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1 BEFORE THE ARIZONA CORPORATIC

2

3 IN THE MATTER OF THE APPLICATION OF )  
GLOBAL WATER - PALO VERDE UTILITIES )  
4 COMPANY FOR THE ESTABLISHMENT OF )  
JUST AND REASONABLE RATES AND )  
5 CHARGES FOR UTILITY SERVICE DESIGNED )  
TO REALIZE A REASONABLE RATE OF )  
6 RETURN ON THE FAIR VALUE OF ITS )  
PROPERTY THROUGHOUT THE STATE OF )  
7 ARIZONA. )

DOCKET NO.  
SW-20445A-09-0077,  
ET AL.

8 AND ALL RELATED MATTERS. )

EVIDENTIARY  
HEARING

9

10 At: Phoenix, Arizona

11 Date: December 28, 2009

12 Filed:

JAN 11 2010

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Arizona Corporation Commission

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1	INDEX TO EXAMINATIONS		
2	WITNESS		PAGE
3	LINDA A. JARESS	CONTINUED	
4	Cross-Examination by Mr. Sabo		768
	Redirect Examination by Mr. Van Cleve		883
5	Recross-Examination by Mr. Patterson		898
	Recross-Examination by Mr. Rich		900
6	Recross-Examination by Mr. Pozefsky		903
7			
	TREVOR HILL	REBUTTAL	
8			
	Direct Examination by Mr. Patten		907
9	Cross-Examination by Mr. Patterson		916
	Cross-Examination by Mr. Van Cleve		918

10

11

12

13

## INDEX TO EXHIBITS

14	NO.	DESCRIPTION	IDENTIFIED	ADMITTED
15	A-45	Global Water's second set of data requests to Staff dated November 13, 2009	775	776
16				
17	A-46	Decision No. 62993	831	admin notice 832
18				
19	A-47	Global Utilities' response to Staff's first set of data requests, March 4, 2009	840	842
20				
21	A-48	ICFA agreement between Global and Belmont	844	851
22	A-49	ICFA agreement between Global and Copperleaf	844	851
23				
24	A-50	ICFA agreement between Global and Silver Water Ranch and Silver Springs Ranch	848	851
25				

## 1 INDEX TO EXHIBITS

2	NO.	DESCRIPTION	IDENTIFIED	ADMITTED
3	A-51	Transcript excerpts from Picacho Utilities and	862	admin notice 863
4		Picacho notice Water's hearing		
5	A-52	Sewer tariff schedule for	877	admin notice
6		Palo Verde Utilities Company		877
7	A-53	Document regarding	920	--
8		renewable energy cost recovery (late filed)		

9

INDEX TO RUCO'S EXHIBITS

10 (Inadvertently omitted from index page to  
11 Volume III, 12-13-2009)

12	NO.	DESCRIPTION	IDENTIFIED	ADMITTED
13	R-1	Direct Testimony of Rodney L. Moore	547	548
14	R-2	Surrebuttal Testimony of	547	548
15		Rodney L. Moore		
16	R-3	Notice of Errata 10/27/09	548	548
17	R-4	Direct Testimony of William A. Rigsby	546	547
18	R-5	Direct Rate Design Testimony Of William A. Rigsby	546	547
19	R-6	Direct Testimony on Cost of Capital 10/26/09 of William A. Rigsby	546	547
20	R-7	Surrebuttal Testimony of William A. Rigsby	546	547
21	R-8	Direct Rate Design Testimony of Rodney L. Moore	546	547
22				
23				
24				
25				

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 10:00 a.m., on the 28th day of December,  
6 2009.

7

8 BEFORE: TEENA WOLFE, Administrative Law Judge

9

10

11 APPEARANCES:

12

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1 ALJ WOLFE: Good morning, and welcome back to the  
2 Commission.

3 Are there any procedural matters that the parties  
4 want to raise this morning?

5 Mr. Sabo?

6 MR. SABO: No, Your Honor.

7 ALJ WOLFE: Okay. Let's go ahead and take  
8 appearances beginning with the applicant this morning.

9 MR. SABO: Good morning, Your Honor. Tim Sabo  
10 and Mike Patten with the law firm of Roshka DeWulf &  
11 Patten on behalf of the Applicants.

12 ALJ WOLFE: And we will go around, Mr. Pozefsky.

13 MR. POZEFSKY: Good morning, Your Honor.  
14 Daniel Pozefsky on behalf the RUCO.

15 MR. RICH: Good morning, Your Honor. Court Rich  
16 with the Rose Law Group on behalf of the City of Maricopa.

17 MR. PATTERSON: Good morning, Your Honor.  
18 Greg Patterson on behalf of the Water Utilities  
19 Association of Arizona.

20 MR. VAN CLEVE: Good morning. Wes Van Cleve and  
21 Ayesha Vohra on behalf of Commission Staff.

22 ALJ WOLFE: Thank you.

23 And I believe where we were is we left off with  
24 Ms. Jaress on the stand, and the company was going to  
25 start cross-examination.

1 MR. SABO: Yes, Your Honor.

2 ALJ WOLFE: Okay. Go ahead.

3

4

LINDA JARESS,

5 called as a witness herein, appearing on behalf of Staff,

6 having been previously duly sworn by the Certified

7 Reporter, continued to be examined and testified as

8 follows:

9

10

CROSS-EXAMINATION

11

12 Q. (BY MR. SABO) Good morning, Ms. Jaress.

13 A. Good morning.

14 Q. Let's start with something that we are in  
15 agreement, I think.

16 You recommend a 10 percent cost of equity; is  
17 that right?

18 A. That's correct.

19 Q. And that is the same as Global's recommendation?

20 A. Yes.

21 Q. Can you tell me what benefits there are to having  
22 a stipulated ROE between the company and Staff as opposed  
23 to having a fully-litigated dispute about the ROE?

24 A. The benefits are the savings of time and money, I  
25 think, without compromising a reasoned recommendation.

1 Q And, Ms. Jaress, you should have before you  
2 Exhibits A-16, 17, and 18. Could you pull those out,  
3 please.

4 ALJ WOLFE: If you will wait a moment until I get  
5 mine.

6 MR. SABO: Sure.

7 ALJ WOLFE: Thank you for waiting. Go ahead.

8 Q (BY MR. SABO) And, Ms. Jaress, those are  
9 previous testimonies by the Staff; is that correct?

10 A Yes.

11 Q And if you had prepared a new cost of equity  
12 estimate, would you use the same methods that are shown on  
13 Exhibits A-16, A-17, and A-18?

14 A Yes.

15 Q And are you aware of any significant market  
16 changes since those exhibits were prepared that would  
17 invalidate the results of those exhibits?

18 A No.

19 Q And I take it then you believe the cost of equity  
20 estimates in Exhibits A-16, A-17, and A-18 are still  
21 valid?

22 A Yes.

23 Q And if you did a -- you know, started from fresh  
24 and did a new cost of equity estimate, you believe you  
25 would reach a similar result today?

1 A. Yes.

2 Q. And keeping on that rate of return topic, you  
3 also agreed with Global's proposal to impute current level  
4 IDA debt to Santa Cruz and Palo Verde; is that right?

5 A. Yes.

6 Q. And the ratepayers benefits from this imputation?

7 A. Yes.

8 Q. Through a lower overall rate of return?

9 A. That's correct.

10 Q. And would you agree with me that it would not  
11 have been appropriate to impute that debt if the debt had  
12 gone to creating the Global Water chain of pizza  
13 restaurants?

14 A. There still may have been an imputation of debt,  
15 but it wouldn't have been imputing bonds that were  
16 specifically for the Global pizza restaurant.

17 Q. That is my point.

18 So the reason it was appropriate to impute was  
19 because there is a link between the bonds and the plant  
20 that was built.

21 Would you agree with that?

22 A. There is a link between the bonds, the utilities,  
23 and the plant.

24 Q. And due to that link it's appropriate to impute  
25 the IDA debt?

1 A. Yes.

2 Q. Thank you.

3 And would you agree with me that the IDA  
4 bonds are tax free?

5 A. Yes.

6 Q. And to qualify for that status, they must be used  
7 to construct specified facilities?

8 A. Yes.

9 Q. Do you have any evidence to show that the IDA  
10 debt was not used to build plant for Santa Cruz and Palo  
11 Verde?

12 A. No, I do not.

13 Q. And that would include what we've been referring  
14 to the Southwest Plant?

15 A. Yes.

16 Q. And Global must pay interest, of course, on the  
17 IDA debt?

18 A. Yes.

19 Q. And in rough terms how much IDA debt does Global  
20 have outstanding? I have a page number.

21 A. \$117 million.

22 Q. Would you agree subject to check it's  
23 \$115 million?

24 A. Yes.

25 Q. Great.

1           And do you know what Global's annual debt service  
2 obligation to that debt would be, say, for the year 2010?

3           A.     Not -- no, I don't.

4           Q.     Could you pull out Mr. Hill's rejoinder  
5 testimony, please. That would be A-9. And in particular  
6 I am thinking of Exhibit 4 to that testimony.

7           A.     Now, for some reason I don't have exhibit numbers  
8 on my copy, but I assume these are the two pages of the --  
9 one is estimated debt service and the other is debt  
10 service.

11          Q.     Yes.

12          A.     Okay.

13          Q.     And can you tell us based on that what the debt  
14 service would be for 2010?

15          A.     For the series '06 and '07 it looks to be only  
16 interest payments of 3.5 million, and for the '08 series  
17 it also appears to be only interest payments of  
18 1.8 million.

19          Q.     And you don't have any reason to dispute the  
20 interest payments that are shown on that exhibit, do you,  
21 Ms. Jaress?

22          A.     No.

23          Q.     And could you turn to Exhibit A-31, please. It  
24 looks like this.

25          A.     So it's within the rejoinder testimony?

1 Q. No.

2 A. I have it.

3 Q. Great. And this has been previously admitted as  
4 the approval of construction and related documents for  
5 this Southwest Plant.

6 Could turn to the second page?

7 A. I'm there.

8 Q. And you see that is called the engineering  
9 certificate of completion?

10 A. Yes.

11 Q. And you see where it says, "I, Brad Richards,  
12 professional engineer, registered in the state of Arizona,  
13 have inspected the construction of the above described  
14 project and certify," and there are a bunch of  
15 certifications?

16 A. Yes.

17 Q. And it's signed by him, and he stamps it with his  
18 professional engineer seal?

19 A. Yes.

20 Q. And based on that do you believe that you would  
21 have to actually construct the facility in order to fill  
22 out this form?

23 A. Yes.

24 Q. Great. And could you turn further back in --  
25 there is a series of laboratory reports. I believe

1 Mr. Van Cleve asked some questions about them earlier in  
2 the hearing.

3 A. Okay.

4 Q. And I'm not going to ask you the details of the  
5 chemistry or anything, but is it your understanding that  
6 these reports are reports of tests done on the water that  
7 has been produced by those facilities?

8 A. Okay. The lab reports are for Terrazo, and the  
9 engineer certificate is for Terrazo. So I would assume  
10 that they are for the same facility.

11 Q. Great. And then do you see the last two pages  
12 are ADEQ approval of construction documents?

13 A. Yes.

14 Q. And in the final paragraph it states, "This  
15 approval of construction authorizes the owner to begin  
16 operating above described facilities."

17 A. Yes.

18 Q. Great. I think we are done with that one.

19 Would you agree with me that the applicants  
20 excluded the Southwest Plant from rate base in their  
21 initial application?

22 A. Yes.

23 Q. And that benefited ratepayers?

24 A. Yes.

25 Q. How much?

1           A.     Well, 32 million times 8 percent, and then  
2 grossed up for taxes plus depreciation and whatever other  
3 expenses.

4           Q.     All right. I won't make you do the math.

5           A.     Okay.

6           Q.     You are aware that before Christmas the  
7 Commission approved the APS rate case settlement?

8           A.     Yes.

9           Q.     And that settlement included a cost of equity of  
10 11 percent?

11          A.     Yes.

12          Q.     And would you agree with me that that is  
13 100 basis points over Global's and Staff's proposed cost  
14 of equity of 10 percent in this case?

15          A.     Yes.

16          Q.     You should have a document before you marked  
17 A-45.

18          A.     I do.

19          Q.     And can you verify that those are Staff responses  
20 to Global data requests that were prepared by you or under  
21 your direction?

22          A.     Yes.

23                 MR. SABO: Your Honor, on that basis I would move  
24 A-45.

25                 ALJ WOLFE: Is there any objection?

1           It's not all of the responses to the second  
2 series, is it?

3           MR. SABO: It's selected ones.

4           ALJ WOLFE: It's selected ones.

5           A-45 is admitted.

6           MR. SABO: Thank you.

7           (Exhibit A-45 was admitted into evidence.)

8           Q. (BY MR. SABO) And, Ms. Jaress, as long as we  
9 have that exhibit out, could you turn to Staff's response  
10 to 2.28.

11          A. I'm there.

12          Q. And this response indicates that APS has a  
13 transmission cost adjustor, a power supply adjustor, a DSM  
14 adjustor, and a renewable energy adjustor; is that  
15 correct?

16          A. Yes.

17          Q. And would you agree with me that all other things  
18 being equal a utility with four adjustors has less risk  
19 than one with no adjustors?

20          A. Yes.

21          Q. And APS settlement includes a provision treating  
22 developer funds as revenues?

23          A. I have heard that, yes. I haven't read the  
24 decision.

25          Q. Neither have I.

1 A. Okay.

2 Q. Based on that, would you agree with me that at  
3 least in the Commission's view funds from developers do  
4 not always have to be AIAC or CIAC?

5 A. Well, the funds from the developers were going to  
6 the utility, not the parent. And I don't know -- I don't  
7 know what the reasoning was behind that, if that was one  
8 of the settlement issues, how those funds would be  
9 treated. I really don't know enough about that to  
10 comment.

11 Q. So you are not familiar with the reasoning of how  
12 the Commission treated developer funds in that case?

13 A. That's correct.

14 Q. Thank you.

15 Would you agree with me that Global accounts for  
16 some growth management and planning costs at the parent  
17 level?

18 A. I don't know.

19 Q. Could you please turn to Staff's response to  
20 Global 2.5A?

21 A. I don't think -- 2.5?

22 Q. Yes.

23 A. I don't have it. I mean, it's not in A-45. Are  
24 they in -- if they are in order, I don't have it. I have  
25 2.41 and 2.42 and 3.4.

1 ALJ WOLFE: I believe it's more towards the  
2 beginning. I had the same problem. They are not --

3 THE WITNESS: Okay.

4 ALJ WOLFE: They are not numbered. So it's up at  
5 the front.

6 THE WITNESS: What is it after?

7 ALJ WOLFE: 2.4. It's after 2.3. There is no  
8 2.4.

9 THE WITNESS: I have 2.5.

10 Q. (BY MR. SABO) Great. And you state that some  
11 developer costs are included in rates for a typical  
12 utility?

13 A. Would you repeat that?

14 Q. Sure. In the response 2.5A you state that some  
15 costs providing service to developers are included in  
16 rates in a typical utility.

17 A. Yes.

18 Q. And would you agree with me that the matching  
19 principle is an important principle of ratemaking?

20 A. Yes.

21 Q. I thought that you would.

22 Could you define that in your own words?

23 A. Well, my understanding of the matching principle  
24 is it's a timing issue, that when expenses are incurred,  
25 the period that you recover expenses should be the same as

1 the period that you collect the revenues.

2 Q. So revenues should be matched with the expenses?

3 A. Yes.

4 Q. Thank you.

5 Could you please refer to Exhibit S-3.

6 A. Okay.

7 Q. And in particular I am thinking of page 38.

8 A. Oh, boy. Okay.

9 Q. And I asked Mr. Rigsby some questions about this,  
10 and I'm going to ask you the same questions.

11 That is a consolidated income statement, and that  
12 it also has the income statement broken out for some of  
13 the various Global utilities; is that right?

14 A. It's a consolidating income statement. It has  
15 what you said in it, but the purpose is to show, I guess,  
16 the interconnection among the companies with the parent  
17 and Global Water Management.

18 Q. Thank you.

19 And there is a column there marked GWR?

20 A. Yes.

21 Q. And that would stand for Global Water Resources?

22 A. Yes.

23 Q. And that is the parent entity?

24 A. Yes.

25 Q. And if you look under revenues, would you agree

1 with me that this shows that Global Water Resources had  
2 12.9 million in ICFA revenues for that year?

