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2009 NOV -9 P 4:19
ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF BLACK MOUNTAIN
SEWER CORPORATION, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN
ITS RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

NO. DOCKET NO. SW-02361A-08-0609

NOTICE OF FILING

Boulders Homeowners' Association hereby provides notice of filing the
Surrebuttal Testimony of Les Peterson in the above-referenced matter.

Dated this 9th day of November, 2009.

RIDENOUR, HIENTON, & LEWIS, P.L.L.C.

By

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Arizona Corporation Commission

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1 ORIGINAL and 13 copies filed
2 this 9th day of November, 2009 with:

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

7 COPY of the foregoing MAILED
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8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 IN THE MATTER OF THE
10 APPLICATION OF BLACK MOUNTAIN
11 SEWER CORPORATION, AN ARIZONA
12 CORPORATION, FOR A
13 DETERMINATION OF THE FAIR
14 VALUE OF ITS UTILITY PLANT AND
15 PROPERTY AND FOR INCREASES IN
16 ITS RATES AND CHARGES FOR
17 UTILITY SERVICE BASED THEREON.

NO. DOCKET NO. SW-02361A-08-0609

18 **SURREBUTTAL TESTIMONY OF**

19 **LES PETERSON**

20 **Boulders Homeowners' Association**

21
22 November 9, 2009
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TABLE OF CONTENTS

I. INTRODUCTION AND PURPOSE OF TESTIMONY 1

II. SURREBUTTAL TO BMSC 1

1 **INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Les Peterson. I live at 2045 Smoketree Drive, Carefree AZ. My home
4 is located within the north (Carefree) portion of The Boulders subdivision.

5
6 **Q. ARE YOU THE SAME LES PETERSON WHO PROVIDED DIRECT**
7 **TESTIMONY IN THIS PROCEEDING ON SEPTEMBER 18, 2009?**

8 A. Yes.

9
10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. My surrebuttal testimony further supports the Settlement Agreement referred to in
12 my direct testimony, and responds to certain aspects of the rebuttal testimony of
13 Black Mountain Sewer Corporation ("BMSC").

14
15 **Q. CAN YOU DESCRIBE THE EXHIBIT A ATTACHED TO THIS**
16 **TESTIMONY?**

17 A. Yes. Exhibit A is a map demonstrating point I discussed in my direct testimony,
18 which should have been included there. In my direct testimony, I described the
19 proximity of the Boulders Wastewater Plant to homes in the community (at page
20 4), and that the Company had communicated to me that current setback
21 requirements for the plant would be a minimum of 1,000 feet from adjacent homes
22 (at page 6). Exhibit A is a map of the Boulders, showing the location of the
23 Boulders Wastewater Plant in the center of the two circles, which represent 500
24 and 1,000 feet from the Plant.

25
26 **SURREBUTTAL TO BMSC**

1 **Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY FILED BY**
2 **BMSC?**

3 A. Yes. I have reviewed the rebuttal testimony filed by Gregory S. Sorensen, and the
4 rate base, income statement and rate design testimony filed by Thomas J.
5 Bourassa.

6
7 **Q. MR. BOURRASSA ESTIMATED THAT A SURCHARGE MECHANIM**
8 **COULD RESULT IN A RATE INCREASE OF APPROXIMATELY \$15**
9 **PER CUSTOMER PER MONTH. DO YOU HAVE ANY RESPONSE TO**
10 **THAT?**

11 A. Yes. For several reasons, I believe the estimate overstates the amount the
12 surcharge is likely to be. First, the calculation is based on the Company's
13 requested weighted average cost of capital of 12.4 percent. Staff and RUCO have
14 proposed significantly lower weighted average costs of capital in this proceeding
15 (Staff proposed 9.6 percent and RUCO proposed 7.43 percent). While I am not
16 taking any position on what cost of capital the Commission should adopt, I would
17 like to note that if the Commission adopts a different cost of capital than the
18 Company proposes, the computation of the surcharge could change substantially.
19 For example, estimating the surcharge based on Staff's middle of the pack cost of
20 capital proposal, the surcharge would be \$12.12.

21 Second, the estimate is based on a customer count of 2,100, which is in the
22 range of the customer count at the end of the test year (2,106). Staff's engineering
23 report indicates that by the end of the calendar year 2008, there were 2,130
24 customers, and Staff projected there will be approximately 2,194 customers by the
25 end of 2010. By the time the surcharge is put into effect (about a year and a half
26 after the decision in this case), the customer count would likely be in the range of

1 2,200. Using the Company's proposed cost of capital, but substituting a customer
2 count of 2,200, the surcharge estimate falls to \$14.13. Using Staff's cost of
3 capital and a 2,200 customer count, the estimate would be \$11.72.

4 Finally, I would like to point out that the estimate of the surcharge does not
5 include the impact of the sharing of the gain on the sale of the parcel of land on
6 which the Boulders Treatment Plant is located (along with the additional small
7 parcels the BHOA has agreed to contribute). While the lot is not likely to be sold
8 by the time the surcharge would be put into effect, the Commission should not
9 overlook this valuable benefit of the Settlement Agreement to customers. The
10 Settlement Agreement provides that the gain on the sale of that lot would be
11 shared evenly between customers and the Company. In total, we believe, after
12 consultation with the Town of Carefree, the BMSC would be able to divide this
13 combined 1.1 acre parcel into at least two building lots. For comparison of the
14 recent approximate value of a building lot in the Boulders, the most recent sale of
15 an undeveloped building lot in the Boulders was in January of 2009, and the
16 transaction price was \$350,000.

