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BEFORE THE ARIZONA CORPORATIC

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.)

DOCKET NO.
SW-02361A-08-0609

EVIDENTIARY
HEARING

At: Phoenix, Arizona
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Prepared for:

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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 Hearing Room 1 of said
4 Commission, 1200 West Washington Street, Phoenix, Arizona,
5 commencing at 9:30 a.m., on the 23rd day of November,
6 2009.

7

8

9 BEFORE: DWIGHT D. NODES, Assistant Chief Administrative
10 Law Judge

11

12

13

14 APPEARANCES:

15 For the Applicant:

16 FENNEMORE CRAIG, PC
17 By: Mr. Jay L. Shapiro
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012

18 For the Arizona Corporation Commission Staff:

19 Mr. Kevin O. Torrey
20 Staff Attorney, Legal Division
1200 West Washington Street
Phoenix, Arizona 85007

21

22 For the Residential Utility Consumer Office:

23 Ms. Michelle Wood
24 1110 West Washington, Suite 220
Phoenix, Arizona 85007

25

1 For Boulders HOA:

2 RIDENOUR, HIENTON & LEWIS
3 By: Mr. Scott S. Wakefield
4 201 North Central Avenue, Suite 3300
5 Phoenix, Arizona 85004-1052

6 For the Town of Carefree:

7 SHERMAN & HOWARD, L.L.C.
8 By: Mr. Thomas K. Chenal
9 7047 East Greenway Parkway, Suite 155
10 Scottsdale, Arizona 85254

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GARY W. HILL, RPR
Certified Reporter
Certificate No. 50812

1 ACALJ NODES: Let's get started. Any
2 preliminary matters before we start?

3 (No response.)

4 ACALJ NODES: Very well. I think we're going to
5 take Mr. Kincaid first, correct?

6 MR. CHENAL: Yes, Your Honor. Thank you.

7 ACALJ NODES: If you want to call your witness
8 then, Mr. Chenal.

9 MR. CHENAL: Thank you, Judge.

10 (Mr. Brian Kincaid was duly sworn by the
11 Certified Reporter.)

12 ACALJ NODES: Mr. Chenal, go ahead with your
13 direct examination.

14 MR. CHENAL: Thank you, Your Honor.

15

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

20

21 DIRECT EXAMINATION

22

23 BY MR. CHENAL:

24 Q. Good morning, Mr. Kincaid. Would you please
25 state your name and address for the record.

1 A. Brian Kincaid, 7801 East Carefree Drive,
2 Carefree, Arizona.

3 Q. And would you please state your position with
4 respect to Carefree Estates?

5 A. I am president of Carefree Estates Homeowners
6 Association.

7 Q. Were you asked to provide written testimony in
8 the form of answers to certain questions?

9 A. I was.

10 Q. And that was submitted on behalf of Carefree
11 Estates; is that correct?

12 A. It was, yes.

13 Q. If those questions and answers were asked of you
14 today, would your answers be the same as they were when
15 you prepared your answers to the declaration?

16 A. Yes, they would.

17 MR. CHENAL: Thank you, Your Honor.

18 ACALJ NODES: Mr. Shapiro, do you have any
19 questions for the witness?

20

21 CROSS-EXAMINATION

22

23 BY MR. SHAPIRO:

24 Q. Good morning, Mr. Kincaid.

25 A. Good morning.

1 Q. Do you know why it is that the homeowners
2 association is listed as the customer and not the
3 individual homeowners?

4 A. I do not.

5 Q. And you agree that any refunds to the individual
6 members of your homeowners association should come from
7 amounts that have already been refunded to other
8 customers, correct?

9 A. Could you restate that, please?

10 Q. Yes. You agree with the Company that in order
11 to give refunds to the 33 members of the homeowners
12 association that you're president of, that those funds
13 should come from those customers who already received
14 refunds?

15 A. Yes.

16 Q. Thank you.

17 MR. SHAPIRO: Nothing further.

18 ACALJ NODES: Mr. Wakefield.

19 MR. WAKEFIELD: No questions.

20 ACALJ NODES: Ms. Wood.

21 MS. WOOD: No, none, Your Honor. No questions.

22 ACALJ NODES: Mr. Torrey?

23 MR. TORREY: None, Your Honor.

24 (NEXT PAGE, PLEASE.)

25

1 EXAMINATION

2 BY ACALJ NODES:

3 Q. Mr. Kincaid, I think this is fairly clear, but
4 it's your testimony that no one can seem to figure out why
5 your community was set up in the way that it was as far as
6 billing for sewer service?

7 A. It's been that way as far as, as long as I can
8 remember, Your Honor.

9 Q. Now, for water service, are each of the homes
10 individually metered?

11 A. Yes, they are, Your Honor.

12 Q. And the proposal that has been made by the
13 Company that there would be a reduction to the payment
14 that was made previously to coincide with a matching of
15 current customers with those that previously received the
16 refund, you're okay with what's been proposed as far as
17 the refund amount?

18 A. Yes, Your Honor. I believe it's \$404 and some
19 change. It's less than what the original refund had been
20 proposed.

21 ACALJ NODES: Okay. All right. I don't think I
22 have any other questions.

23 Mr. Chenal, do you have any additional questions
24 for Mr. Kincaid?

25 MR. CHENAL: No, I don't, Your Honor.

1 ACALJ NODES: Okay. Thank you for your
2 testimony, Mr. Kincaid. You are excused from the witness
3 stand.

4 THE WITNESS: Thank you, Your Honor.

5 MR. SHAPIRO: Has his testimony been moved into
6 evidence?

7 ACALJ NODES: Good point.

8 MR. CHENAL: Yes, thank you. I would like to
9 move the declaration into evidence.

10 ACALJ NODES: We'll mark Mr. Kincaid's testimony
11 as Carefree Exhibit 1. Any objection to admission of that
12 exhibit?

13 (No response.)

14 ACALJ NODES: Carefree Exhibit 1 is admitted.

15 (Carefree Exhibit 1 was admitted into evidence.)

16 ACALJ NODES: Mr. Chenal, I will be asking for
17 briefs on the issue of retroactive rate-making, in
18 particular as it applies to your case. Mr. Shapiro
19 indicated he didn't think that it was an issue, but I'm
20 still, just to give you a heads-up, I'll be asking for
21 that to make sure we don't have any legal issue pertaining
22 to the application of a refund applied to the prior
23 customers. All right? Thank you very much.

24 MR. CHENAL: Thank you, Your Honor. Do you know
25 what your briefing schedule is going to be at this point?

1 Has that been established?

2 MR. SHAPIRO: We can give that to him.

3 ACALJ NODES: Yes, I think they have agreed to a
4 briefing schedule subject to any changes that might occur
5 in the next couple days.

6 MR. CHENAL: If Mr. Shapiro can provide that to
7 me, we'll make sure we brief the issue.

8 ACALJ NODES: Very well.

9 MR. SHAPIRO: Judge, I hate to do this, but if
10 we could take a couple minute break to get Mr. Bourassa's
11 exhibits ready, it will probably save us some time on the
12 stand. We just need a couple minutes.

13 ACALJ NODES: Okay. Sure, go ahead.

14 (Off the record from 9:35 to 9:38 a.m.)

15

16 THOMAS J. BOURASSA,
17 called as a witness herein, having been first duly sworn
18 by the Certified Reporter to speak the truth and nothing
19 but the truth, was examined and testified as follows:

20

21 DIRECT EXAMINATION

22

23 BY MR. SHAPIRO:

24 Q. Good morning, Mr. Bourassa. Would you please
25 state your full name and your business address for the

1 record.

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

4 Q. And by whom are you employed and in what
5 capacity?

6 A. I am a self-employed certified public
7 accountant, primarily engaged in rate consulting.

8 Q. This is your first time testifying at the
9 Commission?

10 A. No.

11 Q. What are the topics, just generally, that you'll
12 be covering for Black Mountain in this rate case?

13 A. I have testified to the rate base, the income
14 statement, rate design and cost of capital.

15 Q. And you were also the rate-making consultant
16 witness in the last rate case for Black Mountain Sewer?

17 A. That's correct.

18 Q. And you caused prefiled testimony to be prepared
19 and filed in this case?

20 A. Yes.

21 Q. Okay let's go through those. Do you have what
22 is in front of you marked as Exhibit A-4?

23 A. Yes.

24 Q. And is that a true and correct copy of your
25 direct testimony regarding rate base, income statement and

1 rate design?

2 A. Yes.

3 Q. And do you have any corrections or changes to
4 make to Exhibit A-4?

5 A. I see a notation here that the errata page, H-3,
6 page 2, is in the Exhibit.

7 Q. So you had filed an errata after this was filed,
8 and that's now incorporated in Exhibit A-4?

9 A. Yes, it is.

10 Q. Thank you.

11 A. I have no other changes.

12 Q. Do you have what's been marked as Exhibit A-5 in
13 front of you?

14 A. Yes.

15 Q. And is that a direct -- is that a true and
16 correct copy of your direct testimony regarding the cost
17 of capital?

18 A. Yes.

19 Q. Do you have any corrections or changes to make
20 to that testimony?

21 A. No.

22 Q. Let's turn to what should be marked as Exhibit
23 A-6. Is that a true and correct copy of your rebuttal
24 testimony regarding rate base, income statement and rate
25 design?

1 A. Yes.

2 Q. And do you have any corrections or changes to
3 make to that testimony this morning?

4 A. No.

5 Q. Exhibit A-7, is that a true and correct copy of
6 your rebuttal testimony regarding cost of capital?

7 A. Yes.

8 Q. And do you have any corrections or changes to
9 make to Exhibit A-7?

10 A. No.

11 Q. Okay. Exhibit A-8, is that a true and correct
12 copy of your rejoinder testimony on rate base, income
13 statement and rate design?

14 A. Yes.

15 Q. And do you have any corrections or changes to
16 make to Exhibit A-8?

17 A. No.

18 Q. And then the last one in this pile should be
19 Exhibit A-9, which should be a copy of your rejoinder
20 testimony regarding cost of capital.

21 A. Correct.

22 Q. And do you have any corrections or changes to
23 make to Exhibit A-9?

24 A. No.

25 Q. Mr. Bourassa, were Exhibits A-4 through A-9

1 prepared by you and under your direct supervision?

2 A. Yes.

3 Q. Mr. Bourassa, if I were to ask you the same
4 questions today as set forth in all six of those exhibits,
5 would your answers be the same today?

6 A. Yes.

7 MR. SHAPIRO: Your Honor, I will move the
8 admission of A-4, A-5, A-6, A-7, A-8 and A-9.

9 ACALJ NODES: Any objection?

10 (No response.)

11 ACALJ NODES: A-4 through A-9 are admitted.

12 (Exhibits A-4 through A-9 were admitted into
13 evidence.)

14 BY MR. SHAPIRO:

15 Q. Okay. A couple of areas that we're going to
16 follow up on that have come up so far.

17 Mr. Bourassa, you're the witness that's
18 supporting the Company's request for rate case expense.

19 A. Yes.

20 Q. And the Company has provided Staff and RUCO an
21 update on the amount of rate case expense through 10-31
22 last week?

23 A. Yes.

24 Q. And do you know what the Company's total rate
25 case expense incurred through October 31st of this year

1 was?

2 A. Around \$95,000.

3 Q. RUCO has asked the Company to estimate how much
4 more rate case expense it will incur, correct?

5 A. Yes.

6 Q. What position has RUCO taken on rate case
7 expense in its prefiled testimony?

8 A. As I recall, RUCO is waiting to see or get more
9 updated information in order to make a determination.

10 Q. What are the difficulties that you and the
11 Company face in making estimates of its rate case expense?

12 A. Would you repeat that question?

13 Q. Yes. What are the difficulties that you and the
14 Company face in making estimates of rate case expense?

15 A. Well, it's generally difficult to estimate rate
16 case expense, because the -- generally, it's difficult to
17 predict who the intervenors are going to be, what issues
18 are going to come up in the case, and how long it will
19 take to address those issues.

20 Q. Is it easier at this stage of the proceeding,
21 now that we're at the trial stage?

22 A. Yes, it's easier, but there's still a certain
23 amount of estimation that has to take place.

24 Q. The Company had asked for \$230,000 of total rate
25 case expense in this case, correct?

1 A. Correct.

2 Q. And that was based -- the initial request was
3 \$180,000?

4 A. Yes.

5 Q. And what happened to increase that amount?

6 A. Primarily due to the intervention of the
7 Boulders Homeowners Association, the Company expected to
8 expend additional monies to address that intervenor.

9 Q. Have you had a chance to go back with the
10 Company and come up with a total estimate at this stage of
11 the proceeding?

12 A. Yes.

13 Q. And what is that current estimate?

14 A. \$220,000 to \$225,000.

15 Q. And is the Company making any modification in
16 its requests for recovery of rate case expense at this
17 time?

18 A. The Company has informed me that they're willing
19 to lower their rate case expense estimate to \$220,000.

20 Q. So that's the amount that they'll be requesting
21 in this case at this time?

22 A. Yes.

23 Q. And what were to happen if there would be
24 further proceedings in the future regarding the BHOA
25 matter?

1 A. Well, the \$220,000 does not contemplate further
2 costs addressing the Boulders Homeowners Association in a
3 subsequent proceeding.

4 Q. Okay. In order to help kind of keep track of
5 some issues, you prepared an illustrative exhibit?

6 A. I did.

7 Q. Let me hand you what we've marked as Exhibit
8 A-10.

9 Would you please explain what Exhibit A-10 is,
10 Mr. Bourassa?

11 A. I was asked to prepare an exhibit that outlines
12 the issues in dispute with Staff, and page 1 of the
13 exhibit are the rate base items and disputes which include
14 a description of what it is, the amount, the impact on the
15 rate base, and the Company's position and Staff's
16 position.

17 Page 2 of the exhibit are the revenue and
18 expense items that are in dispute with Staff, and I list
19 the amount in dispute and the impact on the revenue
20 requirement for each item, and the Company's position and
21 Staff's position.

22 Q. So this is really just to list and identify the
23 issues in dispute for rate base and operating expenses
24 between the Company and Staff?

25 A. Correct. It's not intended to be testimony, to

1 list the full extent of the positions of the parties. I
2 tried to limit it to, for example, on the rate base items,
3 whether the Company's position was to include it in rate
4 base and what Staff's position was to disallow it or
5 exclude it. Same thing with the expense items.

6 Q. Okay. And is this updated based on the filing
7 of Ms. Brown's supplemental testimony late last week?

8 A. Yes, I think I've captured everything as of
9 Staff's supplemental surrebuttal testimony.

10 Q. Were you here last Wednesday during the first
11 day of hearings?

12 A. Yes, I was.

13 Q. And during his testimony, Mr. Sorensen deferred
14 questions about the specifics of a recovery mechanism
15 related to the issue brought by the BHOA. Do you recall
16 that?

17 A. Yes.

18 Q. Mr. Bourassa, in fact, you addressed this issue
19 in your rebuttal testimony which is Exhibit A-6 at page 30
20 and 31, correct?

21 A. Yes. I responded to a question about the
22 potential impact of a 1.5 million dollar cost to
23 decommission the plant.

24 Q. You testified in your rebuttal testimony that
25 you were not proposing a specific recovery mechanism at

1 that time, but then you provided an estimate of the rate
2 impact. How can you reconcile those two statements?

3 A. Well, I -- I don't know that at the time that a
4 full explanation of the surcharge was necessary. I do
5 describe how it would be calculated and the impact here.
6 And I think we're getting a little bit caught up in the
7 acronyms of arsenic cost recovery mechanism, debt service
8 cost recovery mechanism. It's a surcharge, a cost
9 recovery surcharge, and I think that I can explain it
10 further today.

11 Q. And is the key -- what's the key element that we
12 need to know to implement or to calculate a surcharge like
13 that?

14 A. Well, we need to know the cost, obviously.

15 Q. You've prepared an exhibit that illustrates how
16 that would work once we know the cost, correct?

17 A. Correct.

18 Q. Let me hand you what's been marked as Exhibit
19 A-11. In order to illustrate how this would work, what
20 total cost did you use?

21 A. \$1,841,666.

22 Q. Just for the record, that was in the range of
23 1.5 to 2 million that was estimated. So it's just a
24 made-up number for this purpose?

25 A. Yes.

1 Q. And you also included the impact if and when the
2 land is sold, correct?

3 A. On page 2.

4 Q. What number did you use for the net gain on
5 sale?

6 A. The net gain, \$500,000.

7 Q. But you assume that the land was not sold at the
8 time the surcharge went into effect?

9 A. Correct.

10 Q. Okay. Would you walk through then the steps
11 that you've laid out in your illustrative exhibit,
12 Mr. Bourassa? Once we have a known and measurable plant
13 closure cost, what is the next thing that we do?

14 A. We need to compute an annual amortization of the
15 cost. In Exhibit A-11 I've used a 20-year amortization
16 period. So step 1 is to compute the annual amortization
17 of that amount.

18 The second step would be to compute the return
19 component, component on the cost, and for purposes of this
20 exhibit I'm using ten percent as the weighted cost of
21 capital.

22 Q. Okay.

23 A. Step 3 is to determine the gross revenue
24 conversion factor.

25 Q. And are you using the same gross revenue

1 conversion factor that's used by the parties in this case?

2 A. This is the gross revenue conversion factor that
3 I use for tax purposes, for grossing up the tax -- excuse
4 me, grossing up the revenue deficiency or operating income
5 deficiency to account for income taxes.

6 Step 4 is to find the incremental income tax
7 factor, which then in step 5 we multiply that tax factor
8 times the return component. This is the level of income
9 taxes that are required in addition to the return
10 component in order to provide the net return on investment
11 in step 2.

12 Step 6 is to add up the two computed models from
13 step 1 and step 2, which is the return component and the
14 amortization component. And step 7 is to add to the
15 number found in step 6 to compute the total annual
16 surcharge revenue requirement.

17 Finally in step 8, we take that computed number
18 in step 7, divide it by 12, which will give us a monthly
19 surcharge revenue requirement; and then finally we divide
20 that by the number of customers, and it looks like I have
21 a spelling error in the parentheses there. It's "nuber."
22 It should be "number." I apologize. That will then give
23 you the monthly surcharge per customer.

24 Q. The 1.841 million approximate cost that you used
25 as an example, that would be added to rate base that's

1 found in this case? I mean that's the starting point as
2 the fair value rate base in this case, and this is treated
3 as an addition?

4 A. We aren't proposing to include it in this rate
5 case, but it is as if -- I mean that's the investment that
6 would be recognized eventually in rate base.

7 Q. Well, when would it be included in rate base in
8 a more formal fashion?

9 A. In the next rate proceeding.

10 Q. And you went through the same steps on the
11 second page of your exhibit, or similar steps?

12 A. Yes. On page 2, I went through similar steps.
13 If subsequent to computing the initial surcharge, the
14 Company sold the land and received a gain on that sale --

15 Q. And just for clarity, gain is the amount above
16 their tax basis in the property?

17 A. Their cost, right.

18 Q. Above their cost, thank you.

19 A. And here I show it being shared as we've
20 proposed, 50 percent with the ratepayer. I follow the
21 same steps that I described on page 1 of this exhibit,
22 A-11, and reflected the lower cost in the computations
23 which would then reflect a lower monthly surcharge per
24 customer.

25 Q. And that's the 13.45 at the bottom of page 2 of

1 Exhibit A-11?

2 A. Correct.

3 Q. And as you're calculating it, would the
4 surcharge apply equally to residential and commercial
5 customers?

6 A. Yes, this is -- these steps are very similar to
7 arsenic cost recovery surcharge mechanisms for debt
8 service. I've tried -- I think I followed this from a
9 prior case that Staff proposed the steps that should be
10 followed. I modified the debt recovery surcharge for
11 arsenic treatment plant to follow something for this case,
12 to follow the circumstances for this case.

13 Q. Mr. Bourassa, how will the Commission and the
14 parties be sure that the amount, be sure of the amount
15 that was spent and what it was spent on before the
16 surcharge goes into effect?

17 A. Well, the Company is going to have to submit all
18 of its documentation supporting the cost. I would also
19 say that the Company would have to demonstrate that the
20 work is completed and the plant has been decommissioned,
21 all the approvals have been received, and that flows are
22 going to the City of Scottsdale.

23 Q. And again, is that similar with other surcharge
24 situations that you've modelled this after?

25 A. Yes. For example, in a debt service surcharge

1 for arsenic treatment plant, the Company has to finalize
2 the loan and receive a final loan, the closing documents
3 for the loan in order to implement the surcharge.

4 Q. Judge Nodes asked Mr. Sorensen last week about
5 some kind of a true-up or something along those lines.
6 Can you address that?

7 A. Yes, I think that as with all cost recovery
8 mechanisms or adjuster mechanisms, that an annual true-up
9 has to be an essential element of that tariff. What you
10 want to make sure is at the end of each year that you have
11 not over- or undercollected what you should, what the
12 Company should have collected. If, for example, the
13 Company overcollected, that amount would be reduced from
14 the next year's surcharge calculation. If the Company
15 undercollected, it would be added to the Company's next-
16 year surcharge calculation.

17 Q. And how long would this surcharge mechanism stay
18 in effect?

19 A. Until the next rate proceeding whereby the
20 decommission costs would be included in rate base and the
21 cost of service included in base rates.

22 Q. You've heard Staff and RUCO, both in this case
23 and other cases, express concern about adjusters or
24 surcharge recovery mechanisms?

25 A. Yes.

1 Q. And as a witness before this Commission, you've
2 advocated for adjuster mechanisms for your clients before,
3 haven't you?

4 A. Yes.

5 Q. Purchased power adjusters or purchased water
6 adjusters?

7 A. Yes.

8 Q. In fact we asked for a wastewater treatment cost
9 adjuster in this case, correct?

10 A. In our -- yes.

11 Q. Mr. Bourassa, in your expert opinion, would
12 adoption of a plant closure surcharge like we've discussed
13 this morning create a precedent that would support
14 adoption of purchased power adjuster mechanisms or
15 purchased water adjuster mechanisms for water and sewer
16 companies?

17 A. No, I think the circumstances here are very
18 unique. We have a settlement agreement with the
19 homeowners association of the ratepayers. I wouldn't in
20 future cases feel like I could use this as a precedent for
21 advocating purchased water adjustment mechanisms or
22 purchased water/wastewater adjustment mechanisms. The
23 circumstances are so unique in this case.

24 Q. Judge Nodes also asked why an accounting order
25 couldn't be used. Could you address that concern?

1 A. Well, accounting orders, generally you defer the
2 cost for consideration in a future rate case; but in my
3 experience, accounting orders rarely, if ever, provide a
4 guaranteed treatment of a cost. It merely says you can
5 put aside these costs and defer them for later
6 consideration, but there's no commitment by the Commission
7 to treat the costs in any specific way.

8 Secondly, it's rare to have the carrying costs,
9 the cost of money, included in an accounting order.

10 Q. And you understand that the Company's
11 willingness to take the steps it has agreed to take is
12 contingent on that type of relief?

13 A. Correct. I might also add that, you know, the
14 carrying costs alone would accumulate, and let's say the
15 Company files in three or four years. Those carrying
16 costs would accumulate. They would be compounded, and
17 back-ending the rate relief on this would cost the
18 ratepayers much higher than if you implemented it
19 immediately.

20 MR. SHAPIRO: Your Honor, with that, I will move
21 Exhibit A-10 and A-11.

22 ACALJ NODES: Any objection to A-10 or A-11?

23 (No response.)

24 ACALJ NODES: Okay. Those exhibits are
25 admitted.

1 (Exhibits A-10 and A-11 were admitted into
2 evidence.)

3 MR. SHAPIRO: And we'll tender Mr. Bourassa for
4 cross.

5

6 EXAMINATION

7

8 BY ACALJ NODES:

9 Q. Mr. Bourassa, let me just jump in and follow up
10 on a couple of things there at the end.

11 How do you envision the process for verification
12 of the surcharge mechanism? Do you see it unfolding in a
13 manner similar to arsenic cost recovery mechanisms in that
14 the surcharge does not actually go into effect until the
15 Company submits its actual costs, and then there's some
16 submission of documentation review by, say, the parties,
17 Staff and the other parties in the case, and then a
18 subsequent Commission order that approves the actual
19 surcharge? Or do you see it or are you contemplating that
20 it would go into effect coming out of this order directly
21 and that there would be an after-the-fact verification
22 process?

23 A. No, I think that in order to implement the
24 surcharge, the Company is going to have to demonstrate the
25 costs. They have to be submitted to Staff and reviewed.

1 They're going to have to show that the plant has been
2 decommissioned, that all required approvals have been
3 obtained, so the plant is complete and it's in service;
4 the flows are now going to the City of Scottsdale.