3 A. For 2008, yes.

4 Q. And then would you agree further down it also  
5 shows that Global Water Resources had 11.3 million in  
6 operating expenses in that same year?

7 A. Yes.

8 Q. And so what was their net operating income?

9 A. 2.3 million -- 2.4 million.

10 Q. And that net income is what would be available to  
11 invest in the subsidiaries or pay dividends or for other  
12 uses?

13 A. And to pay interest.

14 Q. Yes.

15 A. Yes.

16 Q. And is Staff proposing to impute the total ICFA  
17 revenues as CIAC or just the net income related to ICFAs?

18 A. The total.

19 Q. And by total, you mean total ICFA revenues?

20 A. Yes.

21 Q. Thank you.

22 Could you go back to Exhibit A-45.

23 A. Okay.

24 Q. And the very last page should be the response to  
25 Global 3.4.

1 A. Yes.

2 Q. Okay. And under subpart C you state that Staff  
3 did not consider the actual tax liability to the members  
4 generated by their interest in Global Water Resources,  
5 LLC; is that correct?

6 A. That's correct.

7 Q. And would you agree with me that the receipt of  
8 ICFA fees does generate a tax liability?

9 A. Yes.

10 Q. Thank you.

11 Let's do a brief hypothetical. Suppose a company  
12 has \$1 million in net income and is subject to a combined  
13 income tax rate of 40 percent.

14 Are you with me?

15 A. No, because the LLC is not subject to income  
16 taxes. The members are subject to income taxes.

17 Q. Well, for this hypo let's suppose it's a C corp.

18 A. Okay.

19 Q. And the company has \$1 million of net income.

20 A. Yes.

21 Q. And is subject to a 40 percent tax rate.

22 A. Yes.

23 Q. And it would pay \$400,000 in taxes; is that  
24 correct?

25 A. Yes.

1 Q And so then there would only be \$600,000 to pay  
2 for expenses or capital improvements or other things?

3 A It would be left to either reinvest in the  
4 company or pay out as dividends to the shareholders.

5 Q Or to cover expenses?

6 A No. You said net income, didn't you?

7 Q You are right. That is a good point.

8 All right. So we did that hypothetical based on  
9 a C corp. Now let's do the same hypothetical as an LLC.  
10 Okay?

11 So we have an LLC with \$1 million in net income,  
12 and the members of the LLC are subject to a 40 percent tax  
13 rate.

14 You with me so far?

15 A Yes.

16 Q And you would agree with me that those members  
17 would have to pay taxes on their net income related to  
18 their LLC interest?

19 A No. That tax liability -- the only way I would  
20 agree with what you said is if, in fact, that was their  
21 tax bracket and if, in fact, they have no other source of  
22 income or deductions or anything else. If their sole  
23 support was the LLC and they have no other interest of any  
24 kind, no other deductions, no other income, then I would  
25 agree that the members would have to pay the \$400,000.

1 Q Let me ask it this way.

2 The members would have to incur \$400,000 in tax  
3 liability, which may or may not be offset by various  
4 deductions and other things?

5 A Other things being other businesses, other LLCs,  
6 other employment, other investment income, yes.

7 Q Okay.

8 A Or investment losses.

9 Q Sure.

10 Let's say that in your retirement you meet  
11 Bill Gates and, you know, he tells you he has this  
12 exciting new computer technology. And maybe it has  
13 something to do with utility commissions, so he invites  
14 you to become a member of the LLC and go into business  
15 with him to develop that technology.

16 And Mr. Gates, you know, being keen on promoting  
17 this business, he plans on reinvesting all of the earnings  
18 of the LLC to help grow the business.

19 You with me so far?

20 A Yes.

21 Q If the LLC was successful and as a result you  
22 incurred a tax liability of \$3 million, how would you pay  
23 for that?

24 A Well, I would keep that in mind before I  
25 invested. It wouldn't be a surprise to me that all of a

1 sudden I have all of this money or I don't -- I have  
2 earnings, but I don't have the cash to pay the taxes.

3 Q. So would you say, possibly, Mr. Gates, you know,  
4 I'm sorry but I don't have the cash to cover these taxes  
5 so I can't help you out?

6 A. Well, I -- right. Exactly.

7 Q. Would another solution to that problem be, you  
8 know, you suggest to Mr. Gates, well, I could join you in  
9 this investment but we would need to distribute -- have  
10 distributions an amount equal to the tax liability?

11 A. And then even before I agreed to that I would  
12 take the risks that the company won't always have the  
13 funds there to help me pay the taxes, that you wouldn't  
14 have to start dissolving the company to help pay the  
15 members' income taxes.

16 But it is another way to do it.

17 Q. Great.

18 Last week on Monday you said that -- I'm  
19 paraphrasing, so tell me if I'm wrong -- even if Global  
20 could prove that all \$20 million went to pay taxes, that  
21 wouldn't lead you to change your position; is that  
22 correct?

23 A. And which position is that?

24 Q. Where the Commission should recognize an offset  
25 for taxes against any imputation of CIAC?

1 A. Right.

2 Q. And so is that your position, that even if Global  
3 could show that all 20 million went to pay those taxes,  
4 your position would not change?

5 A. Right.

6 Q. Turning back to Exhibit A-45, could you go to  
7 Staff's response to 2.41? And actually I believe it's  
8 supplemental response to 2.41.

9 A. Okay. I'm there.

10 Q. And under subpart b(v), or little (v), you agreed  
11 that the -- a utility Commission's economic policies can  
12 impact the structure of the utility industry in that  
13 state.

14 A. You are ahead of me.

15 Q. All right.

16 A. You want me to look at B what?

17 Q. And then little Roman numeral 5.

18 A. Okay. B(v).

19 Okay.

20 Q. And so there you state that the economic policies  
21 of a utility Commission can impact the structure of the  
22 utility industry in that state; is that correct?

23 A. Yes.

24 Q. Okay. And one of those economic policies would  
25 be the policies about acquisitions; is that correct?

1 A. Yes.

2 Q. And could you turn to Staff's response to 2.17.

3 A. Whereabouts is that one?

4 Q. It's about 10 or 12 pages in.

5 A. Okay. It's actually where it's supposed to be.

6 Q. Okay.

7 A. I'm there.

8 Q. Great.

9 And that response lists the number of water  
10 companies in Arizona; is that correct?

11 A. Yes.

12 Q. Okay. Could you tell me what is the Commission's  
13 policy, if any, with respect to acquisitions?

14 A. With respect to acquisitions?

15 Q. Yes.

16 A. That is pretty broad.

17 Q. Acquisitions of small water companies by larger  
18 water companies.

19 MR. VAN CLEVE: Objection. I guess, are you  
20 asking what is her understanding of the Commission's  
21 policy or are you indicating that she somehow speaks for  
22 the Commission as to what their policies are?

23 MR. SABO: I'm not suggesting that she speaks for  
24 the Commission. I'm asking whether there is any policy.

25 ALJ WOLFE: You may answer that question.

1 THE WITNESS: I'm not aware that there is written  
2 policy.

3 Q. (BY MR. SABO) Is there an unwritten policy?

4 A. I know that the orders approving purchases of  
5 water companies generally refers to the public interest.  
6 I know what the Commission looks at. I just don't know  
7 how to answer that question.

8 Q. Well, you referred to the public interest.

9 Generally speaking, in your experience has the  
10 Commission found that the public interest is served by the  
11 acquisition of small water companies by larger water  
12 companies to the extent you know?

13 A. In general.

14 Q. Okay. And likewise, can you tell me if Staff has  
15 a policy with respect to the acquisition of small water  
16 companies by larger water companies?

17 A. I have never heard it verbalized in that way,  
18 where there would be a meeting and the purpose of the  
19 meeting was for Staff to have a policy on acquisitions.  
20 Cases come in, and we work on the cases.

21 Q. So Staff does not have a policy?

22 A. A policy regarding the acquisition of a small  
23 water company by a large water company?

24 Q. Yes.

25 A. Is that what you are asking?

1 Q. Yes.

2 A. No, not that I'm aware of.

3 Q. Okay. Could turn to Staff's response to 2.18.

4 A. Okay.

5 Q. And in parts B and C it indicates that the public  
6 interest can be served by acquisitions of small companies  
7 by larger water companies in some cases?

8 A. Yes.

9 Q. Okay. And then in part D the question was --  
10 asked for a list of policies available to promote  
11 acquisitions of small water companies; is that correct?

12 A. Would you repeat that question?

13 Q. Sure. Let me just read what the question is.

14 It asks, "What policies does Staff believe are  
15 available to the Commission to promote the acquisition of  
16 small water companies by larger utilities or utility  
17 holding companies?"

18 A. Okay.

19 Q. That is the question?

20 A. Yes.

21 Q. And then in response, the only policy that you  
22 specifically mention was acquisition adjustments; is that  
23 correct?

24 A. Yes.

25 Q. And can you tell me how many times you are aware

1 of that the Commission has approved a positive acquisition  
2 adjustment relating to the acquisition of a small water  
3 company by a large water company or utility holding  
4 company?

5 A. Two.

6 Q. Two. Could you specify what those were?

7 A. I have already forgotten the second one. We  
8 spoke about it on Monday. Algonquin.

9 Q. Are you thinking the McLean Water Systems?

10 A. Yes.

11 Q. All right.

12 A. And previous to that -- it's just because I have  
13 been here so long -- there was a small company called Cool  
14 Wells in what is now -- in the Sun City area. And  
15 Citizens bought it. He had 11 customers. He was in three  
16 times a year to change the partnership, and Citizens  
17 bought it for something like \$10,000 and the Commission  
18 gave Citizens the acquisition adjustment.

19 Q. And I'm guessing that was some time ago?

20 A. Probably the early '90s.

21 Q. So from the early 90's to the present day, you  
22 are only aware of two examples of the Commission approving  
23 a positive acquisition adjustment for the acquisition of a  
24 small water company by a larger water company or utility  
25 holding company?

1 A. Yes.

2 Q. Okay. And how many utility acquisitions cases  
3 have you been involved in?

4 A. Many. Ten maybe over all the years.

5 Q. Okay. Have you ever testified in support of a  
6 positive acquisition adjustment for the acquisition of a  
7 small water company by a larger water company or utility  
8 holding company?

9 A. Just the Cool Well, and I don't think that was  
10 testimony. I think we did that in a Staff report.

11 Q. Okay. Could you turn to Staff's response to  
12 Global 2.22.

13 A. Okay.

14 Q. And in that answer you agreed that the Commission  
15 has a long practice of not allowing acquisition  
16 adjustments; correct?

17 A. Where are you? Oh, 2.22, not 2.20?

18 Q. 2.22. I'm sorry.

19 A. 2.22.

20 Q. Yes, 2.22.

21 A. I'm sorry about that.

22 Yes.

23 Q. Okay. You are somewhat familiar with the  
24 Commission's water task force back in the '90s?

25 A. Somewhat.

1 Q. Okay. And, you know, that was going on in like  
2 '99, 2000, that time period roughly?

3 A. Yes.

4 Q. Okay. Since that time to the present and  
5 excluding the acquisitions by Global, how many  
6 acquisitions of small water companies by larger water  
7 companies or utility holding companies have occurred to  
8 your knowledge?

9 A. It would be such a gross estimate as to be  
10 meaningless. I have no idea.

11 Q. Okay. Would you agree with the following  
12 statement: The only long-term hope for conservation  
13 measures is likely to be consolidation into large  
14 utilities?

15 A. Would you read it one more time.

16 Q. Sure. The only long-term hope for conservation  
17 measures at most of the state's troubled water companies  
18 is likely to be their consolidation into other larger  
19 utilities?

20 A. The only hope? I might not agree with "only."

21 Q. Okay. I have another statement I will ask you if  
22 you agree.

23 A. Who am I contradicting by the way?

24 Q. Well, I was going to tell you at the end.

25 A. Okay.

1 Q. Would you agree with the following statement: To  
2 date, rate premiums and acquisition adjustments have not  
3 been formally blessed by the Commission via either a  
4 rulemaking or policy statement?

5 A. Okay. I will agree with that.

6 Q. And would you agree with the following statement:  
7 There were no known instances of the Commission allowing a  
8 rate premium and the Commission has turned down proposed  
9 acquisition adjustments on several occasions?

10 A. I don't know about the rate premium, but the rest  
11 I agree with.

12 Q. Okay.

13 A. I'm not sure what the rate premium is.

14 Q. Would you agree with the following statement:  
15 Since the 1998 water task force was issued the Commission  
16 has only approved an acquisition adjustment once in a case  
17 involving a Class A utility acquisition of a small  
18 distressed company in southeastern Arizona?

19 A. Okay. I agree with that.

20 Q. Okay. Would it surprise you to learn that all of  
21 the above quotes are from a presentation Commissioner  
22 Mayes -- or I'm sorry -- Chairman Mayes gave to the  
23 University of Arizona on February 27, 2009?

24 A. Would it surprise me?

25 Q. That is the question.

1 A. No, it would not surprise me.

2 Q. Okay. I'm going to do a hypothetical again.

3 Let's suppose there's a utility company -- and we  
4 will call it Jaress Utility Company -- and it has a large  
5 CC&N. And all of its plant is funded by CIAC, and so  
6 therefore it has no rate base.

7 You with me so far?

8 A. Yes.

9 Q. All right. Let us suppose then that a developer  
10 offers \$10 million to Sabo Corp to buy Jaress Utility  
11 Company.

12 A. Okay.

13 Q. If Sabo Corp goes through with this deal, under  
14 your view, does Jaress Utility Company's rate base become  
15 negative \$10 million?

16 A. Yes.

17 Q. Okay. And in that example, did the original cost  
18 less depreciation of Jaress Utility Company's assets  
19 change from the moment immediately before the deal closed  
20 to the moment immediately after it closed?

21 A. No.

22 Q. And yet in that moment the rate base went from \$0  
23 down to negative \$10 million?

24 A. Yes.

25 Q. And if Sabo Corp then invests \$1 million into

1 Jaress Utility Company for new plant, would it earn a  
2 return on that plant?

3 A. I don't know. I didn't bring --

4 THE WITNESS: May I use one of your pens, since  
5 you have some extra?

6 ALJ WOLFE: Certainly.

7 THE WITNESS: Okay. Let's start it again, if you  
8 don't mind, because I didn't have anything to write on.

9 Q. (BY MR. SABO) Sure.

10 A. Okay. Start -- really start from the beginning.

11 Q. All right. Jaress Utility Company has a large  
12 CC&N.

13 A. Uh-huh.

14 Q. All of its plant is funded by CIAC. It has no  
15 rate base. A developer offers \$10 million to Sabo Corp to  
16 buy Jaress Utility Company.

17 Do you want me to go through all of those  
18 questions again or just the last one?

19 A. No, all of them.

20 Q. Okay. That is fine.

21 If Sabo Corp goes through with the deal, under  
22 your view does Jaress Utility Company's rate base equal  
23 negative \$10 million?

24 A. If its current rate base was zero after the  
25 10 million from Sabo -- Sabo is the developer -- yes, it

1 would be negative 10.

2 Q. And actually the hypo was there is some other  
3 developer -- let's call it Pozefsky Company -- offered  
4 Sabo Corp 10 million to buy Jaress Utility Company.

5 A. So Pozefsky gives Sabo \$10 million to buy my  
6 company?

7 Q. Yes.

8 A. Okay.

9 Q. And then under that hypothetical -- and Sabo Corp  
10 goes through with the deal, under your view would Jaress  
11 Utility Company's rate base equal negative \$10 million?

12 A. Yes.

13 Q. Okay. And then did the original cost less  
14 depreciation of Jaress Utility Company's assets change  
15 from the moment immediately before the deal closed to the  
16 moment immediately after it closed?

17 A. No. The assets didn't change, but the financing  
18 of the assets changed.

19 Q. So in that one moment, in your view, the rate  
20 base went from \$0 to negative \$10 million?

21 A. Yes.

22 Q. And so then the next question is, if Sabo Corp  
23 then invests \$1 million into Jaress Utility Company, let's  
24 say for a new well, would it earn a return on that plant?

