GELLMAN: Your Honor, I would note for the
23 record that I believe Staff's surrebuttal schedule PMC-14
24 has the differences in commodity rates and monthly
25 minimums listed.

1 MR. VAN CLEVE: I don't dispute that. I'm still
2 asking the question.

3 MR. GELLMAN: I'm not objecting to the question.
4 I'm noting it for the witness.

5 ALJ MARTIN: To make it easy.

6 MR. VAN CLEVE: Oh.

7 ALJ MARTIN: Now you have to find it.

8 THE WITNESS: No, I don't remember the question.

9 Q. (BY MR. VAN CLEVE) What is the median commodity
10 charge that the Company is proposing in this case, and
11 what is the -- well, what is the second tier commodity
12 charge that the Company is proposing for five-eighths-inch
13 residential customer?

14 A. Per the Company's rejoinder Schedule H-3 page 1,
15 the second tier commodity rate is \$2.45.

16 Q. And what is Staff proposing for that second tier
17 commodity rate?

18 A. \$2.50.

19 Q. Okay. And then under the Company's proposal for
20 five-eighth-inch customers, are they proposing a
21 monthly -- the Company is proposing a monthly minimum of
22 \$13.21?

23 A. Correct.

24 Q. And Staff is recommending a \$13 monthly minimum
25 for that?

1 A. Yes.

2 Q. Now, would you agree that a customer that was
3 having to pay a higher commodity charge in a second tier
4 is more likely to conserve or efficiently use water than a
5 customer who is using or that is paying a lower commodity
6 charge in that second tier?

7 A. Restate the question.

8 Q. Sure. You indicated earlier in the second tier
9 for five-eighths-inch customers the Company was proposing
10 a \$2.45 commodity charge; correct?

11 A. Correct.

12 Q. And that Staff was proposing a \$2.50 commodity
13 charge for that second tier?

14 A. Right.

15 Q. Do you think a customer that is faced with paying
16 a higher commodity charge is more likely to efficiently
17 use water than a customer who is paying a lower commodity
18 charge?

19 A. It depends.

20 Q. On what?

21 A. The differential on the commodity charges.

22 Q. Okay.

23 A. And it would also depend on that customer's
24 relative price; it's reaction to that price differential.

25 For example, if your bill is 50 cents more

1 because of the difference in the commodity rates, my
2 opinion would be that most customers won't view that as a
3 behavioral change kind of price signal.

4 Q. Okay.

5 A. But if it was \$10 or \$5, then that fits into the
6 realm where arguably the customer would take notice, and
7 that price signal would cause -- perhaps cause a
8 behavioral change in his water usage.

9 Q. And you are not disputing that inverted tier
10 rates -- the purpose or one of the purposes for them is to
11 promote the efficient use of water?

12 A. One of the purposes is, with the caveat that we
13 have to also be able to provide revenue stability to the
14 Company. In other words, we can't have a rate design that
15 causes -- the goal is to get conservation, but on the
16 other hand, if you design rates or implement rates that
17 cause revenue erosion, then the Company loses -- doesn't
18 earn its revenue requirement. So it has to be a balance
19 between encouraging conservation, enough conservation,
20 while still maintaining some revenue stability for the
21 Company.

22 Now, you can gradually over time implement higher
23 and higher commodity rates to promote more and more
24 conservation, but that should be a gradual process.

25 In lieu of that one should recognize a

1 conservation adjustment to revenues on the expected loss
2 in revenues from conservation.

3 Q. Have you ever seen any such adjustment as that
4 adopted at this Commission?

5 A. Unfortunately, no.

6 Q. Okay.

7 A. However revenue conservation adjustments are and
8 revenue water adjustment mechanisms are now regularly
9 adopted in California because they recognize -- because
10 California is starting to implement conservation-oriented
11 rate designs, and they recognize the revenue erosion and
12 instability.

13 Q. But the Company isn't proposing one of those in
14 this case; correct?

15 A. No, it is not because it believes that its rate
16 design balances -- properly balances that.

17 Q. Moving on to the miscellaneous charges, is it
18 fair to say that the Company is seeking to increase all of
19 its miscellaneous charges, I think, with the exception of
20 the service establishment after-hours fee?

21 A. Are you referring to -- I would say that is
22 generally true, yes.

23 Q. Okay. And correct me if I'm wrong, but are you
24 aware of the Company performing any sort of cost analysis,
25 whether you call it a cost of service study, which may be

1 incorrect, or any sort of cost analysis to determine
2 whether these increases are warranted based on some sort
3 of increase in cost?

4 A. Again, I think for the fourth or fifth time, yes,
5 the Company looked at its wages that it pays, the overhead
6 that it incurs for payroll, including benefits, determined
7 what amount of time that an average service would be
8 provided and determined that they needed an increase to
9 reflect more appropriate cost.

10 Q. And how were those original -- I shouldn't say
11 original -- or these miscellaneous charges determined in
12 the prior rate case, if you know?

13 A. I don't recall if the Company sought to change
14 its miscellaneous charges in the last rate case. I just
15 don't recall.

16 Q. Fair enough.

17 A. In some cases the companies focus more on other
18 issues in a case and decide to keep their current
19 miscellaneous charges the same.

20 MR. VAN CLEVE: Can I have a moment, Your Honor?

21 ALJ MARTIN: Yes.

22 MR. VAN CLEVE: No further questions, Your Honor.

23 ALJ MARTIN: Thank you, Mr. Van Cleve.

24

25

1

EXAMINATION

2

3 Q. (BY ALJ MARTIN) Good afternoon, Mr. Bourassa.

4 A. Good afternoon.

5 Q. Let's start with a simple question.

6 A. Okay.

7 Q. In the rate application the Company has listed
8 its expected rate case expense as \$100,000.

9 A. Yes.

10 Q. Is that number pretty well set? Are we staying
11 within that? You don't expect to be making a request to
12 change that number up or down?

13 A. No. The Company's position as of rejoinder is
14 the Company's position. It's not asking for any more than
15 that.

16 Q. Okay. All right. Let's go to CIAC and CWIP.

17 As I recall your testimony from questioning from
18 Mr. Van Cleve, you don't have knowledge right now of what
19 the \$537,000 in CWIP represents? Is it plant that is
20 being actually being constructed right now or it's an
21 expected dollar amount for some plant to be built in the
22 future?

23 A. No. CWIP reflects the actual dollars incurred on
24 construction progress of a plant that is being constructed
25 up to the end of the test year.

1 I believe that most of that CWIP that was CWIP at
2 the end of the test year, those projects are not completed
3 and in service; they are just not in this case. Because
4 at the end of our test year, they are CWIP, and we don't
5 typically put CWIP into rate base.

6 Q I get it.

7 So to your knowledge, then, this dollar amount as
8 represented here is now somewhere in service plant?

9 A It's now in plant, and I believe that that CWIP
10 cost -- because it was about \$530,000 or so at the end of
11 the test year -- that was the running total of the
12 projects. I'm sure, although I can check for Your Honor,
13 that the completed cost of those projects was much more
14 than the \$530,000.

15 Q I'm sorry. Say that again.

16 A That the completed cost -- remember, the CWIP
17 represents the accumulated total of costs to date.

18 Q Right.

19 A Now that plant was being construction in
20 progress.

21 Q Right.

22 A And so the Company is still spending money to
23 complete -- at the end of the test year and in January of
24 next year through the next six months it's spending more
25 money to complete the projects. And then when those

1 projects are completed, they are placed in service.

2 So \$530,000 represents, I would say, that the
3 cost is probably higher when it actually went into
4 service.

5 Q. Got you.

6 So if you were to do a rate case today, this
7 wouldn't be an issue?

8 A. Correct.

9 Q. Okay. But under Staff's position as of the end
10 of 2007, under Staff's calculations all of the -- I think
11 the number of total \$15 million includes the 537 that was
12 being amortized under what Staff was doing; correct?

13 A. The portion of the \$15 million of -- well, let me
14 look here, Your Honor.

15 Q. Well, your position was there was CIAC of
16 14 million and something?

17 A. Yes.

18 Q. Staff's position was there was 15 million in CIAC
19 inclusive of the 537?

20 A. Yes.

21 Q. Yours was not?

22 A. Mine did not include the 530 in order to avoid a
23 mismatch -- the plant is not there -- neither should the
24 related CIAC, just like any other not used and useful
25 plant.

1 Q. Okay. In your rebuttal testimony, I think you
2 cited to two matters that Staff has recently addressed
3 similar issue. One was Far West, which was the Far West
4 matter which has been -- I think it is a decision already,
5 and the other is Johnson Utilities, which is still
6 ongoing, I believe.

7 A. Yes.

8 Q. Were those factually similar to what is going on
9 here in terms of the treatment or was it a different
10 approach?

11 A. The reason for my cite to those cases was to
12 demonstrate that when plant is found to be not used and
13 useful, for any reason -- it could be excess capacity; it
14 could be that the plant wasn't done or that it's
15 post-test-year plant and it's determined not to be used
16 and useful for purposes of the rate case -- then in those
17 circumstances, when that plant is removed from rate base,
18 the corresponding CIAC and advances also come out of rate
19 base. Why? Because we have to properly match the
20 plant-in-service to its funding, otherwise we create a
21 mismatch.

22 Now, my position in this case has been, and in
23 other cases, is that when you include half of the formula,
24 half of the amount, the CIAC, in rate base, when the plant
25 is not there, you create this mismatch. CIAC-funded plant

1 should be revenue neutral, that it should -- it has no
2 impact on rate base. \$100 of plant financed with \$100 of
3 CIAC has a net zero rate base, right; 100 minus 100.

4 For depreciation purposes I get nothing. I
5 depreciate 100 bucks; I amortize 100 bucks. It offsets
6 each other.

7 Now, here Staff is understating depreciation
8 expense because it's including CIAC amortization but not
9 depreciating any depreciating plant to go with it. So
10 that is our difference basically in our operating expense
11 and our revenue requirement, is the excess amount of
12 amortization that is in Staff's numbers.

13 Q. Okay. I get that. Thank you.

14 A. Okay. I'm sorry.

15 Q. My question was, is that statement exactly what
16 was happening in Far West you cited to and what is
17 happening in the Johnson Utilities? Are the two
18 analogous -- or the three?

19 A. In the Far West case and in the Johnson case it
20 isn't a matter of construction work in progress. If that
21 is the factual issue that you are talking about, then the
22 answer is no. I thought I had -- maybe I didn't explain
23 that.

24 Q. I got lost.

25 A. It wasn't a matter of construction work in

1 progress. It was plant found to be not used and useful or
2 plant to be excess capacity.

3 The point was that this situation is no different
4 with the CWIP and the CIAC.

5 Q Got you. Okay. I'm sorry.

6 If you could look at -- I believe you have
7 there Mr. Chaves's direct testimony.

8 A I do.

9 Q If you could please turn to page 7, and then in
10 lines 2 through 5 Mr. Chaves states, "Not recognizing the
11 CIAC and IACC associated with CWIP as a deduction in rate
12 base calculation results in excess earnings because it
13 allows the Company to earn a return on funds that were not
14 being provided by investors. Reducing rate base by CIAC
15 and IACC preserves the ratemaking balance and removes this
16 excess earnings potential."

17 Now, I know much of your testimony has gone to
18 this point but just for my record, could you please
19 specifically address that statement.

20 A Well, first of all, Your Honor, I think my
21 prefiled testimony directly addresses that point, that I
22 don't see how you can have excess earnings because the
23 plant isn't there. What you are doing is you are again
24 including half of the ratemaking treatment. So what you
25 are doing is understating earnings.

1 When this plant goes into service and the CIAC is
2 amortized, there will be no change in earnings. But by
3 including the CIAC in rate base, we are understating it;
4 we are creating not an excess in earnings, an
5 understatement of earnings. Because when the plant goes
6 into effect, the reduction in rates is going to be offset
7 by an increase in depreciation expense. It is going to
8 zero out later on after the rate case. Meanwhile the
9 Company isn't collecting the depreciation in its earnings.
10 It's going to still have this negative impact from
11 amortization.

12 So it's understatement of earnings, not an excess
13 earnings argument. It's just the opposite.

14 Q. Okay. Let's leave that alone for now.

15 One of the other things that the Company had
16 requested was a reduction on the deposit interest from
17 6 percent to 2 percent.

18 If you could please just briefly summarize the
19 Company's position in that regard.

20 A. The Company would like to reduce the deposit
21 interest expense because it believes that 6 percent is
22 well more than what current yields on a CD or other cash
23 money market accounts a customer could earn. So it's
24 excessive. I think I have put in my testimony what
25 current market interest rate are, and they are much lower

1 than 6 percent.