5 Now, as I recall, in the arsenic surcharge
6 recovery mechanisms, that the mechanism itself is approved
7 in a case, and what's required is for the Company to
8 fulfill those steps, prove the costs, submit a calculation
9 and have Staff review it. And then Staff says okay, your
10 costs are verified; you've got your approvals; it's in
11 service; your calculation is fine. I don't recall that
12 the Commission has subsequently then had to approve the
13 surcharge itself, but I could be wrong.

14 Q. My understanding is that what happens is, at
15 least in regard to the arsenic mechanisms, is there's a
16 submission of information, reviewed by Staff, RUCO, and
17 presumably here, the HOA; and then Staff prepares a short
18 order that actually approves the specific amount of the
19 surcharge.

20 A. Okay.

21 Q. And the only thing that's actually approved in
22 the decision coming out of this case is the mechanism
23 itself.

24 A. Then I wouldn't disagree with Your Honor. If
25 that -- I do recall that happening, and I would apply the

1 same type of requirements on this that -- the surcharge
2 itself. The mechanism can be approved in this case, but
3 the surcharge itself will have to have subsequent
4 approval. As long as -- I would only make the statement
5 that, as long as it doesn't turn into a year process,
6 because usually the arsenic surcharge charges that are
7 reviewed by Staff are reviewed in a couple months time and
8 approved. So I would caution the parties on unnecessary
9 delay in the process.

10 Q. Okay. Are these costs going to be all capital
11 costs related to the decommissioning? For example, in
12 arsenic instances, there are not only capital costs, but
13 O&M costs. And those, there was a different treatment
14 between capital costs and O&M costs.

15 A. There is -- these would be all capital costs.
16 These O&M expenses, the monthly, the charges to treat the
17 water from the City of Scottsdale would not be in this
18 surcharge mechanism.

19 Q. Okay.

20 A. But the O&M costs are excluded. It's strictly
21 capital.

22 Q. Okay. Now, related to the accounting order,
23 there was some suggestion that only operating costs could
24 be deferred through an accounting order. Is that
25 necessarily true? Or can capital costs also be deferred

1 for future recovery through an accounting order?

2 A. I don't think that accounting orders are
3 strictly limited to O&M costs.

4 Q. Okay.

5 A. But generally, I would say, Your Honor, that
6 capital costs that are -- capital expenditures that are
7 made between cases are then considered in the next case.
8 So there wouldn't be any real underlying basis to defer a
9 capital cost, unless for some unusual circumstance, the
10 Company did not want to begin depreciation right away and
11 wanted to not begin depreciating the plant until it was
12 recognized in rate base in the next case. That would be a
13 circumstance where I could see a capital cost being part
14 of an accounting order.

15 Q. Your point is that for capital costs there's
16 really no advantage to the Company because the Company
17 would be just as well off by simply filing another rate
18 case as soon as the project was completed, and then could
19 request recovery of those capital costs?

20 A. Yes.

21 Q. And then, I think it's clear, but if this
22 surcharge mechanism were to be approved, in the subsequent
23 rate case all those capital costs would be presumably
24 included within the Company's rate base, and the surcharge
25 mechanism would then disappear. There would just be a

1 single flat rate associated with the entirety of the
2 Company's rate base and plant accounts, correct?

3 A. Yes, Your Honor, and that's similar to the
4 arsenic cost recovery mechanism. Once you file the next
5 case, those costs are considered in rate base and in the
6 cost of service, and therefore part of the base rates.

7 Q. I think I asked Mr. Sorensen this, but do you
8 think it would be reasonable for the Commission to put
9 some kind of cap on the amount of the surcharge itself
10 coming out of this proceeding so that there was some
11 amount of certainty to the Company's customers that the
12 surcharge would not go above and beyond an unanticipated
13 level?

14 A. I would only echo Mr. Sorensen's comments that
15 until we can get a better estimate of the costs, that
16 putting an upper limit is a bit dangerous. The Staff and
17 RUCO will have a chance and the homeowners association
18 will have a chance to review the costs and to dispute any
19 of those costs included in the surcharge.

20 I'm not saying that the Commission doesn't have
21 that discretion, Your Honor. But I would urge extreme
22 caution in doing that.

23 Q. Okay. Well, ultimately, the Company is going to
24 be made whole in the sense of, maybe not entirely whole
25 from your perspective in that there's a cost of capital

1 associated with whatever capital investment there is, but
2 ultimately in a subsequent rate case there's going to be a
3 true-up of the full amount of the capital costs associated
4 with the decommissioning, correct?

5 A. Correct.

6 Q. And potentially as a compromise, if the
7 Commission were to impose some kind of cap, say \$15 or
8 something along those lines, that were somewhat consistent
9 with the current estimate that would provide some
10 certainty to the customer that a surcharge isn't going to
11 end up being \$20 coming out of the application of the
12 mechanism, would that be a reasonable compromise perhaps
13 of the position that's being advocated by you in this
14 case?

15 A. I agree with you, Your Honor, that perhaps
16 having an upper limit, it would provide some level of
17 assurance to the ratepayers that this will be the maximum
18 until the next rate case. I don't know that \$15 is the
19 number. I'm hearing numbers now between 1.5 million and 2
20 million which would put the number somewhere between, say,
21 probably in the range of \$16 to \$17. And I think that if
22 that was, if that was the number, then the Company would
23 probably feel comfortable.

24 But I think that the 1.5 million dollars, from
25 what I've been told, is a very rough estimate, and it's

1 probably low.

2 Q. Well, again, it's not like the plant is going,
3 whatever it ultimately costs, that the Company is going to
4 forego forever recovery.

5 A. Correct.

6 Q. It's just there may be some interim gap between
7 what is estimated and what is actually incurred as far as
8 capital costs, correct?

9 A. Yes, Your Honor.

10 Q. And so in that sense, in order perhaps for the
11 Commission to have some peace of mind as well as for the
12 customers to have some assurance that this surcharge is
13 not going to result in an amount that's significantly
14 above an anticipated level, is it your opinion that that
15 may be a reasonable outcome in order to achieve those
16 results?

17 A. Yes, Your Honor. And I think that may also --
18 the Company would be taking on a risk; and as long as the
19 cost of capital reflects the risks, then I agree. The
20 Commission -- I agree that an upper limit is probably
21 prudent. I'll leave it to Your Honor and the Commission
22 to decide what that's going to be.

23 ACALJ NODES: Okay. Fair enough. Thank you.

24 Mr. Wakefield.

25 MR. WAKEFIELD: Thank you.

1 CROSS-EXAMINATION

2

3 BY MR. WAKEFIELD:

4 Q. Good morning, Mr. Bourassa.

5 A. Good morning.

6 Q. Let's start out with your Exhibit A-11, the
7 estimate of the surcharge. I just want to make sure I
8 understand a few things. Let's start at the top. It's
9 the third line of text where you, actually the fourth
10 line. The sharing of the gain on the land, and you
11 indicate 50 percent sharing; and I know on the first page
12 there is no gain yet because you're assuming the property
13 hasn't been sold.

14 But just so it's clear in the record, what's
15 shared 50 percent is the gain on the sale of the land that
16 the Company currently owns, but there's some additional
17 land that might be involved here; is that correct?

18 A. I don't know.

19 Q. Okay.

20 A. My understanding was it was the land upon which
21 the treatment facility that's there currently exists, is
22 in service, used and useful. I'm not aware of other land,
23 whether it's adjacent to it or down the road.

24 Q. Okay. If there were other land that was
25 adjacent to that property that the homeowners had

1 committed in the settlement to attempt to bring into the
2 deal essentially, your example on A-11 doesn't include any
3 different mechanism or different terms of sharing gain on
4 that land; is that correct?

5 A. I think the settlement agreement will speak for
6 itself. I don't want to comment on other land.

7 Q. So if the settlement agreement addresses a
8 different way to share a gain with respect to other land
9 other than what you just described you intended to include
10 in A-11, your examples in A-11 don't consider that other
11 land; is that right?

12 A. Correct.

13 Q. Okay. You had made reference -- I think it was
14 in response to your -- well, maybe it was when you were
15 initially describing Exhibit A-11 -- to an annual
16 recomputation of the surcharge mechanism. Would that
17 recomputation adjust -- for instance, in step 1, would it
18 be reflecting that each year you're depreciating the
19 plant, so you would recompute based off the undepreciated
20 amount of the plant, or would that recomputation be only
21 to address a true-up of did you recover what you actually
22 intended to recover in the prior year?

23 A. The annual surcharge can include prior recovered
24 depreciation.

25 Q. Okay. So then the second year when you would

1 recompute, you would have smaller numbers in step 1 to
2 reflect the fact that you've depreciated some of it in the
3 first year?

4 A. That you've recovered a portion of that
5 investment in the prior year, yes.

6 Q. Okay. Thank you.

7 A. So conceivably, if you waited 20 years, the
8 return dollars would go down, down, down. The
9 amortization amount would stay the same, but the surcharge
10 would also go down, assuming the same level of customers.

11 Q. So if you're doing an annual recomputation and
12 say, for instance, you haven't sold the plant when the
13 first surcharge recovery application is filed, but then
14 you sell it during the next year, would you recompute then
15 during the second recomputation or the second computation
16 of it, the first recomputation, would that then reflect
17 the fact that you need to share the gain if you've sold
18 the underlying property?

19 MR. SHAPIRO: Excuse me, Mr. Wakefield, you
20 meant the land, not the plant, right?

21 MR. WAKEFIELD: I'm sorry, I did mean the land,
22 excuse me.

23 THE WITNESS: I was a bit confused. Yes,
24 correct. And then because the basis of the cost would go
25 down, you would have less amortization recovery, also.

1 BY MR. WAKEFIELD:

2 Q. So if the land is not sold immediately but is
3 sold sometime before the next rate case, the sharing of
4 the gain would be reflected in the next recomputation of
5 the surcharge?

6 A. Yes.

7 Q. And in your example, the second to the last line
8 is where you divide by the number of customers, and the
9 number you've used there is 2,100, and I think that's what
10 the customer count was in the test year. Would you be
11 using a test year customer count, or would you be using a
12 more current year customer count each year when you
13 recompute?

14 A. You would update that customer count number to
15 the latest year-end number of customers.

16 Q. Okay.

17 ACALJ NODES: Can I interject something on this
18 annual recalculation? Is that something that the arsenic
19 mechanisms have, is an annual recalculation? Because I
20 think the concern I would have is, you're almost certainly
21 going to have to have some subsequent Commission order
22 every year to recalculate this and approval by the
23 Commission, if it's done that way.

24 I think -- well, let me ask that.

25 THE WITNESS: Well, you're correct, Your Honor.

1 The arsenic surcharge recovery mechanism is computed once,
2 and you true it up at the end of the year, but it's not --
3 to make sure that you haven't over or undercollected it.
4 That potentially could change the surcharge. Okay. But
5 I'm not aware that that subsequent calculation, next
6 year's calculation is approved again. I see the problem
7 that you're thinking of.

8 ACALJ NODES: In fact, the arsenic mechanisms
9 had different steps because there were ongoing capital
10 costs that were being incurred as the plant was built and
11 begun to be operated, correct?

12 THE WITNESS: I think with the arsenic surcharge
13 recovery mechanism, the debt surcharge, it was merely as
14 soon as you knew the loan amount, the principal and
15 interest, and then the plant was -- the plant was being
16 constructed. It may exceed that loan amount, but what's
17 only included in the calculation is the annual interest
18 and principal on the loan. The principal is grossed up
19 for income taxes. The interest is not.

20 ACALJ NODES: Okay. All right. Go ahead,
21 Mr. Wakefield.

22 BY MR. WAKEFIELD:

23 Q. Thank you. Just to follow up on that.
24 Mr. Bourassa, the settlement agreement doesn't speak to
25 whether or not there's an annual recomputation of any

1 surcharge mechanism, correct? So if the Commission felt
2 it was necessary or unnecessary, neither outcome would be
3 inconsistent with the settlement agreement's provisions on
4 this topic, correct?

5 A. No.

6 Q. That's no, it would not be inconsistent? I just
7 want to make sure the record is clear.

8 A. Maybe you ought to rephrase the question,
9 because I thought I was answering no, it wouldn't be
10 inconsistent with the agreement.

11 Q. Whichever way the Commission felt that issue
12 needed to be resolved would be consistent with the
13 settlement agreement?

14 A. I believe it would.

15 Q. Thank you. Just one more brief area,
16 Mr. Bourassa. In Mr. Sorensen's testimony, I think it was
17 in his direct testimony, he had testified that the system
18 improvements that had been made to comply with the last
19 rate case decision regarding the odor issues accounted for
20 almost a 22 percent rate increase. Do you recall that
21 testimony?

22 A. Yes.

23 Q. And one of the inputs into that figure is the
24 amount of the investment made in those improvements that
25 were required; is that correct?

1 A. Yes.

2 Q. And neither Staff nor RUCO has proposed any
3 change to the planned investments regarding those
4 investments that were done to comply with the last rate
5 case requirement with respect to the odor issues; is that
6 correct?

7 A. Correct.

8 Q. Now, there were some other odor-related
9 investments that the Company made that are included in
10 this rate case, other than those that were required by the
11 last rate case; is that right?

12 A. That's my understanding, yes.

13 Q. And Staff has raised a concern about one of
14 those investments; is that right?

15 A. If you're referring to the odor control unit --

16 Q. Yes.

17 A. -- that was transferred from Litchfield Park
18 Service Company to Black Mountain, then yes.

19 Q. And the Staff's concern about that is not
20 whether that's an appropriate type of cost to recover, but
21 they just wanted to see more complete verification; is
22 that correct?

23 A. That's Staff's position. However, Staff is
24 recommending removal in the LPSCo case, so they apparently
25 had enough information to remove it from the LPSCo rate

1 case, but not enough information to add it to Black
2 Mountain.

3 Q. So with respect to your understanding of Staff's
4 position on odor-related investments, they have not
5 expressed any ideological objection to including those
6 kinds of investments and allowing the full base of
7 customers to be, for the rates that everyone pays to share
8 those costs; is that correct?

9 A. Correct, neither Staff nor RUCO has singled out
10 the odor control cost for recovery from any specific
11 customer group.

12 Q. Thank you. Those are all my questions,
13 Mr. Bourassa.

14 A. Thank you.

15 ACALJ NODES: Ms. Wood.

16

17 CROSS-EXAMINATION

18

19 BY MS. WOOD:

20 Q. Good morning, Mr. Bourassa.

21 A. Good morning.

22 Q. We have to stop doing this. I wanted to turn to
23 your Exhibit A-11. On the top line you talk about the
24 costs related to the wastewater treatment decommissioning,
25 correct?

1 A. Correct.

2 Q. And that's 1.8 million, roughly. That's an
3 estimate, correct?

4 A. It is -- yes. It is not the costs, obviously,
5 because we don't know them at this time.

6 Q. The cost of 1.8 million indicated there, does
7 that have or does that include the \$720,000 you discuss in
8 your testimony for the acquisition of additional
9 wastewater treatment capacity?

10 A. Yes.

11 Q. You picked a depreciation level of 5 percent,
12 assuming 20-year depreciation. Isn't the depreciation
13 level for sewer and plant improvements 3.33 percent?

14 A. The depreciation level for --

15 Q. Just so we're on the same page --

16 A. -- treatment and disposal equipment is 5
17 percent.

18 Q. So I'm looking at your rejoinder Schedule C-2,
19 page 2. Do you have that? I think it's a part of --
20 rejoinder would be A-9. No, A-8.

21 A. And that was C-2, page 2?

22 Q. Yes, sir.

23 A. Okay.

24 Q. When you're finished, there won't actually be a
25 treatment facility here. It will be a collection system,

1 correct?

2 A. There will be a collection -- as I understand
3 it, there will be a collection system underground.

4 Q. And it will be a combination of gravity and
5 possibly force?

6 A. I don't think that we have the plan yet, but if
7 it does -- it may include force and gravity. But I
8 understand from Mr. Sorensen's testimony, it may just be a
9 gravity plant.

10 Q. Looking at line 10 and 11, I think it is, on
11 your Schedule C-2, page 2, whether it's force or gravity,
12 the depreciation, I think, rate you've listed as 2
13 percent, correct?

14 A. Correct.

15 Q. So if you use the 2 percent instead of the 5
16 percent you used in your illustrative exhibit, that would
17 lower the potential surcharge, correct?

18 A. Certainly I used a lower depreciation or
19 amortization rate. I used 5 percent because this is
20 treatment -- these costs are a combination of purchased
21 capacity. They may reflect a number of other costs. I
22 used the 5 percent as a reasonable amortization figure
23 because it, in my mind, is related to the treatment of
24 wastewater flows. I mean that's the whole purpose of the
25 project is to treat wastewater flows.

1 Q. That would be the purpose of all wastewater
2 treatment plants, correct? That would be part of the
3 function of all of them, right?

4 A. Well, the function of a collection system is to
5 collect the sewage and deliver it to the treatment plant.

6 Q. And when you're done with this, you'll have
7 \$720,000 you're spending on purchasing additional
8 capacity, but the remainder of the expenses will be
9 associated with a collection system, correct?

10 A. Well, the removing the existing wastewater
11 treatment plant. Not all of it is going to be collection
12 mains. And until we can actually see the costs, I think
13 that a 5 percent rate is a perfectly valid rate to use,
14 because it is all related to treating the wastewater
15 flows, removing the existing treatment plant, purchasing
16 new capacity. There would be some costs arguably that are
17 collection mains, but we don't know that at this time.

18 One other way we could perhaps do it is to
19 amortize those costs over the remaining life of the
20 contract, which I think is less than 20 years. So there's
21 a number of ways that you can do it. I think that 5
22 percent is a reasonable and supportable amortization rate,
23 given the circumstances.

24 Q. Would it be unreasonable for the Commission to
25 adopt a 2 percent level of depreciation?

1 A. Yes.

2 Q. Okay.

3 A. Because it's not all collection, and if they
4 want to do a blended and make some assumptions about --
5 let's say that a third of the cost, the estimated cost is
6 collection mains, and the balance is related to the
7 removing the plant, putting the land back in the condition
8 so that it can be sold, and purchasing the wastewater
9 treatment, then you could come up with a blended rate; but
10 that requires a lot of assumptions that I'm not willing to
11 make at this point.

12 ACALJ NODES: I need to give the court reporter
13 a break here, so why don't we just take a ten-minute
14 break, and we'll resume.

15 (Recessed from 10:35 to 10:50 a.m.)

16 ACALJ NODES: Go ahead, Ms. Wood.

17 BY MS. WOOD:

18 Q. Mr. Bourassa, if the Commission approves a cost
19 recovery mechanism, the surcharge that you're talking
20 about, that would be in addition, a monthly cost which is
21 in addition to the \$71 that you currently have set aside
22 as your cost of sewer service per month?

23 A. Correct.

24 Q. If the Commission, going back to Exhibit A-11,
25 if the Commission approves a cost of capital which is

1 lower than the 10 percent which you've identified in your
2 illustrative exhibit, that would also alter the amount,
3 bringing it down to a lower surcharge?

4 A. Yes.

5 Q. Now, you said that you would update this on an
6 annual basis, depending on the number of customers, and I
7 guess I was curious. Are you expecting to keep this
8 recovery mechanism in place for, what period of time?

9 A. Until the Company files its next rate case.

10 Q. Is the Company going to be filing a rate case
11 within twelve months of completing the plant?

12 A. I don't know when the Company would file another
13 rate case. Based upon its recent two cases, they're about
14 three to four years apart. So just based on that, I would
15 expect the Company to be filing, you know, on a regular
16 basis. How long of time? It could be three, it could be
17 five years.

18 Q. Would there be an objection to coming back in
19 one year after the plant has been in service?

20 MR. SHAPIRO: I'm sorry, are you asking for the
21 surcharge or for another rate case?

22 MS. WOOD: I'm asking if it would be
23 objectionable to the Company to come in for another rate
24 case within twelve months after the plant has been in
25 service.

1 MR. SHAPIRO: Okay. Hold on, Mr. Bourassa. I'm
2 going to object. This is not a witness who can speak to
3 what the Company will do. He's a consultant for the
4 Company.

5 ACALJ NODES: All right. Overruled. He can
6 answer, if he wishes.

7 THE WITNESS: I don't know. You would have to
8 ask Mr. Sorensen.

9 BY MS. WOOD:

10 Q. You have in your testimony identified a hundred
11 percent equity structure for Black Mountain, correct?

12 A. For rate-making purposes, yes.

13 Q. Is a hundred percent equity cap and structure
14 representative of the companies you used in your proxy?

15 A. No, the companies are -- the publicly traded
16 companies that I used in my proxy --

17 Q. I'm looking at Schedule D-4.2 in an exhibit to
18 rebuttal testimony, which I guess would be Exhibit R-7 --
19 excuse me, A-7.

20 A. Yes.

21 Q. This is a copy of your schedule in which you
22 identified the capital structures of the water utilities
23 that you have used as proxies, right?

24 A. Correct.

25 Q. And on line 11 you give the average capital

1 structure of debt and equity. What is that?

2 A. 48.5 percent on average long-term debt, 51.5
3 percent common equity.

4 Q. Have you made a downward adjustment in your cost
5 of equity to reflect that Black Mountain Sewer has no debt
6 in its capital structure?

7 A. Black Mountain Sewer does have debt in its
8 capital structure. For rate-making purposes, because
9 we're excluding the Scottsdale capacity cost from rate
10 base and including the debt service in operating expenses,
11 for rate-making purposes we are using a hundred percent
12 equity capital structure because the remaining amount in
13 rate base is equity funded.

14 Q. So based on the fact that you're using a hundred
15 percent equity structure for the purposes of rate-making,
16 have you made a downward adjustment for that fact when you
17 compared Black Mountain to those utilities you use in your
18 proxy?

19 A. I discuss this in my rejoinder testimony. If I
20 were to make a downward adjustment, that downward
21 adjustment would be more than offset by the additional
22 business and operational risks of small companies like
23 Black Mountain Sewer Company compared to the large
24 publicly traded companies. If anything, an upward
25 adjustment, net upward adjustment is warranted.

1 Now, I haven't made any such adjustments, but a
2 downward financial risk adjustment would be more than
3 offset by risks associated with small utilities like Black
4 Mountain --

5 Q. Well, let's go back.

6 A. -- so there's no need.

7 Q. I didn't mean to cut you off. I apologize. You
8 can go ahead and finish.

9 A. Done.

10 Q. With regard to that the Company receives
11 dollar-for-dollar, I guess, as an operating expense for
12 that --

13 A. Like all operating expenses, that
14 dollar-for-dollar, if you're implying that it's guaranteed
15 recovery, it's simply not guaranteed. No operating
16 expense, along with the return dollars that are
17 authorized, the operating income in this case, are not
18 guaranteed. So it's still that risk of recovery of debt
19 service still exists as if it was in the company's capital
20 structure.

21 Q. For the purposes of rate-making, that capital
22 lease is considered as an operating expense in the
23 determination of your required revenue, correct?

24 A. Correct.

25 Q. And also, isn't Black Mountain Sewer a

1 subsidiary of a large publicly traded company?

2 A. Yes.

3 Q. Okay. And that large publicly traded company
4 has direct access to the capital markets, correct?

5 A. Being publicly traded, it has access to the
6 capital markets, yes.

7 MS. WOOD: Your Honor, if I may, I would like to
8 mark Exhibit R-1 and distribute that, please.

9 ACALJ NODES: All right.

10 BY MS. WOOD:

11 Q. You have in front of you a copy of Exhibit R-1,
12 correct?

13 A. I do.

14 Q. And this is a copy of Value Line Selection and
15 Opinion, Selected Yields for November 27, 2009, correct?

16 A. Yes.

17 Q. And Value Line records the cost of debt for BBB
18 corporate utility bonds as of November 27, 2009, as, I
19 think it says Recent. Actually, the report is dated
20 November 27, 2009 -- let me correct -- and the date where
21 it says Recent Report is November 18, 2009; and that
22 report for BBB bonds is for 6.24 percent, correct?

23 A. Correct.

24 Q. And how many basis points difference between
25 that is reported in Mr. Rigby's cost of debt?

1 A. Perhaps you can show me Mr. Rigby's cost of
2 debt. I think it was 6.2 something.

3 Q. Assuming, subject to check, that that's 6.27
4 percent cost of debt --

5 A. Correct.

6 Q. -- that would be? The difference would be?

7 A. If it's 6.27, three basis points.

8 Q. It's lower than Mr. Rigsby's cost of debt,
9 correct?

10 A. Correct, but the Company has also provided
11 evidence in this case that it's recently borrowed at a
12 rate of 7 percent stated rate with a 7.7 percent effective
13 rate on a 63 million dollar debenture that it just
14 recently took out.