25 A. Not until plant was over \$10 million.

1 Q Okay. And then going back to Exhibit A-45.

2 A Okay.

3 Q Please turn to Staff's responses to 2.20 and  
4 2.21.

5 A I'm there.

6 Q Okay. And these are responses to some  
7 hypotheticals on pages 13 and 14 of Mr. Rowell's  
8 testimony.

9 A Yes.

10 Q And in response to 2.21A you state that Staff has  
11 not seen the Commission treat acquisition premiums or  
12 acquisition adjustments any different whether they have  
13 been financed by investor capital or cost-free capital.

14 A Okay. I'm with you.

15 Now, what was your question?

16 Q Sure. In response to 2.21 you state, "Staff has  
17 not seen the Commission treat acquisition premiums or  
18 acquisition adjustments any different whether they have  
19 been financed by investor capital or cost-free capital."

20 A Okay.

21 Q That was your response?

22 A Yes.

23 Q And that response seems to indicate that the  
24 source of funds for an acquisition premium should not be  
25 considered; is that correct?

1 A. Would you repeat that?

2 Q. Sure. Based on that answer it seemed to me you  
3 were saying -- tell me if I'm wrong -- that the source of  
4 funds for an acquisition premium should not be considered,  
5 so the acquisition premium would be treated the same  
6 regardless of where the funds came from to pay for the  
7 acquisition premium.

8 A. I don't think that that is what I said. I said  
9 what I hadn't seen, that the Commission hadn't considered  
10 the source of the financing -- that they treated  
11 acquisition premiums the same regardless of the source of  
12 the financing. And I don't know where you are going from  
13 there.

14 Q. All right. So you are saying that you believe  
15 that the Commission should treat the acquisition premiums  
16 differently based on the source of funds but haven't seen  
17 the Commission do that?

18 A. One more time.

19 Q. All right.

20 MR. SABO: Your Honor, could I have that question  
21 read back?

22 (Requested portion of the record read.)

23 THE WITNESS: Okay. This -- it doesn't say that  
24 in this data request, but you are asking me my opinion?

25 Q. (BY MR. SABO) Yes.

1           A.     And it's, my opinion whether the Commission  
2 should consider the source of the funds when determining  
3 whether to allow an acquisition premium? Is that it?

4           Q.     Well, let's go with that question first.

5           A.     No, I don't think they should.

6           Q.     Now, in the hypo that we had talked about a  
7 little bit ago, there was a \$10 million acquisition  
8 premium.

9                     Would you agree with that?

10          A.     Yes.

11          Q.     So in that hypothetical, it seemed like the  
12 source of funds did matter to you?

13          A.     But it mattered in rate base. It didn't matter  
14 in the acquisition premium.

15          Q.     Well, you --

16          A.     We are talking about the deduction from rate  
17 base. We weren't talking about whether or not -- what the  
18 Commission should consider when deciding whether to allow  
19 an acquisition premium or not.

20          Q.     Well, an acquisition adjustment is a change to  
21 rate base; yes?

22          A.     Yes.

23          Q.     And I wasn't talking positive or negative. I was  
24 asking about either direction.

25          A.     Either way.

1 Q So should the Commission consider the other  
2 positively or negatively, the source of funds that funded  
3 an acquisition premium?

4 A No.

5 Q Okay. Is there any difference between -- going  
6 back to your hypothetical now -- is there any difference  
7 between reducing the rate base to negative 10 million by  
8 imputing CIAC or reducing the rate base to negative  
9 10 million through a negative acquisition adjustment?

10 A Negative is negative.

11 Q Yes.

12 A Those are two different scenarios that happen to  
13 result in the same result, have the same result.

14 Q Well, let me ask you this: Could the Commission  
15 recognize an imputation of CIAC of \$10 million so it's  
16 negative \$10 million but then recognize a positive  
17 acquisition adjustment of \$10 million so that the rate  
18 base goes back to zero?

19 A Yep, they could.

20 Q Is that something you would recommend?

21 A No. We are not -- the company hasn't asked for  
22 an acquisition adjustment.

23 Q Let's suppose that they did.

24 A No, I'm not going -- I just -- I haven't -- I  
25 would not -- that would not be my recommendation. That

1 would not be my recommendation.

2 Q. Okay. Keeping with the same hypothetical -- I'm  
3 glad that you wrote it down -- I think you said that the  
4 assets didn't change at the moment of closing but the  
5 financing of the assets did; is that correct?

6 A. Yes.

7 Q. So if all of the assets under our hypothetical  
8 had been funded by CIAC already; correct?

9 A. Yes.

10 Q. And so now under your view they have been  
11 financed by CIAC twice?

12 A. They were funded by CIAC originally. Then Sabo  
13 Corp wanted service from Jaress?

14 Q. Yes.

15 A. And in order to get that service, they are going  
16 require plant.

17 Now, the plant may not be there the day that they  
18 gave -- that Pozefsky gives Sabo \$10 million, but sooner  
19 or later that plant will be there to serve Sabo.

20 Sabo isn't investing in the utility. He doesn't  
21 get a return. He has no ownership. So he is just giving  
22 the money to Jaress for service.

23 And eventually that plant will be in and he will  
24 get his service. But if there was all the plant available  
25 that needed to serve him, then why would he give Jaress

1 \$10 million?

2 Q Well, I have some questions for you on that, but  
3 before we get there, let's just assume that that is what  
4 happened, no additional plant was needed but the  
5 developer, Pozefsky, gives Sabo Corp \$10 million to buy  
6 Jaress Utility Company.

7 Does that change any of your answers?

8 A Then your hypothetical wouldn't make any sense.  
9 That is the problem with hypotheticals, is you get so far  
10 from what -- from what we are talking about, and unless  
11 you can show me that these developers didn't need any  
12 plant, the developers that gave the ICFA fees to Global,  
13 then your hypothetical is just way -- we are not talking  
14 about the same case.

15 Q Well, I was trying to talk about a hypothetical,  
16 so let's suppose that that was the hypothetical, that no  
17 additional plant was needed but the developer Pozefsky  
18 gives Sabo Corp \$10 million to buy Jaress Utility Company.

19 A Okay.

20 Q Under that hypothetical, does that change any of  
21 your answers?

22 A No.

23 Q Okay. Would you agree with me that Staff has  
24 imputed all of the ICFA revenues as CIAC in this case?

25 A Yes.

1 Q. And so it has not allocated any of the ICFA  
2 revenues towards an acquisition premium?

3 A. That's correct.

4 Q. Why not have a 50/50 split between plant and  
5 acquisition premium?

6 A. Well, first that would be arbitrary. Second, I  
7 believe the developers gave Global the ICFA fees for  
8 service -- and for service you need plant -- and that the  
9 money ultimately went for plant, and the acquisition  
10 premium was not something I considered.

11 Q. You did not consider acquisition premium?

12 A. I did not consider it in my treatment of the ICFA  
13 fees.

14 Q. And is that recommendation specific to this case  
15 or is that a more general thing that you would expect to  
16 apply in future cases as well?

17 A. I have never seen ICFA fees before, so it is  
18 specific to this case.

19 Q. And if other utilities however started using  
20 them, would you have the same recommendation?

21 A. Yes.

22 Q. Okay. Could you turn to your response to 2.20C.

23 A. Okay. I'm there.

24 Q. In that response you state that the revenue  
25 requirement should remain the same regardless of the

1 source of financing of acquisition; is that correct?

2 A. This is C?

3 Q. Yes.

4 A. Okay. Would you ask me the question again?

5 Q. Well, sure. Let me use your exact words.

6 You state, "It is likely the Commission would  
7 come to the same result" -- and we are talking about  
8 revenue requirement -- "regardless of the use of CIAC to  
9 finance the acquisition"; is that correct?

10 A. That is what it says.

11 Q. Okay. Do you still agree with that statement?

12 A. I would like to look at what this question is  
13 referring to so if I need to amplify -- or if I need to  
14 say something in addition to what is in here.

15 Q. Sure. Absolutely.

16 MR. SABO: Your Honor, I note we haven't taken  
17 our morning break; perhaps we could do that and Ms. Jaress  
18 could pull those materials out and --

19 ALJ WOLFE: That is an excellent idea. Let's go  
20 ahead and take a break and come back here at 11:20.

21 MR. SABO: Thank you.

22 (Whereupon, a recess was taken from 11:09 a.m.  
23 until 11:25 a.m.)

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

25 Ms. Jaress, did you locate the testimony you were

1 looking at?

2 THE WITNESS: Yes, I did.

3 ALJ WOLFE: Mr. Sabo, go ahead.

4 MR. SABO: Thank you.

5 Q. (BY MR. SABO) So did you have any amendment to  
6 your answer?

7 A. Okay. We were back on 2. --

8 Q. 20C.

9 A. Okay. I have no change to my written response.

10 Q. Thank you.

11 And also in that same response you state that  
12 CIAC is traditionally used for construction and not for  
13 acquisitions; is that correct?

14 A. Yes.

15 Q. Thank you.

16 Let's go back to that hypothetical a little bit.  
17 And just so the record is clear, let's reset the  
18 hypothetical so we are all on the same page.

19 So the hypothetical is Jaress Utility Company has  
20 a large CC&N. All of its plant is funded by CIAC, and so  
21 therefore it has no rate base. The developer offers --  
22 Developer Pozefsky offers \$10 million to Sabo Corp to buy  
23 Jaress Utility Company.

24 And I had asked you previously did the original  
25 cost less depreciation of Jaress Utility Company's assets

1 change from the moment immediately before the deal closed  
2 to the moment immediately after.

3 Do you recall that?

4 A. Yes, I do.

5 Q. And I believe you said no, it did not change but  
6 the financing of the assets changed; is that correct?

7 A. Yes.

8 Q. Okay. In a stock purchase does the balance sheet  
9 of the utility change?

10 A. Yes -- well, what happens is the balance sheet of  
11 the acquirer then includes the company that was purchased.

12 Q. All right. Let's suppose sticking to the  
13 hypothetical that the purchase of Jaress Utility Company  
14 is a stock purchase.

15 Does that -- as a matter of accounting does that  
16 change the balance sheet of Jaress Utility Company?

17 A. I think it does.

18 Q. In what way?

19 A. Because the value of the assets change, and that  
20 would -- that's where the goodwill would be put, on the  
21 asset side, and basically a matching adjustment over  
22 inequity that reflects the new value of the plant.

23 Q. So in this case the balance sheet of the Jaress  
24 Utility Company would reflect \$10 million acquisition  
25 premium?

1 A. No. If on the asset side of the balance sheet it  
2 shows \$10 million of assets, then -- okay, and then Sabo  
3 put another 10 million in, then there would be 20 million  
4 on the asset side. And on the liability side would be an  
5 additional 10 million in equity. But the additional  
6 10 million in assets would be goodwill.

7 Now, that is on the -- then there is the  
8 ratemaking, which is a whole different situation.

9 Q. Yes. I think we've already agreed that the  
10 \$10 million in goodwill or acquisition premium would  
11 typically not be reflected in rate base.

12 A. Right.

13 Q. Okay. What about this situation? Let's say that  
14 Jaress Utility Company was 100 percent debt financed, so  
15 instead of all of their assets being financed by CIAC,  
16 they are funded by debt.

17 A. Okay.

18 Q. And then let's suppose they will come in for a  
19 rate case and they are like, wow, this debt is low-cost  
20 debt, we don't like the rate of return we will get, so  
21 they pay off the debt on the last day of the test year by  
22 injecting equity into the company in the same amount.

23 Would Staff approve a capital structure of  
24 100 percent equity in that scenario?

25 A. Probably not.

1 Q Let's talk a little bit about the differences  
2 between a stock purchase and asset purchase.

3 A Okay.

4 Q To your knowledge, is there a tax difference  
5 between those transactions?

6 A There is, but I don't know what it is.

7 MR. SABO: Could I have a moment, Your Honor?

8 ALJ WOLFE: Yes.

9 Q (BY MR. SABO) Ms. Jaress, we had talked a little  
10 bit about allocating the ICFA revenues to plant as CIAC as  
11 opposed to allocating it to acquisition premium.

12 Do you recall that?

13 A Yes.

14 Q And your recommendation was that it should be  
15 100 percent allocated to the plant; is that correct?

16 A Yes.

17 Q And would you agree that no matter what the  
18 circumstances, you would recommend applying 100 percent of  
19 the ICFA revenues to plant and zero percent to acquisition  
20 premium?

21 A Unless there is circumstances I haven't thought  
22 of, I agree.

23 Q Okay. I take it in general you are familiar with  
24 the Commission's rules regarding contributions in aid of  
25 construction?

1 A. Are you referring to 406?

2 Q. I am. And if you need a copy of it, we've got  
3 one.

4 A. I have 406.

5 Q. Okay. And do you also have the definitions in  
6 Rule 401?

7 A. No, I don't.

8 MR. SABO: Your Honor, if Mr. Patten could  
9 approach the witness.

10 ALJ WOLFE: Yes.

11 MR. PATTEN: I have extra copies if it would be  
12 helpful.

13 Q. (BY MR. SABO) Okay. So, Ms. Jaress, I will ask  
14 you some questions about the definitions in Rule 401.

15 And just so the record is clear, the full  
16 reference to that is Arizona Administrative Code  
17 R-14-2-401.

18 And that is where the definitions are located;  
19 correct?

20 A. Yes.

21 Q. And under definition No. 8 in that rule is the  
22 definition of contributions in aid of construction.

23 Do you agree with that?

24 A. Yes, I see that.

25 Q. And that definition is, "Funds provided to the

1 utility by the applicant under the terms of a main  
2 extension agreement and/or service connection tariff the  
3 value of which were not refundable."

4 Is that the definition?

5 A. Yes.

6 Q. Okay. So under this rule, CIAC is tied to either  
7 a main extension agreement or service connection tariff;  
8 is that correct?

9 A. Yes, service connection tariff.

10 Q. Okay. And then let's look at the definition of  
11 main extension. That should be No. 1.

12 A. Okay.

13 Q. And would you agree with me that it shows the  
14 definition of main extension is, "The main ancillary  
15 equipment necessary to extend the existing water  
16 distribution system to provide service to additional  
17 customers"?

18 A. Yes.

19 Q. Okay. So the purpose of the main extension  
20 agreement is to extend the distribution system?

21 A. That's the definition in the rules.

22 Q. Okay. So if CIAC is nonrefundable funds received  
23 under a main extension agreement, and if a main extension  
24 agreement applies to the extension of water distribution  
25 systems, can CIAC, under these definitions, be employed

1 for acquisitions?

2 A. Be employed for acquisitions?

3 Q. Yes, or used, if you don't like employed.

4 A. I suppose the Commission could allow some kind of  
5 waiver, but the definitions say what the definitions say,  
6 and they don't mention other uses other than the ones that  
7 they say.

8 Q. Okay. So in order to recognize the use of CIAC  
9 for an acquisition, the Commission would have to grant  
10 some kind of waiver or variance from these definitions?

11 A. Or put some language in the order that says  
12 something to that effect, yes.

13 Q. So is it Staff's position that developer-provided  
14 funds should be treated as CIAC regardless of what purpose  
15 they were used for?

16 A. Yes.

17 Q. Okay. Is it Staff's position that  
18 developer-provided funds can only be used for plant?

19 A. Well, we are getting into the fungibility issue  
20 again, but developer-supplied funds should be assumed to  
21 have been used for plant.

22 Q. Is that regardless of how they are actually used?

23 A. Well, it gets back to, as I said, the  
24 fungibility. They go in the same account as other  
25 revenues, so I don't know what else to say.

1 Q Well, let me try it again.

2 A Okay.

3 Q You said that developer-provided funds should be  
4 assumed to have been used for plant.

5 And my question then is: Is that regardless of  
6 how the funds were actually used?

7 A Well, I believe the funds ultimately either were  
8 or actually will be used for plant.

9 Q Well, what if, as a hypothetical, a developer  
10 provided funds and the funds were put into a segregated,  
11 separate, isolated bank account walled off from all the  
12 company's other bank accounts, and that bank account was  
13 used for some other purpose other than plant?

14 Under that scenario would it still be Staff's  
15 position that it should be treated as though it had been  
16 used for plant?

17 A Yes.

18 Q Okay.

19 A Because there would be no other reason to give  
20 the company money. If they didn't want to become an  
21 investor, if they didn't want to own the plant, then the  
22 only reason they would give the company money with no  
23 repayment and no interest would be for plant.