2 So it's just a matter of reasonableness of the
3 Company paying 6 percent on moneys when, you know, people
4 can't earn that kind of rate. I wish I could earn
5 6 percent on my CDs.

6 Q But as far as you are aware to this point Staff
7 and the Commission -- Staff recommends and the Commission
8 has adopted in prior rate cases throughout the years
9 6 percent?

10 A Well, I think in the rules -- in the rule it
11 refers to if the Company does not have a stated interest
12 rate, that that interest rate shall be 6 percent. I don't
13 know where the 6 percent came from. It's an old rule. I
14 don't know who -- I wasn't involve in the rulemaking on
15 that.

16 So what it says is in lieu of a stated interest
17 rate, which could be different than 6 percent, a company
18 shall use 6 percent. So I don't know if that is a
19 recommendation necessarily of Staff. I think Staff uses
20 that as a basis for its recommendation, that in the
21 alternative 6 percent is in the rule.

22 Q Okay.

23 A Good.

24 ALJ MARTIN: Thank you. That is all the
25 questions I have.

1 Mr. Gellman, do you have any redirect?

2 MR. GELLMAN: Very briefly, Your Honor.

3

4

REDIRECT EXAMINATION

5

6 Q (BY MR. GELLMAN) Mr. Bourassa, can plant that is
7 not deemed to be used and useful in a present rate case be
8 deemed to be used and useful in a future rate case?

9 A It can.

10 Q And that includes plant held in future use, if
11 it's not deemed to be part of the rate base calculation in
12 current rate base, it can become part of the calculation
13 in a future rate base if deemed used and useful?

14 A Yes.

15 Q And the same goes for plant that is deemed excess
16 capacity?

17 A Yes.

18 Q And the same goes for plant that is -- or costs
19 related to plant that is under construction or
20 construction work in progress?

21 A Correct.

22 MR. GELLMAN: Thank you, Mr. Bourassa. No
23 further questions.

24 ALJ MARTIN: Mr. Van Cleve?

25 MR. VAN CLEVE: Nothing further, Your Honor.

1 ALJ MARTIN: All right. Thank you, Mr. Bourassa.

2 THE WITNESS: Thank you.

3 ALJ MARTIN: You may step down.

4 THE WITNESS: Thank you.

5 ALJ MARTIN: Let's go ahead and take a quick
6 break before we -- I'm sorry. Mr. Gellman.

7 MR. GELLMAN: I was just going to say, the
8 Company rests, Your Honor.

9 ALJ MARTIN: Sorry about that.

10 Why don't we take a quick break before we begin
11 with Staff witnesses. We will be back at 10 till on that
12 clock.

13 (A recess was taken from 2:36 p.m. until
14 2:48 p.m.)

15 ALJ MARTIN: All right. Let's go back on the
16 record.

17 Mr. Liu, can you hear me okay?

18 MR. LIU: Yes.

19 ALJ MARTIN: Why don't we give a quick check.

20 Mr. Van Cleve, why don't you chime in.

21 MR. VAN CLEVE: Mr. Liu, can you hear me?

22 MR. LIU: Yes.

23 MR. GELLMAN: Mr. Liu, can you hear me?

24 MR. LIU: Yes.

25 ALJ MARTIN: He can hear us now.

1 All right. Very well then. We will begin with
2 Staff's presentation of the case.

3 Mr. Van Cleve.

4 MR. VAN CLEVE: Good afternoon, Your Honor.
5 Staff calls Jian Liu as its first witness.

6 ALJ MARTIN: Mr. Liu, I am going to have the
7 court reporter swear you in.

8

9

JIAN LIU,

10 called as a witness herein, appearing on behalf of Staff
11 via teleconference, having been first duly sworn by the
12 certified court reporter, was examined and testified as
13 follows:

14

15

DIRECT EXAMINATION

16

17 Q. (BY MR. VAN CLEVE) Good afternoon, Mr. Liu.

18 A. Good afternoon, Wes.

19 Q. Could you please state your full name for the
20 record?

21 A. Jian Liu.

22 Q. And by whom are you employed and at what address?

23 A. I'm employed by Arizona Corporation Commission as
24 utility engineer in Utilities Division. My business
25 address is 1200 West Washington Street, Phoenix, Arizona

1 85007.

2 Q And did you prepare and file direct and
3 surrebuttal testimony in this case?

4 A Yes.

5 Q And hopefully you have in front of you two
6 documents: a copy of your direct testimony and a copy of
7 your surrebuttal testimony.

8 A Yes, I do.

9 Q Referring first to your direct testimony, I have
10 that premarked as Exhibit S-1 for identification.

11 A Yes.

12 Q Would you please identify that document for the
13 record?

14 A That's Staff's direct testimony docketed
15 August 11, 2009.

16 Q That is a copy your direct testimony?

17 A Yes.

18 Q And was that -- was your testimony -- it was
19 prepared by you or under your direction?

20 A Yes.

21 Q And do you have any corrections, clarifications
22 or modification you need to make to your direct testimony?

23 A No.

24 Q If I were to ask you the same questions in your
25 direct testimony, would your answers today be the same or

1 substantially the same as what is contained in that
2 document?

3 A. Yes.

4 Q. Do you adopt that as your sworn testimony today?

5 A. Yes.

6 MR. VAN CLEVE: Your Honor, I move for admission
7 of Exhibit S-1.

8 ALJ MARTIN: Mr. Gellman, any objection?

9 MR. GELLMAN: None.

10 ALJ MARTIN: Thank you.

11 So admitted.

12 (Exhibit S-1 was admitted into evidence.)

13 Q. (BY MR. VAN CLEVE) Mr. Liu, turning to your
14 surrebuttal testimony, I have that marked as Exhibit S-2
15 for identification.

16 Could you identify that document for the record?

17 A. Yes. That's Staff's surrebuttal testimony
18 docketed on September 28, 2009.

19 Q. And is a copy of your surrebuttal testimony
20 contained in that?

21 A. Yes.

22 Q. And was that document prepared by you or under
23 your direction?

24 A. Yes.

25 Q. Do you have any corrections, clarifications or

1 modifications to make to S-2 or your surrebuttal
2 testimony?

3 A. No.

4 Q. If I were to ask you the same questions contained
5 in your surrebuttal testimony, would your answers today be
6 the same or substantially similar to what is contained in
7 that document?

8 A. Yes.

9 MR. VAN CLEVE: Your Honor, I move for admission
10 of S-2.

11 ALJ MARTIN: Mr. Gellman, any objection?

12 MR. GELLMAN: No objection.

13 ALJ MARTIN: S-2 is admitted.

14 (Exhibit S-2 was admitted into evidence.)

15 MR. VAN CLEVE: With that, Your Honor, I tender
16 Mr. Liu for cross-examination.

17 ALJ MARTIN: Very well.

18 Mr. Gellman.

19 MR. GELLMAN: Thank you, Your Honor.

20

21 CROSS-EXAMINATION

22

23 Q. (BY MR. GELLMAN) Mr. Liu, can you hear me?

24 A. Yes.

25 Q. Just because you are over the phone, I will

1 introduce myself. My name is Jason Gellman, and I'm the
2 attorney for the Company.

3 How are you this afternoon?

4 A. How are you?

5 Q. Good, thanks.

6 Are you aware of AMR meters?

7 A. Can you tell me what that stands for?

8 Q. I will ask you, are you aware of radio-read
9 meters?

10 A. Oh, sure.

11 Q. Would you agree that that allows for more
12 real-time information about a customer's water usage?

13 A. Yes, I agree.

14 Q. And you would also agree that it helps to detect
15 leaks on a system if a Company has a radio-read meter?

16 A. Yeah, if a Company --

17 Q. I'm sorry. I didn't catch that.

18 Could you repeat that?

19 A. Yes. I say if a Company use this meter, yes, it
20 is very helpful.

21 Q. And generally you would agree that radio-read
22 meters can be an important measure to help a company and
23 help its customer conserve water; correct?

24 A. I agree.

25 Q. And are you aware there has been some -- more

1 attention paid to radio-read meters in recent days at the
2 Commission?

3 A. Yes.

4 Q. Okay. And you understand that the Company is
5 implementing a program to replace existing meters with
6 radio-read meters?

7 A. I would support that effort.

8 Q. Excuse me? I'm sorry. I didn't hear you.

9 A. I say that I would support the Company replacing
10 the older meters with these radio meters.

11 ALJ MARTIN: Excuse me for a moment, Mr. Gellman.

12 Mr. Liu, I don't know if you have your mouth too
13 close to the handset or what it is, but sometimes some of
14 the words come out fuzzy and garbled. If you could make
15 sure to speak clearly so the court reporter can get your
16 words clearly.

17 THE WITNESS: I will try my best.

18 ALJ MARTIN: Thank you.

19 Q. (BY MR. GELLMAN) Mr. Liu, you understand that
20 the Company is selectively replacing older meters with
21 radio-read meters now?

22 A. Yes. I think the Staff will support these
23 efforts.

24 Q. Okay. And you also understand that radio-read
25 meters are more expensive than your typical garden-variety

1 meter; correct?

2 A. I'm not exactly sure what the price would be. In
3 most cases I would agree that the price would be higher.

4 Q. And you understand for new subdivisions and new
5 installations the Company proposed, admittedly in his
6 rebuttal testimony, but it proposed an increase to its
7 service and meter installation charge to account for the
8 increased cost for radio-read meters?

9 A. Let me make it very clear. Okay. Our Staff
10 not -- I mean Staff not against this increase. I think
11 what we need here is we need a Company to provide Staff
12 the support documents to show the real cost is more than
13 \$155. That is in our original Company application.

14 If the Company can show Staff, say, the estimate
15 cost, it is \$238, Staff will have no problem to accept
16 that, but there are several points I would like to make.
17 Okay?

18 First of all, this service line, in the middle
19 installation charges, they are refundable advances. So
20 basically whatever amount Company charged will be
21 refundable. So that means that Company will refund these
22 charges to the customer.

23 Secondly, last year Staff updated these charges;
24 basically it increased. For example, for five-eighth
25 meters, the new range we just updated last year, 2008, is

1 ranged from \$520 to \$600. So basically currently the
2 Staff recommendation we accept the Company's proposal
3 total charges, \$600. So that is in the Staff range.

4 If the Company say they need to go over this
5 range, we need the Company to provide us the supporting
6 document to show that. Basically it's not just a legal
7 charge. We would like to see how that total charge, \$600,
8 be fitted.

9 So basically we would like the Company to provide
10 us three bids basically from subcontractors to show not
11 just meters charges but also service line charges. We
12 would like to see if they total \$600, enough to cover
13 Company's expense.

14 So I think as I say, Staff has no problem to go
15 over this range, but we do need Company provide us
16 supporting document to show us there are actually costs
17 for both service line and the meter charges will be over
18 Staff's recommended range.

19 Q. Mr. Liu, you would agree that the Company
20 originally proposed \$600 for its meter and service
21 installation charge for it's five-eighths-inch meter?

22 A. Yes. That is in the original application.

23 Q. And the Company proposed \$683 to account for the
24 increase of cost in the radio-read meter in order to
25 implement those for new service -- new subdivisions or new

1 installation?

2 A. Let me repeat.

3 Staff has no problem to go over our range but we
4 need support document. In their rebuttal testimony
5 Company just say we think the meter will be at \$238
6 instead of \$155 that we originally proposed.

7 So in order for Staff to review and agree we need
8 Company provide us supporting document. And also not just
9 for meter, we need to see the service line charges. For
10 both together we like to see if they are actually over
11 \$600.

12 Q. So you don't necessarily agree that a radio-read
13 meter cost more than a regular meter?

14 A. I'm not agree or agree (sic). What I say is that
15 we need Company provide us supporting document. It could
16 be more than 238; it could be less. But we cannot just
17 say accept. The Company say we think or we believe. We
18 need Company provide us supporting document, not just from
19 one subcontractor. We need three subcontractor's bids.

20 Q. And one final question, Mr. Liu, with the
21 understanding of what you just said, you understand that
22 if the actual cost is more than \$600 and \$683 for the
23 radio-read, to the extent that cost is not incurred by a
24 new subdivision or a new installation or a new developer,
25 that cost will be spread amongst other customers; correct?

1 A. Could you repeat your question?

2 Q. Sure. To the extent that the \$83 increase for
3 the radio-read meters that the Company is requesting from
4 its rebuttal testimony, to the extent that a developer or
5 a new customer doesn't incur that cost or didn't pay for
6 that cost and that is the actual cost over the regular
7 meter, then somebody else would have to incur the cost of
8 that installation; correct?