15 Q. Now, I've just had somebody whisper in my ear
16 that I misstated Mr. Rigsby. It's 6.26. So your answer
17 would be there's four basis points difference, is that
18 correct? Excuse me, two basis points?

19 A. Is your question is it 4 or 2? It's 2.

20 Q. It's 2. And I went to law school so I wouldn't
21 have to do math, and you can see why.

22 You provided an attachment to your rejoinder
23 testimony which talks about the financing that you just
24 mentioned, correct?

25 A. Yes.

1 Q. And if you look at attachment 2 to your
2 rejoinder testimony on cost of capital, which is Exhibit
3 A-9, on the second page of attachment 2, this is a news
4 release or newswire service article about Algonquin Power
5 and Utilities Corporation announcement of a \$75 million
6 offering of common shares and convertible debentures,
7 correct?

8 A. Yes.

9 Q. So those convertible debentures are actually --
10 there were 55 million principal amount of 7 percent
11 convertible unsecured subordinated debentures, correct?

12 A. Yes.

13 Q. And I'm sure everybody in the room knows, but
14 for clarity, what is a subordinated debenture?

15 A. They're subordinated to other debt on the
16 Company's long-term debt.

17 MR. SHAPIRO: I'm sorry, I just have -- I'm
18 getting confused over the terms. Mr. Bourassa keeps using
19 Company, and you're talking about an APIF news article.
20 Are you asking about Black Mountain or about APIF?

21 MS. WOOD: I will clarify if there was any
22 confusion.

23 BY MS. WOOD:

24 Q. This is the debt you cited in your testimony,
25 Mr. Bourassa, as evidence of the level at which debt could

1 be procured, correct?

2 A. By the parent.

3 Q. By the parent?

4 A. Right. And when I say the Company here, I'm
5 referring to -- I assumed you were referring to Algonquin.
6 Black Mountain Sewer, there's no evidence that Black
7 Mountain Sewer could borrow at 6.26, 7 or 7.7 percent. A
8 creditor is going to evaluate the credit risk to Black
9 Mountain Sewer, not the credit risk of Algonquin Power.

10 Q. Are you suggesting the parent would use solely
11 the assets of Black Mountain Sewer to procure the best
12 debt financing it possibly could?

13 A. I think that if Black Mountain Sewer Company
14 were to borrow, its credit risk and its assets that it
15 would use as collateral would be limited to Black Mountain
16 Sewer. I don't know that Algonquin or any other investor
17 would put up their personal assets or the other company
18 assets to secure debt for Black Mountain.

19 Q. And this debenture, what was it for?

20 A. It appears to be acquisition of hydroelectric
21 plants. And you can correct me if I am misreading the
22 announcement.

23 Q. The rate, the bonds are being issued at 7
24 percent, correct?

25 A. Correct.

1 Q. And they're subordinate, correct?

2 A. Yes.

3 Q. And they are also unsecured, correct?

4 A. Correct.

5 Q. So in your experience, unsecured debt, is that
6 typically something that you can obtain at a lower rate
7 than secured debt or a higher rate of interest than
8 secured debt?

9 A. I think that would depend, but generally
10 unsecured debt would carry a higher cost.

11 Q. Thank you.

12 ACALJ NODES: Mr. Bourassa, just to clarify the
13 record, and this document obviously speaks for itself, but
14 does this article to which you were just referring
15 indicate that 35 million of the debenture proceeds are
16 going to be used to reduce existing senior short-term bank
17 credit facilities with the balance being used to acquire
18 hydroelectric assets?

19 THE WITNESS: I would agree with that, Your
20 Honor.

21 ACALJ NODES: All right.

22 BY MS. WOOD:

23 Q. Isn't it true, Mr. Bourassa, that the value of
24 electric generation facilities varies based on the
25 prevailing rates of electricity in the wholesale market?

1 A. Could you restate that question?

2 Q. I can have it read back if you want.

3 (The record was read by the Certified Reporter
4 as requested.)

5 THE WITNESS: I think that may be one factor
6 that might be pertinent to a valuation. It would also be,
7 what is also pertinent is the revenue stability, cash
8 flows. There are a number of factors that go into a
9 valuation.

10 MS. WOOD: Your Honor, if I could distribute
11 Exhibit R-2, RUCO's R-2.

12 ACALJ NODES: Sure.

13 BY MS. WOOD:

14 Q. I've put in front of you what's been marked as
15 Exhibit R-2 which is a Water Utility Industry report dated
16 October 23, 2009, page 1793, correct?

17 A. Yes.

18 Q. Are you familiar with this particular report?

19 A. Yes.

20 ACALJ NODES: Can we get some indication of what
21 the source of this page is from? Perhaps Mr. Bourassa
22 knows since he said he's familiar with it, but there's no
23 indication what the source is.

24 THE WITNESS: Your Honor, I was just looking for
25 that when you made that comment.

1 This is from the Value Line Investment Survey.

2 BY MS. WOOD:

3 Q. Thank you, Mr. Bourassa. At the bottom
4 left-hand side of this page 1793 is a composite statistics
5 chart containing composite statistics, right?

6 A. Correct.

7 Q. In there Value Line predicts or projects, among
8 other things, return on common equity for periods of time,
9 correct?

10 A. Correct.

11 Q. And one of those is from 2012 to 2014?

12 A. Correct.

13 Q. What is Value Line's projected return on common
14 equity from 2012 to 2014?

15 A. The Value Line Investment Survey has 7.5
16 percent. I discuss this in my rejoinder testimony, that
17 Value Line Investment Survey Water Utility Industry
18 includes a number of companies that are either subject to
19 condemnation proceedings or are financially distressed.

20 If you look at Mr. Rigsby's sample companies, of
21 both his gas and water companies, the projected returns
22 from Value Line for Mr. Rigsby's water utility sample is
23 11.8 percent. Compare that to the 7.5 percent on this
24 report.

25 Mr. Rigsby's gas utility sample projected

1 returns for 2012 to 14 are 11.2 percent. It seems to me
2 we ought to be comparing apples with apples here.

3 Further, if you look at Mr. Rigsby's recommended
4 cost of equity of 8.22 percent, there's hundreds of basis
5 points below what the projected returns are for the
6 company he uses in his utility samples.

7 Q. In Value Line's report, one of the things
8 they're highlighting with regard to water utilities in
9 terms of the bright demand picture in column 1 is the fact
10 that the utilities have the ultimate job security, that
11 water is a necessity, correct?

12 A. Are you referring to a particular line?

13 Q. Do you disagree with the notion that water is a
14 necessity?

15 A. Water is a necessity. The report also states
16 that the water utility industry has some issues to contend
17 with. It's under the section labeled Alarming Costs.

18 Q. And it also reflects the fact that the industry
19 is a good place for cautious investors to look to park
20 themselves until a sustained market recovery is evident,
21 correct? And that's in column 2 under Conclusion?

22 A. That's correct.

23 Q. It also comments in the second sentence of that
24 same Conclusion that water utility stocks are historically
25 more recession-proof than the broader market, correct?

1 A. Well, as indicated by the beta, the water
2 utility stocks' beta is below 1, which means that water
3 utility stocks are less risky than the market. So if the
4 market drops by 50 percent, water utilities would not be
5 expected to drop by 50 percent. They would be expected to
6 drop by less.

7 By the same token, if the market were to go up
8 by 50 percent, the water utility stocks, having a beta
9 less than 1, would not be expected to go up by 50 percent.

10 So the lower risk relative to the market makes
11 it true that utility stocks will decline less in a
12 recession, will also gain less in a bull market.

13 Q. Now, you gave some testimony about \$50,000 for
14 rate case expense associated with negotiating legal
15 expenses or rate case expense associated with negotiating
16 an agreement with the Boulders Homeowners Association,
17 correct?

18 MR. SHAPIRO: Objection. Misstates the
19 testimony in evidence.

20 BY MS. WOOD:

21 Q. Well, go ahead and provide me -- what is your
22 estimate for what the legal expense is associated with the
23 Boulders Homeowners Association contract?

24 MR. SHAPIRO: Again, I'm going to object. We've
25 made it very clear that this is rate case expense. It

1 doesn't deal with the negotiation of contract, per se.

2 ACALJ NODES: Mr. Bourassa, is the Company
3 requesting recovery of approximately \$50,000 of rate case
4 expense associated with the agreement with the Boulders
5 Homeowners Association that has been submitted in this
6 proceeding?

7 THE WITNESS: The additional \$50,000 is the cost
8 to deal with the issues related to the intervention of the
9 homeowners association in this case, and it's not strictly
10 legal costs, but my costs in advising the Company on the
11 cost recovery mechanism, et cetera.

12 BY MS. WOOD:

13 Q. You recently provided a data response to RUCO'S
14 fourth set of data requests relating to the amount of rate
15 case expense that had been generated in this case. The
16 number was \$94,000. Does that \$94,000 include your
17 expenses associated with the Boulders intervention in this
18 matter?

19 A. I can't speak for the attorneys' fees because I
20 don't review the attorneys' invoices. But there is a bit,
21 some of my cost in there that I'm sure is related to that
22 in the 95. The \$95,000 only goes up through rebuttal. So
23 we've had some additional costs for me dealing with that,
24 with the homeowners association in my rejoinder; and I'm
25 sure that there are legal costs associated with rejoinder

1 dealing with the homeowners association issues.

2 Q. Is the \$94,000 figure included in the data
3 response cumulative, or is there some other figure we
4 should be asking for?

5 A. Cumulative to --

6 Q. You have a request for \$180,000 in the rate case
7 expense. You have a request for \$50,000 in the rate case
8 expense. Does the \$94,000 mentioned in the data response
9 include the amounts from both, or is there a separate
10 response out there?

11 A. The 94, \$95,000 which you refer to are the costs
12 expended through October 31, 2009, related to this rate
13 case.

14 Q. Would that include the intervention of Boulders?

15 A. If it -- I'm sure that it includes costs up
16 through rebuttal, answering and dealing with the Boulders
17 Homeowners Association issues.

18 Q. Okay. Do you have any separate invoices that
19 relate solely to the rate case expense which is the
20 \$50,000 request?

21 MR. SHAPIRO: Again, I'm going to object. I
22 think the Company's position is being misstated. It's
23 asking for \$220,000 of rate case expense as of this point,
24 and it's explained in two different testimonies how it got
25 there.

1 The first asked for \$180,000, increased it to
2 \$230,000. Now it's done an estimate at RUCO's request,
3 and it's down to \$220,000. That's its request for rate
4 case expense in this case. There are no two separate
5 requests for rate case expense.

6 ACALJ NODES: Okay. Well, it is somewhat
7 confusing, Mr. Shapiro, because your estimate originally
8 was \$180,000. You're carving out a \$50,000 addition, at
9 least initially, in your estimates.

10 MR. SHAPIRO: Correct.

11 ACALJ NODES: And \$50,000 was designated as
12 being due to the intervention issues surrounding the BHOA.

13 MR. SHAPIRO: Correct.

14 ACALJ NODES: Okay. And I think the point that
15 RUCO is trying to inquire about is, is there in that
16 \$50,000 estimate, was that in addition to whatever has
17 been incurred to this point? I mean I think I'm confused
18 about it as well.

19 MR. SHAPIRO: I think one of the difficulties is
20 we're asking Mr. Bourassa to explain the legal invoices;
21 and obviously, that's difficult for him. But the answer
22 is a simple yes. The \$95,000 that was provided in
23 response to RUCO's data request that Mr. Bourassa
24 testified to is the total rate case expense incurred by
25 Black Mountain Sewer through October 31, 2009, and

1 includes all rate case expense. And as Mr. Bourassa
2 explained -- my firm does the same thing -- all of the
3 rate case expense related to the BHOA is included in the
4 same tally of rate case expense as everything else.

5 ACALJ NODES: Okay. And so the \$50,000 though,
6 Mr. Bourassa, is still an estimate of the additional rate
7 case expense that will be incurred due to the homeowners
8 association's intervention as part of the overall now
9 revised estimate of roughly \$220,000?

10 THE WITNESS: The reason I'm hesitating to
11 answer that is because all these costs are going into rate
12 case expense, and to say that there's a specific \$50,000
13 that may well still exist in our \$220,000 estimate as
14 opposed to our \$230,000 estimate, I've not tabulated the
15 specific costs through the \$95,000 through October 31,
16 what was specifically BHOA-related and what was not; and
17 the estimates going forward from rejoinder through hearing
18 to briefs, I don't believe that the estimates are broken
19 down by this is specifically going to be BHOA.

20 What we did in rebuttal was to say, with the
21 intervention of BHOA is rate case expense; do we expect
22 rate case expense to go up? The answer was yes. How much
23 do we think it's going to go up? Those are estimates. So
24 we estimated that it would probably be another \$50,000.

25 Now, based on my testimony earlier today, we're

1 reducing our rebuttal estimate of \$230,000 down to
2 \$220,000. So you can say, does the \$50,000 of additional
3 cost, is it still in there or is it now only 40 additional
4 from our original estimate of 180? I can't answer that.
5 The bottom line is we're going to spend more than we had
6 originally anticipated. That could be as much as \$50,000.

7 Again, you're asking me to look at a pool of
8 costs for rate case expense that aren't delineated the way
9 I think RUCO wants me to delineate them.

10 ACALJ NODES: Well, you didn't hesitate to
11 delineate an estimated amount previously, did you? I mean
12 presumably you somehow had a means of coming up with the
13 estimate related to the BHOA's intervention.

14 THE WITNESS: Which was the additional time we
15 thought it would take to deal with the BHOA issues.
16 Again, to this point, those are still, we still have -- we
17 have the \$95,000, which I know includes some legal and my
18 costs in dealing with the BHOA issues. I can't tell you
19 specifically what dollar amount that is at this time.

20 Then there are estimates of what we believe,
21 based upon how this case has gone, as to what it's going
22 to cost for rejoinder, which is now done so we have pretty
23 solid costs. This hearing, briefs, and Open Meeting. And
24 so that brings us up to our \$220,000 estimate.

25 ACALJ NODES: Well, would you estimate that the

1 vast majority of expenses associated with BHOA's
2 intervention have already been incurred to this point,
3 given that the settlement agreement was negotiated,
4 finalized; all testimony related to that issue has now
5 been submitted by the Company?

6 THE WITNESS: No. Your Honor, I don't think
7 that the bulk of the costs have already been incurred. We
8 have parties to this case that are obviously today
9 questioning the cost recovery mechanism. I'm sure that
10 once we get beyond this case, this issue will have to be
11 briefed, and I'm sure beyond that, the Commissioners will
12 want to weigh in at some point; and certainly by Open
13 Meeting with amendments or -- I just don't know, you know.
14 So no, I don't think that the bulk of the costs have
15 already been incurred.

16 ACALJ NODES: Does that estimate of costs for
17 the HOA's intervention include all the future anticipated
18 costs associated with putting into place, calculating the
19 adjuster, proposed adjuster mechanism, and everything up
20 to the Company's next rate case related to that adjuster
21 mechanism?

22 THE WITNESS: No.

23 ACALJ NODES: Okay. All right. Go ahead,
24 Ms. Wood.

25 BY MS. WOOD:

1 Q. Would you agree that the betas for the companies
2 you used in your proxies have fallen or are lower than
3 they were at the time you provided your initial testimony?

4 A. Yes.

5 MS. WOOD: And I think at this point, Your
6 Honor, I would like to move the admission of Exhibits R-1
7 and R-2.

8 ACALJ NODES: Any objection?

9 MR. SHAPIRO: No.

10 ACALJ NODES: R-1 and R-2 are admitted.

11 (Exhibits R-1 and R-2 were admitted into
12 evidence.)

13 MS. WOOD: I have nothing further, Your Honor.

14 ACALJ NODES: Mr. Torrey.

15 MR. TORREY: Thank you, Your Honor.

16

17 CROSS-EXAMINATION

18

19 BY MR. TORREY:

20 Q. Mr. Bourassa, I want to start off by just
21 turning your attention back to the issue of the removal of
22 the wastewater treatment plant.

23 At this time, to the best of your knowledge, the
24 Boulders Wastewater Treatment Plant is in service; is that
25 correct?

1 A. Yes. And I think all the parties agree that
2 it's used and useful and in service at the present time.

3 Q. And it is being used to provide service at this
4 time, right?

5 A. Yes.

6 Q. And so from an operational standpoint, right now
7 Black Mountain Sewer has no reason to actually want to
8 remove that plant from service, correct?

9 A. Well, other than the odors and the noise, the
10 reason is the ratepayers are requesting it be removed.
11 But you're right, and I think that's what makes this case
12 and the request for the cost recovery surcharge a bit
13 unique, is that we have used and useful plant that
14 arguably is in service, is in compliance with all ADEQ
15 requirements, and the Company just needs some assurance
16 that it's going to be able to, that if it gets rid of used
17 and useful plant and replaces it with a higher cost
18 mechanism or higher cost -- decommissioning costs and
19 getting the Scottsdale treatment cost that it's somehow
20 going to be second guessed.

21 Q. Because from the Company's standpoint, there
22 really isn't a need to eliminate the plant, correct?

23 A. Not from the perspective of treating wastewater
24 flows. Is the plant in compliance? Yes. Is it
25 operating? Yes. Is it used and useful? Yes. But we

1 have an odor and noise problem that is a significant
2 irritant to the residents in the Company's service
3 territory.

4 Q. But it's true, isn't it, that the odor and noise
5 issues come from the fact of the location of the plant in
6 close proximity to the houses, not from malfunctioning of
7 the plant, correct?

8 A. Correct. All odor -- all wastewater treatment
9 plants have odors. The closer you get, the more apt you
10 are to experience those odors. I think we've heard
11 testimony last week that there's, in some cases, merely a
12 cart path which may be 15 feet wide that's separating a
13 house from the sewer treatment plant.

14 Q. And so in this particular rate filing,
15 originally the Company hasn't asked or hasn't stated in
16 its application that it's going to remove this plant,
17 correct?

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

19 Q. I'll rephrase it this way. The issue of the
20 removal of the Boulders Wastewater Treatment Plant was
21 something that was brought up when the homeowners
22 association intervened; isn't that correct?

23 A. That's correct.

24 Q. And once the homeowners association intervened,
25 you've been talking about discussions that the Company has

1 had to have and the expenses related to that that were
2 included in the rate case expense. You recall that
3 discussion from a few minutes ago?

4 A. Correct.

5 Q. The expense that the Company has included for
6 discussions with the homeowners association, do any of
7 those expenses include the costs of discussions prior to
8 the filing of this rate case?

9 A. I don't believe they do.

10 Q. The issue of noises and odors, et cetera, from
11 this plant has been an ongoing issue for any number of
12 years; isn't that correct?

13 A. From the comments I listened to at the public
14 comment session and the testimony from Mr. Sorensen last
15 week, yes, it's been a -- the odor problems have existed
16 for a long period of time. And the Company has made
17 significant efforts to try and reduce or eliminate as many
18 of those odors as they can. A perfect example is the lift
19 station that was replaced on Boulders Boulevard.

20 Q. And I believe Mr. Sorensen had already testified
21 to the lengthy interactions between the residents and the
22 Company to try to resolve these odor issues that
23 ultimately led to the discussion of removing this plant.
24 Do you recall that?

25 A. Yes.

1 Q. And I guess what I really want to get down to
2 is, the estimates that you had for rate case expense don't
3 include those prior discussions or the ongoing discussions
4 that happened before the filing of this rate case; is that
5 correct?

6 MR. SHAPIRO: I'm going to -- can you repeat
7 that question back? I want to make sure that we're clear
8 on what we're talking about.

9 (The record was read by the Certified Reporter
10 as requested.)

11 MR. SHAPIRO: Thank you.

12 THE WITNESS: No, I think the cost of the
13 Company's proactive efforts to discuss problems with their
14 customer base are not in rate case expense.

15 BY MR. TORREY:

16 Q. I want to discuss a totally different topic
17 here, some of your testimony regarding the disagreement
18 between Company and Staff related to central office costs.

19 I'm a little confused on the breakdowns of how
20 the Company operates. So I just wanted to clarify a
21 little bit. The main parent company is the Algonquin
22 Power Income Fund; is that correct?

23 A. Yes.

24 Q. And what is it that APIF does as a day-to-day
25 business?

1 A. Well, the cautionary model that's employed by
2 Algonquin and its subsidiaries, we have an affiliate that
3 employs all the operators, the customer service reps, the
4 meter readers. In this case, Black Mountain doesn't have
5 any meter readers, but Algonquin does own some water
6 utilities. That's done through Liberty Water as a
7 service, sort of service company.

8 Those costs are allocated, in some cases,
9 directly because they track the labor. That's a direct
10 labor charge based on hours worked, that sort of thing.
11 The central office costs are other support services, like
12 audit, tax preparation, corporate governance, financial
13 budgeting type of services that are provided to the
14 subsidiaries.

15 So costs are flowing from two different
16 affiliates, the central office, the parent, and Liberty
17 Water which is what used to be called Algonquin Water
18 Services, is where all the employees are hired and paid.

19 Q. Let me make sure I'm clear on this. The central
20 office is the personnel that belong to APIF?

21 A. Repeat that question.

22 Q. You mentioned the central office that does the
23 financial, tax, and those type of services?

24 A. Right.

25 Q. Those are personnel who belong to APIF; is that

1 correct?

2 A. They're the management -- they're the indirect
3 costs of management. You have direct costs like
4 operators, customer service reps. The indirect costs
5 are -- like in management there are personnel costs in the
6 central office costs. But there's also costs of outside
7 services, like, for example, the Company doesn't conduct
8 its own independent audit. It wouldn't be an independent
9 audit if it did it itself. It engages its outside
10 accountants to prepare returns.

11 There are personnel at APIF, the central office,
12 that are hired to provide budget support, financial
13 support, you know, financial planning, budget planning,
14 management assistance, those sorts of costs. So there are
15 personnel costs in the central office costs, if that
16 answers your question.

17 Q. I guess I'm still a little confused. You
18 mentioned what I guess used to be Algonquin Water Services
19 and is now Liberty Water Services.

20 A. I think it's just Liberty Water.

21 Q. Liberty Water. So Liberty Water has a staff of
22 individuals who handle the direct labor and things like
23 that, the people who read meters and do the actual running
24 of these utilities, correct?

25 A. Correct, there are also some customer service

1 rep payroll costs. There are accounts payable and
2 accounting individuals in Liberty Water; their costs are
3 allocated.

4 Q. And let me ask you then, so when you talk about
5 the central office folks who do the financial and tax, are
6 those Liberty Water employees or are those Algonquin Power
7 Income Fund employees?

8 A. Could you restate it? You confused me. Maybe I
9 can try and restate the question, what I think you're
10 asking. Are the personnel that do the audit, tax, and
11 management employees of Liberty Water or part of the APIF
12 costs?

13 Q. The people themselves, who are they employed by?

14 A. The audit and tax are done by outside
15 contractors. Audit is done by a large public accounting
16 firm. Tax is done by a public accounting firm. There are
17 management individuals at APIF providing services to the
18 subsidiary companies. There are financial planning and
19 budgeting planning individuals employed at the APIF level
20 providing support for the subsidiary utility companies.
21 Those individuals are employed at the APIF level, and
22 those costs are allocated down to the subsidiaries.

23 Now, there are also employees at the Liberty
24 Water level. Liberty Water is an affiliate or a
25 subsidiary of Algonquin Power Income Fund. It's just the

1 Company has chosen to set up its shared services model in
2 this way so that it could -- Liberty Water would apply the
3 operators, customer service reps, the accounts payable
4 individuals, the accounts receivable, and track those
5 costs because they're more direct costs, rather than the
6 Algonquin Power Income Fund costs which are allocated via
7 a four-factor methodology, because it's not as direct.
8 It's indirect.

9 Now, while it's not set up the same as say
10 American States, American States does something similar.
11 They allocate more of their general indirect, their
12 regulatory, management, budget planning, via a three or
13 four-factor allocation, but their direct labor is down
14 actually on the utility itself. For example, Chaparral
15 City Water employs its employees directly rather than
16 having them be employed up at the parent or some other
17 subsidiary of American States.

18 Q. Now, what company is Algonquin Power Systems?
19 Where does that company fit into the management framework?
20 Is the Algonquin Power Systems an affiliate or a
21 subsidiary of APIF or Liberty Water?

22 A. I think Algonquin Power Systems is part of the
23 family of companies that are under the control of
24 Algonquin Power Income Fund. Algonquin Power Systems is
25 like Black Mountain or Rio Rico or some other subsidiary.