24 Q Okay. Let's do a couple more hypos, and these  
25 are ones that I asked Mr. Pozefsky -- or I'm sorry, not

1 Mr. Pozefsky, Mr. Rigsby on Monday.

2 Let us suppose a developer needs to develop some  
3 CC&Rs for their new development, and they recognize, you  
4 know, Global's good at developing policies for xeriscaping  
5 and so forth. So they come to Global and they say -- this  
6 is to Global parent -- they say to Global parent -- you  
7 know, maybe it's Mr. Hill -- and they say, Mr. Hill, we  
8 want to hire Global parent and pay them to develop CC&Rs  
9 for our new master-planned development. And let's say  
10 that the payment is \$100,000.

11 Under that scenario, would it be your view that  
12 the \$100,000 should be treated as CIAC?

13 A. Yes.

14 Q. That was the same answer that Mr. Rigsby gave.  
15 One more of these Rigsby questions.

16 Let's suppose that instead of developing CC&Rs  
17 the developer says to Mr. Hill, Mr. Hill, you know, we've  
18 noticed your company is very good at managing  
19 construction, and, you know, you don't seem to have a lot  
20 of construction going on right now, so we think it would  
21 be a great opportunity for you to manage the construction  
22 of the houses we are building so we would like to hire  
23 Global parent to be our construction manager and manage  
24 the building of these houses and we will pay you some  
25 amount of money to do that.

1           Would the money received for that purpose --  
2 under your view, should that money be used or treated as  
3 CIAC?

4       A.    No, because that is non-utility service.

5       Q.    So if funds from a developer are provided to a  
6 utility holding company for a non-utility service, then it  
7 should not be treated as CIAC?

8       A.    Yes.

9       Q.    Okay. Ms. Jaress, in your experience is the  
10 owner of a small water company often on the payroll of the  
11 small water company?

12      A.    Yes.

13      Q.    And sometimes they also have their relatives and  
14 friends on the payroll.

15      A.    I haven't seen -- I haven't seen relatives all  
16 that often. And whether people are friends, I have no  
17 idea. And even the relatives, you can only tell by their  
18 last name, and even that, not 100 percent of the time.

19           So I have heard of it, yes.

20      Q.    Okay. Here is another hypothetical.

21           A utility has a rate base of \$1,000.

22      A.    Okay.

23      Q.    I will let you get your pen out there.

24      A.    All right.

25      Q.    So the utility has a rate base of \$1,000, and the

1 utility owner pays himself a salary of \$50,000. And his  
2 spouse and relatives are also on the payroll for various  
3 jobs, and in total the spouse and relatives have an annual  
4 salary of \$100,000.

5 A. Okay.

6 Q. All right. Under that scenario, is it likely  
7 that the owner would sell for the book value of \$1,000?

8 A. Well, it would depend on the circumstances. If  
9 he did, it's doubtful that that arrangement could  
10 continue.

11 Q. By that arrangement, you mean him and his spouse  
12 and relatives receiving that salary?

13 A. Right, because \$1,000 of rate base, everything  
14 else held constant, indicates a small company.

15 Q. Yes.

16 A. And for a very small company to have \$100,000 of  
17 salaries is unusual. So whoever he sold the company to  
18 probably wouldn't keep that kind of payroll.

19 Q. So under that scenario, the owner would not be  
20 likely to sell because he would only get \$1,000 and he  
21 would lose his salary and the salary to his spouse and so  
22 forth?

23 A. Yeah. Yes.

24 Q. Okay. And the same would be the case even at ten  
25 times book value, which would be \$10,000?

1 A. Yes.

2 Q. So then to convince the owner to sell, the buyer  
3 would have to pay much more than book value in this  
4 hypothetical?

5 A. To convince the owner to sell? If the owner  
6 wanted to maintain the income that he had previously  
7 gotten from the water utility, yes.

8 Q. Would you agree that the net present value of an  
9 income stream can be used to value a business?

10 A. Yes.

11 Q. Let us suppose that, the same hypothetical, so  
12 the combined annual salary is \$150,000.

13 A. Okay.

14 Q. Subject to check, would you agree that the net  
15 present value of \$150,000 per year over 10 years, and  
16 assuming the 6 percent discount rate, is \$1.1 million?

17 A. I will agree with that.

18 Q. Okay. And, Ms. Jaress, you had mentioned there  
19 are some -- you know, \$1,000 is a pretty small rate base  
20 for a company?

21 A. Yes.

22 Q. And that could come about because the company  
23 only has \$1,000 in assets; correct?

24 A. Yes.

25 Q. Or it could be that the company has 10 million in

1 assets but \$999,000 was funded in advances or  
2 contributions?

3 A. Yes.

4 Q. Okay. Last week Monday you said that one of the  
5 effects of this decision that Staff has made to impute  
6 CIAC and create a negative rate base for the Global  
7 acquisition would be to lower the price of water  
8 companies.

9 Did you say something along those lines?

10 A. Well, I don't remember if I said it, but it  
11 doesn't sound wrong.

12 Q. Okay. So regardless of whether you said it, you  
13 would agree that -- you agree with that statement?

14 A. That it could contribute to lower prices?

15 Q. Yes.

16 A. Yes.

17 Q. And I think on Monday you did express concern  
18 that if there was no imputation of CIAC, that that could  
19 lead to an increase in price of water companies?

20 A. Okay. I have to try to put this in context.

21 Could you put it in context for me?

22 Q. Okay. Let's see here. Well, let's move on past  
23 that. I couldn't find it in my notes as to what the  
24 context was. I suppose we can all look at the transcript  
25 when it comes out.

1           Would you agree with me that generally speaking  
2 the price of something -- as the price of something is  
3 driven down -- can I stop and start that over again?

4           A.     Sure.

5           Q.     Sure. Generally speaking if the price of  
6 something is driven down, does that lead to more supply or  
7 less supply?

8           A.     Less.

9           Q.     And if the price paid for troubled water  
10 companies are driven down through policies of the  
11 Corporation Commission, would that make owners of those  
12 troubled water companies more or less interested in  
13 selling their companies?

14          A.     The problem with that question is the  
15 connection -- there is a connection to the treatment of  
16 ICFA fees as CIAC.

17          Q.     Yes.

18          A.     So in that instance, if what you are saying is,  
19 okay, if Global gets a decision from the Commission  
20 calling ICFA fees CIAC, it will be tougher for them -- no.  
21 I'm kind of lost.

22          Q.     Well, let's suppose that that happens, the  
23 Commission adopts your recommendation, imputes all of  
24 those funds as CIAC.

25                 Under that scenario, Global would be willing to

1 pay less for an acquisition than it would be otherwise;  
2 correct?

3 A. Well, they would just have to -- they would have  
4 to get financing elsewhere. They would have to get -- if  
5 the ICFA fees are used for plant, then I don't see the  
6 connection with price of buying a utility.

7 Q. Well, you said that Global would have to obtain  
8 other financing; correct?

9 A. They would have to obtain financing.

10 Q. Okay. And the ICFA financing, as you have  
11 indicated, doesn't carry any return on it; correct?  
12 Global doesn't have to pay the developers any interest?

13 A. That's correct.

14 Q. Whereas if Global went to a bank and said, please  
15 lend me money to buy a water company, they would have to  
16 pay interest on that; correct?

17 A. That's correct.

18 Q. And if they went to an equity investor and said,  
19 can you give me -- you know, make an equity investment so  
20 we can buy this water company, the equity investor would  
21 be expecting some type of return?

22 A. Yes.

23 Q. So in the scenario of a -- let's say we have a  
24 water company with no rate base but the owner wants  
25 \$10 million -- this is the Jaress Utility hypo again --

1 Global would have to find some way of paying that  
2 \$10 million, correct, if they wanted to buy the company  
3 and that was the price the owner wanted?

4 A. If they wanted to enrich that owner by that much  
5 money, then they would have to get financing.

6 Q. Yes. But let's say they take out a loan for  
7 \$10 million to do that.

8 They are not going to be earning any return on  
9 their \$10 million, correct, because the rate base is still  
10 zero or negative 10 million or something; right?

11 A. Yes.

12 Q. And likewise, if they get some money from an  
13 equity investor, the same would be true; they are not  
14 earning any return but they -- the equity investor would  
15 still want a return?

16 A. That's correct.

17 Q. So under those scenarios, Global would be less  
18 willing to pay the \$10 million; would you expect?

19 A. Yes.

20 Q. Okay. So having established that, under those  
21 situations Global would be less willing to pay a higher  
22 amount? If the Commission adopts your recommendation, you  
23 would agree with me then that Global would be less  
24 willing -- less likely to make these type of acquisitions  
25 at the prices they have done so far?

1           A.     Yes, at the price they have done so far.

2           Q.     And if the prices were to be lower, would the  
3 owners of those water companies be more or less interested  
4 in selling?

5           A.     It would depend on the market.  If no one else is  
6 making an offer, they might be willing to take less.  It  
7 depends.  If Global is the only person out there willing  
8 to pay four times book and Global decides not to pay four  
9 times book anymore, then it will depend on what they are  
10 willing to pay and what the owner is willing to take.

11          Q.     Let's suppose the owner had been anticipating  
12 this four times book that you mentioned, and then the  
13 Commission's decision on ICFAs comes out and Global comes  
14 back and says, you know what, we can only afford to pay  
15 book value now.

16                     Under that scenario, would the owner be less  
17 motivated to sell or more motivated to sell?

18          A.     Well, it would be the same circumstances.  If  
19 Global was the only game in town and the owner wanted to  
20 get out of the water business or wasn't providing good  
21 service or complaints, there were lots of complaints  
22 coming in and he just wanted out, then he might take book.

23          Q.     That wasn't my question.  My question was:  Under  
24 those two scenarios, book or four times book, under which  
25 of those scenarios does the seller have more motivation to

1 sell?

2 A. Four times book.

3 Q. Thank you.

4 If the Commission does not allow an acquisition  
5 adjustment, their rate base doesn't change; correct?

6 A. Yes.

7 Q. And therefore if an acquisition adjustment is not  
8 allowed, the ratepayers -- the rates should stay the same;  
9 is that correct?

10 A. Everything else held completely constant -- and  
11 that is a lot to hold constant -- yes.

12 Q. That being the case, is Staff concerned with the  
13 prices being paid for small water companies or not? In  
14 other words, does Staff care if it's book or four times  
15 book or ten times book as long as the ratepayers aren't  
16 paying for it through an increased rate base?

17 A. Well, I don't know about the word care.  
18 Certainly in the computation during a rate case, normally  
19 the price paid isn't an issue, but I wouldn't say that we  
20 didn't care. Because if somebody pays way over book and  
21 there is financing connected with that, where the revenues  
22 from the company that was purchased won't be great enough  
23 to repay that financing, that would be a concern.

24 But in a rate case normally Staff doesn't address  
25 the acquisition adjustment, other than recommending

1 against it, if it's necessary.

2 Q. You had mentioned a possible concern about the  
3 interest or, you know, return paid on the acquisition  
4 premium.

5 Let's suppose the owner of the utility company,  
6 the new owner, doesn't have to pay such a return.

7 Under that scenario, does Staff really care  
8 whether it's book or four times book or ten times book?

9 A. Well, the only -- you mean the price?

10 Q. Yes.

11 A. No.

12 MR. SABO: Your Honor, could I have a moment?

13 ALJ WOLFE: Yes.

14 Q. (BY MR. SABO) Ms. Jaress, can you go back to  
15 A-45, those data requests?

16 A. Okay.

17 Q. And can you turn to Staff's response to Global  
18 2.13?

19 A. Okay.

20 Q. And in part A you agreed that some of the ICFA's  
21 contained provisions requiring the ICFA fees to be used to  
22 purchase utilities; correct?

23 A. Yes.

24 Q. Okay. Could you please turn to your surrebuttal  
25 schedule LAJ-2?

1       A.     I don't have them.  I have surrebuttal, so it  
2 will be up here.

3       Q.     Yes, it would be Exhibit S-11.

4       A.     Okay.  I'm there.

5       Q.     Thank you.

6             And this exhibit shows how have allocated the  
7 ICFA fees?

8       A.     Yes.

9       Q.     Okay.  And you have not allocated any of the  
10 ICFAs to acquisitions; correct?

11      A.     Correct.

12      Q.     Do you have Mr. Hill's rejoinder testimony?

13      A.     Yes.

14      Q.     You recall there is a number of exhibits on the  
15 back of that?

16      A.     Did you ask me a question?

17      Q.     Yes.  There are a number of exhibits on that;  
18 correct?

19      A.     Yes.

20      Q.     And one of those exhibits showed -- I'm thinking  
21 of Exhibit 2 --

22      A.     Would you describe it for me?

23      Q.     Sure.  They all have Wells Fargo on the top of  
24 them.

25      A.     Okay.

1 Q. And could you turn to page 3 of that exhibit?

2 A. Okay.

3 Q. And on July 11, 2006 it shows two wire  
4 transfers -- incoming wire transfers, one of approximately  
5 4.9 million and the other of 2.1 million; correct?

6 A. Yes.

7 Q. And it shows then the total of those two incoming  
8 wire transfers is \$7.1 million approximately?

9 A. Yes.

10 Q. And then a little lower on that page on the same  
11 date, July 11, 2006, it shows a payment of \$7.1 million;  
12 correct?

13 A. Yes.

14 Q. And Mr. Hill's testimony was that those two wire  
15 transfers were from the developers in the West Maricopa  
16 service area; correct?

17 A. Yes.

18 Q. And his testimony was also that this \$7.1 million  
19 payment was to the former owners of West Maricopa Combine?

20 A. Yes.

21 Q. Okay.

22 A. But you really need to look at the previous page,  
23 where it also shows on the same day a loan deposit for  
24 \$18.4 million. So there is money other than what came in  
25 from the developers.

1 Q. Your position is that all ICFA fees were used to  
2 pay for plant; is that correct?

3 A. Yes.

4 Q. So let's use water utility of Greater Tonopah as  
5 an example.

6 You have allocated 7 million in ICFA fees to  
7 Water Utility of Greater Tonopah; is that right?

8 A. Yes.

9 Q. And do you believe that the entire \$7 million was  
10 used to pay for Water Utility of Greater Tonopah's plant?

11 A. Was or will be, yes.

12 Q. And then turning back to your surrebuttal  
13 schedule -- well, sticking to that answer, you said was or  
14 will be used.

15 I guess my question is: Do you believe that the  
16 entire \$7 million was used to pay for Water Utility of  
17 Greater Tonopah's plant?

18 A. Well, I have to explain because it couldn't pay  
19 for plant because plant -- there wasn't \$7 million of  
20 plant.

21 But the money came from developers, and right  
22 from the beginning I thought the money was for plant.  
23 Now, the problem is that the ICFA contracts are from, you  
24 know, specific developers who want to develop in specific  
25 areas. And so that is how -- instead of just allocating

1 by plant, taking the total ICFA's and allocating them  
2 among all the utility subsidiaries, I put them into the  
3 area where the money came in.

4 Now, these contracts that I show a LAJ-2 in my  
5 surrebuttal are contracts with developers within the  
6 service territory of those companies. There were no ICFA  
7 contracts that came in for Valencia or Valencia Town or  
8 Willow Valley. They all came in for that huge Water  
9 Utility Greater Tonopah service territory, and the  
10 developers that wanted to build homes in that area entered  
11 those ICFA agreements so they could get service in that  
12 area.

13 Now, whether Global took the money and just  
14 handed it over to John Mihlik, just, you know, re-sign the  
15 check and handed it over to him, or took the money and  
16 bought plant for Willow Valley, or took the money and gave  
17 it to their members, the money came from a developer in  
18 that area for service, and ultimately there will be plant  
19 to serve the developer.

20 So I imputed those ICFA fees to the areas where  
21 the developers were. And certainly I agree that there was  
22 not \$7 million of plant in Water Utility of Greater  
23 Tonopah, but the only other alternative to the way I did  
24 it is allocate that to somebody else's plant, which to me  
25 would not be a good outcome. At least this keeps it at

1 home, keeps the money where the money came in.

2 Q. All right. And just so the record is clear for  
3 your answer, Mr. Mihlik is the former owner of the West  
4 Maricopa Combine?

5 A. Yes.

6 Q. And so then that was pretty long answer.

7 But I think in there I heard the answer to my  
8 question: Do you believe that the entire \$7 million was  
9 used to pay for Water Utility of Greater Tonopah's plant?  
10 I think I heard the result of that answer is you believe  
11 the answer to that question is no.