9 A. Let me see if I understand your question.

10 Are you saying it will actually cost more than
11 \$683 and other customer will pay for this cost?

12 MR. GELLMAN: Your Honor, I will withdraw the
13 question. I have no further questions for this witness.

14 Thank you, Mr. Liu.

15 THE WITNESS: Thank you.

16 ALJ MARTIN: Mr. Van Cleve, do you have anything
17 else?

18 MR. VAN CLEVE: No, Your Honor.

19 ALJ MARTIN: All right.

20

21

EXAMINATION

22

23 Q. (BY ALJ MARTIN) Mr. Liu, were you listening at
24 all to the testimony given earlier today?

25 A. Yes, I listened to most of it.

1 Q Okay. Were you here when Mr. Gabaldon and
2 Mr. Bourassa were testifying regarding service charges and
3 what the actual cost of those might be?

4 A Yes.

5 Q Okay. And Staff's recommendation, for example,
6 on what the Company terms call-out charges, I believe, was
7 \$10?

8 A I think for that portion of their charges maybe
9 other Staff witness can give you that. I basically am
10 responsible only for the service line and meter charges.
11 Other charges, I think Pedro can maybe explain that to you
12 better.

13 Q Okay. I'm sorry. I thought you were also
14 responsible for service charges. I'm sorry.

15 Let's see. And were you here this morning when
16 Mr. Gabaldon was talking about the Company's rate of water
17 loss or did you listen this morning, rather?

18 A I think part of it, yes.

19 Q You heard part of it.

20 Was Staff concerned at all that the Company's
21 rate of water loss was listed at 9 percent?

22 A Usually when there's water loss less than
23 10 percent, Staff limit, or our ACC, basically if it is
24 more than 10 percent, we will -- or we will recommend
25 Company reduce water loss to less than 10 percent.

1 So if it's 9 percent, it is at a higher range,
2 which still feels is acceptable limit considering there is
3 some old pipes and meter there.

4 Q. Okay. Thank you.

5 And then finally, just so I am sure that I
6 understand your testimony regarding the radio-read meters,
7 it's your testimony that you don't necessarily disagree
8 with the Company's assertion that an extra \$83 is
9 necessary to cover the cost of the radio-read meter; what
10 you are saying is that you need some documented evidence
11 of that cost, such as an invoice or some bill of lading or
12 something to demonstrate what the actual cost of those
13 meters are; is that correct?

14 A. That's correct. Basically if Company have not
15 installed a radio-read meter yet, I think there is no
16 evidence. But if the Company can provide us, say, if they
17 have three local vendors and give them actual bid of their
18 cost so Staff can see supporting document, Staff would
19 review that and make a recommendation.

20 Q. So, Mr. Liu, if the Company, for example, were to
21 file, as late-filed exhibit, documentary evidence of the
22 cost to the Company of a radio-read meter, would the
23 Company be willing to look at it and possibly reconsider
24 its position?

25 A. Staff definitely will review that and reconsider

1 our recommendations.

2 Like I mentioned, we would like to see not just
3 the meter itself; we would like to see the service line
4 charges too, because that will impact on the total charges
5 Staff recommended. I think we gave up to limit to service
6 line charges, too, and they are 445. Maybe Company is
7 right and then they need extra \$83 to cover the meter
8 cost. But there is a potential that their service line
9 charges will be lower, then the total charges will remain
10 the same.

11 So that is why I said, we not just ask the
12 Company to provide us the meter read itself; we would like
13 to see service line fee, too, so we can adjust total
14 charges accordingly.

15 ALJ MARTIN: Okay. I understand.

16 Mr. Van Cleve, anything else based on my
17 questions?

18 MR. VAN CLEVE: Nothing further, Your Honor.

19 ALJ MARTIN: All right. Mr. Liu, thank you very
20 much. And in the off chance that other questions are
21 raised during Mr. Chaves's testimony, will you still be
22 around in case we need you?

23 THE WITNESS: Yes, I will.

24 ALJ MARTIN: Very well. Thank you very much.

25 THE WITNESS: Thank you, Judge.

1 ALJ MARTIN: Okay. And I will go and hang up the
2 phone, I think.

3 THE WITNESS: Thank you.

4 ALJ MARTIN: Thank you.

5 Off the record.

6 (Discussion off the record.)

7 ALJ MARTIN: Mr. Van Cleve, your next witness.

8 MR. VAN CLEVE: Thank you, Your Honor. Staff
9 calls Pedro Chaves as our next witness.

10

11

PEDRO CHAVES,

12 called as a witness herein, appearing on behalf of Staff,
13 having been first duly sworn by the certified court
14 reporter, was examined and testified as follows:

15

16

DIRECT EXAMINATION

17

18 Q. (BY MR. VAN CLEVE) Good afternoon, Mr. Chaves.

19 A. Good afternoon, Mr. Van Cleve.

20 Q. Could you please state your full name for the
21 record.

22 A. Yes. My name is Pedro Chaves.

23 Q. And by whom are you employed and at what address?

24 A. I'm employed by the Arizona Corporation

25 Commission. The address is 1200 West Washington Street,

1 85007.

2 Q And in what capacity are you employed by the
3 Arizona Corporation Commission?

4 A I'm a public utilities analyst.

5 Q And in this case did you prepare and file direct
6 and surrebuttal written testimony?

7 A I did.

8 Q You should have two documents in front of you,
9 one that has been marked as S-3 for identification and the
10 other one that was marked as S-4 for identification.

11 Do you see those?

12 A I do.

13 Q Turning first to S-3, would you please identify
14 that document for the record?

15 A S-3 is the copy of my direct testimony filed on
16 August 10th of 2009.

17 Q And then referring to S-4, could you please
18 identify that document for the record?

19 A Yes. S-4 is the surrebuttal -- a copy of
20 surrebuttal testimony, my surrebuttal testimony filed on
21 September 28, 2009.

22 Q And were S-3 and S-4 prepared by you or under
23 your supervision?

24 A Yes, they were.

25 Q And do you have any corrections, clarifications

1 or modifications to make either to S-3 or S-4?

2 A. Yes. Staff, after looking at the rejoinder
3 testimony of Mr. Bourassa, changed the accumulated
4 depreciation number, which resulted in an increase of
5 deferred value rate base of around \$40,000.

6 Q. Okay. And do you have that specific figure
7 available or is it -- let me rephrase that.

8 Does that change have an impact on what Staff is
9 recommending in this case?

10 A. It does not have the impact on the revenue
11 requirement.

12 Q. And if necessary would Staff file, I guess, final
13 schedules in this case that would reflect that correction?

14 A. Certainly.

15 Q. Okay. And with that change, if I were to ask you
16 the same questions that are contained in S-3 and S-4,
17 would your answers to those questions today be the same or
18 substantially similar to what is contained in those
19 documents?

20 A. Yes, they would.

21 MR. VAN CLEVE: Your Honor, I move for the
22 admission of S-3 and S-4.

23 MR. GELLMAN: No objection, Your Honor.

24 ALJ MARTIN: Thank you. So admitted.

25 (Exhibits S-3 and S-4 were admitted into

1 evidence.)

2 MR. VAN CLEVE: With that I tender Mr. Chaves for
3 cross-examination.

4 ALJ MARTIN: Mr. Gellman.

5

6 CROSS-EXAMINATION

7

8 Q. (BY MR. GELLMAN) At the risk of mutilating some
9 dead horses, good afternoon, Mr. Chaves.

10 A. Good afternoon, Mr. Gellman.

11 Q. Let's start about the ever exciting topic of CIAC
12 in rate base. I will start out by referring you to
13 schedule PMC-2 in your surrebuttal. I will give you a
14 moment to find that.

15 ALJ MARTIN: PMC-2?

16 MR. GELLMAN: PMC-2, correct.

17 THE WITNESS: I'm there.

18 Q. (BY MR. GELLMAN) And you would agree with me
19 that CWIP is not part of rate base in this case; neither
20 the Company or Staff are recommending its inclusion?

21 A. That's correct.

22 Q. But Staff is recommending that CIAC associated
23 with CWIP be deducted from specifically net
24 plant-in-service?

25 A. Do you want to reference to my schedule or --

1 Q Just generally, Staff is recommending that CIAC
2 associated with CWIP be deducted from net plant-in-service
3 to determine rate base, the \$537,000 figure relates to
4 on -- line 5 of your schedule refers to CIAC associated
5 with CWIP?

6 A Correct. It is deducted from the total rate
7 base.

8 Q And that is in addition to the approximate
9 \$14.5 million that is also CIAC that would be deducted
10 from plant-in-service?

11 A Correct.

12 Q And summing those gets us to the figure of about
13 15.1348?

14 A Around, yes.

15 Q So basically the difference here is Staff deducts
16 \$15.1 million from net plant-in-service to come up with
17 this rate base figure whereas the Company deducts about
18 14.5 million?

19 A Correct.

20 Q And that is the large difference in the rate base
21 figures between Staff and the Company?

22 A Yes.

23 Q Okay. You would agree with me, though, that the
24 \$537, that is not funding plant currently in service?

25 A Yes.

1 Q That is being used for plant that may be, as you
2 put it, ultimately determined to be in rate base following
3 a subsequent rate case; correct?

4 A Correct.

5 Q And generally it's Staff's position not to allow
6 CWIP in rate base for any utility, except under
7 extraordinary circumstances; correct?

8 A That is Staff's position as I have seen.

9 Q And is that because Staff -- or that is because
10 that plant is not -- or those costs are not currently for
11 plant that is used and useful and in service during the
12 test year; correct?

13 A Not necessarily. It can be because of various
14 reasons, but, yeah, that may be a reason.

15 Q That is one of the reasons?

16 A Right.

17 Q But Staff is including funds, CIAC funds,
18 associated with plant under construction as part of its
19 rate base calculation here; correct?

20 A Correct.

21 Q And it's because, I think, a large part of
22 Staff's justification is that, quote/unquote, investors
23 have committed those funds?

24 A Can continue -- can you reference to my direct
25 testimony?

1 Q I can -- I believe you say it on your direct
2 testimony on page 6, lines 9 through 17.

3 A Correct.

4 Q Okay. But those funds have been committed
5 towards plant in the future; correct?

6 A Yes.

7 Q And if we look at your schedule PMC 2, the first
8 line talks about approximately 37-and-three-quarter
9 million -- or \$37,770,000 for gross plant-in-service?

10 A Correct.

11 Q And then we take out obviously accumulated
12 depreciation, and we come out with a net plant-in-service
13 figure; correct?

14 A Yes.

15 Q And that's -- those dollars -- those costs have
16 been paid for by what you referred to as investors,
17 correct, or at least a large part of it?

18 A A large part of it.

19 Q And there are some that have been contributed,
20 and so we subtract the contribution from that net
21 plant-in-service; correct?

22 A Correct, or advanced.

23 Q Or advanced; correct?

24 A Yes.

25 Q So looking at PMC-2 there is still a bulk of

1 money. And if we look at your column A, there is about, I
2 would say, 13 -- roughly 13.5 million that wasn't
3 contributed that came from the investors, quote/unquote;
4 correct?

5 A. Roughly, yes.

6 Q. We take -- but what Staff is recommending is that
7 we deduct an additional half million dollars and some
8 change from that amount that you just said the,
9 quote/unquote, investors have provided for
10 plant-in-service; right?

11 A. We are recommending to take out the amount of
12 CIAC in CWIP, yes.

13 Q. Right. So there is about a half million dollars
14 left -- or less that investors have provided that is going
15 to be in the ultimate rate base figure under Staff's
16 recommendation?

17 A. Going -- that's to be out --

18 Q. Right, that is going to be out of rate base?

19 A. -- of rate base.

20 Q. So there is an extra half million dollars now
21 that even though investors have provided those funds to
22 cover those costs, that is just not included in rate base
23 so there is no chance of a return on it?

24 A. Not necessarily, and here is the thing.

25 If you were to keep following the same rationale,

1 if we were to keep those roughly half million dollars,
2 rate base would be increased by that half million dollars.
3 And, you know, the rate base would be increased by that
4 amount.

5 And if a Company, you know, were to derive -- not
6 that it's the case in this particular instance -- but if
7 we were to derive our revenue requirement from a rate of
8 return, there would be an excess of earnings.

9 Q. Yeah, we will get to that point in a second, but
10 I want to focus on this schedule.

11 A. Okay.

12 Q. And I don't believe you answered my question, so
13 I will try to rephrase it.

14 A. I'm sorry.

15 Q. Under Staff's recommendation you are taking out
16 an extra half million dollars, approximately, that now
17 there is -- that is going to affect the revenue
18 requirement in this case?

19 A. It's not going to affect the revenue requirement
20 in this case.

21 Q. It's not? Well, there is a difference between
22 the rate base number that the Company -- or between the
23 Company's recommendation and Staff's recommendation;
24 correct?