1 It's part of the family of Algonquin companies.

2 Q. What about Algonquin Power Trust? What is that
3 company?

4 A. I'm not -- I think it's part of the family, but
5 I think that might even be Algonquin Power Income Fund.

6 Q. According to a response to one of the Commission
7 Staff's data requests, Algonquin Power Systems billed
8 \$137,630, and Algonquin Power Trust billed \$82,045, and
9 Algonquin Water Services billed \$1,680,000 to Black
10 Mountain Sewer.

11 What services do each of those companies provide
12 for that, for that money?

13 A. Could you show me that data response?

14 MR. TORREY: Your Honor, Ms. Brown will get that
15 data response. We're going to need a minute.

16 ACALJ NODES: Okay. Rather than waiting, why
17 don't we just take our lunch break now. Then we can come
18 back and have all that information, and we'll go from
19 there. So let's take a lunch break until 1:00.

20 MS. WOOD: Your Honor, after lunch, I think you
21 said we were going to conclude with the intervenors that
22 were -- is that how we're going to proceed? I just wanted
23 to know how we're going to proceed after Mr. Bourassa.

24 ACALJ NODES: Well, assuming Mr. Bourassa gets
25 finished today, I think that Mr. Peterson would go next,

1 followed by the RUCO witnesses.

2 MS. WOOD: Thank you.

3 ACALJ NODES: Okay.

4 (Recessed for lunch from 11:50 to 1:00 p.m.)

5 ACALJ NODES: Okay. Let's go back on the
6 record. Mr. Torrey.

7 MR. TORREY: Thank you, Your Honor.

8 BY MR. TORREY:

9 Q. Mr. Bourassa, based on some of the discussion we
10 had during the break, I'm going to sort of start over with
11 the questioning on the Algonquin Power Income Fund.

12 Essentially, what I'm trying to establish here for the
13 record is the administrative format of APIF, so to speak.

14 APIF oversees or administers a certain number of
15 affiliate companies, including some utilities; is that
16 correct?

17 A. Right.

18 Q. And approximately how many total companies does
19 APIF oversee?

20 A. You would ask me that. It's -- I believe in the
21 facilities allocation there's something like 71 companies,
22 facilities.

23 Q. And are those 71, are those all regulated
24 utilities, or are there some nonregulated entities as
25 well?

1 A. No, they're broken up into a utility group and a
2 power group, I guess.

3 Q. So underneath APIF, there are two groups. One
4 is the power generation infrastructure group --

5 A. Right.

6 Q. -- and the other is the utility infrastructure
7 group; is that correct?

8 A. That sounds right.

9 Q. And I believe you allocated a certain amount of
10 central office costs or administrative costs that you've
11 been talking about to each of those particular entities;
12 is that correct?

13 A. Right.

14 Q. And under the UIG, the utility infrastructure
15 group, you allocated about 26.98 percent total to that
16 particular group; do you recall that?

17 A. Yes.

18 Q. And how did you arrive at that figure?

19 A. 26.98 percent is the proportion of the utility
20 group number of facilities in relation to the entire
21 number of facilities. So it's something like -- don't
22 hold me to this. It's something like 18 facilities or
23 companies within the utilities group, and the balance in
24 the power generation group; and so the 26.98 represents
25 that 18 divided by the 71.

1 Q. Just a simple function of division?

2 A. Right, simple allocation.

3 Q. And so that 26.98 percent of the total
4 resources, if you will, is used to oversee approximately
5 how many utilities?

6 A. I believe it's about 18.

7 Q. And so under the utility infrastructure group,
8 is that where the company that used to be Algonquin Water
9 Services, which I guess is now Liberty Water Services, is
10 that where that's located in terms of a company structure?

11 A. That's one way to look at it, yeah, yeah,
12 because the costs in what used to be called Algonquin
13 Water Services Company, which is now Liberty Water, that
14 is the company that hires the operators, that directly
15 employs the customer service reps, the accounting people,
16 the accounts payable, the accounts receivable individuals,
17 operations manager. For example, Greg Sorensen's costs
18 are in Liberty Water. Okay?

19 None of the utilities have their own employees.
20 Their costs are accumulated in Liberty Water, for lack of
21 a better term.

22 Q. Okay. Now, on a theoretical level, had that
23 group of personnel at Liberty Water that runs all of the
24 individual utilities under there, if you were, say, a
25 person who reads meters, as you mentioned earlier, if you

1 read meters for Utility A on one day and Utility B on
2 another, you would be able to account for those hours on
3 some sort of, like a time sheet, wouldn't you?

4 A. Right. The operator costs and, I believe, the
5 meter reading costs, things that are directly providing
6 the service are allocated based on time.

7 Q. And so somewhere within the books of Liberty
8 Water would be the breakdown of how each of those service
9 personnel spends their day, so to speak, how they allocate
10 their time among the utilities, correct?

11 A. Correct. And let me just add to that. The
12 accounting people, the accounts payable, accounts
13 receivable, the customer service reps, that's more
14 indirect time. And so they don't keep time sheets there
15 because those costs are allocated based upon the number of
16 customers, relative number of customers in each of the 18
17 utilities.

18 Q. Now, above Liberty Water, you have the UIG,
19 utility infrastructure group. What type of services that
20 Black Mountain Sewer needs are represented by the
21 individuals in UIG?

22 A. Well, think of it this way. You've got the
23 fund, APIF, and you can look at it that Algonquin Power
24 Trust, which you, I think, referred to earlier before
25 lunch. The fund doesn't have any costs in it, per se.

1 It's Algonquin Power Trust that contains what I'll call
2 the nonlabor costs, such as tax, audit, corporate
3 governance, the trustee fees, the unit holder
4 communications, the information technology infrastructure
5 that all benefit both the power generation group and the
6 utility group. Okay?

7 Now, it is those costs that are accumulated and
8 allocated 26.98 percent to the utility infrastructure
9 group, and the balance, 63.02 -- excuse me, 73.02 percent
10 are allocated to the power generation group. Okay?

11 Q. Now, let me ask you this while you're at that
12 level. The exhibit you handed out earlier, I believe it
13 was A-10 that delineates the areas of disagreement between
14 Staff and the Company. One of the issues obviously
15 between the two is issue number 3 where the Company had
16 included the \$33,778 of allocated central office costs,
17 and Staff had reduced that by roughly about \$32,000.
18 You're familiar with that?

19 A. Let me find that on the exhibit.

20 MR. SHAPIRO: Your Honor, if it's okay, I do
21 have another handy.

22 THE WITNESS: You have another copy?

23 ACALJ NODES: Yes.

24 THE WITNESS: Thank you. Okay. On page 2?

25 BY MR. TORREY:

1 Q. Page 2, yes, item number 3. I believe the
2 difference between the Company and Staff is roughly about
3 \$32,000 in costs; would you agree with that?

4 A. Yes.

5 Q. And what I'm trying to get at is, where within
6 the structure that you have just discussed is the source
7 of disagreement over that \$32,000? Where does the Company
8 believe that \$32,000 that it's asking for belongs that
9 Staff is disagreeing with?

10 A. Well, the \$32,000 is the allocated portion of
11 those Algonquin Power Trust costs, central office costs
12 that is first allocated 26.98 percent to the utility
13 infrastructure group, and then allocated among the utility
14 companies based upon relative customer counts.

15 So the \$32,000 starts with the 4 million dollars
16 of central office called APT costs. That gets multiplied
17 by 26.98 percent to get to the utility infrastructure
18 group, and actually the way to see this is on my rejoinder
19 schedule C-2, page 16. Are you there?

20 Q. I am.

21 A. Okay. So starting with the first column there,
22 first of all, on the far left column is a description of
23 the kinds of costs that are included in the cost pool
24 that's allocated via the central office allocation. Now
25 the 4.119 million dollars that you see on line 22 is for

1 all facilities. It's for the entire 71 companies within
2 the Algonquin Power Income Fund. Okay?

3 Now, based upon Staff's direct testimony, Staff
4 identified some costs that Staff believed should not be
5 recovered from ratepayers. They were things like some
6 watches which were given out in recognition of employee
7 service. There was some food and entertainment type
8 expenses. Now, we've agreed with those, and we've taken
9 them out of the cost pool, okay? So the cost pool we're
10 now using is the \$3,936,000 in U.S. dollars on line 22.

11 Now, from there the Company allocates 26.98
12 percent to the utility infrastructure group. The other 73
13 percent or so gets allocated to the power generation
14 infrastructure group.

15 So then once we have the cost pool for the
16 infrastructure, the utility infrastructure group, we then
17 allocate the costs down to the subject utility -- in this
18 case, it's Black Mountain -- based upon the relative
19 customer counts compared to the total number of customers
20 within the utility group.

21 Q. Let me stop you right there. Why is it that you
22 do it based upon total customer counts?

23 A. That is one of the ways that you could do it.
24 You could also do it via a four-factor formulation or some
25 other. The Company believed that these costs were more

1 directly related to the relative customer counts rather
2 than a four-factor or three-factor formulation.

3 Q. Now on C-2, page 16, you've got the column
4 second from the far right that says Black Mountain Sewer
5 Allocation by Customer Count. Do you see that? All the
6 numbers in that column are 3.18 percent.

7 A. Yes.

8 Q. Can you tell me where that 3.18 percent comes
9 from?

10 A. Yes, it's the number of customers in Black
11 Mountain, which is about 2,100 customers, divided by the
12 total number of customers within the utility group, and I
13 don't have that number. But if you take 2,100 and divide
14 it by 3.1 percent --

15 Q. You're familiar with Staff's allocation which is
16 approximately 1.41 percent; is that correct? Are you
17 familiar with that?

18 A. That is not a customer count number. That is --
19 I wouldn't necessarily agree or disagree that you could
20 say, well, it's one facility out of 71 and come up with a
21 lower percentage. I mean that's another way to do it.

22 The difference between Staff and the Company's
23 is that Staff first, they don't have an allocation pool of
24 3.9 million dollars. Staff takes only 10 percent of that
25 number and then does its allocation. So you start with a

1 cost pool for the utility infrastructure group of about
2 \$380,000 or \$390,000, and then it's one and a half percent
3 or one percent of that \$380,000 which ends up being about
4 \$1,400.

5 Q. Where did the 10 percent that you just mentioned
6 come from? You said Staff began with 10 percent. Is
7 that -- what was that based on?

8 A. I have yet to see an analysis from Staff that
9 says that this is how Staff computed 10 percent. It was
10 more like I've reviewed -- you know, I don't want to speak
11 for Staff. But the testimony that I read was that only
12 ten percent related, based upon a review -- and again, I
13 haven't seen the results of any analysis. Based upon a
14 review, only 10 percent of these costs were attributed to
15 the utility group.

16 Q. Now, you've based your figures on total number
17 of customers for Black Mountain divided into the total
18 number of customers within the UIG section.

19 A. Right.

20 Q. You said Staff had proposed to take the numbers
21 based on one utility out of 71 regulated or companies that
22 Algonquin oversaw. You said that's one way to do it. Do
23 you believe that Staff took a proper approach then?

24 A. Well --

25 Q. Or one acceptable approach?

1 A. If you're just talking about the allocation
2 itself, we can disagree about that allocation methodology,
3 and I'm not going to have a whole lot of problem with it
4 because we'll end up at approximately the same place,
5 assuming we start with the same allocation pool.

6 For example, if Staff started with a 3.9 million
7 dollar allocation pool and for Black Mountain said, well,
8 it's one facility out of 78 or whatever the number is --
9 I think it was one out of 78 for Staff, which would be
10 about 1.3 percent. You take 1.3 percent of 3.9 million
11 dollars, and you're roughly at \$40,000. It's going to end
12 up a little bit higher than what the Company allocated,
13 which is about \$34,000.

14 Q. So you don't necessarily disagree with Staff's
15 methodology, just Staff's starting point for the use of
16 that methodology; is that correct?

17 A. Yes, what is included in the allocation pool
18 itself. Now, the Company believed that this is the -- I
19 mean this is how they designed this particular allocation,
20 and we can argue whether it results in an expense that is
21 directly attributable or somehow is related to the cost
22 drivers.

23 Again, whether you use the 1 out of 78 or the
24 26.98 and then allocate it down by customer count, you're
25 going to end up in roughly the same spot is what I'm

1 saying. So I wouldn't have a big disagreement with Staff
2 if they chose to allocate it that way.

3 Q. All right. Switching gears here, let's move
4 down. I'll refer you back to Exhibit A-10 again. You
5 were just looking at item number 3. Dropping down the
6 page to item number 4, do you see that, the known and
7 measurable expense due to annualization of wages and
8 salaries?

9 A. Yes.

10 Q. Can you explain why the Company chose to include
11 the additional \$44,018 that Staff did not?

12 A. Yes, I can. I'm referring to -- I'll refer you
13 to my rejoinder schedule C-2, page 17. Now, I didn't
14 provide the detail behind the numbers used in this
15 schedule, and I'll explain those in a minute. The reason
16 was because it's payroll information, and I typically
17 don't like to provide names and positions of individuals.
18 But Staff was given or was provided the information in a
19 data response as part of the Company's work papers.

20 Q. If I could stop you for just a second,
21 Mr. Bourassa. I believe what I'm looking at for rejoinder
22 schedule C-2, page 17 says Adjustment to Revenue Expenses,
23 Adjustment Number 16; is that the schedule?

24 A. Yes.

25 Q. Please continue.

1 A. And you will see the \$44,018 on Line 14 of the
2 schedule. Now, initially, the Company when it computed
3 its increases to the contractual allocated operational
4 costs in its direct, it found a \$50,000 additional cost.
5 That was updated and revised in rebuttal. Okay?

6 Now, these are payroll-related costs for people
7 that were either, only had six months of their wages
8 included in the test year, in the allocation, or they were
9 vacant positions that were added after the end of the test
10 year. Both of those kinds of annualizations we typically
11 take into account in a wages and salaries annualization
12 adjustment. That's what were vacant during the year, what
13 wages and salaries were not there a full year, because you
14 want to reflect a full year of costs.

15 Now, as I told you, on line 7 are the increases
16 in wages and salaries for accounting and billing which
17 would end up on Liberty Water. Okay? In Liberty Water,
18 as I stated earlier, the indirect labor, like the customer
19 service, the accounting, billing, are allocated based upon
20 a customer count which is the 3.18 percent which you saw
21 earlier on Schedule C-2, page 16.

22 Q. So that \$44,000 roughly reflects salaries and
23 wages that were either not accounted for within the test
24 year, but you believe they're known and measurable --

25 A. Yes.

1 Q. -- or that they were partially accounted for
2 during the test year, and you are trying to annualize
3 them?

4 A. Yes.

5 Q. Is that a proper summary?

6 A. Yes.

7 Q. And the last thing I really want to discuss with
8 you, again referring you back to A-10, the very next item
9 down is the contractual services to Aerotek, item
10 number 5.

11 A. Yes.

12 Q. There is a discrepancy between Staff and the
13 Company of about \$42,200, and the expense is inadvertently
14 booked to LPSCo. Can you explain how that came to be?

15 A. Well, the \$42,000 of Aerotek invoices, I think,
16 were explained in Mr. Sorensen's testimony, but they were
17 inadvertently booked on Litchfield Park Service Company's
18 books, although it was for services that were provided to
19 Black Mountain Sewer Company.

20 This error was discovered during the course of
21 an audit in this case; and so having identified the costs,
22 which are -- I mean nobody is disputing the amount or the
23 fact that they were test year costs. We're simply saying
24 let's get it into the cost of service of Black Mountain
25 Sewer where it probably belongs.

1 In the Litchfield Park case it will be removed.
2 I'm also the consultant on that case, so I will make sure
3 that those costs are removed from Litchfield Park.

4 Q. What was the nature of the service that Aerotek
5 provided?

6 A. On page 16 of Mr. Sorensen's testimony, he
7 describes the nature of the Aerotek costs, and it looks
8 like they are the costs of temporary operators mistakenly
9 charged to LPSCo.

10 Q. Temporary operators of what?

11 A. It just says temporary operators.

12 Q. Did you say page 16 of his direct or rebuttal?

13 A. No, rebuttal.

14 Q. All right. Mr. Bourassa, I'm going to refer you
15 to just the last two items that I wanted to talk to you
16 about. They're relatively minor in terms of the dollar
17 amounts.

18 A. Before we go there, in the annualization of
19 costs which we previously talked about --

20 Q. Yes.

21 A. -- there were no annualization of operator costs
22 in that, in the increases in costs for that allocation.
23 So this is an ongoing -- the Company continues to use
24 Aerotek, or I don't know if the name is Aerotek
25 specifically, but are continuing to use the services of

1 Aerotek. So it is a going-forward cost that's expected to
2 be there. I just wanted to say that.

3 Q. Item Number 2 on A-10 discusses performance
4 incentives.

5 A. Yes.

6 Q. Do you see that?

7 A. Yes.

8 Q. And Staff has disallowed those. These are
9 performance incentives for which particular employees?

10 A. I don't know that I have that information in
11 front of me. Let me see if I can --

12 MR. SHAPIRO: Can I have that question read
13 back, please?

14 (The record was read by the Certified Reporter
15 as requested.)

16 MR. SHAPIRO: Thank you.

17 THE WITNESS: I don't have that information.

18 BY MR. TORREY:

19 Q. You testified earlier that Black Mountain Sewer
20 doesn't have any actual direct employees, correct?

21 A. Correct.

22 Q. And so would those be employees of either the
23 utility infrastructure group or Liberty Water?

24 A. They would be -- I believe these are related to
25 the employees of Liberty Water, but again, I don't know --

1 I don't know specifically without seeing the Company
2 response, I guess data response 1.24. If you have a copy
3 of that, maybe I can respond, because I just don't recall
4 at the moment.

5 MR. TORREY: Your Honor, I have no further
6 questions for Mr. Bourassa at this time.

7 ACALJ NODES: Okay. It might surprise you to
8 know I have a few questions.

9

10 FURTHER EXAMINATION

11

12 BY ALJ NODES:

13 Q. First of all, this Aerotek issue,
14 Mr. Sorensen -- and I understand you're the accountant
15 here as opposed to the inside operational manager type of
16 position. But at least according to Mr. Sorensen's
17 testimony, which I believe is the only source in the
18 record of what constitutes these Aerotek expenses, it's
19 for some, what are called, temporary employees that were
20 assigned to Black Mountain Sewer Corporation but
21 inadvertently booked to LPSCo, correct?

22 A. Correct.

23 Q. And then just a moment ago you said these are
24 ongoing expenses that are expected to be incurred into the
25 future, which is why they've been included in test year

1 expenses, and to be included in rates, correct?

2 A. Correct. My point there being that the level of
3 expense, while these are temporary, the Company -- and
4 I'll perhaps let Mr. Sorensen -- well, it's too late. I
5 guess we could put him back on.

6 Sometimes companies will go out and hire
7 temporary labor because they can't find and hire an
8 operator. So when they do find the operator, they then
9 replace those costs with an actual hired person.

10 My point is that the level of expense that was
11 incurred for the temporary labor is a level of expense
12 that's going to be incurred because they need operators to
13 run the facilities.

14 Q. Okay. But you would agree that at least as far
15 as what's set forth in the record and the testimony,
16 there's no detailed explanation of what these temporary
17 employees actually did for the Company during the test
18 year and whether that same level of expense is expected to
19 be incurred on an ongoing basis into the future.

20 And I reviewed Mr. Sorensen's testimony, and
21 maybe the Company wants to put Mr. Sorensen on in rebuttal
22 to talk about those issues, because I understand you're
23 probably not in the best position to do so.

24 A. Well, as explained by Staff in their testimony,
25 the Company has provided the evidence to support the

1 costs. They don't dispute that they were test year costs
2 that were legitimately incurred for Black Mountain.

3 What Staff is saying is that because LPSCo has a
4 pending rate case and that we didn't exclude those costs
5 from LPSCo when we filed, as I explained it, we didn't
6 know that there was this error until after LPSCo filed.
7 So I don't think there's a dispute about whether it's
8 related to Black Mountain, that it's a legitimate cost.
9 The concern that Staff has expressed is that it might be
10 included in LPSCo's cost of service.

11 Q. Yes, and I understand there's this position
12 about where it was booked and whether it should be
13 transferred from LPSCo to Black Mountain. I'm not asking
14 you about that.

15 The question is, when I see the testimony that
16 says these are temporary positions, and then in the next
17 breath, you're saying they're essentially permanent or
18 it's a permanent expense that's going to be incurred, it
19 seems to me that there's some inconsistency.

20 ACALJ NODES: And I think that probably,
21 Mr. Shapiro, some amount of rebuttal testimony by
22 Mr. Sorensen just to address that issue, perhaps among
23 others, based on what you want to do, would be the best
24 way to handle that.

25 MR. SHAPIRO: Judge Nodes, based on

1 Mr. Sorensen's frantic whispering while we discussed it, I
2 think he would very much like to explain it to you.

3 My only preference would be not to wait until a
4 true rebuttal witness, but to call him after Mr. Bourassa
5 before the other parties take their turns.

6 ACALJ NODES: Okay.

7 MR. SHAPIRO: We can kind of get it out of the
8 way, and this way, if they have other questions, they'll
9 have a chance to follow up as well with their witnesses.

10 ACALJ NODES: All right.

11 BY ACALJ NODES:

12 Q. Let's turn to the issue of the shared services
13 model. First of all, let me see if I can understand how
14 this operates. The corporate expenses that are allocated
15 from APIF for these corporate expenses, the ones that are
16 listed on page 7 of C-2 to your rejoinder testimony,
17 central office costs, to be precise.

18 A. Okay.

19 Q. Are those allocated to Liberty Water and then
20 subsequently there's an allocation from Liberty Water to
21 Black Mountain Sewer Corporation, or are those central
22 office costs allocated directly to Black Mountain and the
23 other utility affiliates?

24 A. The central office costs that you saw on, I
25 believe it was C-2, page 16, that we were talking about

1 earlier, the audit, the tax, the corporate office rents,
2 the office expense, shareholder communications, are not
3 allocated through Liberty Water. Those are allocated via
4 the methodology outlined on C-2, page 16.

5 Q. Okay. So let's talk about those expenses first,
6 and for ease of reference, I'm just looking at page 16 of
7 Schedule C-2 attached to your rejoinder testimony --

8 A. Okay.

9 Q. -- which I think you talked to Mr. Torrey about.

10 A. Yes.

11 Q. Now, do you know how those costs are allocated?
12 Does APIF send Black Mountain Sewer Company a bill? Is
13 there just some intercompany transfer of funds? Is it
14 just an accounting procedure that -- how is it done from
15 an accounting standpoint that these costs are billed by
16 APIF to Black Mountain?

17 A. Your Honor, as you recall in the prior case, the
18 company, APT, Algonquin Power Trust -- which is considered
19 Algonquin Power Income Fund because APT is the cost
20 center, okay -- would bill directly to each one of its
21 utilities. This is in the last case.

22 The Algonquin Water Services, now known as
23 Liberty Water in the last case, would bill the utilities
24 for its costs.

25 Now, the issue in the last case was not the

1 amount that was -- was not the underlying cost, but the
2 affiliate profit that the Company admitted was contained
3 in those billings. Okay?

4 Now, unfortunately, the Company hadn't fully
5 developed its shared services model by the time we --
6 well, during the test year. It was developed after the
7 end of the test year, and we trued up the costs based on
8 their new cost sharing model. Okay?

9 Those are allocated and recorded on each utility
10 monthly, and reflected in the costs of each one of its
11 utilities. It's an accounting entry, and then the related
12 amounts of cash, per se, are moved up to pay for those
13 costs from the utility.

14 Q. Okay.

15 A. So it is no longer a bill that is sent. It's an
16 allocation, an accounting allocation similar to the way
17 American States did their allocation in the Chaparral City
18 case. They record their costs down to the utility.

19 Q. Let's talk about the first -- the last order.
20 You're correct, I believe, that the Commission only
21 disallowed the affiliate profits that were delineated by
22 Staff in its case.

23 A. Right.

24 Q. But you understand that the Commission at the
25 same time specifically said that it made no finding as to

1 the reasonableness of the affiliate structure, and in
2 future cases expected that all affiliate salaries,
3 expenses and billings would be scrutinized to avoid
4 potential abuses, correct?

5 A. I agree with that, yes.

6 Q. So, let's look back at page 16 again of your
7 schedule.

8 A. Okay.

9 Q. During the test year, did Algonquin Power Income
10 Fund or Algonquin Power Trust conduct any audit of Black
11 Mountain Sewer Company?

12 A. The audits are conducted on all of the companies
13 within the Algonquin Fund, so Black Mountain was audited
14 just like Rio Rico, just like facilities on the power
15 generation side.

16 Q. And who did the audit of Black Mountain, sir?

17 A. I don't know who their auditors are. It's an
18 outside CPA firm.

19 Q. What about tax services, is that done internally
20 by Algonquin Power Fund or Power Trust, or is that also an
21 outside service?