12 A. That's correct.

13 Q. Okay. And, in fact, in your schedule LAJ-2  
14 surrebuttal you showed Water Utility of Greater Tonopah's  
15 net plant as being \$4.7 million?

16 A. On LAJ-2?

17 Q. Yes. Do you want me to point it out to you?

18 A. Yes.

19 Q. All right. The first utility is the Water  
20 Utility of Greater Tonopah on the top right, and then it  
21 says, "ICFAs collected by contract," and then there are  
22 some specific contracts. And then you allocate between  
23 the two utilities out there, Hassayampa Utility and Water  
24 Utility of Greater Tonopah; correct?

25 A. Yes.

1 Q And the allocation is based on their net plant;  
2 correct?

3 A There is 4.7. Okay. I see it.

4 Q So that schedule does show that Water Utility of  
5 Greater Tonopah's net plant is \$4.7 million; correct?

6 A That's correct.

7 Q And we've established you are imputing \$7 million  
8 in ICFA fees as CIAC against that 4.7 million in net  
9 plant; correct?

10 A Yes.

11 Q Okay. And understand that scenario then Water  
12 Utility of Greater Tonopah would have a negative rate  
13 base?

14 A That's correct.

15 Q And you would agree with me that some of Water  
16 Utility of Greater Tonopah's plant existed before Global  
17 purchased that utility?

18 A Yes.

19 Q And therefore that, the plant that existed before  
20 the purchase, could not have been financed with ICFAs;  
21 correct?

22 A Correct.

23 Q How could \$7 million be used to purchase  
24 \$4.7 million worth of plant?

25 A I think I answered that already. I said that it

1 didn't pay -- that the \$7 million was more than the plant.

2 Q. Okay. If Water Utility of Greater Tonopah's net  
3 plant is only \$4.7 million, isn't \$4.7 million the maximum  
4 that could have been spent on Water Utility of Greater  
5 Tonopah's plant?

6 A. Yes.

7 Q. Okay. And can you turn to Exhibit A-5, please.  
8 That should be the rate application for Water Utility of  
9 Greater Tonopah.

10 ALJ WOLFE: Off the record.

11 (Discussion off the record.)

12 ALJ WOLFE: We will come back here at 1:35.

13 (Whereupon, a recess was taken from 12:23 p.m.  
14 until 1:35 p.m.)

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

16 Mr. Sabo.

17 MR. SABO: Thank you, Your Honor.

18 Q. (BY MR. SABO) Good afternoon, Ms. Jaress.

19 A. Hi.

20 Q. Do you have Exhibit A-5, the rate application for  
21 Water Utility of Greater Tonopah?

22 A. Yes, I do.

23 Q. And can turn to Schedule E-1 of that application?

24 A. For Greater Tonopah or consolidated?

25 Q. Greater Tonopah.

1 A. Okay. I'm there.

2 Q. Okay. Thank you.

3 And would you agree with me that it shows that of  
4 the 4.7 million in net plant, 1.2 million was paid for by  
5 advances?

6 A. Yes.

7 Q. Thank you. Let's turn to Santa Cruz and Palo  
8 Verde.

9 Can you go back to your surrebuttal schedule  
10 LAJ-2?

11 A. Is this just the testimony or the exhibit?

12 Q. The exhibit to your surrebuttal testimony.

13 A. Okay. Okay.

14 Q. And on that schedule you show that Palo Verde has  
15 net plant of 108.9 million?

16 A. Yes.

17 Q. And the reference you list there is Schedule E-1?

18 A. Yes.

19 Q. And can please turn to Exhibit A-1, the rate  
20 application for Palo Verde at schedule E-1.

21 A. Yes, I'm there.

22 Q. And the \$108.9 million figure that you reference  
23 can be found on the line "total fixed assets (net)"?

24 A. Yes.

25 Q. And then lower on the same schedule, does it also

1 show 27.4 million in advances?

2 A. Yes.

3 Q. Thank you.

4 And could you turn to or get out schedule or  
5 Exhibit A-2, the rate application for Santa Cruz?

6 A. Okay.

7 Q. And briefly going back to your surrebuttal  
8 schedule LAJ-2, you show Santa Cruz has net plant of  
9 105.1 million?

10 A. Yes.

11 Q. And you reference Schedule E-1?

12 A. Yes.

13 Q. And then turning to Exhibit A-2, the rate  
14 application for Santa Cruz at Schedule E-1, the  
15 \$105.1 million figure is on the line "total fixed asset  
16 (net)"?

17 A. Yes.

18 Q. And that Schedule E-1 also shows 33.7 million in  
19 advances?

20 A. Yes.

21 Q. Thank you.

22 There should be a document up there marked  
23 Exhibit A-46, ACC Decision 62993.

24 A. I have it.

25 Q. And would you agree with me that that is the

1 Commission's decision in the water task force docket?

2 A. Yes.

3 MR. SABO: Your Honor, I move administrative  
4 notice of A-46.

5 ALJ WOLFE: Administration notice is taken.

6 MR. SABO: Thank you.

7 Q. (BY MR. SABO) Ms. Jaress, can you turn to  
8 page 3, finding of fact 10 of Exhibit A-46.

9 A. Okay.

10 Q. And you should see a list of bullet points there.  
11 Do you see that?

12 A. Yes.

13 Q. And those are conditions or proposed conditions  
14 for acquisition premiums, or rather acquisition  
15 adjustments?

16 A. Yes, I see that.

17 What was the question?

18 Q. That was all I asked so far. I asked if you saw  
19 it, and you said yes.

20 So next what I would like to do is go through  
21 each bullet and I will read the bullet point and you can  
22 tell me whether you agree with that bullet point or not as  
23 a condition for an acquisition adjustment.

24 The first one is, the acquisition will not  
25 negatively affect the viability of the acquirer.

1 A. That is the second one.

2 Q. I'm sorry. The first one I wanted to ask you  
3 about is, the acquisition will not negatively affect the  
4 viability of the acquirer.

5 Do you agree with that as a condition?

6 A. Well, if the Commission had determined that they  
7 wanted to allow an acquisition premium in rate base, then  
8 that would be a great condition.

9 Q. Okay.

10 A. I would agree with that condition.

11 Q. And then the next bullet point I would like to  
12 ask you about is, the acquired system customers will  
13 receive approved service in a reasonable time frame.

14 Do you agree with that one?

15 A. Under the same circumstances, yes.

16 Q. And likewise, the next one I wanted to ask you  
17 about, "The purchase price is fair and reasonable (even  
18 though that price may be more than the original cost less  
19 depreciation book value) and conducted through  
20 arm's-length negotiation."

21 Do you agree with that condition?

22 A. That is a fine condition.

23 Q. The next one I want to ask you about, "The  
24 recovery period for the acquisition adjustment should be  
25 for specific time, e.g., 20 years."

1 A. Well, if you are going to allow an acquisition  
2 adjustment, you have to set a period that it's amortized  
3 after. So 20 years is fine.

4 Q. Okay.

5 A. Well, it just says e.g., 20 years. So it's not  
6 really recommending 20 years.

7 Q. I agree with you.

8 You agree there should be some specific time set?

9 A. Yes.

10 Q. Okay. And then the last one I wanted to ask you  
11 about, "The acquired company is class D or E."

12 A. I don't know. I don't know why that is in there.  
13 I don't see that it's necessary to define the class.

14 Q. Okay. Would you turn to the next finding of  
15 fact, finding of fact 11?

16 A. Okay.

17 Q. And do you see the statement "The public interest  
18 determination should account for the capital investments  
19 needed for the customers to receive improved service and  
20 the cost saving the company is likely to realize through  
21 economies of scale."

22 A. I see that.

23 Q. And do you agree with that?

24 A. I agree with it as something that you would need  
25 to look at the capital investments -- I don't know. The

1 wording is -- the public interest determination should  
2 account for the capital investments, I guess that means it  
3 should consider the capital investment, and that would be  
4 a reasonable thing to consider when you are determining  
5 public interest.

6 Q Okay. And then in the next sentence it lists  
7 possible methods, other methods of encouraging  
8 consolidation, such as rate of return, premiums, or  
9 deferred accounting orders; is that right?

10 A I see that.

11 Q To your knowledge, how often has Staff  
12 recommended either of those alternative methods in  
13 acquisitions?

14 A There may have been a deferral when -- when  
15 Arizona-American acquired Citizens there wasn't a  
16 determination. Arizona-American wanted a determination  
17 that they would get the acquisition adjustment in rate  
18 base, and the Commission said we are not looking at that  
19 now but we will give you an opportunity to ask for it  
20 again in a future rate case.

21 Now, that may cause some kind of accounting  
22 deferral in the meantime; I don't know. But so when you  
23 say deferral, that's what came to mind, deferral  
24 accounting orders.

25 Q Okay. And, to your knowledge, was

1 Arizona-American ever successful in getting that  
2 acquisition premium?

3 A. I don't think they were.

4 Q. And other than that possible example, to your  
5 knowledge, how often has the Commission approved either  
6 those methods in acquisitions?

7 A. I don't know of any.

8 Q. Thank you.

9 Before lunch we were talking about John Mihlik,  
10 the owner of Water Utility of Greater Tonopah, or its  
11 parent company anyway.

12 A. Yes.

13 Q. Former owner.

14 Why wouldn't the developers just pay Mr. Mihlik  
15 or his holding company for the infrastructure rather than  
16 giving the money to Global?

17 A. I do not know.

18 Q. Last week on Monday you said that the only reason  
19 developers would want to have Global acquire a water  
20 company is in order to receive service from Global.

21 Can you tell us why a developer might want to  
22 receive service from Global rather than an existing water  
23 company?

24 A. If they thought they could -- that the plant that  
25 they needed would be installed faster by Global than the

1 current owner.

2 Q. Okay. Do you think developers are aware or  
3 unaware of the Commission's ruling in the Woodruff case  
4 that integrated water/wastewater companies are preferred?

5 A. What was the beginning of the question?

6 Q. Sure. Do you think developers are aware or  
7 unaware of that?

8 A. I think they are aware.

9 Q. Okay. Do you think developers are aware or  
10 unaware of Commission's recent prohibition limitations on  
11 the use of groundwater for golf courses?

12 A. I think they are aware.

13 Q. Do you think developers are aware or unaware of  
14 the impact of long-term water supplies on the viability of  
15 their development projects?

16 A. Aware.

17 Q. Do you think developers are aware or unaware if  
18 the water company in their -- that serves their  
19 development had serious health and safety issues, such as  
20 causing deaths to people? Would they beware or unaware of  
21 that?

22 A. If the company that they wanted service from had  
23 caused deaths of people?

24 Q. Yes.

25 A. I would -- they might be aware of it. Sometimes

1 things like that don't always get out.

2 Q Yeah, I was thinking of Rose Valley as an example  
3 a couple years ago.

4 A I was thinking of Far West.

5 Q There are probably a lot of examples  
6 unfortunately.

7 Do you think Global has been successful with  
8 implementing its total water management platform?

9 A Would you repeat that?

10 MR. SABO: Sure.

11 Could I have that read back?

12 (Requested portion of the record read.)

13 THE WITNESS: I don't know.

14 Q (BY MR. SABO) Are you aware of any other Arizona  
15 utility that has reduced groundwater consumption by  
16 40 percent in the communities it serves?

17 A I don't know how I would find that out, so I  
18 don't know.

19 Q Okay. Do you think developers are aware or  
20 unaware of the water supply issues in the areas they want  
21 to develop?

22 A Probably most are aware.

23 Q Do you think developers are interested in  
24 achieving 100-year assured water supplies?

25 A Yes.

1 Q To your knowledge, are developers in active  
2 management areas prohibited from selling homes without  
3 100-year assured water supply?

4 A In a roundabout way, yes.

5 Q Okay. Do you know if the Arizona Department of  
6 Water Resources supports or opposes Global's total water  
7 management approach?

8 A I don't know.

9 Q Are you aware of whether the director of the  
10 Arizona Department of Water Resources came before the  
11 Commission in November explicitly supporting Global's  
12 total water management plan?

13 A I don't know.

14 Q Do you know whether the Arizona Department of  
15 Environmental Quality submitted a letter to the Commission  
16 in support of Global's total water management plan?

17 A I don't know.

18 Q Would you agree with the following statement:  
19 "There is no such thing as wastewater, just wasted water"?  
20 If you want to know who it's from, it's Ben Grumbles, the  
21 director of ADEQ.

22 A Well, that is the kind of statement that is kind  
23 of a play on words and may not be completely accurate.  
24 It's meant more for impact, I think, than there is no such  
25 thing as wastewater.

1 Q. So you disagree with that statement?

2 A. I would have to disagree with that.

3 Q. Okay. Do you know whether the Arizona Department  
4 of Water Resources cited Global's total water management  
5 approach as being necessary to solve water supply issues  
6 in Western Maricopa County?

7 A. No, I do not know that.

8 Q. Let's suppose that they did do that.

9 Would their support have any effect on whether  
10 you believe Global's acquisition of West Maricopa Combine  
11 is in the public interest?

12 A. ADWR is -- what they do doesn't look at the total  
13 public interest. What they look at is the resource of  
14 water and the allocation of that resource. They don't  
15 look at financial concerns, as far as I know.

16 So even though what they look at is important,  
17 it's narrower than what I think the Commission looks at.

18 MR. SABO: Could I have a moment, Your Honor?

19 ALJ WOLFE: Yes.

20 MR. SABO: Your Honor, if we could have a moment,  
21 we will hand out another exhibit.

22 ALJ WOLFE: Okay.

23 Q. (BY MR. SABO) Ms. Jaress, do you have a document  
24 before you marked A-47?

25 A. Yes, I do.

1 Q Are these responses to data requests submitted by  
2 Global to Staff?

3 A Yes.

4 Q Last week you complained about the amount of time  
5 you had to review Exhibit A-33, the acquisition summary.

6 Do you recall that?

7 A Yes.

8 Q So I thought we would review some of the  
9 information Staff had.

10 On Exhibit A-47 could you -- does that exhibit  
11 show the amount paid for the Sonoran or 387 acquisition?

12 A Wait a minute. I want to see A-33.

13 Q Yes.

14 A Okay.

15 Q So the question is, on Exhibit A-47, the response  
16 to LAJ 1-4, does that show the purchase price for the  
17 Sonoran or 387 acquisition?

18 A No. A-47 shows the ICFA funds that Global says  
19 was used to purchase Sonoran and West Maricopa Combine.

20 Q Well, it states, doesn't it, "Global parent has  
21 made the following payments related to acquisitions for  
22 each of the following rate case companies"?

23 A Yes.

24 Q So that would indicate that that is the purchase  
25 price or payments made to date in any event?

1 A. The payments made to date. The payments made to  
2 date, yes.

3 Q. And likewise it also shows the payments made to  
4 date for the West Maricopa Combine acquisition?

5 A. Yes.

6 Q. And in that same exhibit, A-47, on the next page  
7 the response to LJ 7.2, does that show the balance of the  
8 Santa Cruz and Palo Verde acquisition cost after  
9 amortization?

10 A. Well, with zero, yes.

11 Q. Okay. And then the final page of Exhibit A-47  
12 responds to LAJ 7.5.

13 Does that refer to where you can find the  
14 purchase price for Balterra?

15 A. Yes.

16 Q. Which was in a confidential attachment?

17 A. Yes.

18 MR. SABO: Your Honor, I would move Exhibit A-47.

19 ALJ WOLFE: Is there any objection?

20 A-47 is admitted.

21 (Exhibit A-47 was admitted into evidence.)

22 MR. SABO: Thank you.

23 Q. (BY MR. SABO) Ms. Jaress, can turn back to  
24 Exhibit S-3, the Global Water Resources financial  
25 statements.

1 A. Okay.

2 Q. And in particular can you go to page 18?

3 A. Okay.

4 Q. And on that page is the beginning of note five;  
5 is that correct?

6 A. Yes.

7 Q. And note five has to do with the acquisitions?

8 A. Yes.

9 Q. And within note five it provides information on  
10 the Francisco Grande, CP Water, West Maricopa Combine,  
11 387, and Balterra acquisitions?

12 A. Yes.

13 Q. Thank you.

14 And that would include the acquisition price for  
15 each of those companies?

16 A. Yes.

17 Q. And also the future payments to be made for those  
18 acquisitions?

19 A. Well, at least for WMC.

20 Q. Okay. And does it -- could you turn to the first  
21 paragraph of note five?

22 A. Okay.

23 Q. And does that paragraph talk about the Francisco  
24 Grande and CP acquisitions being linked to the CHI  
25 acquisition -- or ICFA?