17
18 **Q. DO YOU HAVE ANY OTHER COMMENTS IN RESPONSE TO THE**
19 **COMPANY'S TESTIMONY?**

20 **A.** Yes. Though there will be costs to close the Boulders Wastewater Plant pursuant
21 to the Settlement Agreement, those costs are much lower than they would be if
22 closure were delayed several years. If the Company does not secure capacity in
23 the Scottsdale Plant to treat the wastewater currently being treated at the Boulders
24 Wastewater Plant before the Company's contract with Scottsdale expires in 2016,
25 it won't have access to that capacity at the very favorable \$6.00 per gallon rate
26 specified in the existing contract. Today's rates for similar capacity from other

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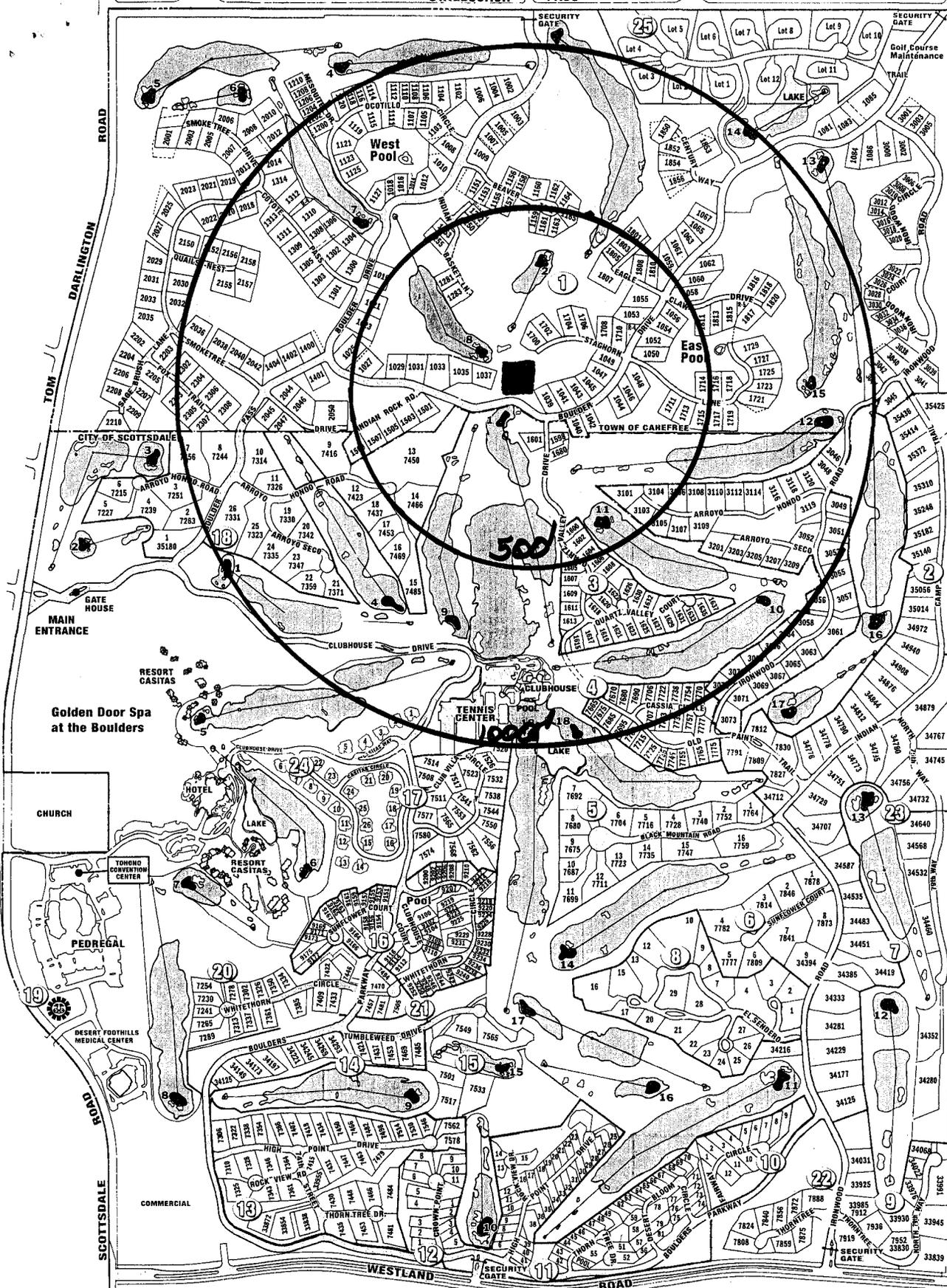
plants in the general area are more than three times the rate under the Company's current agreement with Scottsdale. Thus, the best possible time to begin shuttering the Boulders Plant is now, while the Company has a very favorably-priced alternative source of treatment available.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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EXHIBIT "A"



- | | | | | |
|--------------------|------------------------|------------------|-------------------------|----------------------------|
| 1. NORTH COMMUNITY | 6. EL DESEO | 11. 5th GREEN I | 16. PUEBLO EN LAS ROCAS | 21. PUEBLO EN LAS ROCAS II |
| 2. PALO BREA I | 7. PALO BREA II | 12. 5th GREEN II | 17. CLUB VILLAS | 22. IRONWOOD |
| 3. VILLAS | 8. ADOBES DE LA TIERRA | 13. GREYTHORN I | 18. BOULDER ESTATES | 23. CROSSING |
| 4. DESERT RIDGE | 9. ACACIA | 14. GREYTHORN II | 19. RUSS LYON REALTY | 24. GACHET HOMES |
| 5. THE RESERVE | 10. 5th GREEN II | 15. ALTURA | 20. ENCHANTRA | 25. LA ULTIMA PIEDRA |

THE BOULDERS COMMUNITY

Map provided courtesy of Russ Lyon Realty Company. For Boulders information: (480) 488-2400



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