22 A. My understanding, it is an outside service.
23 There may be individuals -- that's outside service.

24 Q. What about legal?

25 A. Legal is outside.

1 Q. Algonquin Power Trust hires outside legal
2 counsel that is then allocated to the various affiliate
3 operating companies?

4 A. Yes.

5 Q. What about other professional services, what's
6 that?

7 A. I don't know all of them, but there are
8 information technology services in there.

9 Q. Are those internal or external to Algonquin
10 Power Trust?

11 A. I believe they're external.

12 Q. And let me say, I understand the Company's
13 position is -- this \$32,000 test year amount for all these
14 services is relatively minimal. But the question is
15 whether this entire -- because this is the first case
16 under Algonquin's new model that's being considered by the
17 Commission, it's not necessarily the dollar amount that is
18 important. It's how all these allocated expenses under a
19 shared cost model are going to be treated by the
20 Commission for purposes of rate-making.

21 So I hope you'll understand that I'm -- those
22 are the points I'm trying to get to as to the
23 reasonableness of, not necessarily the amounts, per se,
24 but what these services actually do for a company with
25 2,000 customers, approximately, and whether all these

1 types of services are actually necessary for a utility
2 company to provide reasonable and adequate service.

3 A. And, Your Honor, I understand that fully.

4 Q. Okay.

5 A. Based upon the last proceeding, the Company got
6 the message, and they developed a shared services model
7 that they thought would comply with the last decision, be
8 similar to the way other parent companies allocate costs
9 to their utilities. In the Company's mind, but for the
10 ownership of all of its facilities, it wouldn't need to do
11 audits. It wouldn't need to do tax and have legal
12 services and have an IT system that all information can be
13 shared and all the utilities and the facilities can
14 benefit from that. Okay?

15 My view is that these utilities are better run
16 as a result. We don't end up having companies like the
17 McLean Systems or AUSS or others that run into -- that
18 because of poor management, because of poor operational
19 management, run into a lot of problems. And small
20 utilities are notorious for those kinds of problems.

21 And so it seems to me that while Black Mountain
22 is small, and you say, well, it wouldn't incur these costs
23 otherwise, well, if it was a stand-alone and was a
24 publicly traded company, it would incur audit and tax.
25 There's no question about that. It would also, you know,

1 incur a lot of these other expenses.

2 My point is that I think that the benefits of
3 this shared services model by the economies of scale and
4 arguably lower costs, not only end up with lower costs
5 even with the allocation, but you're ending up with better
6 managed utilities and less of a headache for this
7 Commission to deal with.

8 Q. Okay. And you would agree that the Company, the
9 utility company bears the burden of proving the
10 reasonableness of the various expenses?

11 A. Yes.

12 Q. And I don't mean that from a legal standpoint,
13 but the Company has to justify its costs in a rate case
14 before the Commission, correct?

15 A. Correct.

16 Q. And so isn't the standard that should be applied
17 one of comparison of a shared cost model with what a
18 well-run stand-alone company would incur as its costs in
19 order to provide adequate, reasonable service? And again,
20 I'm not trying to say run these like McLean or anything of
21 that sort. But doesn't the Company bear the burden of
22 showing whether these types of expenses are necessary to
23 still have a well-run utility? And if so, is the level of
24 costs for those necessary services reasonable when
25 compared to a shared cost model, the comparison between

1 the two? I guess at its crux, in my mind, that's the
2 question, that's the evaluation, the standard that should
3 be employed; and again, if -- the Company, I think, has
4 brought forward a couple of examples where you've said,
5 look, if this were a stand-alone company and it had to do
6 an audit, it would have to hire an outside firm and here
7 is what it would cost. Look, here is where we saved money
8 due to the shared cost model.

9 And I know I've mixed a lot of questions in
10 there. But isn't that the appropriate standard? Or do
11 you agree that it --

12 A. Well, then the shared services model wins
13 hands-down even with allocated costs. Let me explain.

14 The stand-alone company had to hire its own
15 customer service reps, pay one or two full-time people,
16 had to hire its own accountants, had to hire its own
17 operations manager, and bear the full brunt of the cost of
18 those hirings. In order to run, as you say, an
19 efficiently managed stand-alone utility, it would have a
20 manager, an operations manager at the very least, would
21 have operators employed directly. They would have
22 customer service reps, maybe one or two or three. Maybe
23 they only need one for 2,100 customers. They would have
24 an accounting person. They would have to have their own
25 office, pay the full cost of renting an office, their own

1 phone system, their own IT system.

2 Q. But don't they already have that? I mean I
3 don't think Staff disagreed that their office space should
4 be disallowed. It sounds like -- I mean that's something
5 that's already included that's not corporate central
6 office costs related.

7 A. But my point is, it's a far lower cost than if
8 you were a stand-alone and had to individually support all
9 that infrastructure, the office, the IT system, the
10 individual employees. So I would make the argument that a
11 shared services model wins hands-down, even with corporate
12 allocated costs in it.

13 Q. But again, back to the standard of proof and not
14 from a legal stance proof, but shouldn't the standard be
15 that the Company is required to submit in its application
16 an analysis on a cost-by-cost basis of what a comparable,
17 efficiently run utility would incur on a stand-alone basis
18 versus the incurrence of these various expenses in a
19 shared cost model?

20 A. Your Honor, we made those arguments in the last
21 case, trying to show, look, if Black Mountain had to hire
22 its employees and pay the benefits and have its own
23 manager, we tried to make those perfectly clear in the
24 last case, and we tried to demonstrate that even with the
25 affiliate profit -- and I'm not making an argument for

1 affiliate profit, but even with the affiliate profit, that
2 the costs were extremely low in the last case; and so I
3 didn't feel there was a need for us to justify a shared
4 services model again because those arguments were -- the
5 evidence was there in the last case. So look, this
6 billing, yes, is sort of a shared services model. We're
7 doing it at less than what a stand-alone utility could ask
8 for. I don't believe in every case the utility needs to
9 come in and perform that analysis in each case.

10 Chaparral City didn't have to do that. They had
11 corporate costs, similar corporate costs allocated to
12 them. I just think that it's a standard that -- I mean if
13 that's what's going to be expected, then rate case expense
14 has to go up, because that's a pretty -- that's a pretty
15 detailed analysis to have to go through for every case.

16 Q. Well, you agreed that the Commission in the last
17 case said specifically that, that it was going to
18 undertake specific scrutiny of all these affiliate
19 expenses, not just the profit portion of it.

20 A. Well, we have supplied Staff and the parties all
21 of the invoices, a description of what they were for.
22 We've given a full description of each one of these in
23 data responses, a description of each one of these items
24 that's listed on C-2, page 16, what it's there for, how
25 the utility benefits from those costs being there.

1 So we've sort of done an analysis of sorts of
2 explaining why these costs are beneficial to the utilities
3 that are owned by Algonquin. So we've sort of done that,
4 Your Honor.

5 Q. Okay, let's go back to page 16 since that's what
6 you referred to.

7 What is the management fee? What does that
8 comprise?

9 A. Your Honor, if I could get the data response up
10 because it's pretty detailed. I mean the management fees
11 are going to be -- I don't have it. I don't have it on
12 the tip of my tongue right now. But the Company can
13 certainly put on the stand --

14 Q. Would a stand-alone company incur management
15 fees?

16 A. Sure. Well, costs similarly related? Sure, it
17 would. If a small company would, if it has an operations
18 manager, that operations manager is going to manage the
19 operators and make sure everything is running on a
20 day-to-day basis. But there are other things that
21 companies need. They need budgeting. They need financial
22 support, analysis and support to make financial decisions.
23 They need, for example, tax advice. They need to have
24 their returns prepared.

25 So yes, a small utility, properly run, would not

1 only have an operations manager, but might have a
2 president that can provide those skills and services to
3 lead the company and keep it out of financial trouble.

4 Q. But doesn't -- and we haven't even gotten to the
5 Liberty Water portion. Isn't that where the expenses
6 related to labor, including management, isn't that where
7 those costs should be incurred or allocated from as
8 opposed to having both central office costs being
9 allocated as well as all the operational labor and
10 expenses from the Liberty Water level? And I'm trying to
11 understand the distinction of why a company the size of
12 Black Mountain needs both.

13 A. On the Liberty side you have operations
14 management. You may have some -- you have your customer
15 service reps. You have your accounting people. You might
16 have some other administrative costs in there.

17 The problem I have in responding to this
18 question is I don't have the full data response which
19 delineates and provides a full description of what these
20 various components are, and so I'm at a bit of a loss to
21 explain that on the fly.

22 Q. Okay. Okay. And that's fair enough. If there
23 is a data response that has that that we can have as an
24 exhibit that's entered into the record, then I will
25 shortcut my examination on each of these individual costs.

1 Again, I'm not trying to put you on the spot
2 here; but to me, the Commission in accepting this type of
3 shared cost model needs to have the information; I need it
4 in order to make a recommendation to the Commission.

5 A. Your Honor, I do not disagree with you. I think
6 I agreed with you in the last case about these same sorts
7 of questions, and the Company is being as open as it
8 possibly can on all of these costs. Because the shared --
9 how it operates its utilities in the shared services model
10 is important going forward, and we need to know if we need
11 to change that.

12 Maybe I need to advise the Company not to use a
13 shared services model because you're not going to be able
14 to recover all the costs you incur.

15 Q. Well, the Company has an obligation, whether
16 it's done through a shared cost model or on a stand-alone
17 basis, to provide reasonable and adequate service in the
18 least expensive means possible, does it not? It already
19 has that obligation inherent in its operations as a
20 regulated utility, doesn't it?

21 A. But that doesn't mean that costs that it
22 believes are legitimately incurred and benefit its
23 utilities, if they're not being recovered, then -- I mean
24 you can't have your cake and eat it, too. You can't have
25 these costs and say we're going to enjoy all the benefits

1 of this model, but you can't recover your costs.

2 Q. Well, just as an example, and I won't belabor
3 this much more; but for example, unit holder
4 communications, that's something that you would expect a
5 utility in Arizona with 2,000 customers would incur?

6 A. If a utility in Arizona was publicly traded and
7 had 2,000 customers, yes, I would expect it, in order to
8 maintain its public status, to incur those costs,
9 absolutely.

10 Q. And what about trustee fees? Would it be the
11 same?

12 A. That's corporate governance. Directors' fees
13 are a necessary part of running an efficient and well
14 managed utility.

15 Q. Okay. I would like to see the breakdown of
16 those --

17 A. I'm sure we can provide it.

18 MR. SHAPIRO: Judge, do you want to take a ten-
19 minute break, and we'll see if we can pull that out?

20 ACALJ NODES: We'll take a break in a moment
21 here, but let me -- I wanted to, before we do that, just
22 go into briefly something regarding -- I'm done with the
23 allocation. This is related to the surcharge mechanism.
24 I wanted to go back and revisit that just for a moment.

25 THE WITNESS: Okay.

1 BY ACALJ NODES:

2 Q. You're familiar, obviously, Mr. Bourassa, with
3 the last rate order for Black Mountain Sewer, correct? In
4 general terms?

5 A. In general, yes.

6 Q. And you're aware that there was significant
7 attention paid to the odor issue that was raised in that
8 case by the HOA and the Town of Carefree?

9 A. Yes.

10 Q. And without asking for any kind of legal
11 opinion, would you agree that the Commission, despite the
12 Company's arguments to the contrary, the Commission
13 asserted that it had jurisdiction to order a remedy of
14 odor problems for Black Mountain? Do you recall that
15 section of the order wherein the Commission said the
16 Company is obligated to fix the odor issues?

17 A. Yes.

18 Q. And there was testimony that was presented by
19 the Town of Carefree to the effect that it was believed --
20 and I don't think it was really disputed by the Company,
21 if you recall -- that it was thought that the source of
22 the odors was related to an old lift station as well as
23 issues involving sewage lying dormant in the main
24 collection line that ran to the treatment plant. Do you
25 recall that?

1 A. Yes. That was, I believe, the CIE lift station.

2 Q. And as well as the collection main that ran
3 directly through the Boulders community?

4 A. Yes, yes.

5 Q. And it was thought by anyone who offered
6 testimony in the case that if those problems were fixed,
7 the odor issues, for the most part, would be resolved. I
8 mean, in general terms. I'm not asking you to give --

9 A. I think that the, as I recall, the CIE lift
10 station and related collection main were believed to be
11 the source of the major odor problems for Black Mountain
12 Sewer Company; and elimination of that, the CIE lift
13 station and that collection main would have eliminated the
14 major problem out there. I don't know if there's any
15 testimony that said all odors would be gone. I don't
16 think that that --

17 Q. No, but --

18 A. I would agree.

19 Q. I'm not asserting that. In general, it was
20 thought, I think, by everyone that if those particular
21 issues were remedied, that the primary source of the odors
22 would be solved as well, that there seemed to be -- that
23 was the testimony that was offered by the Town, and there
24 didn't seem to be a major dispute in the case about that;
25 do you agree?

1 A. I would agree with that.

2 Q. Okay. Now, unfortunately, it appears based on
3 the testimony in this case as well as quite a bit of
4 public comment, and I think even the Company's own
5 admissions, that there remains an odor problem, especially
6 in the Boulders area. Do you agree with that from what
7 you've heard and read in this case?

8 A. Yes. The Company has fallen on its sword and
9 admits that there's still odors out there. They need to
10 be addressed.

11 Q. And for this question, I'm not asking for you to
12 agree with the Commission's legal analysis in the last
13 case; but if the Commission were to find that it had the
14 authority under the existing laws to order the Company to
15 remedy the odor problems that still remain, rather than
16 having the Company go through a surcharge mechanism and
17 annual updates and all of the various complications
18 related to that type of mechanism, why shouldn't the
19 Commission instead just simply order the Company to solve
20 the odor problems in accordance with its authority to make
21 those kinds of orders rather than have to go through a
22 subsequent phase and a surcharge mechanism? And, you
23 know, obviously, I'm going to have Mr. Shapiro address
24 these issues on brief, but it seems to me from a timing
25 standpoint, by the time you get to doing the surcharge

1 mechanism, building the plant and you don't get to collect
2 the surcharge until the plant is actually built, the
3 invoices are submitted, Staff and RUCO and the HOA are all
4 satisfied, they were prudently -- not prudently, but they
5 were actually incurred pursuant to the paperwork, and then
6 you have to get a Commission order that says, okay, go
7 ahead and put the surcharge into effect, why -- I'm not
8 sure I fully understand the advantage, even on a timing
9 basis, for that type of mechanism as opposed to just
10 having the Commission say, look, Company, solve the odor
11 problems. You're obligated to do so under the law, and as
12 soon as you get that plant built, then you can come back
13 in with another rate case; and assuming that the costs
14 were prudently incurred, you would get rate recognition in
15 that subsequent rate case.

16 That was a very long-winded, not much of a
17 question, but if you can comment, I guess, on my
18 observations intermingled with a couple of questions, I
19 would invite you to do so.

20 A. Your Honor, I don't know that I can answer that.
21 I think that -- I'm not an attorney, and I'm not sure that
22 I can articulate whether or not from -- obviously, I'm not
23 an attorney -- I can articulate whether or not the
24 Commission has the authority to order the Company to
25 eliminate or remove plant that is currently operating in

1 compliance with all regulatory standards. Yes, there
2 admittedly is an odor, but it's not violating any
3 regulation or ADEQ regulation.

4 Q. I'm not asking --

5 A. Clearly, if the Company's plant was not in
6 compliance, it was NOVs, notice of violations, clearly
7 not, the plant was not up to standard, that the Commission
8 could certainly order the Company to bring it up to
9 standard and comply with all state and federal
10 regulations.

11 Here that's not the case. We have recognized
12 odor problems, but does that go to the level of giving the
13 Commission authority to force the Company to eliminate the
14 treatment plant and divert flows to Scottsdale? I'm not
15 sure, Your Honor.

16 Q. And I'm not asking for a legal opinion.

17 A. I don't know.

18 Q. But didn't the Commission reject those types of
19 arguments in the last case and say, over the Company's
20 objections, we believe we have authority to order you to
21 remedy the odor problems, and the Company appears to admit
22 through testimony in this case that the source of the odor
23 problems is the treatment plant.

24 So if the Company is ordered to resolve the odor
25 issues, and the only seemingly way to do that is to

1 eliminate the only source that anyone has identified as
2 the remaining primary culprit, why -- and again, even if
3 you don't agree with that authority, just from a pure
4 timing standpoint, I guess I'm not sure that the surcharge
5 mechanism is worth the trouble for cost recovery purposes
6 compared to a traditional rate-making analysis.

7 A. Well, I think there's a couple reasons for that,
8 Your Honor. The Company does not want to take the risk of
9 removing plant that meets all state and federal
10 regulations, it's used and useful, and then wait for an
11 evaluation of whether or not the Company prudently went
12 out and did that.

13 From a timing perspective, again, you know, it
14 takes, you know, four to six months to prepare a filing,
15 and another twelve months, just assuming you get immediate
16 sufficiency, which doesn't happen very often, so you're
17 looking at 18 to 20 months after putting the plant in
18 service before you're going to get, you hope to get
19 recognition of that plant in service and recognized in
20 your rates.

21 So from a timing perspective, I think the cost
22 recovery surcharge wins hands-down. From reducing the
23 risk to the Company that it's going to do something that
24 one or more parties is going to disagree with it, it
25 shouldn't have been done and should be disallowed or a

1 portion of the costs should be disallowed, that's
2 something that -- that is a position that the Company
3 doesn't want to put itself in.

4 Q. Well --

5 A. Particularly because it's currently used and
6 useful plant.

7 Q. And to that issue, wouldn't an accounting order
8 provide at least some measure of comfort for the Company
9 that if the Commission recognized the costs could be
10 deferred for future recovery, even capital costs, that
11 there would be at least an indication that the Commission
12 was in agreement, although not a guarantee obviously?

13 A. No, I don't believe that an accounting order
14 rises to the level of assuring the Company that it's not
15 going to take a risk in proceeding with decommissioning
16 the plant.

17 Q. Okay. All right.

18 ACALJ NODES: We're going to take a break now.
19 I'm going to come back and let everybody else ask
20 questions to the extent they have them.

21 Mr. Shapiro, we'll come back to you on redirect,
22 and if you have any, the exhibits related to those items I
23 had asked about, we can do that then as well.

24 MR. SHAPIRO: Okay.

25 ACALJ NODES: Okay? All right. Let's take a

1 break until 2:30 by this clock.

2 (Recessed from 2:18 to 2:35 p.m.)

3 ACALJ NODES: Mr. Shapiro, do you have a
4 proposal?

5 MR. SHAPIRO: Yes, Judge Nodes. During the
6 break, we were attempting to hunt down the backup
7 information that Mr. Bourassa would like and that you had
8 indicated would be helpful. We haven't been able to find
9 hard copy here, so we're going to try and get one. I
10 think what counsel and the parties discussed was maybe we
11 jump to another witness, and then bring Mr. Bourassa back
12 either later this afternoon or first thing tomorrow
13 morning when we have the documentation so he can finish
14 the testimony.

15 ACALJ NODES: All right. Does anybody have any
16 opposition to doing that?

17 MR. WAKEFIELD: No.

18 ACALJ NODES: Okay. All right. That sounds
19 reasonable to me; and so I guess, Mr. Bourassa, you're off
20 the hot seat for the time being.

21 THE WITNESS: I get a reprieve.

22 ACALJ NODES: Yes. So you want to now put
23 Mr. Sorensen -- is he ready to come back on now? Or do
24 you want --

25 MR. SHAPIRO: He can talk about the Aerotek

1 issue, or we can wait to call him after Mr. Bourassa in
2 case there's any other issues that he would have to cover.

3 ACALJ NODES: Yes, why don't we do that, because
4 that way if he feels the need to fill in any gaps, he can
5 do so, and he'll have everything he needs to testify.

6 MR. SHAPIRO: We will make Mr. Bourassa and
7 Mr. Sorensen ready until you tell them they don't have to
8 be any longer.

9 ACALJ NODES: Okay. All right. Well,
10 Mr. Wakefield, I guess we're up to you then.

11 MR. WAKEFIELD: Okay, thank you. The homeowners
12 call Les Peterson.

13
14 LESTER G. PETERSON,
15 called as a witness herein, having been first duly sworn
16 by the Certified Reporter to speak the truth and nothing
17 but the truth, was examined and testified as follows:

18

19 DIRECT EXAMINATION

20

21 BY MR. WAKEFIELD:

22 Q. Good afternoon, Mr. Peterson. Can you state
23 your name and your address?

24 A. My name is Lester G. Peterson. I live at 2045
25 Smoketree Drive in Carefree, Arizona, which is in the

1 North Boulders.

2 Q. And Mr. Peterson, what is your position with the
3 Boulders Homeowners Association?

4 A. I am currently the president of the Boulders
5 Homeowners Association. I have been for the -- this is my
6 third year, and I was here as the vice president the year
7 preceding that on the last rate increase request from
8 Black Mountain Sewer.

9 If I might, Mr. Wakefield, do one thing, and
10 that is, I have noticed multiple spellings of my name in
11 various documents, and perhaps if you'll permit me. The
12 last name is P-E-T-E-R-S-O-N. I've seen it a few times as
13 E-N.

14 Q. Thank you. Mr. Peterson, do you have before you
15 what has been marked as Exhibit BHOA-4?

16 A. Yes.

17 Q. And is that your direct testimony?

18 A. Yes, it is.

19 Q. And was that exhibit prepared by you or under
20 your direction?

21 A. Yes, it was.

22 Q. Do you have any corrections to that exhibit?

23 A. Yes. I would like to make a correction on
24 page 2, and this came out of some subsequent information
25 which was provided by Black Mountain Sewer or Liberty

1 Water. On Line 14, my statement was the Boulders
2 wastewater plant was originally constructed in about 1971,
3 and I wish to modify that, on the basis of their
4 testimony, to 1969.

5 Q. Okay. Any other corrections to that exhibit?

6 A. No, sir.

7 Q. Do you also have before you what has been marked
8 as Exhibit BHOA-5?

9 A. Yes.

10 Q. And is that your prefiled surrebuttal testimony?

11 A. Yes, it is.

12 Q. Was that exhibit prepared by you or under your
13 direction?

14 A. Yes, it was.

15 Q. And do you have any corrections to that
16 testimony?

17 A. No.

18 Q. Mr. Peterson, can you give us a summary of your
19 prefiled testimony and address the issues that you've
20 heard discussed here at the hearing so far?

21 A. Yes, I would be happy to, and I brought along a
22 couple maps which hopefully will be legible, and if you'll
23 permit me a couple things. I would like to first state
24 I'm not an attorney. I don't have the level of financial
25 expertise as I've heard discussed here by the various

1 parties, particularly with regards to rate-making, so I
2 don't feel qualified to speak in many of those areas.

3 What I would like to do, since I have talked to
4 most, many of the people within the Boulders and am active
5 within the Town of Carefree, is provide a little bit of
6 history and benchmark with some of the things that have
7 been provided in previous Commission reports.

8 The first thing I would like to do is to thank
9 Judge Nodes and the Commission. I think that they were
10 immensely helpful in the 2005 and 2006 rate increase
11 request. The kinds of things which were enacted and have
12 been accomplished since then have been noteworthy. They
13 have addressed many of the tremendous number of existing
14 problems.

15 One of the things, I think -- and I hope to
16 demonstrate through my discussion today -- is literally,
17 we are all here by virtue of events which happened from
18 people in the past, and we're here to try and put the
19 pieces together in the best way for everyone.

20 Let me go back and say at the onset, Carefree
21 was incorporated -- they just celebrated now their 25th
22 anniversary which meant that they were incorporated in
23 1984. Many of the things that relate to this processing
24 or treatment plant, which is Black Mountain Sewer's, pre-
25 date literally Carefree as a town, so obviously there are

1 no records within the Town of what happened. So the
2 Commission's records which state many of the things starts
3 to give us a glimpse of what was happening then.

4 The other thing that I would make note of at
5 this point in time, it is my understanding also that then
6 Black Mountain Sewer, Algonquin, purchased what is
7 currently what we call Black Mountain Sewer, Liberty
8 Water, in the year 2000 or 2001. So you'll see as I get
9 into a bit of the discussion here, many of the things pre-
10 date them arriving upon the scene and trying to effect
11 effective solutions to these.

12 So the first thing I would like to state, let me
13 just share with you this brief map here and perhaps point
14 to some things.

15 This map starts to talk a bit about Carefree.
16 Carefree is within this area here. It extends a little
17 bit over here as well. This is Cave Creek. This is
18 Phoenix. This is Scottsdale. This area here is the
19 Boulders. The northern portion of it, the red line, is
20 Carefree. The southern portion is the Boulders.