25 A. Correct.

1 Q And there is a difference in the revenue
2 requirement recommendations that each party is making;
3 correct?

4 A That is correct.

5 Q And a large part of that revolves around this
6 adjustment that Staff is recommending versus what the
7 Company is recommending; correct?

8 A No. That would be -- if Staff were to derive
9 its -- let me rephrase.

10 Staff comes up with the revenue requirement by
11 making sure that the cash flows that the Company has are
12 sufficient for the Company to have ongoing service and pay
13 their debt service coverage and so on.

14 So if the cash flow is appropriate and these
15 numbers were different, I believe Staff's, of course, in
16 that hypothetical case, would be the same.

17 Q Well, we are -- I guess I'm confused by your use
18 of the term "hypothetical."

19 I mean Staff is actually recommending this
20 adjustment; correct?

21 A That is correct.

22 Q And it's a recommendation -- and this is an
23 adjustment that rolls into the revenue requirements in
24 this case; correct?

25 A No. That is not correct.

1 Q It's not correct?

2 A In this particular case, no.

3 Q Well, Staff talks about investors committing
4 fewer funds. That doesn't obviously apply in this case
5 either.

6 A Well, can you tell me -- that was page 6 of the
7 testimony?

8 Q I believe you talked about investors on page 6 of
9 your direct testimony.

10 A Correct. And if you look at the question, it
11 says, "Please describe how CIAC and advances in aid of
12 construction relate to plant-in-service and rate base."

13 So generally, yes, that is the case.

14 Q So all this testimony is referring to what you
15 would generally do?

16 A That's how the contribution in aid of
17 construction and advance in aid of construction relate to
18 plant-in-service and rate base.

19 Now, remember we are not deriving our revenue
20 requirement from rate base.

21 Q Well, you also understand, Mr. Chaves, that there
22 aren't really investors in this case as there would be for
23 an -- your typical investor-owned utility; correct?

24 A That is correct.

25 Q We have a situation where we have members -- the

1 members are basically the owners of the Company?

2 A. That's how it works in unincorporated.

3 Q. We have a nonprofit cooperative; correct?

4 A. Correct.

5 Q. So all of this talk about investors and excess
6 earnings and all the testimony that you provided, none of
7 it really applies in this case?

8 A. To same extent that the whole discussion of CIAC
9 and IACC pertains to this case, yes.

10 Q. So the discussion of CIAC and IACC that you
11 mentioned in your testimony, you are telling me that this
12 pertains to this case?

13 A. Certainly, because it's an issue that the Company
14 raised. Now, does it affect the revenue requirement and
15 the rate design and the way we are going to determine the
16 cash flow for the Company to be able to serve its
17 consumers and divest in its Company, I don't think so.

18 Q. But all the justifications you used -- excess
19 earnings, investors somehow funding -- those reasons that
20 you provided in your testimony, again, they don't apply to
21 this company?

22 A. That is Staff's position concerning CIAC and
23 IACC.

24 Q. Well, let's --

25 A. When it relates to plant-in-service and rate

1 base.

2 ALJ MARTIN: Mr. Gellman, may I interrupt for a
3 minute because I'm kind of confused.

4 MR. GELLMAN: Yes.

5 ALJ MARTIN: Do you mind if I ask a question?

6 MR. GELLMAN: No problem, Your Honor.

7 ALJ MARTIN: Okay. Thank you.

8 If I understand what you are saying, Mr. Chaves,
9 is that because this is a cooperative and because you are
10 looking not at a rate of return but rather through the
11 point of view of providing revenue to provide a sufficient
12 operating margin, all of this -- all of these questions
13 regarding rate base and such are irrelevant? Is that what
14 you are saying or am I completely missing the point?

15 THE WITNESS: Clearly they are not irrelevant
16 because we do mention them in the Staff report and
17 surrebuttal. More to show what Staff's position is on the
18 issue of CIAC and IACC when related to plant-in-service
19 and rate base.

20 Now, there is perhaps something I might want to
21 clarify. We don't derive our revenue requirement on the
22 operating margin itself. We make sure that, yes, there is
23 sufficient cash flows that allow the Company to provide
24 service, pay debt service, so on and so forth.

25 ALJ MARTIN: Okay. However, doesn't the

1 treatment in this case of CIAC and CWIP affect the bottom
2 line on the accumulated depreciation thereby impacting the
3 number, whatever that number might be, that helps you
4 determine what would be an appropriate revenue?

5 THE WITNESS: And precisely that is where I want
6 to make the differentiation.

7 If we were basing our revenue requirement
8 entirely from operating margin, yes, but we are not. Our
9 revenue requirement is derived from sufficient cash flow
10 for the Company to provide service to ratepayers and to
11 investors in the Company and so on and so forth.

12 ALJ MARTIN: Thank you. Sorry for the
13 interruption, Mr. Gellman.

14 MR. GELLMAN: No problem, Your Honor.

15 Q. (BY MR. GELLMAN) Let's follow up on with what
16 the Judge asked you.

17 Staff is also doing, for lack of a better word, a
18 rate of return check in addition to looking at operation
19 margin and cash flows and the other considerations it
20 looks at when determining what the appropriate revenue
21 requirement is for this Company?

22 A. I wouldn't say check, but we do calculate the
23 rate of return. And it has been mentioned before this
24 hearing -- you know the Hearing Division has to come up
25 with a fair value rate of return in order to put in the

1 decision.

2 So it's not a check, per se, but rather, you
3 know, a calculation that indicates to us what the rate of
4 return -- fair value rate of return would be.

5 *Q.* And it is fair to say that the Staff's looking at
6 the rate of return to make sure that it is reasonable in
7 Staff's eyes?

8 *A.* It's reasonable in?

9 *Q.* In Staff's eyes, that that would be a reasonable
10 rate of return that Staff would recommend?

11 *A.* Again, not necessarily. I mean, there might be
12 cash flow needs that might result in a rate of return that
13 is much higher than what typically is recommended,
14 especially in the case of a co-operative.

15 *Q.* But you are looking at the rate of return;
16 correct?

17 *A.* By looking, you mean basing my recommendation on
18 it? What do you know by looking?

19 *Q.* Are you looking at the rate of return, again, to
20 make sure that it's a return that Staff would be
21 comfortable recommending as if this were your more
22 garden-variety utility instead of a cooperative; correct?

23 *A.* Staff wouldn't be comfortable with a cash flow
24 that provides, you know, in this instance to the
25 cooperative, you know, sufficient cash flow to pay debt

1 cost and --

2 Q Let me ask it this way.

3 Even though you are determining revenue
4 requirement from cash flow operating margin, you are still
5 requiring B schedules for a not-for-profit cooperative;
6 correct?

7 A Correct.

8 Q You are still requiring C schedules?

9 A Correct.

10 Q You are still requiring all the schedules that
11 you would require as if this were an investor-owned
12 utility?

13 A Correct.

14 Q And not only are you requiring those but Staff is
15 also -- I believe a lot of your schedules relate directly
16 to or are very similar to B schedules and C schedules, for
17 example, that the Company would be -- that the Company is
18 required to file?

19 A Correct, and not all schedules. We don't require
20 them to file D schedules.

21 Q The cost of capital schedule?

22 A Correct.

23 Q But largely you are -- as part of your testimony
24 you put together your own, quote/unquote, B schedules;
25 correct?

1 A. Correct.

2 Q. So you are looking at rate base as part of your
3 analysis in this case?

4 A. Correct.

5 Q. And you are making adjustments, such as the one
6 that I'm trying to get you to focus on, which is the
7 \$500,000; correct?

8 A. Correct.

9 Q. And that is associated with CIAC, associated with
10 CWIP; correct?

11 A. Correct.

12 Q. Okay.

13 A. And just to -- again, we cannot find a fair value
14 rate of return if there is no fair value rate base. So
15 definitely I would have to take a look at those.

16 Q. Understood.

17 Let's talk about the effects, and we will try to
18 get through this briefly.

19 You have testified in rate cases for quite a
20 while now; correct?

21 A. Four years almost.

22 Q. So you have looked at items, like if CWIP were to
23 be in rate base what kind of effect that would have;
24 correct?

25 A. Unfortunately not. I have testified mainly on

1 cost of capital, but I did before this case, yes.

2 Q So if CWIP were to be in rate base -- and I'm
3 asking you as an expert for Staff -- it would be part of
4 this schedule, schedule PMC-2?

5 A Can you repeat the question, please.

6 Q If CWIP were to be included in rate base, it
7 would be included as part of this schedule PMC-2? There
8 would be a separate line item?

9 A Correct.

10 Q And if CWIP were to be, say, \$1 million, you
11 would still deduct CIAC from that plant-in-service
12 associated with the CWIP?

13 A That's correct.

14 Q So we are in the position now where we would be
15 deducting the \$537,000 under Staff's recommendation
16 irregardless of whether CWIP were in rate base or not?

17 A Hypothetically, yes.

18 Q And obviously that is not being done here?

19 A That's the nature of my answer, yes.

20 Q So we are taking zero CWIP that is rate base,
21 because there is no CWIP in rate base, and we are
22 subtracting \$537,000 approximately of CIAC associated with
23 CWIP from the rate base; correct?

24 A Correct.

25 Q Okay. And the result of that particular

1 subcalculation is a negative \$537,000; correct?

2 A. Yes.

3 Q. Do you agree that a fundamental tenet of
4 ratemaking about CIAC or regarding CIAC is that CIAC in
5 rate base should be revenue neutral?

6 A. May you repeat the question, please.

7 Q. Sure. Do you believe that it's a fundamental
8 tenet of ratemaking, as Mr. Bourassa testifies to, that
9 CIAC in rate base should be ultimately revenue neutral?

10 A. Yes, ultimately.

11 Q. And there should be no return on or of CIAC in
12 rate base; correct?

13 A. There should not be a return, correct.

14 Q. And you would also agree that there is an
15 amortization of CIAC whenever we include CIAC as part of
16 the overall revenue calculation; correct?

17 A. That is correct.

18 Q. And part of that, or at least part of that,
19 offsets any depreciation expense associated with CIAC;
20 correct?

21 A. Correct.

22 Q. That is regardless of whether or not it's
23 associate with CWIP, that CIAC, there is an amortization
24 that still offsets the depreciation expense?

25 A. Yes.

1 Q And the purpose of that is to keep the impact of
2 CIAC-funded plant revenue neutral?

3 A You could say that.

4 Q Plant under construction, if it's deemed used and
5 useful, eventually become plant-in-service?

6 A Please repeat the question.

7 Q Sure. Plant that is under construction now --
8 and I believe you testified to this, and I believe it's on
9 page 6 of your direct -- plant under construction, if it's
10 used and useful, it may ultimately become part of rate
11 base; correct?

12 A Yes.

13 Q Okay. And when it becomes part of rate base,
14 it's eventually going to start to depreciate?

15 A Correct.

16 Q That means there will be depreciation expense
17 associate with that plant?

18 A Yes.

19 Q And amortization of CIAC will occur when the CIAC
20 calculation is included as part of the rate base
21 determination?

22 A When that happens.

23 Q So if we include this \$537,000 now, the
24 amortization of that amount is going to start upon
25 conclusion of this case and when the Commission approves

1 the order regarding this rate case?

2 A. Please rephrase the question -- not rephrase, but
3 just repeat the question.

4 Q. I will avow that was a bad question. Let me see
5 if I can rephrase it.

6 Amortization of -- now, I'm talking again about
7 the particular \$537,000 -- that is going to -- if Staff's
8 recommendation is adopted, the amortization of that figure
9 is going to commence upon the effective date of new rates
10 in this case; correct -- or upon approval of the order
11 granting new rate for this Company?

12 A. That is correct.

13 Q. But the depreciation expense associated with that
14 plant won't occur until after that plant is put into rate
15 base for purposes of determining rates; correct?

16 A. Yes.

17 Q. So the CWIP we are talking about, that is not
18 going to be included in rate base until after conclusion
19 of the next rate case?

20 A. Correct.

21 Q. So we have amortization in this case regarding
22 the \$537,000, but the depreciation associated with that,
23 the plant that that costs or funds -- let me start that
24 question over.

25 While the amortization will start upon conclusion

1 of this rate case, the depreciation associated with the
2 plant that is associated with these funds won't commence
3 until conclusion of the next rate case?

4 A. Correct.

5 Q. And so there is going to be a decrease in the
6 revenue requirement, at least what is calculated in
7 Staff's schedules, after this rate case; correct?

8 A. Please repeat the question again, because I need
9 to --

10 Q. Could we have that question read back?

11 (Requested portion of the record read.)