1 A. Yes.

2 Q. Did Global ever deny Staff access to information  
3 regarding acquisitions?

4 A. No.

5 Q. And Staff conducted an eight-day on-site audit  
6 with access to Global's books and records?

7 A. I don't know how long it was, but they did have  
8 access to Global's books and records.

9 Q. Thank you.

10 MR. SABO: Your Honor, we have a few more  
11 exhibits, if we could hand those out.

12 ALJ WOLFE: Okay.

13 THE WITNESS: Could you tell me when I could put  
14 some away?

15 Q. (BY MR. SABO) Sure. I think you can put S-3  
16 away.

17 And, Ms. Jaress, you were provided with  
18 electronic copies of all of Global's ICFAs; correct?

19 A. Two times, yes.

20 Q. And did you review at least some of the ICFAs?

21 A. Yes.

22 Q. Could you turn to Exhibit A-48.

23 A. I'm there.

24 Q. And is that an ICFA agreement?

25 A. It appears to be, yes.

1 Q And, in fact, would you agree with me that that  
2 is the ICFA agreement for Belmont?

3 A Well, that I don't know.

4 Q Subject to check?

5 MR. VAN CLEVE: Your Honor, is there something in  
6 the document that references to Belmont that he can point  
7 to?

8 ALJ WOLFE: Mr. Sabo, you might want to look on  
9 page 2.

10 MR. SABO: Thank you, Your Honor.

11 Q (BY MR. SABO) And I think the Judge was  
12 referring to Recital C.

13 A Okay.

14 Q And by okay, do you mean, yes, this is the ICFA  
15 for Belmont?

16 A Or one ICFA for Belmont.

17 Q Okay. Would you turn to page 12.

18 A Okay.

19 Q And do you see there is a paragraph No. 8 there?

20 A Yes.

21 Q And you see there is a subparagraph A?

22 A Yes.

23 Q And does that require Global parent or Global  
24 Water Resources, LLC to guarantee that recycled water will  
25 be available to the Belmont development?

1 A. Yes.

2 Q. And could you now turn to page 14, subparagraph  
3 D?

4 A. E as in Edward.

5 Q. No, D as is in David.

6 A. I'm there.

7 Q. Does that subparagraph indicate that the land  
8 will utilize recycled water as defined above?

9 A. To the maximum extent practicable.

10 Q. Yes.

11 A. Yes.

12 Q. And that requires the developer to accept  
13 recycled water?

14 A. I don't know.

15 Q. Could you turn to paragraph 13, subparagraph C.

16 A. Okay. Page 13.

17 Q. Yes, page 13, subparagraph C.

18 A. Okay.

19 Q. And this lists the various stages of recycled  
20 water use; is that correct?

21 A. Okay. This is a list of -- would you complete  
22 your question -- I mean, you completed it. Would you ask  
23 the question again?

24 Q. Certainly. Does that subparagraph list the  
25 various stages of recycled water use?

1 A. The various stages of recycled water use? Well,  
2 they call them stage. Okay. At every subparagraph they  
3 refer to the use, the specific use of recycled water as  
4 stage 1, 2, 3 through 6.

5 Q. Okay. And the one that is referred to as  
6 stage 3, is that recycled water to the home for irrigation  
7 use?

8 A. I don't know.

9 Q. Well, let's look at subparagraph 3.

10 A. Yes.

11 Q. This is subparagraph C3, irrigation of recycled  
12 landscaping -- can I start that again?

13 A. Yes.

14 Q. All right. Page 13, subparagraph D,  
15 subparagraph 3, states: "Irrigation of residential  
16 landscaping in similar exterior water usage utilizing a  
17 pressurized delivery system delivering water directly to  
18 the end user's recycled water meter," and then in  
19 parentheses it says "Recycled Water Stage 3."

20 A. Okay.

21 Q. Yes, that is what it says?

22 A. Yes, that is what it says.

23 Q. So that would involve the use of recycled water  
24 for residential landscaping?

25 A. Yes.

1 Q Okay. Have you ever seen a main extension  
2 agreement with terms such as those found on pages 12, 13,  
3 and 14?

4 A Probably not.

5 Q Could you turn to Exhibit A-49.

6 A Okay. I'm there.

7 Q And if you look at Recital B, it refers to the  
8 Copperleaf subdivision or development?

9 A Yes.

10 Q And you will agree with me that that is one of  
11 those in the West Valley?

12 A Yes.

13 Q Would turn to page 6, Recital J?

14 A Okay.

15 Q And does that state the ICFA fee payments are  
16 contingent on the acquisition by Global Water Resources of  
17 the Water Utility of Greater Tonopah?

18 A Well, the whole agreement, which includes more  
19 than fee payments, the whole agreement is contingent upon  
20 the acquisition.

21 Q Yes. And that recital also states that some of  
22 the ICFA fees are allocated to the purchase price?

23 A Yes.

24 Q And can you turn to Exhibit A-50?

25 A Okay. I'm there.

1 Q And in Recital B it indicates that this applies  
2 to the Silver Water and Silver Springs Ranch developments?

3 A Yes.

4 Q And can you turn to page 6, Recital J?

5 A I'm on page 6.

6 Q Recital J?

7 A Yes.

8 Q And like the previous exhibit, this Recital J  
9 indicates the ICFAs are contingent on the acquisition by  
10 Global Water Resources of the Water Utility of Greater  
11 Tonopah?

12 A Yes.

13 Q And it likewise also indicates that some of the  
14 ICFA fees is being allocated to the purchase price of the  
15 Water Utility of Greater Tonopah?

16 A Well, to the purchase price of WMC, yes.

17 Q Thank you.

18 Can you tell us how much of the ICFA fee payments  
19 did you allocate to acquisitions?

20 A Zero.

21 Q Could you turn -- keeping with Exhibit A-50,  
22 could you turn to page 3, Recital F?

23 A I'm there.

24 Q And does that state that Global Water Resources,  
25 the parent, is responsible for payment and financing of

1 off-site infrastructure?

2 A. Well, it indicates that Greater Tonopah and  
3 Hassayampa, that the landowner will work with the two  
4 utilities to include the land in their service territory,  
5 and that landowner has requested water, reclaimed water,  
6 and wastewater services from Greater Tonopah and  
7 Hassayampa. So it says more than you mentioned.

8 Q. But it does say the thing that I mentioned?

9 A. Can you point that to me, or do you mean that  
10 that is what it means altogether?

11 Q. No. Let me point you to what I'm thinking of.  
12 On page 4, the seventh line down, do you see a  
13 sentence starting "Coordinator"?

14 A. Okay.

15 Q. And leaving aside some of the sentence before, it  
16 says, "Through coordinator, landowner has requested water,  
17 reclaimed water, and wastewater services from WUGT, HUC";  
18 right? Are you with me so far?

19 A. Yes.

20 Q. And then it states, "and GWR through WUGT and HUC  
21 has, subject to the terms of this agreement and as  
22 otherwise legally permitted, agreed to provide such  
23 services to landowner, including the financing and  
24 construction of any and all off-site facilities."

25 A. Okay. I see that.

1 Q. So that means that GWR or its subsidiaries are  
2 responsible for the financing and construction of any and  
3 all off-site facilities; correct?

4 A. Yes.

5 Q. Thank you.

6 And keeping on page 4, can you go down to Recital  
7 H?

8 A. Okay.

9 Q. And the second sentence in that recital states,  
10 "The fees contemplated in this agreement represent an  
11 approximation of the carrying costs associated with  
12 interest and capitalized interest associated with the  
13 financing of infrastructure for the benefit of the  
14 landowners or its successors," and then it goes on to say  
15 some more stuff; correct?

16 A. Yes. Yes.

17 Q. Thank you.

18 MR. SABO: Your Honor, I would move Exhibits  
19 A-48, A-49, and A-50.

20 ALJ WOLFE: Is there any objection?

21 A-48, A-49, and A-50 are admitted.

22 (Exhibits A-48, A-49, and A-50 were admitted into  
23 evidence.)

24 MR. SABO: Thank you.

25 Q. (BY MR. SABO) Can you go back to Exhibit A-45,

1 please.

2 A. Okay.

3 Q. And in particular can you turn to Staff's  
4 response to Global 2.1.A?

5 A. Okay.

6 Q. And in that answer you state, "ICFA fees are cash  
7 and are used in the same manner as cash generated from  
8 normal revenues, external financing, and earnings";  
9 correct?

10 A. Yes.

11 Q. Are revenues normally deducted from rate base?

12 A. About the only way that you could say that  
13 revenues are deducted from rate base is working cash, when  
14 you do the lead lag study.

15 Q. Aside from that?

16 A. Well, I can't think of any other time.

17 Q. And is external financing normally deducted from  
18 rate base?

19 A. If it comes in the form of a contribution or  
20 advance, that's a form of financing; then it's external.

21 Q. Are earnings normally deducted from rate base?

22 A. No.

23 Q. Could you please turn to Staff's response to  
24 Global 2.3?

25 A. Okay.

1 Q. And you state in the answer, "Staff cannot track  
2 each dollar from ICFA fees to specific plant"; is that  
3 correct?

4 A. Yes.

5 Q. Is it your opinion that all revenue Global parent  
6 receives is ultimately for plant?

7 A. No.

8 Q. So, for example, if Global parent receives equity  
9 or debt, that wouldn't automatically be assumed to be for  
10 plant?

11 A. Well, equity and debt are on the right side of  
12 the balance sheet, and on the left side are assets. So  
13 what is on the right side finances the left side. And  
14 plant is on the left side.

15 Q. As are other things?

16 A. As are other things.

17 Q. So equity or debt could go to plant or other  
18 things?

19 A. Yes.

20 Q. But for ICFA revenues, it's your position that  
21 that money always goes to plant?

22 A. It is my position that ICFA revenues are  
23 contributions. I'm imputing those revenues as  
24 contributions, and there is a whole list of reasons I read  
25 on Monday.

1 Q. But in answer to my question, it's your view that  
2 ICFA revenues always go to plant; yes or no?

3 A. Yes.

4 Q. Thank you.

5 Can you tell me, hook-up fees are contributions;  
6 right?

7 A. Yes.

8 Q. And when a utility receives a hook-up fee from a  
9 developer, it's placed into a segregated hook-up fee  
10 account?

11 A. Yes.

12 Q. And that account then is used to pay for plant;  
13 correct?

14 A. That's what it's supposed to be used for.

15 Q. Hopefully.

16 Can each dollar from the hook-up fee account be  
17 tracked to show that it was spent on specific plant for  
18 the developer that paid in that same dollar?

19 A. Probably not --

20 Q. Thank you.

21 A. -- if there is more than one developer.

22 Q. Yes.

23 You are familiar, I take it, to some extent with  
24 Pinnacle West Capital Corporation?

25 A. Yes.

1 Q. And that is a parent company, of course, of APS?

2 A. Yes.

3 Q. And when Pinnacle West issues shares, does all  
4 that money go into plant?

5 A. Probably not because they have -- Pinnacle West  
6 has unregulated operations.

7 Q. Yes.

8 Does Pinnacle West have to track dollar for  
9 dollar each dollar it receives that does not go to plant?

10 A. No.

11 Q. This morning you stated that even if Global could  
12 prove that all the \$20 million was paid in taxes, that  
13 still wouldn't change your position about whether there  
14 should be a tax offset?

15 A. That's correct.

16 Q. Is that also your position with respect to  
17 acquisitions, that even if Global proves it spent all the  
18 43 million on acquisitions from ICFA fees, that wouldn't  
19 lead you to change your position?

20 A. That's correct.

21 Q. Thank you.

22 Last week you stated that it was impossible to  
23 tell where money flows in Global parent; is that correct?

24 A. Something like that.

25 Q. Okay. You know, I told you you could put S-3

1 away, and unfortunately I have one more series of  
2 questions about it, so if you could pull that out again.  
3 I apologize.

4 A. Okay.

5 Q. And would you agree with me that Exhibit S-3 is  
6 the audited financial statement of Global Water Resources  
7 and its subsidiaries?

8 A. Yes.

9 Q. And who is the auditor for those companies?

10 A. Deloitte.

11 Q. And that is a reputable CPA firm?

12 A. Yes.

13 Q. Are you familiar with any other utility companies  
14 that they audit?

15 A. No.

16 Q. Subject to check would you agree that they audit  
17 APS?

18 A. I just have no idea.

19 Q. You don't know. Okay.

20 Would you say that it's difficult to produce an  
21 audit that would satisfy a firm like Deloitte?

22 MR. VAN CLEVE: Your Honor, I object to that  
23 question. I mean, how would she know what is going to  
24 satisfy Deloitte & Touche as far as an audit goes?

25 MR. SABO: Let me ask some foundational

1 questions.

2 ALJ WOLFE: Okay.

3 Q. (BY MR. SABO) Ms. Jaress, are you familiar with  
4 what is required or what is done in an audit by a CPA firm  
5 of a utility company?

6 A. I'm not very knowledgeable on that subject.

7 Q. Fair enough.

8 Could you turn to page 38 of Exhibit S-3.

9 A. Okay. I'm there.

10 Q. I think we talked about this before, but there is  
11 a column marked GWR.

12 A. Yes.

13 Q. And in that column it shows the revenue  
14 attributed to the infrastructure coordination and finance  
15 agreements?

16 A. Yes.

17 Q. And we've talked about the information Staff  
18 posed with respect to the acquisitions.

19 Do you recall that?

20 A. Yes.

21 Q. So would you agree that Global did expend at  
22 least \$43 million on acquisitions of troubled water  
23 companies?

24 A. That is what they have testified to.

25 Q. Yes, and do you agree with it or not?

1 A. I take it as the truth.

2 Q. Okay. I will draw your attention to your  
3 testimony back last week Monday.

4 You testified that Global issued approximately  
5 115 million in IDA bonds over the last several years; is  
6 that right?

7 A. Yes.

8 Q. And I think you agreed that these bonds are tied  
9 to specific infrastructure projects; is that right?

10 A. Tied, yes. You could use the word tied, yes.

11 Q. Thank you.

12 In Exhibit A-45, can you turn to Staff's response  
13 to Global 2.16?

14 A. Okay.

15 Q. And in that response you indicate that the Staff  
16 report in the generic docket is not controlling; is that  
17 correct?

18 A. Just a minute.

19 Q. Sure.

20 A. Okay.

21 Q. Is that what it states?

22 A. It doesn't -- well, you are paraphrasing it, but  
23 it would -- it's a reasonable way to summarize the  
24 response.

25 Q. Thank you.

1 And can you turn to Exhibit A-38?

2 A. Okay. I need help. Which one is that?

3 Q. That should be the Staff report in the generic  
4 docket.

5 MR. SABO: Your Honor, could we go off the record  
6 for a moment?

7 ALJ WOLFE: Yes. Let's go off the record.

8 (Discussion off the record.)

9 ALJ WOLFE: Let's take a break and come back here  
10 at 2:50.

11 (Whereupon, a recess was taken from 2:39 p.m.  
12 until 2:55 p.m.)

13 ALJ WOLFE: Let's go back on the record. We just  
14 took a short break, just for the record.

15 Mr. Sabo.

16 MR. SABO: Thank you, Your Honor.

17 Q. (BY MR. SABO) Ms. Jaress, do you have Exhibit  
18 A-38?

19 A. Yes, I do.

20 Q. And that is the Staff report that you mentioned  
21 in your response to Global 2.16?

22 A. Yes.

23 Q. And I want to ask you a couple questions about  
24 this Staff report.

25 Could turn to page 2.

1 A. I'm there.

2 Q. And in the fifth paragraph, would you agree that  
3 it states that the Staff report is only a preliminary  
4 evaluation?

5 A. Yes.

6 Q. And then could you turn to page 7?

7 A. I'm there.

8 Q. And under summary would you agree with me it  
9 states Staff encourages the development of policies that  
10 will facilitate either regulated or nonregulated entities  
11 to seek regional solutions to Arizona's water and  
12 wastewater infrastructure development?

13 A. Yes, I see that.

14 Q. And do you agree with that statement?

15 A. Well, it's a phrase taken out of a sentence.

16 Q. The beginning of the sentence is with respect to  
17 the appropriate regulatory treatment of the nontraditional  
18 funding mechanisms, and then it goes on to the quote that  
19 I read; correct?