21 When Boulders Carefree Development came in and
22 they were the original owner and instigator, initiator of
23 their sewer system, it comprised three areas. The North
24 Boulders, the South Boulders, and an area down here which
25 is referred to as Winfield. The South Boulders and

1 Winfield are within the City of Scottsdale. So part of
2 what happened was that Phoenix was annexing to the north.
3 Scottsdale was annexing to the north. A group of people
4 got together later on and created Carefree, which included
5 the north portion of the Boulders.

6 So at the initiation of a lot of this, this was
7 county land. It didn't come under the auspices of any one
8 of those towns at all in terms of what was happening.

9 So as I have talked with -- and I say that
10 because it is very difficult to get accurate records
11 because I don't know who to go to, and I've talked to a
12 lot of the people who lived there. You'll recall we had
13 one of the consumer comments from someone who has lived
14 there 36 years now, and there's a group of those people, I
15 could talk to them.

16 You'll permit me, here is the Boulders within
17 it. Here is where the red line went. It basically comes
18 right across here, this being Carefree, this being
19 Scottsdale.

20 The processing plant, which is this dot right
21 here, or the treatment plant for Black Mountain Sewer was
22 originally built in 1969. That's 31 -- that's 38 years
23 ago, something like that now.

24 At that point in time -- and I know there was
25 some of the underlying questions, how could the people in

1 the Boulders have built houses in such close proximity to
2 a wastewater treatment plant. Well, at that point in
3 time, there was 50 to 100 homes in the Boulders. This
4 goes back to 1969, and the Boulders Carefree Development
5 made application for a private sewer system to service
6 those homes within the Boulders and to provide gray water
7 for one 9-hole golf course.

8 So what I would like to do is refer to Exhibit A
9 to my initial testimony, and this is the Opinion and Order
10 Number 50544. It's Exhibit A to my direct testimony, and
11 it is from the Corporation Commission; and it starts to
12 talk about some of the things that were factual in 1979.
13 This is skipping ahead ten years. We're still five years
14 before the incorporation of Carefree.

15 On the first page, the cover page, line 23, the
16 applicant has applied for a Certificate of Convenience and
17 Necessity. So it was now moving out of a private sewer
18 and treatment system, collection and treatment system into
19 that of a public one.

20 On page 2, I think it's the one which starts
21 out, "Bud Tims, Chairman" -- it's the second page
22 chronologically, but I think they start to number it as
23 page 1. The applicant, on line 18, Boulders Carefree
24 Sewer Corporation is a wholly owned subsidiary of Boulders
25 Carefree Corporation, both Arizona corporations having the

1 same officers and directors.

2 So at that point in time, ten years literally
3 after this private sewer system was constructed by a
4 developer with the same board of directors and officers
5 and constructed to handle the people within the Boulders
6 and generate the gray water.

7 If I might then go on to the next page, page 2
8 in what they describe, starting at line 24, down towards
9 the bottom, at the present time approximately 143
10 residential units are constructed and occupied in Boulders
11 Carefree.

12 Now, let me also go back and say at that point
13 in time, there was not the consumer protection which is
14 currently evident within real estate disclosure laws. So
15 if you didn't ask is there a sewer processing or treatment
16 plant around there, no one told you anything. And it was
17 not required by statutes at that time.

18 So at the present time then in 1979, there were
19 143 residential units in the Boulders. Boulders
20 Properties, an affiliate of Boulder Carefree Corporation,
21 is the owner of a private sewage treatment plant and
22 system. So in 1979, it's still private, and they are
23 making application to make it a public.

24 If I might continue, this sewer treatment plant
25 and system was originally built to serve only the

1 residents and golf course in Boulders Carefree
2 Development, which was, in essence, these three areas, the
3 North, the South, and Winfield on the larger map which was
4 to the south, but is now processing all of the treated
5 sewage in Carefree. The sewage plant is presently serving
6 approximately 200 users, including 15 commercial users.

7 So one of the things we're going to see is that
8 it went from 50 to 100 in 1969 to 143 within the Boulders,
9 200 including commercial users and others outside.

10 The present sewage treatment plant is operating
11 to capacity, and construction of an additional treatment
12 plant is necessary to process sewage for additional users
13 anticipated during the next three to five years.

14 So as I go back on these documents, the original
15 developer had envisioned a processing plant which he put
16 in here, and then they envisioned somewhere in the south
17 end of their holdings an additional second treatment
18 plant. Subsequent things -- and we have to kind of take a
19 look and say what is there now? And that must have been
20 obviously what happened.

21 In lieu of the second treatment plant, part of
22 what happened is that there was a tie-in into the main
23 which goes into Scottsdale, and Scottsdale agreed to treat
24 the raw sewage at their processing plant. This plant was
25 permitted to 120,000 gallons per day. There's some

1 discussion in the document about doing an add-on to it,
2 although that add-on was never completed.

3 It's interesting -- interesting, but it's a
4 problem for us now -- this processing plant sits on nine
5 tenths of one acre. I think it's .86. It is within 100
6 feet of three houses. We had talked about the golf cart
7 path. A golf cart path is traditionally eight feet wide,
8 and it generally sits within a 15-foot right-of-way,
9 something like that.

10 So continuing on, on page 3, line 16, the
11 applicant anticipates that all other future treatment
12 plant construction would be at a different site than the
13 present location of the two package plants.

14 Again, at this time they were thinking of this
15 as a package plant, and another one down here, somewhere
16 in the South Boulders or what is now Winfield.

17 And continuing, location of the two package
18 plants and has requested approval of site change when and
19 if this occurs.

20 Continuing on on page 4, on line 2, they refer
21 to this -- and they're speaking of the funding -- as an
22 interim plant. So the initial plant which was constructed
23 in the Boulders was considered to be an interim plant
24 servicing those who were in it; and then as Carefree
25 started developing, et cetera, they tied on, it became a

1 public sewer system, but it's still being referred to in
2 1979 as an interim plant.

3 We might on that same page, page 4, skip down to
4 line 22. At that point in time, within Carefree, outside
5 of the Boulders, further to the north, the Carefree Water
6 Company had both the water company -- they have six wells
7 now. They come out of the Carefree aquifer, and they also
8 had limited sewer capacity. And this goes on and talks
9 about the Carefree Water Company has no sewer plant, and
10 presently all of its sewage is treated by Boulders
11 Properties.

12 So it was starting, and part of what we'll get
13 into, as I would like to explain, some of the things here
14 on this chart.

15 At its plant without charge. So Boulders
16 Properties took the sewage which was from Carefree Water
17 Company and treated it without charge.

18 The certificated area of Carefree Water Company
19 includes portions of the area known as Carefree Drive
20 Improvement District. The assets of Carefree Water
21 Company consist of a collection system, a force main and
22 two leach fields.

23 Now, up in Carefree, if I might, in addition to
24 not being an attorney and I'm not a financial person, but
25 I'm fairly aware of the things that are happening.

1 Carefree, one of the things that distinguishes
2 the Boulders, frankly, is not the boulders. It sits on an
3 area where the water table, if we were to dig a three-foot
4 hole right here and we were in the Boulders, we would hit
5 water. And the construction that goes on there, as it
6 comes down from the foothills, it comes very near the
7 surface. This is what leads to the dense vegetation that
8 you'll see within it.

9 I know I live on a street which is just down
10 from the Indian Rock lift station, which Liberty Water
11 reconstructed two, two and a half years ago. And for
12 that, they dug down perhaps 20 to 25 feet, and every night
13 it filled up with water, and it took the first half of the
14 day for them to pump it out.

15 So one of the things that distinguishes it is
16 it's very, very difficult to have leach fields, et cetera,
17 those kinds of things up there, simply because of the
18 proximity of the water table to the surface.

19 Flooding in new houses is something that comes
20 about. And this is why -- you know, I'll jump ahead of
21 myself a little bit here. Currently, on -- well, let me
22 come to that in a little bit.

23 So part of what happened over time then -- and
24 this red line coming in, and we'll start to see -- is that
25 at this point in time, the Carefree public sewer system

1 was connected to this through the force main connection
2 which is right here. And it comes to the processing
3 plant, and then there are a series, one or more lines
4 which we are attempting to identify -- we being Liberty
5 Water, Black Mountain Sewer, ourselves, the Town of
6 Carefree -- because those create problems.

7 And now this is important. Let me locate one
8 other thing on here. Quartz Valley Drive, which is an
9 area which we've also talked about, is this purple right
10 here which comes up to here. The problem, the problems
11 which we have had within the Boulders literally have been
12 a sewer system which went from 50 to 100 to 143/200, to
13 now 2,000 or 2,100 users coming through a force main which
14 was running at capacity back in 1979.

15 So all of the issues which we've had,
16 particularly during heavy usage, the population in
17 Carefree since we have a lot of people who either go away
18 for the summer, et cetera, is they come back in the
19 winter, heavy usage times. Colder weather seems to hold
20 odors down. Rain -- this will sound crazy, but I've
21 talked to the people who were working on the system, et
22 cetera, and they would say when it rains and we have a
23 high water table here, it floods the system; and so part
24 of, Your Honor, when we were here the last time, the
25 manhole covers all along here literally when it would

1 rain -- and 2005 and preceding years were rainy years --
2 was that these would flood. We would have raw sewage
3 coming up through manhole covers, literally running off
4 into the washes, et cetera, these kinds of things in town.
5 Now that was one of the issues we got into.

6 The second issue was Quartz Valley here. The
7 wizards that put this in, predating Black Mountain Sewer,
8 Liberty Water, the processing plant sits on a bit of a
9 high spot. This slopes downhill away from the processing
10 plant. There was no lift station, so these manhole covers
11 would also flood because of all the houses there. It was
12 oriented away from the plant, not towards the plant.

13 So we used to refer to this area in here, the
14 processing plant bubbling up in rains, the odors in cold
15 weather, Quartz Valley with it escaping through manhole
16 covers, we used to call it Ground Zero. Literally you
17 could stand there; you could not tell where the odors were
18 coming from. Is this the processing plant? Is this
19 Boulder Drive and the manhole covers along there, because
20 it would be a stench that would be coming out of those.
21 Or is it Quartz Valley? Is it one of these? Is it two of
22 them? Is it all of them?

23 ACALJ NODES: Well, Mr. Peterson, you know, not
24 to interrupt your little history lesson here, but I guess
25 one of the concerns -- and I think RUCO actually brought

1 this up -- is there were some changes made coming out of
2 the last case where there appeared to be experts that
3 thought that it was the odor issues related to that lift
4 station as well as along Boulder Drive, the force main, I
5 think you've identified.

6 Now everybody seems to think the odor problems
7 are solely related to the treatment plant. How confident
8 are you and how much assurance does the Commission have
9 that even if this plant were to be decommissioned and all
10 the wastewater diverted to the Scottsdale plant, that the
11 odor problems, other than perhaps an occasional event,
12 would be solved by this proposed action?

13 A. That's a good question, Your Honor. May I --
14 let me skip ahead, because I'm going to address that very
15 point. Because part of what we did, following the last
16 order -- and I'm from a business orientation. I am not as
17 experienced in utilities and how they approach it. My
18 understanding coming out of the last order was, from the
19 Commission and yourself and the recommendation, fix the
20 problem.

21 And what both Black Mountain's outside engineers
22 said was literally we know it's coming from Boulder Drive,
23 Quartz Valley, and there's a whole raft of other things
24 which we can fix within the system. We believe that will
25 do it; and over the next two years, as we worked together

1 with them to do that, now we can point to the processing
2 plant. There are odors that we can now tell come
3 specifically and frequently, and noises from it.

4 Yes, there are occasional -- I mean we're
5 constantly running into various things, and to their
6 credit, they have been frankly outstanding. There have
7 been times when we have called them up. They are there
8 within an hour. We go out there. They address it.
9 Literally four hours later there are trucks. They're
10 drilling.

11 So we are now confident this processing or
12 treatment plant is the primary remaining source of odors,
13 although there are other things because these were, for
14 lack of a better term, let me use the word "cowboys" who
15 put this system in, and there are manholes that are now
16 under golf course greens and things like this, which
17 sometimes there will be odors that come up through there.
18 But when we can identify those, they fix them.

19 And over time, what they have communicated to us
20 and we have come to believe, if it's part of the
21 collection system, we can fix it. And that's what they've
22 demonstrated. And we have discussed with them and we have
23 leaned on them and we've had some very direct
24 conversations.

25 We have to do something because, as you saw with

1 all of the letters and 75 people showing up and 13 of them
2 speaking, et cetera, the odors and noises are still a
3 major problem, but we're working with them. And I would
4 like to take you through some of the things that we have
5 alternatives that we have discussed with them.

6 Following the Commission's order in 2006, we
7 formed a task force, and on that task force was Bob Dobbs
8 who was Greg's predecessor in the head management
9 position, Greg, two to three, perhaps four of their
10 operations people, outside engineering consultants, the
11 mayor, the vice mayor of Carefree, two to four people from
12 HOA. And we would go through -- I think we started off
13 with 15 to 20 things, and we worked down a project list,
14 and we fixed -- they fixed those things that were on the
15 collection system side.

16 And then we were left with all of these things
17 related to the treatment plant. And we would ask them why
18 can't you fix that? And then it came out, well, it's a
19 problem of geography, to be truthful with you. There is
20 no treatment plant on the face of the earth that can be
21 built by anyone that can be within 75 to 100 feet of
22 adjacent homes. Within a thousand feet, there are 280
23 homes by our calculation. Within 300 feet there's
24 something like 20 homes around that.

25 There cannot be a processing plant built,

1 because there's moving parts, there's filters, there's all
2 the rest of these things, that does not emit odors.

3 So frankly, I made a list of some of the things
4 because we did not start off with the collective objective
5 of decommissioning the processing plant.

6 ACALJ NODES: Okay. Well, and again, you know,
7 I've read your testimony. It's very thorough. I don't
8 know that I need for you to recount really any more of the
9 history. We are where we are.

10 THE WITNESS: Yes.

11 ACALJ NODES: And that's, I think, recognized in
12 the settlement agreement between the Company and the HOA.
13 So let's just see if we can cut things to the chase.

14

15 EXAMINATION

16

17 BY ACALJ NODES:

18 Q. Let me ask, as far as the surcharge mechanism
19 that is -- well, there's no mechanism, I guess, in the
20 settlement agreement. But the concept of a surcharge is
21 included in the settlement agreement, and I understand --

22 A. Yes, sir.

23 Q. -- that the HOA, especially the people within
24 close proximity to the treatment plant, would have a
25 vested interest in paying a surcharge for a remedy to the

1 odor issues.

2 Do you have any feel for the understanding of
3 the proposal for a surcharge and acceptance of the
4 surcharge by people who may not be directly affected by
5 the odors who perhaps live in some of the more isolated
6 areas from the treatment plant?

7 A. Yes, sir. And let me address that. The South
8 Boulders, of the 530 some letters which we submitted to
9 the Commission, half of them were from the South Boulders.
10 So let me call that outside of. The Carefree Inn Estates
11 lift station area submitted letters in support as well.
12 We have also -- and I have here the notice of town
13 meeting, Town of Carefree, where we have been on the
14 agenda with the full 7-member council. This one happens
15 to be dated August 4, where we presented probably 75, 80
16 residents. Two of them were from the Boulders. The rest
17 were from in the Town of Carefree. Specifically where we
18 were, what we were proposing, what the likely outcome
19 would be. I'm scheduled to go back the first week of
20 December for an update at the request of the council,
21 Carefree Council. And this is highly publicized, et
22 cetera. So it is not a surprise.

23 Q. To your knowledge, do the odors emanate on a
24 consistent basis past this thousand foot circle that
25 you've identified on the map? I mean do the people, say,

1 in South Boulders have similar issues with the odors?

2 A. It depends, Your Honor, on the temperatures, the
3 wind direction. We get complaints because the Carefree
4 people, Town of Carefree, there are people up here who
5 have called us. There are people down there. Noise tends
6 to go up to five to six hundred feet.

7 But the answer is yes. The odors permeate
8 beyond the thousand feet that are shown here.

9 Q. Okay. Okay. Again, in the interests of time, I
10 do want to move along, and so what I would like to do
11 is --

12 ACALJ NODES: Well, let me ask, Mr. Wakefield,
13 do you have any additional questions?

14 MR. WAKEFIELD: I didn't have any additional
15 direct. At some point I'll need to move the exhibits.
16 Otherwise, he's available for cross-examination.

17 ACALJ NODES: All right. Is there any objection
18 to admission of BHOA-4 or 5?

19 MR. SHAPIRO: No.

20 ACALJ NODES: Those exhibits are admitted.

21 (Exhibits BHOA-4 and BHOA-5 were admitted into
22 evidence.)

23 ACALJ NODES: Mr. Shapiro, do you have questions
24 for Mr. Peterson?

25 MR. SHAPIRO: I do, just a few.

1 CROSS-EXAMINATION

2

3 BY MR. SHAPIRO:

4 Q. The Company, previously Boulders Carefree and
5 now Black Mountain, nobody has expanded this plant? It's
6 still at the same capacity it was originally built, a
7 hundred and twenty?

8 A. That is correct.

9 Q. And to the best of your knowledge, Black
10 Mountain is operating the plant in compliance with all of
11 the requisite approvals and permits and other regulations
12 and laws?

13 A. Well, let me step back for a minute. The answer
14 to your specific question is yes. To the best of my
15 knowledge, they are operating within all approvals. But
16 Your Honor, I think there are different standards.

17 One, I read the standard of this Commission, and
18 I read -- I interpret the standards of the people who live
19 there. And those are of a higher level literally than the
20 county or state inspectors who come around once a year.

21 Recall that I said that this plant operates the
22 worst during heavy usage and cooler weather. Well, heavy
23 usage in the Boulders is November, in Carefree, November
24 through March. Cooler weather is November through March.
25 In the last two years, we've had one inspection, both of

1 which it passed, in April when the temperatures were 80
2 some degrees out and half of the people had left to go
3 back to Minnesota or what have you.

4 So that was a snapshot of how it was performing
5 at that point in time, but I think that the utility is
6 operating in compliance; but it goes beyond what this
7 capacity -- I don't want to say the capacity, but the
8 performance standards of this and I think that the
9 Commission has recognized.

10 Q. So Mr. Peterson, to summarize, is it fair to say
11 that while the Company may be meeting all of its
12 governmental mandates, the customers have a different
13 mandate?

14 A. That is correct.

15 Q. And Black Mountain Sewer Company is willing to
16 meet that customer mandate, correct?

17 A. That's my understanding as evidenced by the
18 settlement agreement, which really was we will close,
19 decommission the processing or treatment plant subject to
20 the following, and it was like five items. I call it a
21 to-do list, which we have collectively been working on to
22 remedy.

23 Q. So at this point, what the BHOA and the Black
24 Mountain Sewer Corporation are presenting to the
25 Commission is a united front, a united effort on resolving

1 this problem?

2 A. That is correct.

3 Q. And if the Commission were to reject the
4 settlement agreement and order Black Mountain to take
5 certain steps, do you think that would have an effect on
6 the ability of the parties to work together in
7 cooperation?

8 A. That is -- I'm not an attorney, et cetera. It
9 depends -- I mean there are elements of this -- we have an
10 odor problem. This is a serious odor problem. Some way,
11 somehow we're requesting your help in dealing with it.

12 To the extent there's sufficient modification
13 that the utility balks and won't go ahead with the
14 decommissioning, then it could have a serious impact upon
15 the quality of life of the people within the Boulders, a
16 continued impact.

17 Q. So then again to summarize, you would hope that
18 a cooperative effort would -- a voluntary effort would be
19 better than a coerced or ordered effort?

20 A. Absolutely, and I would hope that the
21 Commission, Staff and RUCO, who we owe a tremendous debt
22 of gratitude to for the things that you have done so far,
23 could work with the Company to find an acceptable solution
24 to decommissioning the plant.

25 And if you'll permit me just to -- we checked

1 out as part of this task force every reasonable
2 alternative before we arrived at decommissioning the
3 plant. I mean we've looked at building a new plant.
4 We've looked at -- they've looked at sending the raw
5 sewage to Cave Creek, putting a dome over the plant. We
6 got into what happened to the people in Yuma, et cetera,
7 and we certainly don't want to do something like that. Is
8 there a way that we can landscape and build high walls
9 around it so it looks like the Alamo in the middle of the
10 Boulders, et cetera, these kinds of things.

11 We could not come to either a more effective --
12 a more cost efficient approach that met the standard of we
13 need to get rid of the odors and noise.

14 Q. And finally, one more area, Mr. Peterson. In
15 your opinion, are the issues that Boulders, the BHOA has
16 raised as an intervenor in this case, are they pertinent
17 to this rate case, in your opinion?

18 A. Well, yes. Yes, because in my understanding,
19 the Commission has mandated the elimination of the odors,
20 and we're bringing -- I mean the last time I was here,
21 after the proceeding, Commissioner Mayes came to me, and
22 there was a gentleman by the name of Steven, I believe
23 it's pronounced Olea, O-L-E-A, who is assistant director,
24 and said if this is not successful in eliminating the
25 odors, contact us, and we will get it fixed.

1 So we look at it as we're coming back. A lot of
2 progress has been made, but we still have a significant
3 odor and noise problem within the Boulders.

4 Q. You would agree that the settlement agreement
5 was a settlement of the claims that were brought by your
6 organization in this rate case?

7 A. The execution of the settlement agreement would
8 be acceptable to us, yes.

9 Q. And Mr. Peterson, you would agree that absent
10 the BHOA's intervention, Black Mountain would have
11 incurred less rate case expense in this case, correct?

12 A. Yes.

13 Q. And you would agree that the Company's lawyers
14 and rate-making consultant did not get involved in the
15 parties' efforts at negotiations until after the BHOA
16 intervened in this rate case; is that correct?

17 A. To the best of my knowledge, Mr. Shapiro, this
18 came out of our task force meetings which preceded -- if I
19 recall correctly, you applied in June of -- I think those
20 efforts preceded your making the application, but they
21 were running in parallel, and then we brought them in.

22 Q. But those are the efforts between the parties
23 themselves, correct? You met with representatives of the
24 Company. The lawyers and accountants, the people that
25 charge the Company were not directly involved at that

1 time?

2 A. That is correct. It was meetings between the
3 Company, the Town of Carefree, and ourselves where we
4 worked out, okay, what would we have to do? You know, are
5 there lines into Scottsdale? Will they take the sewage
6 agreement? This was the mayor of Carefree and the mayor
7 of Scottsdale. There were all these layers they had to go
8 through. It was five or six areas which were worked upon
9 by what I would call the business people before we
10 involved the outside legal and financial people.

11 Q. And the people that generate rate case expense,
12 specifically my law firm, Mr. Bourassa, we came on board
13 to the issue after you had already gotten involved in the
14 rate case and the parties were looking for a resolution?

15 A. I believe that's correct.

16 Q. Thank you very much.

17 ACALJ NODES: Ms. Wood?

18 MS. WOOD: Thank you, Your Honor.

19

20 CROSS-EXAMINATION

21

22 BY MS. WOOD:

23 Q. Good afternoon, Mr. Peterson.

24 A. Good afternoon.

25 Q. I wanted to address a couple of issues. Did you

1 consider alternative means of financing this project other
2 than simply a cost recovery surcharge through this rate
3 case?

4 A. We did not, simply because it far transcends our
5 financial knowledge or ability. I mean I, in particular,
6 am a novice in rate-making, and a stipulation that
7 addresses that point in the settlement agreement is that
8 there will be a payment mechanism which is acceptable to
9 the Company and acceptable to the Commission and as long
10 as it is reasonable to ratepayers. And I have grown to
11 have great faith in this whole process. I mean the
12 analyses that I've seen from Staff and from RUCO and from
13 Your Honor, et cetera, far transcend what I could do.
14 So --

15 Q. Has your community given any kind of input to
16 you, or has it been discussed, the extent or the maximum
17 amount of a surcharge that will be acceptable to the
18 community, or is it anything?

19 A. We have talked that it might be in the \$10,
20 perhaps more, range, and they all say roll it.

21 Q. Okay. So have you discussed the possibility if
22 the costs are more and the possibility that it might be
23 more than that, if it was 16, 17, 18, 19, 20?

24 A. Yes, we have. They expect it. They have told
25 me you say 10. It's going to be 15; it's going to be 20,

1 frankly, you know, the realists among them. I don't think
2 there would be any level of opposition at \$15, at \$16, at
3 \$17, in that kind of a range. I mean this is a
4 significant problem which impacts their ability to use
5 their homes, to go outside, to have to close windows at
6 night. Broken up, et cetera, with family gatherings.
7 Fifteen dollars a month is not the end of the world in
8 comparison to that.