12 THE WITNESS: And in this case, no.

13 Q. (BY MR. GELLMAN) Well, that is because you are
14 doing the operating margin cash flow determination?

15 A. Yes, and I apologize for having the question
16 asked again. I wanted to make sure it was pertaining to
17 this particular case. So, yes.

18 Q. But if we were using these schedules to determine
19 the revenue requirement, then there would be a decrease in
20 the revenue requirement associated with the amortization
21 of CIAC; correct?

22 A. Yes.

23 Q. And there would be an increase -- subsequent
24 increase after the next rate case if the CWIP becomes in
25 service, used and useful, and is part of rate base, that

1 will lead to the depreciation expense that would become
2 part of the overall revenue requirement calculation at the
3 conclusion of the next rate case?

4 A. Correct.

5 Q. Don't want to go too much into this, but I want
6 to talk to you a little bit about what Staff did in the
7 Far West and Johnson Utilities cases.

8 Are you at least familiar with those cases?

9 A. I'm not.

10 Q. Did you --

11 A. The interim Far West case?

12 Q. I believe it's the permanent rate case. It was
13 from 2005.

14 Did you review that as part of your preparation
15 in this case?

16 A. I did not.

17 Q. Did you review Mr. Bourassa's rebuttal testimony
18 as part of your preparation?

19 A. I did not -- I'm sorry. Pertaining to this case?

20 Q. Pertaining to this case.

21 A. I'm sorry. Yes, of course I did.

22 Q. So you saw him mention the Far West Water & Sewer
23 case?

24 A. Yes.

25 Q. And are you aware that at least Staff took out or

1 at least -- what is the proper word -- deducted some
2 plant-in-service associated with Far West Water & Sewer?

3 A. Yes.

4 Q. Okay. And for the record we have marked, I
5 believe, as Exhibit S-11 a copy of Staff's direct
6 testimony in the Far West case. And I'm going to turn
7 your attention to specifically pages 1 through 5 of that.

8 ALJ MARTIN: Hold on, Mr. Gellman. You marked
9 these as exhibits for the court reporter?

10 MR. GELLMAN: I have.

11 ALJ MARTIN: You said S-11?

12 MR. GELLMAN: Yes, I can -- S-9 is a copy of
13 Staff's data requests to Community Water Company's first
14 set of data requests.

15 MR. VAN CLEVE: You mean A?

16 MR. GELLMAN: Did I say S all this time? That
17 might be the problem.

18 ALJ MARTIN: Also, I have -- I went through A-7.
19 So where are A-8, 9 and 10, if you are going to A-11?

20 MR. GELLMAN: A-8 is a copy of the last Community
21 Water Company Green Valley rate decision.

22 ALJ MARTIN: All right. I will leave it to you.
23 I'm confused, but I will go from there.

24 MR. GELLMAN: I will try to be more clear on the
25 record as to what I'm referring to.

1 ALJ MARTIN: Okay. Thank you.

2 MR. GELLMAN: And I will try to not say
3 Exhibit S, which did not help.

4 Q (BY MR. GELLMAN) Mr. Chaves, you should have a
5 copy of Exhibit A-11, which is the entirety of Staff's
6 testimony in the Far West Water & Sewer case, and I have
7 handed copies of the pertinent parts to Your Honor and to
8 Staff.

9 A. A-11, yes.

10 Q. You have that in front of you?

11 A. Yes.

12 Q. And I will ask you to refer to pages 1 through 5
13 of that, and if you need to refer to the schedules for
14 that, I can certainly direct you to which schedules.

15 But Staff in that case, they did remove a certain
16 amount of plant-in-service; correct?

17 ALJ MARTIN: And I'm sorry, again, Mr. Gellman.
18 The testimony, since mine aren't marked, is this the
19 surrebuttal testimony of Crystal Brown?

20 MR. GELLMAN: I apologize. Surrebuttal testimony
21 is what I meant to say.

22 ALJ MARTIN: Of Crystal Brown, because I also
23 have something for Jeff Michlik.

24 MR. GELLMAN: And that is A-10.

25 ALJ MARTIN: That is A-10? Okay.

1 So Ms. Brown is A-11?

2 MR. GELLMAN: Yes. Since I know there are
3 requests that the entirety of the exhibit or the entirety
4 of testimonies be provided, the official copy of the court
5 reporter's copy has all of Staff's surrebuttal testimony
6 for Exhibit A-11 and also of Staff's surrebuttal testimony
7 for Exhibit A-10.

8 ALJ MARTIN: Okay. All right. I am sorry I keep
9 interrupting, I want to be clear where we are looking.

10 Q. (BY MR. GELLMAN) Mr. Chaves, could you just
11 briefly review that and look up when you are done?

12 A. And you said until page 5?

13 Q. Yes.

14 A. Yes. And the associated schedule CSB-10; is that
15 correct?

16 Q. I believe the appropriate schedules are CSB-3 and
17 CSB-4.

18 A. All right.

19 Q. I want to ask you, it's true that Staff removed a
20 certain amount of plant-in-service from rate base in that
21 case or at least recommended that a certain amount of
22 plant be removed?

23 A. That is what it seems to say, yes.

24 Q. And it also -- this also is not related to
25 construction work in progress; correct?

1 A. Correct.

2 Q. But even so Staff removed associated CIAC with
3 that plant-in-service from the rate base calculation?

4 A. Apparently, yes.

5 Q. Okay. You should also have a copy with you, and
6 this is marked as Exhibit A-10, the surrebuttal testimony
7 of Jeffrey Michlik as part of the ongoing Johnson
8 Utilities rate case.

9 Do you have that in front of you?

10 A. I do.

11 Q. And specifically I will refer you to pages 2
12 through 4 and surrebuttal schedule JMM W-2, if you could
13 review those and look up when you are finished.

14 ALJ MARTIN: Mr. Gellman?

15 MR. GELLMAN: Thank you, Your Honor.

16 Q. (BY MR. GELLMAN) In that case or at least Staff
17 is recommending in the pending Johnson Utilities case that
18 certain plant be taken out because it wasn't found to be
19 used and useful?

20 A. For having excess capacity, yes.

21 Q. And it also has -- Staff has also recommended
22 taking out the associated IACC or CIAC with that plant
23 found to be not used and useful or having excess capacity?

24 A. In this case, yes.

25 Q. So is it not unprecedented that Staff take out

1 associated CIAC with plant found to be not used and useful
2 from the rate base calculation for whatever reason?

3 A. It is not.

4 Q. Thank you.

5 With that I think I have beaten that topic to
6 death and we will happily move on to rate design.

7 You have a copy of what has been marked as
8 Exhibit A-8 in front of you.

9 That is the last decision for Community Water
10 Company of Green Valley; correct? It might be in the
11 binder.

12 A. Rate decision?

13 Q. Correct. Let me know when you are there.

14 A. I'm there.

15 Q. Okay. You would agree with the rate design that
16 the Company basically proposes in terms of break-over
17 points and inverted three-tier rate design for residential
18 customers, that was the same type of rate design approved
19 in the last rate case?

20 A. In December of 2006.

21 Q. And that was Staff's proposed rate design in that
22 case; correct?

23 A. I beg your pardon?

24 Q. That was Staff's proposed rate design?

25 A. Correct.

1 Q And at that time -- and I think it's finding of
2 fact 34, if you would like to review it -- Staff's rate
3 structure in this case shifted a greater proportion of
4 revenues to the commodity rate away from the fixed charge?

5 A You mentioned finding of fact 34, yes?

6 Q 34, correct.

7 A Yes.

8 Q And also Staff's rate design that was adopted by
9 the Commission encourages conservation that is more
10 equitable to the lower-use customers?

11 A That is what the decision says.

12 Q And that included the break-over points that the
13 Company is proposing for its commercial customers and for
14 metered customers above one inch; correct?

15 A Yes. And to that point, yes, they are still
16 recommending the same rate design that was proposed in --
17 that was approved December 21, 2006.

18 Now, that doesn't mean that that recommendation
19 that Staff made at that point in time was the final
20 recommendation. We certainly always want to encourage
21 efficient use of water. So by lowering that -- by doing
22 the rate design that we are recommending in this current
23 case, we are going towards that goal. We are continuing
24 to go towards that goal.

25 Q But you would agree with me that leaving the

1 current practicing break-over points would still lead to a
2 rate design that encourages conservation; correct?

3 A. It encourages efficient use of water.

4 Q. But here Staff is recommending lower break-over
5 points for the larger meters, particularly one-inch and
6 above; correct?

7 A. Let me look at my schedule.

8 Q. If you want to refer to surrebuttal PMC-14,
9 please do.

10 A. 14, correct. And the answer is yes, and also for
11 the smaller meter sizes as well.

12 Q. The smaller meter sizes for commercial customers;
13 correct?

14 A. Correct.

15 Q. And while the Company didn't conduct a cost of
16 service study, it's fair to say that Staff didn't conduct
17 a cost of service study in designing its rate for this
18 case; correct?

19 A. That's correct.

20 Q. Okay. And at present for the difference between
21 the commodity rate between the first tier and the second
22 tier, we have approximately a 38-cent difference for
23 one-inch and above metered customers from \$1.82 to \$2.20?

24 A. Are you looking at my schedule?

25 Q. Yes. Is that what the current difference is

1 between the commodity rates?

2 A. Correct, and the current rate, yes.

3 Q. And the Company is proposing to increase that to
4 55 cents between the first and second tiers for those
5 metered customer; correct?

6 A. That's correct.

7 Q. And Staff is proposing a 92-cent difference
8 between the first and second tiers for those metered
9 customers; correct?

10 A. Yes.

11 Q. To short-circuit this, I could go through all of
12 these comparisons, and basically the extremes or the
13 differences between the Company's commodity rates are less
14 than what Staff is recommending; correct?

15 A. Can you repeat that again, please?

16 Q. Sure. I kind of want to generalize this because
17 I don't want to go through it all.

18 But it's fair to say that the commodity rates
19 that Staff is recommending, the differences between the
20 various tiers are greater, bigger than what the Company is
21 proposing; correct?

22 A. The difference between tiers, yes.

23 Q. Okay. So it's fair to say that the Company's
24 proposal in terms of the difference is less or is more
25 gradual than Staff's on this point?

1 A. Gradual when compared to the current rates?

2 Q. The Company's proposal in terms of the
3 differences between the commodity rates, between first
4 tier and second tier and third tier, the Company's
5 proposal is more gradual than Staff's?

6 A. When talking about the difference between those
7 two tiers, yes.

8 Q. And you would also agree with me that the shift
9 that the present rates -- or let me ask you this.

10 You have reviewed Mr. Bourassa's rebuttal
11 testimony on the topic of rate design?

12 A. Yes.

13 Q. And he indicated, and you can refer to his
14 rebuttal at pages of 13 and 14 -- it should be in front of
15 you.

16 A. You said 13 and 15?

17 Q. 13 and 14 of his rebuttal.

18 The present rate design, basically 82 percent of
19 the revenues are, more or less, coming from residential
20 customers?

21 A. Correct.

22 Q. And 18 percent of revenues are coming from
23 commercial customers?

24 A. Yes.

25 Q. And you don't have any reason to disagree that

1 95 percent of Company's customers are residential?

2 A. 85?

3 Q. Or at least 85 percent?

4 A. I believe so.

5 Q. Okay. So under Staff's proposed rate design
6 there is more of a shift to the commercial customers in
7 terms of who is going to bear the cost than under the
8 Company's proposed rate design?

9 A. Repeat that. I'm sorry.

10 Q. Do you agree that there is more of a shift of the
11 burden of revenues to the commercial customers under
12 Staff's proposed rate design than the Company's?

13 A. You could say that.

14 Q. Okay. But under both rate designs they do shift
15 the revenue burden from residential to commercial
16 customers?

17 A. Yes.

18 Q. So again this is another example where on this
19 topic Staff's rate design is less gradual than the
20 Company's?

21 A. You are referring to the tiers? Are you still
22 talking about the difference between the two tiers?

23 Q. Now I'm just referring to the percent of revenues
24 that are to be collected from each class of customer.

25 A. When comparing to the commercial.

1 Q. When comparing residential to commercial
2 customers, isn't it true that under Staff's rate design
3 more of the burden shifts to the commercial customers than
4 it would be under the Company's proposed rate design?

5 A. Yes.

6 MR. GELLMAN: Could I have one moment, Your
7 Honor?

8 ALJ MARTIN: Yes.

9 MR. GELLMAN: I'm trying to see if I can shorten
10 some of this.

11 Q. (BY MR. GELLMAN) Mr. Chaves, let's move briefly
12 to the issue of construction water.

13 You would agree with me that construction water
14 is basically -- construction customers need water
15 basically to for new development, new subdivisions, what
16 have you?