20 A. Okay. Sure. I agree that it's good to develop  
21 policies. Okay.

22 Q. Please list any policies that Staff or the  
23 Commission has implemented in that respect.

24 A. I don't know of any.

25 Q. And then you see the next sentence states, "Staff

1 concludes that ICFA-type arrangements can provide  
2 appropriate long-term solutions which promote conservation  
3 with water supplies and efficient wastewater utilization."

4 Do you see that?

5 A. Yes.

6 Q. And do you agree with that statement?

7 A. Yeah, and I think that statement supports my  
8 contention that ICFA funds are used for plant.

9 Q. And then do you see in the next sentence which  
10 states, "As such, costs are incurred at the parent level  
11 and subsequently contributed to the regulated utility, the  
12 cost of such contributed capital should be determined on a  
13 case-by-case basis."

14 Do you see that?

15 A. Yes, I see that.

16 Q. Do you agree with that?

17 A. Sure. Yes.

18 Q. Thank you.

19 MR. SABO: Your Honor, we have another exhibit.

20 ALJ WOLFE: Okay.

21 MR. SABO: And, Mr. Patten, you can hand out the  
22 final one as well, if you would like.

23 Q. (BY MR. SABO) Ms. Jaress, do you have a document  
24 up there marked A-51?

25 A. Yes, I do.

1 Q Thank you.

2 And as part of your duties here at the  
3 Commission, you do testify in a number of CC&N cases; is  
4 that right?

5 A Yes.

6 Q And one of them was the Global Water Picacho Cove  
7 CC&N case; correct?

8 A Picacho Cove?

9 Q Yes.

10 A Yes.

11 Q Could turn to page 124, lines 15 through 18 in  
12 this exhibit.

13 A Okay. There are four sets of line 15 through  
14 18 -- oh, 14. Okay. I'm there.

15 Q Okay. And on those lines you testified that you  
16 are not sure if the scenario in the Staff report matches  
17 the ICFAs; correct?

18 A Yes. I'm not sure that the ICFA -- a real ICFA  
19 is the same as scenario 3 in the Staff report.

20 Q Thank you.

21 And then on page 115 of that same transcript,  
22 lines 9 to 11, if you could go there.

23 A Okay.

24 Q And on those lines you testified, "Staff has not  
25 determined how much of those funds that come from the

1 parent are ICFAs, bond funds, letter of credit funds, cash  
2 from operation funds, or net income"; correct?

3 A. Correct.

4 Q. Thank you.

5 MR. SABO: Your Honor, I move administrative  
6 notice of A-51 as an excerpt of a transcript of a  
7 Commission proceeding.

8 ALJ WOLFE: Is there any objection?

9 Administration notice is taken of A-51.

10 MR. SABO: Thank you, Your Honor.

11 Q. (BY MR. SABO) And, Ms. Jaress, could you then  
12 again return to Exhibit A-45, the data requests?

13 A. I'm there.

14 Q. And could you turn to Staff's response to Global  
15 2.16.C?

16 A. Okay.

17 Q. And in that response you state that the  
18 Commission should not ignore operating costs in developing  
19 policy; correct?

20 A. Correct.

21 Q. And in ratemaking, operating costs are recovered  
22 on a dollar-for-dollar basis, correct, prudently-incurred  
23 operating costs?

24 A. Yes.

25 Q. And prudently-incurred plant costs are recovered

1 on a small percentage each year?

2 A. Well, there is the return and then depreciation.

3 So a small percentage, I don't know what would be a small  
4 percentage, but they are recovered over many years.

5 Q. So they are not recovered on a dollar-for-dollar  
6 basis each year?

7 A. Not each year, correct.

8 Q. Would you agree that how plant is deployed can  
9 affect the operating cost of a utility?

10 A. I suppose. I don't know -- that is a pretty  
11 broad statement. Do you mean the timing? Do you mean  
12 somehow -- I don't -- can you give me a little more?

13 Q. Sure. Would you agree that the type of plant  
14 facilities a utility builds can affect the operating  
15 costs?

16 A. Yes.

17 Q. Okay. And as an example let's consider a utility  
18 that has installed multiple small pumping stations when  
19 one large more efficient one would have worked.

20 Would you think that the operating costs of  
21 multiple small pumps would be higher than one large pump?

22 A. Yes.

23 Q. And those higher operating costs would be locked  
24 in for a period of time that those pumps are in service;  
25 correct?

1 A. Yes.

2 Q. Thank you.

3 Do you agree that carrying costs exist?

4 A. Carrying costs?

5 Q. Yes.

6 A. Carrying costs exist, yes.

7 Q. Okay. Can you define carrying costs?

8 A. As it relates to utility plant, carrying cost is  
9 the cost of capital during the time -- during the  
10 construction process through the time where the company  
11 starts earning a return on it --

12 Q. Thank you.

13 A. -- in rates.

14 Q. Thank you.

15 Under that definition then, plant that is not  
16 used and useful still has carrying costs; correct?

17 A. It would have carrying costs to the investors,  
18 but plant that is not -- plant that is completed and not  
19 used and useful, unless there is some kind of accounting  
20 deferral order, is not -- does not receive carrying costs  
21 in rates.

22 Q. So the investors would have carrying costs but  
23 would not recover them in rates?

24 A. That's correct.

25 Q. Thank you.

1           Would you agree that implementing total water  
2 management increases a company's risk of incurring  
3 unrecoverable carrying costs?

4           A.     If total water management -- if part of total  
5 water management is building further into the future than  
6 not having total water management, then that is a risk  
7 that goes along with total water management, that you  
8 build for the future and take a chance that people  
9 wouldn't show up. And then you have the carrying costs  
10 for -- until people do -- until there is enough customers  
11 to give you a return.

12          Q.     Okay. Would you agree that Global has been  
13 incurring carrying costs for the past several years and  
14 will continue to do so even after the resolution of this  
15 rate case with respect to the Southwest Plant?

16          A.     Until the Southwest Plant is in rate base --  
17 well, the Southwest Plant -- I have imputed ICFA fees to  
18 the Southwest Plant that total the book value of the  
19 Southwest Plant. So for ratemaking purposes, I would say  
20 there are no capital costs related to that.

21          Q.     From a GAAP or cash flow basis, does Global incur  
22 carrying cost on the Southwest Plant until it's placed  
23 into rate base?

24          A.     Global has bonds that were issued to construct  
25 plant, and those bonds have an interest component that has

1 to be paid. Now, the bonds were issued by the parent, so  
2 it's really the members carrying the costs. But the  
3 Global, LLC gets all -- almost all of its revenues from  
4 the utilities.

5 Q Can you tell me in the absence of ICFA revenues  
6 how would the Global parent finance those carrying costs?

7 A Just as anybody else, any other company or  
8 corporation that is suffering a loss, you either make more  
9 personal investment or you raise rates in the utilities,  
10 any way you can to increase revenues so you have enough  
11 money to cover ultimately enough earnings that get to the  
12 parent so the parent can cover their carrying costs.

13 Q Could you turn in Exhibit A-45 to Staff's  
14 response to Global 2.2?

15 A Okay.

16 Q And in that response you indicate you should have  
17 included advances in your analysis on the part of the  
18 testimony that is referenced there?

19 A Yes.

20 Q And did you then go on to include an analysis of  
21 your advances in your surrebuttal testimony?

22 A Could you tell me the number of my surrebuttal  
23 testimony for me?

24 Q Sure. I believe it's S-11.

25 A Okay. No, I don't see that.

1 Q. Thank you.

2 Could you turn to Exhibit A-13, page 10, chart 1?

3 I know there are a lot of exhibits up there.

4 A. It would help if you not only gave me the number.

5 Q. Sure. That would be Mr. Rowell's rebuttal  
6 testimony.

7 A. Okay. You said A-13?

8 Q. Yes.

9 A. Okay.

10 Q. Thank you. And that was page 10, chart 1.

11 A. Okay.

12 Q. And in that chart Mr. Rowell shows AIAC and CIAC  
13 as a combined percentage of capital structure; is that  
14 correct?

15 A. Yes.

16 Q. And you are not disputing any of those figures  
17 that he came up with, are you?

18 A. No, I'm not disputing the figures, but I think it  
19 would have been clearer if he showed which percentage was  
20 AIAC and which was CIAC. This adds them all together, and  
21 so you can't see -- you can't see that Global has no CIAC  
22 on this chart.

23 Q. Sure. And you would agree with me that the  
24 statement "Global has no CIAC" is not technically true?

25 A. It's technically true that Santa Cruz and Palo

1 Verde's annual report to the Arizona Corporation  
2 Commission shows no CIAC. The West Valley companies, I  
3 don't think they have added any CIAC since they bought  
4 those. If they have, it's not been significant.

5 Q It's interesting that you should say that.

6 Would you turn to Exhibit A-3, which is the rate  
7 application for Valencia Town Division.

8 A Okay. I'm ready.

9 Q And can you turn to Schedule E-1 in that  
10 application?

11 A It's not all there. A-3 doesn't have the rate  
12 case schedules, at least this A-3. It ends after Graham's  
13 schedules.

14 MR. SABO: Your Honor, I apologize for that. It  
15 looks like we had a copying issue on that one.

16 ALJ WOLFE: Okay. Do you have a copy available?

17 MR. SABO: I do have a copy of the page I was  
18 referring to. I don't have a copy of the full set.

19 ALJ WOLFE: Okay. Does Staff have a copy?

20 MR. VAN CLEVE: Yes.

21 ALJ WOLFE: Could you provide it to the witness,  
22 please, and the company should amend that exhibit.

23 MR. SABO: We will, Your Honor. Thank you.

24 Thank you, Mr. Van Cleve.

25 THE WITNESS: Okay.

1 Q. (BY MR. SABO) And do you see on line 271 -- or  
2 line 41, account 271 shows the amount of contributions in  
3 aid of construction?

4 A. Yes, I do.

5 Q. And would you agree with me that in 2006 it shows  
6 an amount of CIAC of 448,000 approximately?

7 A. Yes.

8 Q. And in 2008 it shows an amount of 890,000?

9 A. Yes.

10 Q. And that would be more than double the amount of  
11 2006?

12 A. For Valencia Town Division, yes.

13 Q. And --

14 A. But I want to point out that that \$890,000 of  
15 contributions total for the Valencia Town Division is most  
16 of all the contributions for all the Global utilities. In  
17 2008 total contributions for all the Global utilities were  
18 \$1.2 million, and \$900,000 of them were from Valencia.  
19 That means that all the other companies combined are 1.2,  
20 minus 9, \$300,000. And all the contributions of  
21 1.2 million compares to plant of 278 million.

22 So even though I'm off a little on Valencia Town,  
23 the absence of significant contributions in Global's  
24 balance sheet is unusual.

25 Q. Thank you, Ms. Jaress.

1           So your earlier statement that Global had not  
2 added any CIAC to West Maricopa Combine companies, any  
3 significant CIAC to West Maricopa Combine companies since  
4 it acquired them was inaccurate?

5       A.     Well, it's all relative. \$300,000 is significant  
6 to me personally, but when you pay \$45 million for a  
7 company, another \$300,000 for contributions -- for taking  
8 that much in contributions isn't very significant.

9       Q.     Could turn to Staff's response to Global 2.34.

10           And, for the record, we are back into Exhibit  
11 A-45 again.

12       A.     Okay.

13       Q.     And that is the response to 2.34?

14       A.     Yes.

15       Q.     And in that response you indicate that Palo Verde  
16 and Santa Cruz are newer than most Arizona utilities?

17       A.     Well, I was just thinking, I'm not so sure. I  
18 know that Global purchased them in '03. They had a rate  
19 case I think in '99. So that is still -- even if they are  
20 15 years old -- no, I would still agree with that.

21       Q.     And would you agree with me subject to check that  
22 the 1999 order was their initial CC&N rather than a rate  
23 case?

24       A.     That could be.

25       Q.     Okay. And then would you also agree with me that

1 under subpart C on that page you agree that Palo Verde and  
2 Santa Cruz have significant amounts of AIAC on their  
3 books?

4 A. Yes.

5 Q. And then in the last subpart D you agreed that  
6 over time some of that AIAC will turn into CIAC?

7 A. But the time is 22 years, so, yes, eventually,  
8 but not in my lifetime.

9 Q. Well, we can always be optimistic.

10 Can you get out your surrebuttal testimony,  
11 Exhibit S-11.

12 A. Is this the testimony or the exhibits?

13 Q. The actual testimony.

14 A. Then I have it.

15 Q. And can you go to page 2, line 22.

16 A. Okay.

17 Q. And there you state that CIAC is generally used  
18 to fund backbone plant; is that correct?

19 A. Did you say surrebuttal testimony?

20 Q. Yes.

21 A. Mine?

22 Q. Yes.

23 A. Page 2?

24 MR. POZEFSKY: I don't think you have the right  
25 cite. Page 2, line 22?

1 Q. (BY MR. SABO) I apologize.

2 I'm not sure where it is.

3 You have said somewhere that CIAC is generally  
4 used to fund backbone plant?

5 A. Yes.

6 Q. Okay. For the utilities that are shown in  
7 Mr. Rowell's Chart 1 that we had talked about a couple  
8 minutes ago --

9 A. Okay. What is the number? Is it his rebuttal?

10 Q. Yes, his rebuttal testimony, Exhibit A-13, page  
11 10, Chart 1.

12 A. Okay. I'm there.

13 Q. All right. For those utilities did you evaluate  
14 how much of their CIAC was used to fund backbone plant  
15 versus how much resulted from other sources, such as the  
16 conversion of AIAC to CIAC?

17 A. No, I did not.

18 Q. Thank you.

19 Ms. Jaress, I have a couple questions for you  
20 about long-term storage credits. We will try not to get  
21 too deep in the weeds on that.

22 Do you agree that the Global utilities did not  
23 pay for water withdrawn from the Central Arizona Project  
24 for the recharge that resulted in these credits?

25 A. I have relied on Global's representation that

1 they have not paid for that.

2 Q. Okay. And you don't have any reason to doubt  
3 that, do you?

4 A. That's correct.

5 Q. Okay. And likewise, you don't have any reason to  
6 doubt Global's statement that the Global utilities did not  
7 pay the operating costs of the recharge facility that  
8 produced the long-term storage credits?

9 A. The only reason that would throw any doubt at all  
10 on that statement is that the employees are all in the  
11 management company. And so if all the allocations and the  
12 time cards and everything were done correctly, then none  
13 of those expenses would be charged to the utilities.

14 Q. Thank you.

15 And likewise, you don't have any reason to  
16 dispute Global's statement that the Global utilities did  
17 not pay the capital costs of building the recharge  
18 facility that produced the long-term storage credits?

19 A. Correct.

20 Q. Thank you.

21 Do you know what the price of -- instead of  
22 recharge water from CAP is?

23 A. I have seen it. I probably have it, but I don't  
24 remember it.

25 Q. Okay. Do you believe that everything that parent

1 does should be reflected in the utilities' financial  
2 statements?

3 A. It's something that -- I don't really understand  
4 that. If you mean if every financial transaction the  
5 parent enters should be reflected in the statement -- what  
6 should be reflected in the financial statements of the  
7 utilities ordinarily is just the transactions that the  
8 utility has engaged in. So it would reflect utility  
9 operations, not the parent's operation.

10 Q. Okay. Thank you.

11 Are you aware that Global has testified that the  
12 Hassayampa recharge facility has been sold?

13 A. Yes.

14 Q. And you are not disputing that?

15 A. Nope.

16 Q. And are you aware that Mr. Symmonds testified  
17 that West Maricopa Combine lost \$5.8 million on the sale  
18 of the Hassayampa recharge facility?

19 A. Yes.

20 Q. Are you recommending that the utilities should  
21 share that loss?

22 A. No, I don't think I recommended that.

23 Q. You are recommending that the utilities should  
24 have the benefit of the profit associated with that  
25 facility but not the loss; is that correct?

1 A. Well, that was because I assumed they -- it was  
2 profitable. Because it was profitable, I didn't consider  
3 a loss.

4 Q. But now that you are aware of a loss?

5 A. Then that information should be filed along with  
6 the other information regarding the profits.

7 Q. All right. Is it your recommendation that a  
8 pass-through be allowed for a franchise -- only for  
9 franchises that are approved by the voters in a franchise  
10 election?