9 Q. Okay. And there were about 332 homes inside the
10 circle, correct? The thousand foot mark, right?

11 A. Not quite. In the North Boulders, there are 331
12 or 332. 31 of those are lots. You know, someone has a
13 view corridor of a mountain or something. So there are
14 300 homes. Within the circle there's roughly 280 homes,
15 but let's round it to 300.

16 Q. And so your firm belief is those people within
17 the circle support this a hundred percent, and you're
18 thinking \$15 is acceptable?

19 A. Yes. I think if -- I'm not a rate-maker. To
20 decommission the plant, to remove the last remaining major
21 odor-producing source, if we did that and came back to
22 them with a supplemental rate increase of \$15, I don't
23 believe -- I could be wrong, but generally I'm not. I
24 would have heard about it by now. They aren't going to
25 object to that.

1 Q. Okay. And that's on top of the already
2 suggested increase of the Company of \$26. So that's
3 something that's acceptable to the community?

4 A. Well, the \$26, we have been explaining to the
5 people, is for the significant improvements to the system
6 which have happened over the last two years, and they've
7 been saying great. So that wouldn't be an issue for the
8 people I deal with.

9 Q. Okay. So the \$26 plus the \$15, you feel that
10 there's support in your community for that amount?

11 A. Certainly within the Boulders community, which
12 is 700 and some out of the 2,100.

13 Q. Now, there are 80 percent of the people in the
14 CC&N that do not live in Boulders, correct?

15 A. Well, 65 percent -- there's 700 out of -- a
16 third of them live within the Boulders, 700 out of 2,100
17 users in the system.

18 Q. Oh, okay. So have you polled those other people
19 to see what their input is?

20 A. No, I have not polled them. I think the closest
21 we've come is to participate with the Carefree Town
22 Council, and it's heavily publicized and that this is one
23 of the items on the agenda.

24 There was one question, and that was on timing
25 from one of the council members when I was there in

1 August. There were no questions when they opened it up to
2 questions from the 70 to 80 people in the audience. And
3 the question was, if this were to be approved by the
4 Commission, what kind of timing would we be looking at.

5 Q. And when it was discussed at the City Council
6 meeting, was it noticed with the specific amounts, dollar
7 amounts?

8 A. Not in the public notice.

9 Q. Okay.

10 A. But it was discussed during the meeting.

11 Q. Okay. If the judge were to, say, approve this
12 cost mechanism and set a limit of \$10 or \$15, am I to
13 assume from your discussion nobody in your community would
14 object to that?

15 A. It would -- it would be acceptable to us.

16 Q. Have you thought about what would occur in your
17 community if the costs were significantly higher than what
18 you have thought they would be, what your possible options
19 would be at that point?

20 A. I would hope we could resolve it here. I think
21 this is the appropriate venue to do that within -- this is
22 the utility. This is rate-making. This is performance
23 standards. We have not discussed what other options there
24 might be beyond that.

25 Q. What if when they complete the closure of the

1 plant there are still odors in the collection system?

2 A. Well, here is an element of faith and past
3 performance. The utility has been -- and I don't believe
4 you were here three years ago.

5 Q. No.

6 A. We got into some serious discussions in front of
7 the judge, and there was real contention. In the last
8 three years, the utility, the Company has been, quite
9 frankly, outstanding in being attentive; and if there's a
10 collection system problem that we can identify, and we now
11 get all the maps and everything else, and we locate where
12 these things are, they have been -- their statements have
13 been we can fix any collection system problem. We can't
14 take a treatment plant and make it odor-free. It just
15 doesn't happen.

16 So we are relying upon the past history here of
17 what they've been doing for two, two and a half to three
18 years, and their promises of continuing that in the
19 future.

20 Q. In the course of negotiations with the Company,
21 has the community retained the expert testimony or the
22 expert advice of an engineer?

23 A. No, we have not, because we have relied upon the
24 outside consultants and engineers from Black Mountain
25 Sewer, Liberty Water. When we would meet in the task

1 force meetings, they would bring in their consultants, and
2 we would ask, "What if," and "What about this approach,"
3 et cetera; and they would give us their best reasonable
4 judgment, and I don't think that they were slanting
5 anything. We were all trying to work together on what is
6 the least costly method of effectively solving this
7 problem. So we used their outside experts.

8 We also had some of the people that the -- the
9 town administrator who is experienced in some of these
10 matters who was participating and who would help as well.
11 But we specifically did not.

12 Q. On the northern borders of Boulders is a road, I
13 think it's called Stagecoach?

14 A. Stagecoach Pass.

15 Q. On Stagecoach Pass, is there a sewer system
16 there that goes to the Carefree, some system served by
17 Carefree?

18 A. No. One of the alternatives that we talked
19 about and costed out, where this main comes in right here,
20 can we divert the Town of Carefree raw sewage around. If
21 you go a mile and a half over here, you could hit Pima
22 Road. If you come, and if you came over here, there is no
23 line along here, and there is no line here. Those were
24 frankly, our best reasonable judgment, more costly
25 alternatives than decommissioning the processing plant

1 because this is rock. It's uphill. It would require a
2 number of lift stations in both directions.

3 I mean Boulders is in a bit of a valley where it
4 comes down through. So we looked at diverting, and one of
5 the things that they costed out was going in either
6 direction, and came back saying it would be more expensive
7 than the decommissioning.

8 There is another component of the
9 decommissioning, frankly, that I couldn't help but think
10 of it as we were talking about it, also. Part of what I
11 as a nonengineer think are problems are that the lines
12 going to Scottsdale, I believe we've talked, go down to
13 eight inches, and part of the cost for this is to expand
14 them larger. And I think that that is part of what is
15 backing things up.

16 As the system has gone from 50 to 100 homes to a
17 143 to 200 to 2,100 users in the system, it's too much for
18 the existing lines. So there are things that, on one
19 hand, are put into this project from a cost standpoint.
20 On the other hand, they probably would have to be done in
21 any regard.

22 Q. Now, you said that you have -- you looked at
23 cost data. Is there some specific cost data you looked at
24 in this case to arrive at this option of decommissioning
25 the plant and diverting the flows to Scottsdale?

1 A. Not that we put down. We estimated them in
2 concert with the engineers and with Black Mountain. Like
3 a lift station costs us this much. That kind of line
4 through rock like that going uphill costs us this much.
5 We would have to get these kinds of clearances. We costed
6 out in the course of the meeting the other reasonable
7 alternatives.

8 The one -- I'll give you one example. One of
9 them was divert the raw sewage in either direction.
10 Another one was build a new processing plant. A
11 thousand -- two thousand feet by two thousand feet. To
12 find a parcel of land that's roughly, I think, it's either
13 93 or 96 acres, would have to be in Scottsdale because
14 there is no place else in Carefree unless you go way to
15 the north, which would require a whole series of lift
16 stations to go up there. A 93 or 100-acre parcel in North
17 Scottsdale would be phenomenally expensive, have to be
18 square; and let alone, I mean all of us are too old to
19 ever have the Coalition of Pinnacle Peak. We could get an
20 oil refinery in there sooner than we could get a sewage
21 processing plant.

22 We literally tried to find all other
23 alternatives before we collectively said this is the best
24 shot. And we tried to work together and work through the
25 elements so that we could come to the judge and the

1 Commissioners without saying decommission it; we don't
2 know what it takes. We tried to say -- and the settlement
3 agreement is everybody involved in this, what do we need
4 to do to make this happen, so that we can come with a
5 solution as opposed to just a problem.

6 MS. WOOD: I have no further questions for
7 Mr. Peterson. Thank you.

8 THE WITNESS: Thank you.

9 ACALJ NODES: Mr. Torrey.

10 MR. TORREY: Thank you, Your Honor. Just a few.

11

12

CROSS-EXAMINATION

13

14 BY MR. TORREY:

15 Q. Mr. Peterson, the Boulders HOA, the territory of
16 that HOA doesn't cover all of the service territory of
17 Black Mountain Sewer; is that correct?

18 A. Correct. We're a component within it. It goes
19 beyond the Boulders HOA.

20 Q. Do you have any idea approximately how much of
21 the service territory you cover, if you had to guess?

22 A. Within the BHOA, the North Boulders, there are
23 300 of the 2,100 users. So that's one seventh, which is
24 maybe 15 percent, although 50 percent of Carefree, 50
25 percent of the homes within Carefree are currently on

1 septic systems. And that's one of our biggest fears, at
2 some point in time, given the high aquifer level, et
3 cetera, below it, with septic systems, that those may go
4 on it which could effectively maybe make 4,000 users on
5 the system. So we're 15 percent, roughly.

6 Q. And some of the territory that the HOA covers is
7 outside of the territory that is served by Black Mountain;
8 is that correct?

9 A. No. No. Actually all of the BHOA is within the
10 Black Mountain service territory.

11 Q. What sort of meetings has the HOA had in which
12 you invite your membership to come and discuss
13 specifically this issue?

14 A. We've had probably six to eight communications
15 to everyone. We have had meetings within the community to
16 explain this. In the Boulders, as opposed to a giant
17 meeting of everyone, you go to the golf group; you go to
18 the tennis group; you go to the book group, you know, all
19 of these various components, and literally we have gone to
20 all of those. So we have probably had direct meetings
21 with 85 percent of the people who live there.

22 Q. Of that 85 percent that you believe that you've
23 spoken to, what kind of opposition is there within those
24 people to the willingness to pay for the removal of this
25 plant?

1 A. Zero. I'm serious. We did not receive -- I did
2 not receive, and I would have gotten them, and I'm looking
3 at our community manager, Ted, and he's shaking his head
4 yes, as well. We have not gotten any opposition, and
5 literally in the 500 and some odd letters, I recognize
6 that there will be some cost to Black Mountain sewer users
7 involved in this decommissioning and remediation, and I'm
8 willing to accept my share of those costs.

9 That was in literally every letter.

10 Q. And now the magic question is, those people that
11 are willing to accept some cost, have they been given a
12 ballpark figure for how much "some cost" will be?

13 A. We talked to them in the \$10 range, which was
14 our initial going-in estimate. And if on the basis of
15 preceding discussions today, that were to come back in the
16 \$15 or \$16 or \$17 and it were done right and it was
17 another significant improvement in the odor reduction
18 within the Boulders, I don't believe that would be a
19 problem at all, in my judgment.

20 But specifically, of those we have communicated
21 a potential ballpark cost, it's been in the \$10 range, and
22 that was not an issue. It was an investment which was
23 well worth it to get the system up to operating standards.

24 Q. And you've heard some of the questions, I
25 believe, regarding whether or not removal of this

1 wastewater treatment plant would in fact eliminate one
2 hundred percent of the odors. Have you heard the
3 questions on that?

4 A. When we went to lunch today at a Mexican or
5 Spanish restaurant three blocks away, I smelled sewer
6 odors as we were walking along the road. They were faint
7 in comparison. Would this take it down to one hundred
8 percent of odors? The only way you can do that literally
9 is -- I don't know if it can be done. I've smelled it at
10 DC Ranch. I mean I've gone to other places, but those
11 were at a far lower level than we experience day in, day
12 out. This would be a significant -- I believe, I mean
13 because we can tell. It's alternating hydrogen sulfide
14 and then the next day it will be chlorine or whatever
15 these chemicals that they put in to try to knock out the
16 hydrogen sulfide. I think this would be a quantum leap
17 ahead in terms of eliminating the odors.

18 Q. But in the event that there was, say, some
19 remaining odor there, would the people of the homeowners
20 association feel that they had gotten their money's worth,
21 do you believe?

22 A. Yes, because at that point -- let's say we did
23 this, and there were some, an odor here and an odor there.
24 I think we can work with the company. It's now in the
25 collection system, and that's identifying a manhole cover,

1 a broken pipe, something like that that is relatively
2 minor and fixable.

3 Again, I'll go back and we're relying -- and
4 I've come to believe it because I've talked to enough
5 people. They can fix things, problems within the
6 collection system. It's the treatment plants that are
7 very, very difficult, if not impossible, to eliminate
8 odors from.

9 MR. TORREY: Okay. Your Honor, I have no
10 further questions for Mr. Peterson.

11 ACALJ NODES: Redirect?

12 MR. WAKEFIELD: I don't think I have anything
13 else. Thank you.

14 ACALJ NODES: Any further questions? Ms. Wood,
15 do you have something? Go ahead, Ms. Wood. Then we'll go
16 to Mr. Shapiro.

17 MS. WOOD: Thank you.

18

19 FURTHER CROSS-EXAMINATION

20

21 BY MS. WOOD:

22 Q. I had forgotten to ask you a question earlier.
23 Was there any contemplation -- let me back up.

24 A portion of your community is served, I guess,
25 Boulders South is served in part by Scottsdale?

1 A. No. Of a sewer system, the entirety of the
2 Boulders is served by Black Mountain Sewer or Liberty
3 Water, as well as the community to the south, Winfield.

4 This is in Scottsdale, and Winfield is in
5 Scottsdale. So the Black Mountain Sewer/Liberty Water
6 service territory is Carefree, the 50 percent of homes
7 within Carefree, and all the commercial establishments, my
8 understanding, that are on the public sewer system are
9 serviced by it. Plus those two, I wouldn't call it a
10 community, but the lower, the south half of the Boulders
11 and Winfield, which are in Scottsdale, are serviced by it.

12 Q. Was there any contemplation in the discussions
13 you had with either the Town of Carefree or the City of
14 Scottsdale to simply -- and I don't know how to pronounce
15 his name, but he's one of the intervenors, Schirtzinger?
16 Is that how you pronounce it?

17 A. Mr. Schirtzinger, yes.

18 Q. Was there any contemplation to do what he had
19 commented on, which is turn, you know, turn it into a
20 collection system and turn it over to the city or the
21 respective cities?

22 A. I'm trying to think. Was his recommendation to
23 eliminate or keep the treatment plant? And which city?

24 Q. He had more than one suggestion. The suggestion
25 that I'm talking about is his suggestion that if you're

1 going to decommission the plant, you should simply turn
2 the collection system over to the cities. I think he's
3 talking about the City of Scottsdale and the Town of
4 Carefree. Was there any contemplation of that as an
5 option?

6 A. Yes. And it was discussed with both Scottsdale
7 and Carefree, and both of them said that it makes sense to
8 consider longer term, but not now, given the economic
9 times. The City of Scottsdale has just fired their city
10 manager; and the mayor of Carefree, the gentleman who
11 spoke to us, who is a very sound, solid individual, is
12 facing a recall election in the spring. And both of them
13 said it could make some sense to consider at some point in
14 time in the future, particularly for those elements which
15 are in Scottsdale, but not now. And that's as far as it
16 got, but it was actively discussed with both.

17 Q. All right. Thank you so much.

18 ACALJ NODES: Mr. Shapiro.

19

20 FURTHER CROSS-EXAMINATION

21

22 BY MR. SHAPIRO:

23 Q. Sure, just very quickly, Mr. Peterson, just to
24 follow up Ms. Wood's questions. You do recognize that you
25 can't just give these assets over to the city? They

1 belong to a private party, right?

2 A. Yes.

3 Q. They would have to be condemned by the city,
4 correct?

5 A. Yes, and it's my understanding if they're
6 condemned by the city, the city has just purchased them.

7 Q. Right. Okay. Ms. Wood also asked you whether
8 it would be acceptable to you and let me call it your
9 constituency if there was a cap on the surcharge, and you
10 said definitely okay for you, but you recognize that
11 whether or not there's a cap on the surcharge has to be
12 acceptable to Black Mountain under the settlement
13 agreement, correct?

14 A. Black Mountain and the Commission and the
15 Commission Staff, yes.

16 Q. Thank you.

17 ACALJ NODES: Any further questions?

18 (No response.)

19 ACALJ NODES: All right. Mr. Peterson, thank
20 you very much for your testimony, and you are excused.

21 THE WITNESS: Thank you, sir.

22 ACALJ NODES: Now, we're going to take a break
23 here; and when we come back, Mr. Shapiro, are we still
24 waiting on some documents?

25 MR. SHAPIRO: We don't have that particular

1 document. We could do redirect on everything else, or we
2 could, I guess, call it a day and pick up immediately with
3 Mr. Bourassa first thing in the morning, whichever you
4 prefer.

5 ACALJ NODES: Who is RUCO's first witness going
6 to be? Mr. Moore?

7 MS. WOOD: Yes, he's ready to go.

8 ACALJ NODES: How much cross do you have for
9 Mr. Moore?

10 MR. SHAPIRO: Not a lot. Whether we would
11 finish by 5:00 or not, I don't know; but I'm certainly
12 willing to try, or at least get Mr. Moore on and do his
13 direct, whatever your preference is.

14 ACALJ NODES: What about Staff, do you have much
15 cross for Mr. Moore?

16 MR. TORREY: I don't, Your Honor.

17 ACALJ NODES: Why don't we do that.

18 MR. SHAPIRO: Sure.

19 ACALJ NODES: Let's take a ten-minute break,
20 come back, put Mr. Moore on the stand, and hopefully
21 finish him. If not, we've at least accomplished a little
22 more.

23 (Recessed from 3:43 to 3:55 p.m.)

24 ACALJ NODES: Back on the record. Mr. Torrey.

25 MR. TORREY: Judge, there was a discussion when

1 we were on break regarding how to proceed next, and my
2 client obviously still hasn't returned from her situation
3 this afternoon. I would feel a lot more comfortable if
4 she were able to listen to Mr. Moore's testimony so we can
5 be a little better prepared to ask him some things, but
6 obviously she's not here.

7 I spoke with the other parties and asked if they
8 would have an issue with continuing Mr. Moore till the
9 morning, and then just taking up with Mr. Sorensen to
10 cover the rest of his testimony for the afternoon. No one
11 has objected that I've spoken with, and that's what I
12 would propose.

13 ACALJ NODES: Okay. Is that what you want to
14 do, put Mr. Sorensen on?

15 MR. SHAPIRO: Sure, we're happy to accommodate
16 him. That's fine. We can have him talk about Aerotek,
17 and hopefully that will be the last time; but if we need
18 to call him again, we can do that, too.

19 MS. WOOD: Mr. Moore won't sleep tonight, but
20 that's okay.

21 ACALJ NODES: He was hoping to get in and out.
22 Okay, Mr. Shapiro.

23 MR. SHAPIRO: We'll recall Mr. Sorensen to the
24 stand.

25 ACALJ NODES: I'll remind you you're still under

1 oath.

2 MR. SORENSEN: Yes, sir.

3

4 GREGORY SCOTT SORENSEN,
5 called as a witness herein, having been previously duly
6 sworn by the Certified Reporter to speak the truth and
7 nothing but the truth, was examined and testified as
8 follows:

9

10 FURTHER REDIRECT EXAMINATION

11

12 BY MR. SHAPIRO:

13 Q. I assume you're aware you're still under oath,
14 Mr. Sorensen?

15 A. The judge just reminded me.

16 Q. Oh, okay. Thank you. Actually, Judges Nodes
17 had some questions of Mr. Bourassa regarding some services
18 that were performed during the test year for Black
19 Mountain by a company called Aerotek. Would you be able
20 to provide some additional information regarding Black
21 Mountain's use of that company?

22 A. Certainly. The Aerotek invoices that were
23 inadvertently and erroneously charged to LPSCo instead of
24 to Black Mountain were for two separate operators that
25 Black Mountain utilized during the test year. Those

1 operators were utilized because we had a couple other
2 operators leave the Company's employ, and we needed to
3 have operators on hand to properly, for lack of a better
4 word, operate the system. They ran the wastewater plant,
5 did repairs and maintenance on the wastewater plant. They
6 would go out to the lift stations. They would do
7 sampling. They would do collection line inspections.
8 They would have interaction with customers. You name it.
9 Just the same functions that an employee operator would do
10 of AWS or now Liberty Water. These Aerotek employees were
11 working on a temporary basis until we could hire
12 replacement operators for the ones that had previously
13 left.

14 Finding operators in the Carefree area can be a
15 little bit challenging. The pool of wastewater operators
16 that you might pull from don't mesh with the economic
17 situation or high income areas that we serve, and so we
18 have to go outside and get operators to drive long
19 distances to work at our facility. So it takes a little
20 bit longer to find those operators. We couldn't go
21 without, so we had to hire these temporaries.

22 Now, one of the temporaries did actually end up
23 becoming a permanent employee. I believe he relocated so
24 he would be a little bit closer because he was driving
25 from so far way doing temporary service, but one of those

1 did in fact end up being a permanent employee; and then we
2 found another new hire employee to replace the other
3 temporary person.

4 Q. So then you're no longer at this point in time
5 paying Aerotek to do the operation services?

6 A. No, we don't pay Aerotek. We're paying
7 employees of AWS. We currently have the three operators
8 there full-time at Black Mountain that were there in the
9 test year. Just the names have changed, and rather than
10 being an employee of Aerotek, they're now -- it's a
11 different name, but it's the same position and an employee
12 of AWS. So --

13 Q. Well, how did the company and Mr. Bourassa
14 present the costs of these operators in the rate filing?
15 As salaries or as services provided by Aerotek?

16 A. In this case, the services provided by Aerotek
17 in the initial application weren't in there. I believe
18 that's what Mr. Bourassa stated accurately earlier was
19 that this was an error that was discovered during the rate
20 cases. There were parallel rate cases going on at the
21 same time in different stages for Black Mountain and for
22 LPSCo. And when we discovered an error that affected both
23 these cases, we thought it only proper to remove -- as
24 Mr. Bourassa said, he will be removing the Aerotek costs
25 that were charged during LPSCo's test year to LPSCo,

1 because they shouldn't have been. They should have been
2 charged to Black Mountain, and to make the equal and
3 offsetting, you know, adjustment on Black Mountain.

4 Q. Does the total cost of the operators to Black
5 Mountain on a going-forward basis match the level that was
6 in the test year based on the embedded cost of operators
7 plus Aerotek? Is that what I'm understanding?

8 A. Yes, and I certainly understood, you know, the
9 Judge's antenna went up when he heard temporary labor, and
10 I fully expected that when I went back and looked at the
11 testimony, that I probably should have explained it a
12 little bit better because, to be temporary could also be
13 construed as incremental and temporary to normal
14 operations.

15 These operators were for a period of time in
16 lieu of the employee operators that we would normally
17 have. And so if you're looking for a normalized or a
18 standard cost, I think once you make the adjustment to
19 bring the Aerotek cost back into the test year expenses, I
20 think then you have a true representation of the ongoing
21 costs.

22 Without that, you would actually be understating
23 the ongoing costs of the utility because you would be
24 missing a significant piece of essential labor costs for a
25 test year.

1 MR. SHAPIRO: Thank you very much.

2

3 FURTHER EXAMINATION

4

5 BY ACALJ NODES:

6 Q. Mr. Sorensen, I'm looking at Exhibit A-10.

7 A. I've got one.

8 Q. And one of the issues Staff has raised relates
9 to contractual services and increases in the allocated
10 costs. Do you recall that?

11 A. Yes. Yes.

12 Q. And it's \$44,018 related to what is listed as a
13 known and measurable increase in annualization of wages
14 and salaries; is that correct?

15 A. Yes, I see that.

16 Q. Now, during Mr. Bourassa's testimony, I believe
17 it was, and if you look at his rejoinder, Schedule C-2,
18 page 17, if you recall, I was asking him about that. If
19 you could get a copy of that, just so you have a frame of
20 reference.

21 A. C-2, page 17?

22 Q. Yes, in the rejoinder.

23 A. Yes, labeled as Adjustment 16?

24 Q. Yes.

25 A. Yes, I have it.

1 Q. And this is where there's a description of the
2 accounting treatment at least for that \$44,000 or how it
3 was derived; is that your understanding?

4 A. Yes.

5 Q. Now, I believe Mr. Bourassa said that this
6 increase to payroll was related to payroll expenses.
7 There were increases for positions, vacant positions added
8 after the test year, four positions that were not fully
9 recognized in the test year.

10 Is that your understanding of what these
11 expenses are related to?

12 A. I can give you my understanding without having
13 gone back and refreshed the details on this; and if you
14 need me to do so and then come back on the stand, I'll
15 certainly do so.

16 But yes, my understanding is that there were
17 two, really two components to this adjustment. One is for
18 what I'll call normalization of wages. So in other words,
19 somebody was hired during the test year, and let's say
20 they were hired three months into the test year; only nine
21 months of their wages would have been reflected in the
22 test year expenses, and so the annualization or
23 normalization of those costs would require an increase in
24 the test year costs of roughly three months of their
25 wages.

1 The other portion of that, of this adjustment,
2 it's my understanding that that would be an adjustment for
3 known and measurable costs where a position was open for
4 the test year but not filled until after the test year.
5 And that would be recognizing that that is an ongoing cost
6 that will be incurred by the Company while these rates are
7 in effect.