17 A. Yes.

18 Q. So we are dealing largely with growth when we
19 talk about construction?

20 A. I think we are dealing mainly with construction.

21 Q. You don't want -- you can't say whether that is
22 for growth or not?

23 A. Well, I mean, it could be or it could not. You
24 could associate it with growth, yes.

25 Q. Okay. So when we are talking about the monthly

1 minimum charges, Staff is still maintaining its
2 recommendation that there be no monthly minimum for
3 construction customers?

4 A. Correct.

5 Q. And you would agree, though, that regardless of
6 usage by the construction customers, the Company must
7 still go out and read the meter?

8 A. Yes.

9 Q. And it must also mail out a bill or statement?

10 A. Yes.

11 Q. So there are certain costs that regardless of the
12 amount of water that a construction customer uses, there
13 will be costs incurred by the Company; correct?

14 A. Certainly. That is why they get the third tier
15 rate, which is the highest one.

16 Q. But if they don't use any water, they will have
17 zero on their bill?

18 A. Certainly. And under that line of thought, you
19 know, if they aren't using the meter, they might as well
20 return it.

21 Q. And this gets us into the issue of deposit versus
22 deposit interest; correct?

23 A. Correct.

24 Q. So Staff is saying that the fact that there is a
25 deposit or could be a deposit, that will provide incentive

1 for construction customers to return the meter; correct?

2 A. I haven't performed an analysis on that, but it
3 is my understanding that the business -- the core business
4 of construction company is constructing rather than, you
5 know, keeping meters for premium.

6 So yeah, they want to move on basically.

7 Q. Okay. But having a deposit could be offset by
8 the fact that we have this interest rate for the funds
9 that are deposited?

10 A. I do not believe so.

11 Q. Even though that interest rate is well above
12 again what the typical interest rate is for -- as compared
13 to a CD or money market?

14 A. Neither. I mean, that rate may remain in effect
15 until the next rate increase. So, I don't know if
16 interest rates -- you know, something could happen and the
17 next year's interest will be 12 percent, for that matter.

18 So, yeah, that is why I believe the rule is it's
19 reasonable at 6 percent.

20 Q. Mr. Chaves, to that point, we haven't seen
21 interest rates of 12 percent in quite a while; correct?

22 A. Right, around the '80s.

23 Q. And we don't expect that interest rates are going
24 to be at 12 percent anytime soon based on your knowledge?

25 A. Based on my knowledge, I couldn't predict that we

1 would have such a depreciation as we saw not too long ago.
2 So, again, I'm not one to predict the future pertaining to
3 interest rates.

4 Q But we are not seeing any indication at this time
5 that interest rates are going to jump up even to 6 percent
6 at this time, let alone 12 percent; correct?

7 A There is no indication. Yeah, I could agree with
8 that.

9 Q Okay. Let's finally talk briefly about the
10 proposed miscellaneous charges, the call-out and
11 reconnection fee, and all that fun stuff.

12 You said at your direct at page 14 lines 1
13 through 5 that the Company has not offered a cost-based
14 rationale to justify increases in the service charge.

15 Do you recall that?

16 A Yes.

17 Q And then you have referred to Mr. Gabaldon's
18 rebuttal testimony, specifically at page 7 line 16 through
19 page 8 line 18.

20 A May you repeat the pages, please?

21 Q Sure. It's Mr. Gabaldon's rebuttal testimony
22 starting at page 7 line 16 through page 8 line 17.

23 A Yes.

24 Q And you agree that is where Mr. Gabaldon went
25 into some detailed explanation as to the justification

1 behind the call-out charges; correct?

2 A. Yes.

3 Q. And your understanding that service personnel
4 are -- their are cost is \$35 per hour?

5 A. Repeat that once again.

6 Q. You understand that the cost to have service
7 personnel go out after hours or on Saturdays is \$35 an
8 hour?

9 A. You said after hours and on Saturday?

10 Q. Correct.

11 A. Is that \$70; is that what you are saying?

12 Q. Well, just the per hour charge.

13 A. Per hour, yes.

14 Q. It's \$35?

15 A. It's \$35.

16 Q. And you understand there is a minimum of
17 two hours that is the actual cost for a service person to
18 go out?

19 A. Correct.

20 Q. And that on Sundays and holidays that that
21 becomes double-time, so we are talking \$70 an hour?

22 A. Right.

23 Q. And you understand that these are the actual
24 charges that the Company incurs regarding these costs?

25 A. Yes.

1 Q Okay. And you are not disputing that these are
2 the actual charges or actual costs that the Company is
3 incurring to perform those service for customers?

4 A Well, my testimony basically, if you look at the
5 schedule it indicates that it is more reasonable to have
6 \$10 rather than the \$70.

7 Q We'll get to that in a second.

8 A Okay.

9 Q I just want to ask you, that you are not
10 disputing that that is the actual cost that the Company is
11 incurring for those -- to perform those services for
12 customers?

13 A Right. I'm not disputing that the board of
14 directors decided that they would create a minimum of
15 two hours for such and it would be \$70, correct.

16 Q And, Mr. Chaves, you are recommending as part of
17 Staff that the call-out charges be left at \$10 and \$20?

18 A Correct.

19 Q And do you believe that that is the actual cost
20 that the Company incurs for -- to perform those service?

21 A I believe that is the reasonable cost of service,
22 yes.

23 Q You believe that would be a reasonable cost in
24 today's day and age for service personnel to go out on a
25 Saturday, for example, for a call-out?

1 A Yes.

2 Q Okay. And that is after also reviewing the
3 payroll costs for the Company?

4 A Correct.

5 Q You would still stand by that as a reasonable
6 cost for a call-out?

7 A And if you look at the payroll costs, you know,
8 that is included in -- as one of the expenses, which we
9 haven't modified in our revenue requirement.

10 You have to keep in mind that even if we were to
11 raise -- as Mr. Bourassa indicated in his schedule -- if
12 we were to accept the Company's position of \$70, let's
13 say, we would have to change our revenue requirement to
14 reflect the increase in service charges.

15 So our revenue requirement would still remain the
16 same.

17 MR. GELLMAN: Could I have one moment, Your
18 Honor?

19 ALJ MARTIN: Yes.

20 MR. GELLMAN: Mr. Chaves, it's always a pleasure.
21 Thank you very much.

22 THE WITNESS: My pleasure.

23

24

25

1

EXAMINATION

2

3 Q (BY ALJ MARTIN) Well, I have a happy task of
4 reporting that Mr. Gellman asked a vast majority of my
5 questions -- thank you very much -- but I do have a
6 couple.

7

8 Does Staff have an opinion or policy as to how
9 frequently a water company should apply with the
10 Commission for a rate case? How often do they want a
11 company to come in for a rate increase?

12

13 A. There is not a policy, per se. I have seen
14 around three years. That's what I have seen in my
15 experience as a public utilities analyst, but again, I
16 don't know that we have a policy about that.

17

18 Q. Okay. And I neglected to ask this question of
19 Mr. Gabaldon or Mr. Bourassa -- I say that with a Spanish
20 accent. Mr. Bourassa, how is that?

21

22 But what was the monthly amount charged to the
23 construction customers, do you know, not in total but on
24 an individual basis?

25

26 A. The one that was before? Yes, that should be in
27 schedule PMC-14 on page 2 of 3. The amount that they were
28 getting charged per thousand gallons was \$2.50.

29

30 Q. No. I'm sorry. Monthly?

31

32 A. I believe it was \$100 -- no. Let me just check

1 with my --

2 Q. Okay. Please.

3 ALJ MARTIN: Mr. Gellman, were you going to have
4 rebuttal testimony?

5 MR. GELLMAN: I was probably going to ask for a
6 brief recess to determine if one was appropriate.

7 Certainly we could probably call --

8 ALJ MARTIN: If you have rebuttal testimony, I
9 can ask that question at the time of that testimony.

10 Q. (BY ALJ MARTIN) Mr. Chaves, I will ask that of
11 the Company.

12 A. I have it almost there.

13 Q. Okay.

14 A. I was just looking at it a couple of minutes ago.

15 That would be \$20.

16 Q. Say that again.

17 A. \$20. That was the minimum monthly charge that
18 they thought they were able to charge, and the Company, at
19 least in direct, was proposing \$24.90.

20 Q. Okay. Great. Thank you.

21 Mr. Gellman was asking you questions about the
22 revenue shift to the larger companies and that Staff had
23 shifted break-over points.

24 Why did Staff shift break-over points?

25 A. While we are doing our rate design that promotes

1 the efficient use of water, sometimes the break-over
2 points have to be moved to present any crossover between
3 the two. So one class is not subsidizing the other.

4 Q. Is not subsidizing the other?

5 A. Correct.

6 Q. But doesn't the revenue shift in the rate adopted
7 by Staff last time sort of subsidize -- don't commercial
8 customers -- didn't the commercial customers sort of
9 subsidize the residential customers by revenue shift based
10 on the cost of service study?

11 A. Yes.

12 Q. Okay.

13 A. We want to prevent crossover points, though. So
14 we want to prevent some of the meter sizes, if you want to
15 think about it that way, to be paying more for less usage
16 than the bigger meter sizes pay less for same amount of
17 water.

18 Q. Are you able to say that again?

19 A. I might be able to confuse myself. Let me try.

20 We do modify the break-over points, okay, to
21 prevent crossovers between classes. Okay? So we don't
22 want an instance where, for example, a one-inch meter
23 customer at 20,000 gallons is going to pay more than a
24 1.5-inch meter at 21,000 gallons.

25 Q. Okay. But if I understood Mr. Bourassa's

1 testimony, written testimony, by Staff's current proposed
2 rates, aren't the higher-use commercial customers now
3 subsidizing a higher rate, a higher percentage, the
4 lower-use residential customers?

5 A. You could say that, yes. That is a fair
6 interpretation of Mr. Bourassa's testimony.

7 Q. Does the Commission have a view on that? Is that
8 something that they typically accept?

9 A. Of what I have seen -- I mean, I cannot interpret
10 for the Commission.

11 Q. Right. I'm sorry.

12 A. However, as far as I have seen as a public
13 utilities analyst, I have noticed that there has been a
14 bit of a shift in that matter. I have seen that happen in
15 some cases.

16 Q. Okay. Why does Staff continue to recommend a
17 6 percent on the deposit interest?

18 A. Well, first of all we -- one of the things I
19 indicated was that we cannot forecast interest rates or
20 anything like that. First of all, we don't think that the
21 construction -- the main core of business of the
22 construction companies in this case or in any case is to
23 hold the meters to obtain some type of return.

24 But also, and the main reason is we do think that
25 the 6 percent rule results in fair and reasonable rates.

1 Q. The Commission, even though the rule says, as
2 Mr. Bourassa pointed out, absent the rate -- a different
3 rate for the Company, which you use 6 percent, but in this
4 case the Company has presented evidence as to why it
5 believes it should be lower, but yet Staff continues to
6 recommend 6 percent.

7 Do you believe that the Company's argument
8 regarding this is not viable, it's not reasonable?

9 A. I can certainly see that argument, and it's not
10 that Staff has not considered it. It is that, yes,
11 currently the rates are, you know, far less than 6
12 percent, but we are not mandating the Company to file a
13 rate case in the near future. We do not know how long
14 this will happen.

15 A 6 percent deposit seems -- okay. Let me say
16 that even if we were to recommend 6 percent, we would have
17 to also, when the Company comes in for a rate increase,
18 adjust for that 6 percent that they had to repay to the --
19 you know, on the deposits. Okay? So in the long term the
20 interest rate that they pay in the deposits, it's somehow
21 irrelevant.

22 Now, it is important, because, you know, that is
23 the rate that they will pay on those deposits, but in the
24 regulatory realm, they will have, you know -- Staff, you
25 know, through the rate case, they will get that back

1 basically.

2 Q In the very long term?

3 A Again, it's a negligible amount of money. I
4 mean, if you were to make the calculation of how many
5 meters were deposited and the rate and how much time the
6 deposit was held for future.

7 Q But the Company has to -- even if it's a
8 negligible amount, the Company has to eat that amount that
9 they have to return that is above what they earned?

10 A Right, not necessarily. Because in the rate case
11 if the Company -- and Staff notices that they have been
12 repaying that, they can ask for that under an expense
13 item, I believe.

14 Q They can?

15 A I believe so.

16 Q Like operating expense or something like that, is
17 that what you are saying?

18 A Yes. I don't recall the exact account right now,
19 but they can get that back.

20 Q Okay. And finally, your testimony was that
21 Staff's opinion was that the \$10 fee and the \$20 charge is
22 reasonable.

23 Reasonable based on what? Relative to what?

24 A Well, and here it's reasonable from the
25 standpoint of -- well, let me backtrack a little bit.

1 Since the only explanation we have from the
2 \$70 -- let's say it's \$35 an hour and that is what the
3 board of directors approved for minimum of two hours, and
4 that is that.

5 I don't think that is a reasonable argument to
6 make such a big service charge. Compared to other
7 utilities, this is incredibly high, much higher than what
8 Staff and the Commission has adopted in recent rate cases.

9 Q. Okay. I know that the Company, both Mr. Gabaldon
10 and Mr. Bourassa, testified to that they really didn't,
11 you know, do any kind of survey of what other utilities
12 charged in this area.

13 But just from your general experience, are there
14 other utilities out there who are getting more in this
15 area of \$10 or \$20?

16 A. Closer to \$20, \$10 than to \$70, yes.

17 Q. But are there companies out there that are, for
18 example, getting 50?

19 A. I don't know if 50, but more than 20, I believe,
20 yes.

21 ALJ MARTIN: Okay. I think that is all the
22 questions I have.

23 Mr. Van Cleve, redirect?

24 MR. VAN CLEVE: Thank you, Your Honor.

25

1 REDIRECT EXAMINATION

2

3 Q. (BY MR. VAN CLEVE) First, I guess turning to
4 beat the dead horse again, regarding the discussion of
5 CIAC, do you recall the questions that the Judge asked you
6 regarding -- and I don't want to mischaracterize this --
7 but basically asking Staff if this whole exercise of
8 calculating the CIAC and its impact was irrelevant in this
9 case? Do you recall that questioning?

10 A. Yes, I do.

11 Q. And does Staff in any rate case have an
12 obligation to make a fair value determination?

13 A. That is true.

14 Q. And would Staff have to go through the exercise
15 of determining how it was going to treat CIAC as part of
16 its determination of what fair value rate base is in this
17 case?

18 A. Yes.

19 Q. And on that same topic, it's my understanding
20 from what you said that in this case there is a 15 percent
21 operating margin that was determined based on a cash flow
22 analysis; is that correct?

23 A. Correct.

24 Q. So this impact of CIAC, whether it's included --
25 and I guess I got it wrong -- whether it's deducted,

1 whether it's removed, because, correct me if I'm wrong,
2 but if you include CIAC in the rate base calculation, it
3 reduces rate base; correct?

4 A. Right.

5 Q. Whereas if you remove it from the calculation,
6 rate base it increases or is higher?

7 A. Yes.

8 Q. And associated with that, I think there was some
9 questions from Mr. Gellman regarding the calculation of
10 depreciation expense and amortization; do you recall that?

11 A. Yes.

12 Q. In conjunction with CIAC?

13 A. With CIAC, yes.

14 Q. Are those noncash items? Noncash items, do they
15 go into a cash flow analysis?

16 A. No. They are -- they are noncash items, yes.

17 Q. So they wouldn't affect the analysis that Staff
18 did as far as revenue requirement in this case; correct?

19 A. Correct.

20 Q. And beyond that, is it Staff's -- I mean, is it
21 Staff's opinion that there is a need for calculating rate
22 base for the purposes of record keeping and plant values
23 and the ability to issue debt at a future time and those
24 types of things?

25 A. Yes, sir.

1 Q And there was a question by Mr. Gellman
2 regarding, you know, there was some sort of tenet in
3 ratemaking that the treatment of CIAC in rate base had to
4 be revenue neutral.

5 Do you recall that line of questioning? Maybe
6 I'm phrasing it wrong.

7 A Yes, I believe I recall that.

8 Q And I think you answered that ultimately it would
9 have to be revenue neutral.

10 Is that a fair characterization of how you
11 responded?

12 A I think so, yes.

13 Q And would that reflect the timing issue in this
14 case as far as the treatment of CWIP versus the treatment
15 of CIAC associated with CWIP?

16 A Right.

17 Q That ultimately it would be revenue neutral?

18 A Yes. Correct, at the end.

19 Q And then there was some questions from
20 Mr. Gellman regarding rate design and how there was a
21 difference between the tiers for the rate design that the
22 Company was proposing compared to what Staff was
23 recommending, that the difference in tiers was greater for
24 Staff than it was for the Company.

25 Do you recall that?

1 A Yes.

2 Q And I think that, and correct me if I'm wrong, I
3 believe that was referring to the residential customers?

4 A I thought it was about the commercial customer,
5 but --

6 Q And would a reason for that be that the first
7 tier that the Company is setting in this case is higher to
8 begin with?

9 A Correct.

10 Q Okay. Oh, then there was a question regarding
11 construction water and whether it was -- the purpose or
12 its use was mainly defined or caused by growth.

13 Do you remember that line of questioning?

14 A Yes.

15 Q Would another reason for the use of construction
16 water simply be the replacement of existing construction
17 water?

18 A Yes.

19 Q And then there was some questions regarding the
20 interest rate or interest that is charged on the customer
21 deposits for those construction water meters.

22 Do you recall that?

23 A Yes.

24 Q Do you recall the testimony from the Company
25 witness that the Company wasn't really collecting deposits

1 from very many customers?

2 A. That was said today, yes.

3 Q. Okay. And do you know whether or not the amount
4 of interest that the Company pays on these deposits, what
5 that amount is?

6 A. I do not know off the top of my head.

7 Q. So you don't know whether it would be a material
8 amount for accounting purposes?

9 A. Well, I doubt -- most likely it would be
10 immaterial because of the few number of construction.

11 Q. Okay. And did you say it would be material or
12 immaterial?

13 A. Immaterial.

14 Q. And then switching to the miscellaneous charges,
15 do you recall the questioning from Mr. Gellman regarding
16 call-out charges and the \$35 per hour that was mentioned?

17 A. Yes.

18 Q. Did the Company provide any information to Staff
19 in this case that caused Staff to believe -- or that
20 warranted Staff recommending an increase in those charges
21 from 10 to 70 or 20 to 140?

22 A. No, they did not provide that.

23 Q. Referring to those excerpts from the two -- well,
24 I guess it was testimony in other rate cases, Exhibit A-10
25 and A-11.

1 Do you have those in front of you?

2 A. Yes.

3 Q. Would you agree with me that in those cases the
4 issue -- and I think Mr. Gellman actually acknowledged
5 that, that these cases did not or at least the excerpts
6 did not involve the issue of CWIP?

7 A. Yes.

8 MR. VAN CLEVE: I have no further questions, Your
9 Honor.

10 ALJ MARTIN: Mr. Gellman.

11 MR. GELLMAN: Four or five questions, Your Honor.

12

13 RE CROSS-EXAMINATION

14

15 Q. (BY MR. GELLMAN) Mr. Chaves, could you refer to
16 surrebuttal schedule PMC-1?

17 A. I'm there.

18 Q. Okay. And line 9 you are recommending an
19 increase in operating revenue, that \$790,351?

20 A. Correct.

21 Q. And that is what Staff is actually recommending
22 the increase be to the Company's gross revenues in this
23 case?

24 A. Right.

25 Q. Okay. And that is factoring in that Staff has

1 looked at that in terms of meeting an appropriate
2 operating margin in this case, 15 percent?

3 A. Yes; however, you have to keep in mind that once
4 we made that calculation, that recommended increase in
5 operating revenue, we looked at that and see if there was
6 sufficient cash flow for the Company for financing that
7 they were going to file for \$1.9 million and so on and so
8 forth.

9 If that number had been smaller than what the
10 cash flow that the Company needs, that number would have
11 been increased. I am talking hypothetically, just so you
12 know that that number doesn't depend completely from the
13 operating margin.

14 Q. Understood. But in this case that is what Staff
15 is actually recommending in this case, after checking to
16 see if it meets the appropriate operating margin and
17 provides sufficient cash flow?

18 A. I would say if it provides sufficient cash flow.

19 Q. And it meets the 15 percent operating margin?

20 A. But we want to see, you know, if the Company's
21 proposal of 15 percent was fine.

22 And, again, if there was lack of cash flow, we
23 might have ended up recommending a higher operating
24 margin.

25 MR. GELLMAN: May I have one moment?

1 Q. (BY MR. GELLMAN) You would also look at the
2 revenue increase number to make sure there was no net loss
3 in -- after interest expense?

4 A. Yes.

5 Q. Okay. But ultimately in this case the revenue
6 increase in operating revenue number, the line 9 of your
7 surrebuttal testimony PMC-1, you found that to be
8 appropriate after all the subsequent checks and balances
9 you would do regarding interest expense, cash flow,
10 operating margin?

11 A. I would say cash flow.

12 Q. Okay.

13 MR. GELLMAN: Thank you. No further questions.

14 ALJ MARTIN: Thank you, Mr. Gellman.

15 I have one.

16

17 FURTHER EXAMINATION

18

19 Q. (BY ALJ MARTIN) In response to a question from
20 Mr. Van Cleve, I believe the question was something to the
21 effect that your testimony regarding the basic tenet that
22 it has -- that the CIAC has to be revenue neutral, your
23 testimony was that ultimately it has to be revenue
24 neutral; correct?

25 A. Correct.

1 Q All right. But aren't we concerned with this,
2 the 2007 test year and its effect on that year?

3 A Well, and again -- are you referring to this
4 particular case?

5 Q Yes.

6 A Because it won't influence our revenue
7 requirement. It would not.

8 Q But my question was, you said ultimately.

9 So somewhere down the line it has to wind up
10 being revenue neutral.

11 But our concern in this case is its effect on the
12 2007 test year; correct?

13 A I'm sorry. Absolutely. And that is why, you
14 know, if you remember the line of questioning by
15 Mr. Gabaldon, he referred to it as a timing issue. You
16 could think of it as some type of regulatory lag.

17 Q Nice phrase. Thank you very much. That is all
18 the questions I have.

19 ALJ MARTIN: Mr. Van Cleve, anything else?

20 MR. VAN CLEVE: Nothing further, Your Honor.

21 ALJ MARTIN: Mr. Gellman.

22 MR. GELLMAN: No.

23 ALJ MARTIN: All right. Mr. Chaves, thank you
24 very much.

25 THE WITNESS: Thank you. My pleasure.

1 ALJ MARTIN: With that let me check with
2 Mr. Gellman to see if they -- you know what? Let's take a
3 ten-minute break for the benefit of the court reporter and
4 for myself too, I will admit.

5 Off the record.

6 (A Recess was taken from 4:31 p.m. until
7 4:42 p.m.)

8 ALJ MARTIN: Back on the record.

9 Mr. Gellman, had you decided whether or not you
10 wanted to introduce some rebuttal testimony?

11 MR. GELLMAN: Your Honor, we don't feel the need
12 for rebuttal testimony.

13 We were talking with Staff off-line about what
14 Mr. Liu had testified to in terms of what we would need to
15 show regarding the radio-read meters. We are willing to
16 provide a late-filed exhibit in an attempt to try to
17 justify that cost. We are willing to do so pretty
18 expeditiously.

19 At this point I'm not quite sure what we would
20 provide. I think it would be an invoice to try and
21 justify the cost of the radio-read matter versus the
22 regular meter. We are willing to do so, and at this point
23 that is all I can say we can provide in terms of a
24 late-filed exhibit regarding that particular issue.

25 ALJ MARTIN: Okay. And your call from Mr. Liu's

1 testimony was not only just the cost of the radio-read
2 meters but also some information from service line
3 installations.

4 Did I understand that correctly?

5 MR. GELLMAN: I believe that is correct, and we
6 will attempt to do that in the exhibit and hope it meets
7 what Staff is looking for.

8 ALJ MARTIN: Okay. Before I go any further,
9 Mr. Gellman, I want to double-check with you what exhibits
10 you offered and what you want to have admitted.

11 So far I have admitted A-1 through A-7.

12 MR. GELLMAN: Yes, Your Honor. I think we can
13 take administrative notice of Exhibits A-8, which is the
14 last rate decision.

15 With regards to A-9, that was a response to data
16 request. We didn't really get into that the way
17 cross-examination went. I don't see the need to formally
18 introduce that.

19 Exhibits -- at least A-10, I believe, probably
20 was already -- or A-11 was probably already admitted in a
21 previous rate hearing. Since that involves Far West Water
22 & Sewer, I would ask for administrative notice on that.
23 To the extent that I need to move for its admission, even
24 though Mr. Chaves wasn't intimately familiar with that
25 testimony, it was Staff testimony and he is testifying on

1 behalf of Staff. I think there is enough foundation
2 there, if we can't take administrative notice, that it can
3 be admitted. And I would say the same for Exhibit A-10,
4 which is the Johnson Utilities matter, and the Commission
5 and Your Honor can give it whatever weight you believe
6 appropriate.