8 And I think an example of that, if I remember my
9 history correctly, is we hired an IT, I'll say IT
10 professional, talking about somebody who is able to work
11 in-house on computers and the local network and some of
12 the billing system; and that person, while the position
13 was open probably for the second half of the test year, we
14 couldn't find a properly qualified person until a month or
15 two after the test year concluded in Black Mountain, and
16 so that cost was part of this adjustment. So those are
17 the two types of situations and costs that you're seeing
18 reflected here.

19 Q. Okay. Now, for this IT position, you said it
20 was someone that you hired here in Arizona?

21 A. Yes, sir.

22 Q. Okay.

23 A. Gary Baugh is his name, and yes, we hired him,
24 and he's located in our Avondale office.

25 Q. I guess, my understanding was this was -- these

1 were positions that were filled for Liberty Water, and
2 there was an allocation based on the national increase of
3 these various costs. And now you seem to be saying --

4 A. I'm sorry, the national?

5 Q. Well, I'm looking at -- if you look at page 17,
6 there is an amount, \$254,000 amount for accounting/billing
7 costs, and then there was an increase in allocated
8 overhead costs based on four-factor allocation. And
9 that's -- those two items combined following the
10 allocation that's applied for Black Mountain, the 3.18
11 percent and the 4.52 percent is how you arrive at the
12 \$44,000 figure.

13 And so I'm a little confused now that you're
14 saying this amount was due to your hiring of a local
15 person. If that were the case, I don't know why there
16 would be any allocation?

17 A. Because that local person is not one hundred
18 percent dedicated to only Black Mountain. That person
19 supports the IT billing function, computer functions for
20 Liberty Water. And that allocation would be amongst the
21 utilities serviced by Liberty Water, which would be
22 Litchfield Park Service Company, Rio Rico Utilities, Val
23 Vista Water. It would also support three utilities in
24 Missouri, I want to say six or seven utilities in Texas,
25 one in Illinois. So when you see the three percent

1 allocation -- we talked about that earlier -- those type
2 costs in that bucket are allocated across all of the
3 water/wastewater utilities that Liberty Water services,
4 and that's based upon the relative number of customers
5 within that utility compared to the others.

6 Q. Liberty Water provides services to both
7 regulated and unregulated entities that are owned or
8 affiliated with Algonquin?

9 A. No, sir. Liberty Water provides services to
10 water, at this point, water/wastewater utilities. That's
11 both in Arizona as well as Texas, Missouri, and Illinois.

12 I believe what you're referring to on both the
13 regulated and nonregulated portion, those are the APTF,
14 APT type of costs.

15 Q. Okay. I stand corrected. I understand what
16 you're saying. But the Liberty Water total expenses
17 nationally relate only to the regulated entities in
18 Arizona, Texas, and Missouri?

19 A. Missouri and Illinois.

20 Q. Missouri and Illinois. So let's say you hire an
21 individual at a salary of, I don't know, \$80,000. You
22 hire that person, and he's primarily doing work within
23 Arizona. It sounds like that's what you're talking about
24 with this IT person. Is that accurate, or is that person
25 also doing IT work for the companies in Texas, Illinois,

1 Missouri?

2 A. This IT person I was referencing earlier does in
3 fact provide some support services for people in Texas and
4 Illinois. I know earlier this year he spent two to three
5 weeks out there in Texas working on conversion of their
6 billing systems from an old system to a new one. And he
7 also essentially functions as like a help desk or support
8 desk for our employees there in Texas with regard to IT.
9 So no, he absolutely does -- while he may be physically
10 located in Arizona, he provides services for the entire
11 Liberty Water group.

12 Q. Okay. But on a day-to-day basis, is he
13 primarily doing work for the Arizona entities? I mean
14 aside from what he had done for those several weeks doing
15 some kind of support? And the reason I'm asking this is
16 because I'm trying to understand how Liberty Water is
17 staffed and then allocated.

18 A. Uh-huh.

19 Q. Let's say that one of the utilities in Texas
20 decides it needs an IT person. They hire an IT person.
21 That person's salary is put into the Liberty Water pool,
22 and then there's an allocation of that salary based on the
23 methodology that you're using here, because that's where
24 I'm getting confused, and how does that process work? And
25 who is responsible for hiring the Liberty Water people

1 that then get allocated for the other nonjurisdictional
2 entities from a Commission regulatory standpoint, and vice
3 versa?

4 A. I'll try to answer that as best I can. If I
5 fail to answer a portion of that question, please let me
6 know.

7 For things like if I were to hire another
8 operator for Black Mountain, that operator's cost, time
9 sheet driven, is purely for Black Mountain and his cost
10 will only go to Black Mountain.

11 If the Company hires an accountant, whether it
12 be in Texas, whether it be here in Arizona, that person's
13 costs would go into essentially a cost pool; and that cost
14 would be allocated out purely among regulated utilities
15 across the four states, but according to relative customer
16 count of those utilities.

17 Q. So even if that person that's put into the pool
18 is not actually providing any services to the out-of-state
19 companies, the costs of that salary are allocated to the
20 other companies within the Liberty Water pool?

21 A. Yes. In theory, if you had someone -- and the
22 nature of a cost pool like that is to come up with a
23 rational and systematic allocation of costs across a wide
24 population, without sometimes going through the detail on
25 a record keeping standpoint of time sheets. Because the

1 presumption there is that you're using a pool of resources
2 and, you know, for example, customer service. You can
3 either have a customer service person dedicated, one
4 dedicated to LPSCo, one dedicated to Rio Rico, one
5 dedicated to Woodmark in Texas, one dedicated to XYZ
6 Utility in Missouri, et cetera; and all of a sudden, you
7 start multiplying those customer service personnel, so you
8 have at least one per utility. That's not an efficient --
9 in my view, that's not an efficient way of providing
10 service from a cost perspective.

11 What you do is you put those customer service
12 people into a pool and determine what the aggregate need
13 for customer service personnel is, and then you fill the
14 positions to that need, not incurring more costs than what
15 you need to, but having enough people there to provide the
16 service that your customers need and deserve.

17 Q. Right, and I can see customer service
18 representatives, as long as they were knowledgeable about
19 the systems in each of the states, or have the ability to
20 access that information. That would make sense as a
21 shared cost.

22 But what about, for example, your IT hire? If
23 someone were hired in Texas as an IT person, why should
24 that get allocated to Arizona, and why should your Arizona
25 hire get allocated to customers in the other states? If

1 they're not -- I mean I guess I can see it for Arizona
2 specific if there's a system that the IT person is working
3 on and he's strictly related to the Arizona activities,
4 why would the other states get an allocation of those
5 costs?

6 A. Well, and recognizing that we only have the one
7 IT, but in your scenario of a -- you can either look at
8 directing specific individual contribution towards each
9 utility and do that through a time sheet methodology, and
10 then you would get that exact, call it accounting or
11 assignment of costs to each and every utility dependent on
12 those time sheets. And what you could end up doing then
13 is, let's say, for Texas and Missouri, perhaps what they
14 really need is three-quarters of a person, but you can't
15 really hire three-quarters of a person. You need a
16 person. Those utilities, to absorb the extra cost or that
17 person, could lend additional IT support for those in
18 Arizona or other states that might require it.

19 You can either take a direct approach to it, or
20 you can make the assumption that what the Company has done
21 is hired the adequate or appropriate number of people to
22 provide a service, which in this case is an IT service,
23 and that whether that IT service is being performed from
24 Tyler, Texas, or that IT service is being performed from
25 Avondale, Arizona, that it's that service that is really

1 driving the cost, and then that gets allocated out based
2 upon some rational systematic basis, which in this case,
3 the Company has deemed to be appropriate relative customer
4 count of the utilities.

5 Q. Right. And I understand that. And if there are
6 employees and say an IT person that's responsible for
7 maintaining the network for the entirety of all the
8 companies in the system, a fair allocation seems to me to
9 be a reasonable way to present those costs.

10 The question, I think, in my mind is, what about
11 particular employees or costs that are more specific to an
12 individual company or a state jurisdiction, perhaps. If
13 it's some kind of cost that is used by all the Arizona
14 utilities operated by Algonquin, why not be more specific
15 with the allocation, rather than just taking this broad,
16 sweeping approach that, well, the parent company incurs
17 these costs or Liberty Water incurs these costs, so
18 everybody takes a hit. Everybody is going to contribute
19 into the pot, so that whatever entity it is, whether it's
20 Algonquin Power Income Fund or Liberty Water, collects all
21 of its expenses.

22 A. Okay. And again, I thought we were talking
23 about this instance. We're talking about Liberty Water
24 employees, and they provide the services --

25 Q. Right.

1 A. -- strictly on the utilities. And that is a way
2 you could look at it. You know, with the multiple
3 utilities we have, let's use someone like a LPSCo and
4 customer service as an example. You can have maybe four
5 or five customer service reps that are really needed to
6 provide service adequately for LPSCo and its customer
7 base. But some days you might have more calls coming in
8 and you could just say, look, all four or five of you, all
9 you're going to do is you're going to be on LPSCo.

10 But if you have a day or two or a week or
11 whatever due to a rate case being filed and notices going
12 out where you have incremental call volume coming in and
13 customers with questions on Gold Canyon or on Black
14 Mountain, there's a cost shift there. And vice versa,
15 when LPSCo has additional customer questions or concerns
16 coming on the phones or there are, you know,
17 disconnections on a water system, there's typically more
18 customer traffic that's coming through the door, over the
19 phones. You need to move resources over. And it's
20 looking at it as a -- it's viewing it as a shared pool of
21 responsibilities.

22 Q. And I'm not disputing that. I mean I've already
23 said, I mean, for something like customer service agents,
24 I think it's appropriate to allocate according to the
25 demand from the individual systems that are placed on

1 those shared services.

2 It's this common pool of Liberty Water that I'm
3 questioning how the process works and why someone who is
4 hired at, you know, at some salary that only works for
5 Arizona, let's say, why that person's salary was allocated
6 to an out-of-state jurisdiction if he or she is not
7 providing any service to those out-of-state utilities?

8 A. Fair question. And I'm trying to go through
9 kind of the positions that we have within the company to
10 try and see how much, if any, we have that's, quote, truly
11 geographically restricted; and the ones that I can think
12 of that are geographically restricted are something like
13 operators where usually the operator is assigned to a
14 particular utility. Whereas, we go to engineering, if you
15 go to IT positions, those are more need-based; and whether
16 that need arises in Texas, Missouri, southern Arizona, or
17 in the Phoenix area, that position or that job function,
18 you know, engineering pool or an IT resource pool, they're
19 going to respond to that need, typically regardless of
20 where they are located or where the utility is located.

21 Q. And I mean the easiest way to allocate common
22 shared services is simply to have some kind of tracking of
23 what projects, say, the engineer is working on, and
24 there's an assignment then of costs to that company. And
25 I think the shared service model to that extent makes a

1 lot of sense.

2 It's this broad, kind of almost arbitrary, it
3 seems, assignment to a pool of costs, and then allocation
4 regardless of whether specific utilities need that
5 particular service that's provided by the individual or by
6 the various services.

7 A. Well, I guess maybe I'm thinking also along the
8 lines when you have like a rent cost for a building. That
9 type of thing gets spread across all of the entities that
10 are supported from that building. That goes into what
11 I'll call like a general overhead pool, what I've
12 typically seen, whether it be regulated or nonregulated
13 businesses.

14 Because trying to go through and perform an
15 analysis of what square footage of that building goes to
16 support each individual, you know, customer or each
17 individual function within the company or customer base is
18 fraught with problem assumptions that each and every
19 individual assumption can be debated many different ways.

20 So going through that time, that expense to
21 result in something that at the end of the day is probably
22 just a series of assumptions and opinions that really
23 can't be proven out one way or the other, it seems odd.

24 Q. Well, okay. Okay. Let's use your example.
25 Let's say Arizona-specific office space rent for your --

1 you have facilities in Avondale, correct?

2 A. Yes.

3 Q. And that's where your main -- for Arizona,
4 that's where the main corporate offices are located that
5 provide service to all the Arizona utilities?

6 A. Arizona and actually the Avondale office
7 provides services not only to all the Arizona utilities,
8 but houses accounting and some customer service and
9 engineering that also provide services to Texas and
10 Missouri and Illinois. So again, that's a cost that would
11 be spread across all locations. In the same instances I
12 was referring earlier to an IT person that does work, you
13 know, kind of agnostic to where the physical location is.
14 He'll work on things and he'll get phone calls regarding
15 Texas issues, particularly earlier in the morning because
16 they're ahead of us timewise, and he'll deal the with
17 Arizona stuff, you know, throughout the day. But he does
18 work on all of our regulated utilities.

19 Q. Okay.

20 A. And to your point, if there is somebody who
21 strictly works on, you know, Rio Rico utilities, then yes,
22 I certainly see your point where maybe it doesn't make
23 sense that that person goes into a pool. Why don't you
24 just direct charge them. And that's what we've been
25 tempted to do with the model, and that primarily lends

1 itself on the operators' side where those people are a
2 direct charge to the utility that they work on almost
3 exclusively.

4 Q. Well, and it's really not all that difficult, is
5 it, for -- and I'm not disputing the shared services
6 models can be effective.

7 A. Right.

8 Q. It's just the process that seems to me to be
9 used here for purposes of these allocations. If you have
10 employees who are working for all the utilities across the
11 country, then an allocation based on something like this
12 would seem to be appropriate. But it's the -- it's the
13 employees and the other types of expenses where services
14 are not being provided to that individual utility, it
15 seems, to where there is an inefficient allocation that's
16 not based on actual costs incurred by that individual
17 utility company.

18 A. I understand. I understand what you're -- I
19 believe I understand exactly what you're stating. And the
20 fact that perhaps you can create, call it different layers
21 of pools, cost pools. One layer of cost pool you might
22 have that truly is across all states, all utility
23 companies; and then you may have another pool. And in one
24 of your first examples, we did hire an IT person in Texas
25 to then only deal with Texas and Missouri and Illinois,

1 and then you had an IT person separately in Arizona to
2 only deal with Arizona. Maybe you would have a different
3 or a mezzanine level of cost pool that deals with, okay,
4 well, rather than across all companies now, this is
5 Arizona allocation. So all this person's costs only gets
6 allocated to Arizona utilities based upon relative --

7 Q. Well, it doesn't seem to me to be even that
8 difficult. If you have, let's say, accountants or IT
9 people who are, you know, helping utilities in other
10 states, they could designate four hours for Arizona or
11 what specific company, or at least Arizona. You could
12 break it up state by state, since that's how your rates
13 are set.

14 And then within each state, you could allocate
15 according to the company specifically for which the work
16 was done, simply by a time sheet mechanism.

17 A. You can do time sheets, although these cost
18 pools and four-factor allocations and customer number
19 allocations, my understanding from discussing with
20 Mr. Bourassa, these mechanisms and these methodologies are
21 very common within regulated utilities for things like
22 customer service, for things like IT where it is a, you
23 know, a pool of personnel that provide a function across
24 utility, across state lines.

25 And so this is, for lack of a better word, a

1 generally accepted type of a methodology. That doesn't
2 mean there aren't other ways of doing it, absolutely. You
3 can do things a hundred percent time sheet driven, and may
4 or may not get any real different, materially different
5 results than using a pool methodology. But it certainly
6 is an option that can be done.

7 In general, it does create -- because of the
8 time sheet tracking, it might create a little bit more
9 administrative work and cost. But it certainly is
10 something that can be done.

11 Q. Okay. Okay. I guess we're going to wait for
12 Mr. Bourassa to get the information on those specific
13 central office costs. So I'll wait for that.

14 Mr. Wakefield, do you have any questions?

15 MR. WAKEFIELD: No, I don't.

16 ACALJ NODES: Ms. Wood?

17 MS. WOOD: I do have a question, Your Honor.
18 Something I forgot to ask before. Not related to your
19 series of questions. Different topic, if I may.

20 ACALJ NODES: Go ahead.

21

22 RE-CROSS-EXAMINATION

23

24 BY MS. WOOD:

25 Q. In the year before the test year, did you have

1 spills or record spills in the, I guess equal to the
2 amount you spent in the test year?

3 A. I don't recall what our costs -- hopefully, we
4 didn't have any spills during the year prior to the test
5 year. But I can't recall whether we did or not; and if we
6 didn't, obviously there was no spill costs.

7 Spills are something that we certainly do
8 everything we can to avoid occurring. And we recognize
9 it's not something that is planned, but I think we also
10 should recognize that it is something that occurs within
11 every wastewater system.

12 And it's not something that anyone should expect
13 would never occur. Phoenix has them. Scottsdale has
14 them. Goodyear has them. Avondale has them. Every
15 private sewer utility out there has spills.

16 But once those do occur, it is incumbent upon
17 the company, whether that be a municipality or a privately
18 owned wastewater company, to clean those spills up and to
19 do so quickly and appropriately.

20 And while our initial application included the
21 full costs of the spill that occurred during the test
22 year, when we saw Ms. Brown's testimony, I believe it was
23 her direct testimony, where she recommended that the cost
24 of that cleanup of the spill be amortized essentially or
25 recognized one third, to recognize that might occur once

1 every three years, that seemed reasonable, at least in my
2 view.

3 Something again we strive not to have occur, but
4 we do recognize that they do occur periodically, and once
5 every three years seemed at least a reasonable estimate of
6 what we would expect.

7 Q. And in the twelve months since the close of the
8 test year, have you experienced a spill equal to the
9 amount that you spent on the spill during the test year?

10 A. Equal to? No. We did have a, what I'll call a
11 minor spill at one of the lift stations. We had a pump
12 clog and a valve stick, and that did cause a small spill
13 at one of the lift stations.

14 Q. And what was the expense associated with that?

15 A. I think the spill cleanup costs were probably in
16 the \$5,000 range; but, you know, there's also going to be
17 some capital costs with regard to putting in a valve and
18 replacing perhaps a motor on the pump. But what I'll call
19 the cleanup cost was around \$5,000.

20 MS. WOOD: I have nothing further.

21 ACALJ NODES: Mr. Torrey.

22 MR. TORREY: Nothing further, Your Honor.

23 ACALJ NODES: Mr. Shapiro?

24 MR. SHAPIRO: Yes, Judge, a couple questions.

25 (NEXT PAGE, PLEASE.)

1 FURTHER REDIRECT EXAMINATION4

2

3 BY MR. SHAPIRO:

4 Q. Mr. Sorensen, when Judge Nodes was questioning
5 you about expenses incurred in the Liberty Water level on
6 a state, you know, for a specific company or specific
7 state, do you recall those questions?

8 A. Yes.

9 Q. Within -- and you're the person responsible for
10 Liberty Water in Arizona?

11 A. Yes, sir.

12 Q. What costs are in the costs that are charged by
13 Liberty Water to the utilities that you can identify that
14 would be either state-specific or utility-specific other
15 than operators?

16 A. My costs. My costs are allocated strictly to
17 those utilities here in Arizona.

18 Q. And that's because you don't work or oversee the
19 utilities in the other states?

20 A. No, I do not. I have a counterpart in Texas,
21 Sean Lanergan. He oversees the Texas, Missouri and
22 Illinois assets, and his costs don't get allocated to
23 Arizona utilities, and mine don't get allocated to his. I
24 guess not his utilities, but the ones that he oversees.

25 Q. Any others besides that level, management level

1 personnel?

2 A. Other than direct operators?

3 Q. Yeah, operators, you said, are allocated
4 directly to the utility that they operate, and then you
5 mentioned you and Sean in Texas.

6 A. No.

7 Q. And something like a billing clerk or a customer
8 service representative, they could literally handle things
9 for seven or eight different utilities in one day?

10 A. Yes. Yes. Sometimes I don't envy what they do,
11 but yeah.

12 Q. It would make it a little difficult in a time
13 recording device when you're working for multiple
14 utilities in one day?

15 A. Right, you've got people that do payment
16 applications for several utilities, and tracking which
17 utility they're applying payments for at any given time
18 would be somewhat administratively burdensome and possibly
19 take away from some of the efficiency of what they're
20 doing.

21 Again, as I stated, is it possible to do
22 everything via time sheet? Yes, it is. I don't know that
23 you get materially different results from the pool
24 methodologies, which is why, my understanding, those are
25 commonly used is because for certain functions, pool

1 methodologies yield similar results to what you would be
2 doing with the time sheets without some of the
3 administrative burden and costs that go along with them.

4 MR. SHAPIRO: Thank you.

5

6

FURTHER EXAMINATION

7

8 BY ACALJ NODES:

9 Q. Mr. Sorensen, is there a single location for,
10 let's say, customer service representatives that receive
11 calls for all the utilities nationally?

12 A. We have customer service locations -- no, no,
13 there is not one facility that handles all calls -- let me
14 think about that. Nationally? I believe we can actually
15 get some overflow calls in Arizona for Texas, Missouri, et
16 cetera, so some people -- a couple people in Arizona can
17 receive calls virtually from any of our utilities.

18 But with any -- for customer service, you almost
19 view it as almost a call center type scenario. You have
20 what you refer to as serve teams. Those serve teams have
21 specialties within specific areas; and in this case you
22 would be talking about geography or utilities. But those
23 serve teams don't have typically exclusive service, but
24 their primary service is for a particular geography in
25 this case, but they can take overflow calls as needed for

1 any of the utilities.

2 Q. Okay. So is it your testimony that other than
3 yourself and the operators that are allocated to each
4 individual utility within Arizona, all of the other
5 employees of Liberty Water provide services to all of the
6 other utilities within the country at some point in time?
7 I don't know that that's your testimony, but --

8 A. No, no, no, no. No, no. It's a good question.
9 Let me think about that specifically.

10 If you take out the operations people that
11 report to me and down the line within operations, so if
12 you're looking at customer service, IT, finance,
13 administration. No, there would be -- I know we have a
14 couple of front desk personnel at our Avondale office that
15 handle, I would say almost exclusively, Litchfield Park
16 Service Company, either calls or walk-in traffic. So
17 they -- I'm trying to picture how they would be ever
18 fielding something related to Texas, and I can't come up
19 with a scenario where they would be.

20 So there certainly can be examples or situations
21 where you would have somebody doing what you're referring
22 to as a national, national work.

23 I was trying to state to Mr. Shapiro and I think
24 Tom earlier, one way -- there are different ways of either
25 doing these allocations or direct charges. One doesn't

1 make the other -- one being right doesn't make the other
2 one wrong.

3 There are several what I would refer to as
4 acceptable and rational methodologies, I don't think any
5 of which are set up, designed or implemented in a way to
6 either advantage or disadvantage any particular group of
7 customers, utilities, et cetera.

8 His methodology -- as I stated, when we set this
9 up, we spoke to Mr. Bourassa to see if this was an
10 allocation methodology that was utilized commonly amongst
11 other regulated utilities. It's our understanding that it
12 is.

13 So we tried to pattern that methodology after
14 something that was accepted, not trying to break new
15 ground.

16 After our last experience with the affiliate
17 profit, which was maybe a little new groundbreaking, we
18 were trying not to go back to that same pattern. We were
19 trying to use something that was much more common within
20 the industry.

21 Q. Okay. Well, this question is probably better
22 directed to Mr. Bourassa, but you think that there are
23 other utilities, water or wastewater utilities within
24 Arizona that operate with subsidiaries or affiliates
25 outside of Arizona, but that have common pools of expenses

1 that are then allocated on a methodology that's similar to
2 what's been presented here and that those issues have been
3 raised and litigated and decided by the Commission and
4 affirmed by the Commission as a reasonable method of cost
5 allocation of expenses?

6 A. I will not state something to be fact that I
7 don't know. I believe that to be correct, but I am not
8 going to state something possibly false on the stand.

9 Q. Okay.

10 A. I believe that's much better left for
11 Mr. Bourassa who has more exposure with other regulated
12 utilities in this state, to have him make statements as
13 such.

14 Q. Okay. Fair enough.

15 ACALJ NODES: All right. Any other questions
16 for Mr. Sorensen?

17 (No response.)

18 ACALJ NODES: Thank you, Mr. Sorensen. You're
19 excused.

20 All right. We will resume at 9:30 tomorrow
21 morning. What do we want to do? Put Mr. Bourassa on
22 first, then Mr. Moore? Is that the preference?

23 MR. SHAPIRO: Yes, I think we would put
24 Mr. Bourassa on and finish him, and we'll rest our case,
25 and let RUCO and Staff start.

1 ACALJ NODES: Fair enough. See you tomorrow
2 morning.

3 (The proceedings recessed at 4:46 p.m.)
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I, GARY W. HILL, R.P.R., Certified Reporter
 No. 50812, for the State of Arizona, do hereby certify
 that the foregoing printed pages constitute a full, true
 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 29th day of November,
 2009.



 Gary W. Hill, R.P.R.
 Certified Reporter, No. 50812