7 ALJ MARTIN: Okay. So A-8, which is a decision,
8 you would like me to take administrative notice of?

9 MR. GELLMAN: Yes, Your Honor.

10 ALJ MARTIN: All right. I will take
11 administrative notice of the previous Commission decision
12 in that case.

13 Exhibit A-9, which was what?

14 MR. GELLMAN: That was our responses to data
15 requests that we had asked of Staff and Staff responded.

16 Again, I don't think I really touched upon them,
17 so I don't think they are -- I can move to admit them for
18 whatever weight they were worth. I wasn't intending to at
19 this point.

20 ALJ MARTIN: A-9 will not be admitted.

21 And A-10 was surrebuttal testimony of Ms. Brown
22 for Far West?

23 MR. GELLMAN: I would have to double-check. I
24 have been identifying them in terms of the Company's
25 application.

1 ALJ MARTIN: A-10 is Mr. Michlik.

2 MR. GELLMAN: Yeah, and that is for the Johnson
3 Utilities matter, and A-11 was Ms. Brown's testimony in
4 the Far West Water & Sewer, and again, the official,
5 quote/unquote, official copies of the entirety of Staff's
6 surrebuttal testimonies in both matter.

7 ALJ MARTIN: I don't know that I have enough
8 information -- enough foundation to admit them as
9 exhibits, but if Staff doesn't object, if they are
10 necessary to be referred to in the ROO, I could take
11 administrative notice of it.

12 MR. VAN CLEVE: And Staff does have an objection
13 to A-10 and A-1.

14 Again, Mr. Chaves wasn't the witness in those
15 cases. I certainly didn't object to them being used for
16 cross-examination purposes. I think that was appropriate.

17 I don't know that testimony -- and I certainly
18 leave it up to you to decide this, but I don't know if you
19 can take judicial notice of testimony as opposed to like
20 decisions of the Commission.

21 So I guess Staff would object to them being
22 admitted as an exhibit and being used in the determination
23 of this case beyond their discussion on the record.

24 ALJ MARTIN: Since I will be leaving the record
25 open pending filing of late-filed exhibits, I will issue a

1 procedural order in that regard. If Staff and the Company
2 counsel would prefer --

3 MR. VAN CLEVE: That is fine with Staff.

4 ALJ MARTIN: I just don't know -- well, go ahead,
5 Mr. Gellman.

6 MR. GELLMAN: Your Honor, the main purpose of
7 those exhibits were for cross-examination of Mr. Chaves.
8 I can withdraw moving them into admission. I think they
9 served their purpose.

10 I would however still request that we refer to
11 them -- they were marked for identification purposes -- to
12 the extent that we need to, at least from the Company's
13 perspective, for purposes of closing briefs, explain a
14 certain issue or some of the testimony that came out.

15 ALJ MARTIN: All right. They will not be
16 admitted into evidence, and I will determine at a later
17 time whether or not they would be -- I don't see why I
18 couldn't reference them, though, in a ROO. I really
19 don't. But I will reserve that for later. Let me ponder
20 that a little bit.

21 So, Mr. Gellman, I have admitted into evidence
22 Exhibits A-1 through A-7. A-8 through A-11 have not been
23 submitted into evidence, but administrative notice of A-8
24 will be taken.

25 Is that correct?

1 MR. GELLMAN: Correct. And I think the reason
2 for that is it's a Commission order; it's available in the
3 docket; it's a certified public record. I think we can
4 take administrative notice of that for those reasons.

5 ALJ MARTIN: I do that frequently.

6 And, Mr. Van Cleve, I have admitted into evidence
7 for Staff Exhibits S-1 through S-4.

8 Is there anything else?

9 MR. VAN CLEVE: That was it, Your Honor.

10 ALJ MARTIN: Okay. All right. I have a number
11 of issues that I have been debating about requiring
12 closing briefs, and I am requiring closing briefs.

13 I understand the Company's desire to have this
14 handled in a timely manner, I do, and I understand that
15 the rules under the time clock, I believe we have -- under
16 the time clock we have until early February for a decision
17 to be rendered.

18 So with that in mind -- and I'm assuming that the
19 Company would like to adhere to that time clock -- I think
20 we will do the briefs this way. Rather than do, you know,
21 Ping-Pong back and forth, the Company's closing brief and
22 Staff's -- although, I'm not sure if that will work.

23 Well, the issues I would like to be briefed for
24 sure, you know, just a full vetting of the CIAC and CWIP
25 issue, of course. The increase of meter installation

1 issues, that is one of the reasons why I'm wondering if
2 it's better to have the Company file its closing brief and
3 Staff's response and Company rebuttal brief.

4 What do you think?

5 MR. VAN CLEVE: On that point, Your Honor, I was
6 going to actually interject when Mr. Gellman mentioned
7 this. I think it would be fruitful, instead of him just
8 submitting as a late-filed exhibit, to either submit it to
9 Staff or set up a time -- I don't know how long it's going
10 to take for the Company to put that together -- but to
11 meet with Staff. It may very well be that they meet with
12 Staff and Staff would agree to the documentation and the
13 increased cost and then it ceases to be an issue.

14 If that is the case, I think that if it's
15 simultaneous briefs, the Company could simply indicate
16 that in brief that, you know, here is what the costs are,
17 we met with Staff, Staff doesn't oppose or whatever the
18 outcome of it is. And we would similarly put something in
19 our brief that says that we don't object to the increase
20 or would support the increase based on documentation, or
21 if we do object we would mention that.

22 ALJ MARTIN: I think that is probably the best
23 way to go.

24 MR. GELLMAN: Your Honor, as with the issue of
25 proposing a refund, we can probably get something to Staff

1 two weeks from today and perhaps sooner.

2 ALJ MARTIN: Okay. That was one of the items
3 that I felt probably needed to be addressed in the briefs
4 as well, that final refund.

5 Parties need to address the construction meter
6 minimum charge, and, of course, miscellaneous charges.

7 And on the issue of accumulated depreciation, you
8 know, that should have been a question in testimony, so I
9 can't do that. But I will just say what my thought was,
10 and maybe it could be addressed.

11 With Staff's most recent changes to accumulated
12 depreciation, is all that is remaining of that category
13 the issue of CIAC and CWIP?

14 No, okay.

15 So then any other accumulated depreciation issues
16 can be addressed.

17 And there was something else that I just now
18 thought of and I can't remember what it was.

19 But Staff will need to update its schedules based
20 on its new testimony as well.

21 MR. VAN CLEVE: Do you want those provided with
22 the brief or do you want finals?

23 ALJ MARTIN: I think with the brief is fine.

24 MR. VAN CLEVE: Okay.

25 ALJ MARTIN: So do we -- Mr. Gellman and Mr. Van

1 Cleve, do you think simultaneous briefs would be
2 acceptable or do you think we will need to do a new round?

3 MR. GELLMAN: Your Honor, we haven't specifically
4 spoken about this. We don't have a huge number of issues
5 in this case. I don't know if we necessarily need two
6 rounds of closing briefs. At least from the Company's
7 perspective I think one round would probably be
8 sufficient. Again, without talking to Staff, that would
9 be sort of my early thoughts about it. I think we know
10 where we differ on the issues, and I don't necessarily see
11 the value in a subsequent round of briefs.

12 ALJ MARTIN: Okay. But would you prefer to do
13 them simultaneous or yours and then Staff?

14 MR. GELLMAN: I think we could probably do them
15 simultaneously. That seems to be the way things are
16 going. To the extent that that saves a little bit of
17 time, that certainly is something that the Company is
18 mindful of.

19 So I think simultaneous briefs would probably be
20 sufficient here.

21 ALJ MARTIN: Okay. So if the plan is for the
22 Company to submit information to Staff about the plan of
23 refund and about radio-read meters and then have time to
24 discuss that back and forth, maybe we should make the
25 brief date out about at least three, maybe four weeks, so

1 you have time to go back and forth.

2 Mr. Gellman?

3 MR. GELLMAN: I think that would work for us,

4 Your Honor.

5 ALJ MARTIN: Okay. Mr. Van Cleve?

6 MR. VAN CLEVE: Your Honor, I think these
7 simultaneous briefs, I think is what Staff would prefer in
8 this case.

9 I do -- as much as I like writing briefs, I do
10 see the value in having a reply brief as well. Obviously,
11 reply briefs, at least in my experience, tend to be
12 shorter, and it wouldn't require the same amount of time
13 from after the filing of the initial closing brief.

14 But, yeah, I don't remember the question now.

15 ALJ MARTIN: Time frame.

16 MR. VAN CLEVE: Time frame, I think four weeks
17 from, I guess, today or I don't know how soon the
18 transcript will be out.

19 ALJ MARTIN: You had requested an expedited
20 transcript?

21 MR. GELLMAN: Yes, I thought we had. In talking
22 to the court reporter, we had an issue. So we have
23 talked, and I think we have it settled that the transcript
24 can be available by Monday or Tuesday of next week. So we
25 apologize for that. That was my oversight, and I should

1 have double-checked that.

2 So I would say maybe if we are looking at two
3 rounds of briefs, maybe one due three weeks from the time
4 that the transcripts are provided or available and then, I
5 guess, the typical reply brief has been 10 to 14 days from
6 then. So I would suggest those as dates for the briefs.

7 ALJ MARTIN: All right. So if the transcript
8 will be ready, let's say, Tuesday, November 3rd, then that
9 would be the 24th of February for the initial brief --
10 initial closing brief.

11 MR. GELLMAN: 24th of November?

12 ALJ MARTIN: 24th of November. And then with the
13 intervening holiday, Thanksgiving, let's make the reply
14 brief due December 8th. So 11/24 and December 8th.

15 Does that work with you, Mr. Van Cleve?

16 MR. VAN CLEVE: Works for Staff.

17 ALJ MARTIN: Mr. Gellman?

18 MR. GELLMAN: Works for Company, Your Honor.

19 ALJ MARTIN: I want to make sure that the three
20 weeks for the Company to provide additional information
21 and to work with Staff about those issues works.

22 MR. GELLMAN: Yes.

23 ALJ MARTIN: Okay. All right. Anything else we
24 need to work with? Mr. Gellman, anything?

25 MR. GELLMAN: No. I apologize. Could I get the

1 date for the reply brief again?

2 ALJ MARTIN: December 8th.

3 MR. GELLMAN: Thank you.

4 MR. VAN CLEVE: Your Honor, the only thing I
5 would raise is some of this would be going through
6 Jian Liu. I don't know exactly what his schedule would
7 be. I can certainly check tomorrow, and if there is some
8 reason that he wouldn't be able to fit this in within that
9 period of time, I can, you know, contact everybody.

10 ALJ MARTIN: Okay.

11 MR. VAN CLEVE: I don't foresee it, but it is a
12 possibility.

13 ALJ MARTIN: Okay. That is fine.

14 All right. Then if there is nothing else, we
15 will be leaving the record open pending filing -- well,
16 there will not be late-filed exhibits. Then we will get
17 this submitted, get a Recommended Opinion and Order
18 submitted to the Commission forthwith. I will do my best.

19 MR. GELLMAN: Thank you, Your Honor.

20 Do you want final schedules from the Company as
21 well submitted at the time of the initial closing briefs?

22 ALJ MARTIN: If the numbers change.

23 MR. GELLMAN: Okay.

24 ALJ MARTIN: If they don't change, make that
25 statement and then say refer to the Company's final

1 schedules in their rejoinder testimony or whichever you
2 are using.

3 MR. GELLMAN: Understood. Thank you.

4 ALJ MARTIN: Anything else?

5 MR. VAN CLEVE: Nothing, Your Honor.

6 ALJ MARTIN: Very well. This concludes the
7 hearing. Thank you very much, everybody.

8 Kate, thank you.

9 And we will go off the record.

10 (The hearing concluded at 5:00 p.m.)

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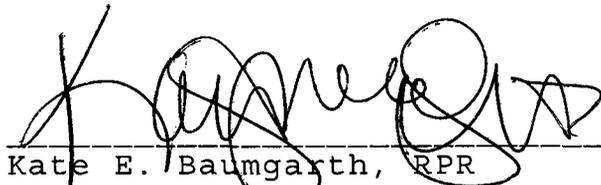
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1 STATE OF ARIZONA)
) ss.
 2 COUNTY OF MARICOPA)

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I, KATE E. BAUMGARTH, RPR, Certified Reporter
 No. 50582, for the State of Arizona, do hereby certify
 that the foregoing printed pages constitute a full, and
 accurate transcript of the proceedings had in the
 foregoing matter, all done to the best of my skill and
 ability.

WITNESS my hand this 31st day of October, 2009.



 Kate E. Baumgarth, RPR
 Certified Reporter, No. 50582