11 A. Yes.

12 Q. Would you turn in Exhibit A-45 to Staff's  
13 response to Global 2.39.

14 A. What was the request number?

15 Q. 2.39.

16 A. Okay.

17 Q. And in that response it indicates that the  
18 relevant rule and tariff language does not limit the  
19 pass-through to fees approved in an election; is that  
20 correct?

21 A. That's correct. It doesn't -- actually the  
22 language in the rule and in the tariff don't even say  
23 franchise. So I don't use the word franchise, but that is  
24 the rule that the Commission uses and the company uses to  
25 pass through franchise fees.

1 Q Okay. So the rule does not contain a -- strike  
2 that. You have answered that.

3 Would you turn to Exhibit A-52. It's the last  
4 one.

5 A. There are exhibits all over the place.

6 Okay. I'm there.

7 Q Okay. All right.

8 MR. SABO: Your Honor, I moved administrative  
9 notice that these are the current rate tariffs of the  
10 utilities indicated therein.

11 ALJ WOLFE: Administrative notice is taken of  
12 A-52.

13 Q (BY MR. SABO) Ms. Jaress, would you agree with  
14 me that those rate tariffs indicated in A-52 did not limit  
15 the pass-through to franchise agreements approved in  
16 elections?

17 A. They do not have those words in them.

18 Q Thank you.

19 Turning back to Exhibit A-45, can you turn to  
20 Staff response to Global 2.7?

21 A. Okay.

22 Q And in subpart C you agree that cities incur  
23 costs for growth outside of their city limits; correct?

24 A. Yes.

25 Q Could you turn to page 19, line 23 of your direct

1 testimony?

2 A. Page 19?

3 Q. Line 23.

4 A. Line 23, okay.

5 Q. And in that sentence you express a concern that  
6 there is no separate accounting for the expenses related  
7 to the MOUs; is that correct?

8 A. Yes.

9 Q. Can you specify which expenses you would like to  
10 see accounting for separately?

11 A. Well, I don't have an MOU in front of me, but  
12 there were certain things that Global was -- besides  
13 paying the City money, there were certain services Global  
14 was supposed to provide, and those would be the expenses  
15 that would be nice to see.

16 Q. Okay. Are you aware of any other utilities which  
17 separately account for expenses related to franchise  
18 agreements?

19 A. I have never asked, so I don't know.

20 Q. And keeping with your direct testimony, can you  
21 go to page 39.

22 A. Okay.

23 Q. And on line 20 you talk about Johnson Utility  
24 Company and how they have constructed some photovoltaic  
25 solar facilities; is that correct?

1 A. Yes.

2 Q. Would you agree with me that Johnson Utilities  
3 has an unusually high percentage of plant financed through  
4 CIAC?

5 A. I don't know if it's just CIAC or CIAC and AIAC,  
6 but I know that was a problem in the rate case, the amount  
7 of money from the developers.

8 Q. Okay. Would the availability of such funds from  
9 developers affect a utility's need to request a surcharge  
10 for constructing photovoltaic or other renewable  
11 utilities?

12 A. Well, just the amount of cash in general that a  
13 company has available to it, whether it's from earnings or  
14 developers, the more cash the easier it is to build  
15 things.

16 Q. I imagine Mr. Hill agrees with you on that point.  
17 Would you turn to page 40, line 15 of your direct  
18 testimony.

19 A. Okay.

20 Q. And to summarize, what you are saying there in  
21 that paragraph, you state that renewable technologies are  
22 still evolving and you express a concern that the plant  
23 could be incorrectly manufactured, incorrectly sized,  
24 incorrectly installed, run in an inefficient manner or  
25 result in the generation of electricity at less than

1 prudent costs?

2 A. I'm a pessimist, yes.

3 Q. Is Staff opposed to the use of distributed  
4 renewable energy?

5 A. No.

6 Q. Don't all the fears that we just talked about  
7 also apply to schools, residential and commercial  
8 customers, which are actively working to install renewable  
9 technologies under the REST rules?

10 A. Yes.

11 Q. Would you turn to Staff's response to Global  
12 2.29.F in Exhibit A-45?

13 A. Okay. What is A-45?

14 Q. The data requests.

15 A. Okay. I'm back. What is the number?

16 Q. 2.29.F.

17 A. Okay.

18 Q. And in that response you state that environmental  
19 social policy issues are important to consider in  
20 renewable energy issues?

21 A. As well as the financial impact on customers,  
22 yes.

23 Q. Ms. Jaress, do you agree that the record in this  
24 case shows that Global has acquired a number of small  
25 water companies?

1 A. Yes.

2 Q. And that they spent at least \$43 million on those  
3 acquisitions?

4 A. That's what they testified to, yes.

5 Q. And you are not disputing that?

6 A. That's correct.

7 Q. Is there a single dollar or more of acquisition  
8 adjustments in this case?

9 A. No.

10 Q. Does the record show that all the plant included  
11 in the rate applications was used and useful?

12 A. Yes.

13 Q. So there is not a dollar of excess capacity  
14 included in the proposed rates?

15 A. Using the term as we traditionally use it,  
16 correct.

17 Q. And the record shows that Global left \$32 million  
18 of plant out of its application?

19 A. Yes.

20 Q. And the record shows that total water management  
21 has conserved 2 billion gallons of groundwater in Pinal  
22 County?

23 A. I don't know.

24 Q. You don't know.

25 Has Global requested recovery of a dollar of

1 demand side management costs from ratepayers in this case?

2 A. They have requested a tariff to recover costs  
3 related to the demand side management.

4 Q. Does the tariff request recovery of costs or  
5 simply the approval of a demand side management program  
6 with the cost to be borne by the shareholders?

7 A. The second.

8 Q. Okay.

9 A. The latter.

10 Q. Thank you.

11 Is it your position that regardless of whether  
12 ICFAs allow acquisitions without acquisition adjustments,  
13 allow Global to leave 32 million out of its rate  
14 application and resulted in record levels of groundwater  
15 savings and despite all that that the Commission should  
16 reject Global's view of the ICFAs?

17 A. No, I don't agree with that statement.

18 Q. Do you disagree that the ICFAs have allowed  
19 Global to have acquisitions without acquisition  
20 adjustments?

21 A. No.

22 Q. You don't disagree with that?

23 A. Certainly they freed up other cash.

24 Q. Do you agree that the ICFAs allowed Global to --  
25 or enabled Global to leave the \$32 million of the

1 Southwest Plant out of the rate application?

2 A. Yes.

3 Q. Do you agree that the ICFAs allowed Global to  
4 implement total water management and save significant  
5 amounts of groundwater in Pinal County?

6 A. I don't know.

7 MR. SABO: Your Honor, could I have a moment?

8 ALJ WOLFE: Yes.

9 MR. SABO: Thank you, Your Honor. I appreciate  
10 your indulgence. That concludes our cross-examination of  
11 Ms. Jaress.

12 ALJ WOLFE: Thank you, Mr. Sabo.

13 Mr. Van Cleve, do you have redirect for this  
14 witness?

15 MR. VAN CLEVE: I do, Your Honor.

16

17 REDIRECT EXAMINATION

18

19 Q. (BY MR. VAN CLEVE) Good afternoon.

20 A. Good afternoon.

21 Q. First couple questions I'm going to ask you  
22 relate to your testimony from earlier. First was some  
23 questioning I think by Mr. Patterson regarding -- and  
24 correct me if I state this wrong -- he basically said  
25 something to the effect that there is a two-part analysis

1 that the judge has to look at in determining the treatment  
2 of the ICFAs. One was whether or not it was considered  
3 CIAC, and I think the second step in it was whether or not  
4 it was used for plant.

5 Do you recall that?

6 A. Yes, I recall something like that.

7 Q. Something like that. And I might not have --

8 A. That there were two decisions that the Commission  
9 had to make.

10 Q. Right. And would you agree that if it's  
11 determined that the ICFAs are CIAC, that that ends the  
12 analysis as far as how they are treated?

13 A. Yes.

14 Q. Okay. And now turning to -- this was actually  
15 some questioning that was by Mr. Pozefsky to Mr. Rigsby  
16 regarding Staff's and the company's, I guess,  
17 determination of the cost of equity in this case.

18 Do you recall that line of questioning?

19 A. Yes.

20 Q. And in particular I think he mentioned something  
21 to the effect that RUCO had performed the whole cost of  
22 equity analysis and all that goes with it in this case,  
23 whereas the company and Staff had simply taken  
24 recommendations from other cases where that analysis was  
25 performed.

1 Do you recall that?

2 A. Yes, I do.

3 Q. And then further -- and I believe this was  
4 questions that I asked Mr. Rigsby -- would you agree  
5 that -- or is it your understanding that when Mr. Rigsby  
6 updated his cost of equity number in this case he simply  
7 used an analysis that was performed in another case?

8 A. Yes.

9 Q. And, in your opinion, is that any different than  
10 what Staff or the company has done in this case?

11 A. No.

12 Q. Okay. And this I believe was questioning by  
13 Mr. Sabo, and he asked you a question, something to the  
14 effect of is there any evidence in this case that the IDA  
15 bonds were not used to construct plant. And I think this  
16 was the Maricopa area, the IDA bonds in this case.

17 Does whether or not evidence is present in this  
18 case, as to whether those bonds were used to construct  
19 plant, does that change Staff's representation in this  
20 case as far as the treatment of the ICFA fees?

21 A. No. No. The company has mentioned that they  
22 were using ICFA funds to repay debt, which was used to  
23 build plant. So to me they are using the ICFA funds to  
24 build plant.

25 Q. So is this -- and again, the bonds that we are

1 talking of, speaking about, have some sort of a cost to  
2 them; is that correct?

3 A. The interest, yes.

4 Q. And in effect has what the company done is use  
5 these fees that it's collected through these ICFA  
6 agreements that have no cost; correct?

7 A. Yes.

8 Q. To pay, at least in part, the cost for these  
9 bonds?

10 A. Yes.

11 Q. Okay. And that is why it doesn't have an impact  
12 on the Staff's recommendation in this case?

13 A. That's correct.

14 Q. Turning --

15 MR. SABO: Your Honor, before we move on, could I  
16 get that last question clarified as to whether  
17 Mr. Van Cleve was referring to the interest on the bonds  
18 or the principal.

19 MR. VAN CLEVE: The carrying costs.

20 MR. SABO: Okay. Thank you.

21 Q. (BY MR. VAN CLEVE) In Exhibit A-45, in Global  
22 2.28, there was a question that was asked by Mr. Sabo,  
23 something along the lines of would you agree that a  
24 company that has four adjustors versus a company that has  
25 no adjustors is going to have less risk.

1 Do you recall that question?

2 A. Yes.

3 Q. Now, can you really look at a company in  
4 isolation and make a determination as to whether there is  
5 less risk to that company?

6 A. The only way you can do it is as a hypothetical,  
7 and the hypothetical would be, if the two companies are  
8 completely identical in all other aspects of their  
9 business and capital structure and location and size, then  
10 you could look at it that way.

11 Q. And so it's very possible that the company with  
12 no adjustors may be a less risky company to begin with;  
13 correct?

14 A. Yes.

15 Q. And then in particular in your response to the  
16 Global 2.28, you mentioned four adjustors. One is the APS  
17 transmission cost adjustor, a power supply adjustor, a DSM  
18 adjustor, and a renewable energy adjustor.

19 Would you agree with me that at least as it  
20 relates to, say, the DSM adjustor and the renewable energy  
21 adjustor that these are things that are either as a result  
22 of rules that are -- have been promulgated by the  
23 Commission or are due to some policy decisions by the  
24 Commission?

25 A. Yes.

1 Q And that as it relates to the other two  
2 adjustors, say, the APS transmission cost adjustor and the  
3 power supply adjustor, do those at least -- are those, at  
4 least in part, a result of there being a determination  
5 that those particular -- whatever they address -- for the  
6 power supply adjustor, it's a volatile thing --

7 A Yes.

8 Q -- that the Commission granted an adjustor to  
9 address?

10 A Yes.

11 Q Okay. Now, there has been a lot of questions  
12 that has been asked of you today that related in part to  
13 acquisitions.

14 Do you agree with me?

15 A Yes.

16 Q Now, is it your understanding that the company  
17 when it filed its application in this matter was at all  
18 requesting acquisition adjustments in this case?

19 A No, they have not requested an acquisition  
20 adjustment in this case.

21 Q Now, in their rebuttal testimony, have they asked  
22 for an acquisition adjustment?

23 A No.

24 Q Rejoinder testimony?

25 A No.

1           Q.     In fact, is it fair to say that the first time  
2 that this has been addressed in any great detail was  
3 today, to your knowledge?

4           A.     Yes.

5           Q.     Now, there was a statement -- I don't remember if  
6 it was something you made or if it was a question that was  
7 asked of you, so correct me if I'm wrong, but it had to do  
8 with the fact that CIAC is traditionally used for  
9 construction and not acquisitions.

10                   Do you recall that at all?

11          A.     Yes.

12          Q.     Now, does that mean that it can't be used for  
13 acquisitions?

14          A.     Well, we will go back to fungibility. Once the  
15 money is in the bank, you can write a check against that  
16 money for whatever you want.

17          Q.     And that again goes to the fact that -- and in  
18 this case in particular, the fees that have been collected  
19 through these ICFA agreements have simply gone into the  
20 category of revenue; is that correct?

21          A.     Yes.

22          Q.     So it's possible that it could be used for  
23 acquisitions. It's possible it could be used for plant.  
24 We don't know.

25                   Is that a fair statement or that you don't know

1 at this point?

2 A. Well, there are other uses -- other possible uses  
3 besides those two, anything that you use cash for.

4 Q. Okay. And do you believe that in this case the  
5 company has demonstrated that the ICFA fees were used for  
6 something other than plant?

7 A. No.

8 Q. Now, there was a hypothetical -- and I hate to  
9 delve into them so much because there were so many -- but  
10 it was a hypothetical that Mr. Sabo had discussed with you  
11 where he asked -- I think the question was something along  
12 the lines if these fees -- these ICFA fees were used --  
13 were given to the Global parent and in return Global  
14 parent was to provide construction management service to a  
15 house -- you know, construction company to build houses.  
16 And I think he asked you whether or not those would be  
17 treated as CIAC or should be treated as CIAC.

18 Do you recall that?

19 A. Yes.

20 Q. Now, do you believe that that hypothetical is  
21 similar to the circumstances that exist in this case?

22 A. No.

23 Q. So is it fair to say that the acquisition of a  
24 utility is not the same as providing nonutility-related  
25 services?

1           A.     That's correct.

2           Q.     And then there was also an issue that was brought  
3 up regarding, I think it was the Water Utility of Greater  
4 Tonopah, where there was a plant in service number of  
5 4.7 million and then you had allocated ICFA fees of, I  
6 think, 7.085 or something along those lines.

7                     Do you recall that?

8           A.     Yes, I do.

9           Q.     What is your explanation for that at this point?

10          A.     Well, the explanation was that the money from the  
11 ICFA fees if used for plant or future plant, because it  
12 came in to Water Utility of Greater Tonopah from  
13 developers who wanted service. And it doesn't look like  
14 there was enough plant to serve all the developers once  
15 they were ready to build.

16          Q.     Okay. So as plant is built or when growth picks  
17 up and plant is built, is it fair to say then that that is  
18 when this sort of CIAC would be applied against that plant  
19 as it's put in service? Is that how it would work?

20          A.     Well, the CIAC would be there. What is the  
21 difference, about 3 million? So they must be about  
22 3 million negative rate base.

23                     So once more plant is built, they would have to  
24 build over 3 million in plant, and that would turn the  
25 rate base positive. It's a huge area. It might not

1 happen soon, but it's likely to happen in some time when  
2 the West Valley grows.

3 Q. Is that scenario any different than if developers  
4 would have provided more CIAC than there was existing  
5 plant?

6 A. Right. It would have existed if the developer  
7 built the plant and turned and gave it to Global.

8 Q. What if --

9 A. There would still not be customers there. You  
10 would have a negative rate base.

11 Q. So what if the utility -- or the developer, same  
12 number, but instead of there being this issue whether it's  
13 ICFA fees, we agree it's CIAC, and the developer provides  
14 7.08 -- 7 million in CIAC to this utility; is the outcome  
15 the same as what Staff is proposing in this case?

16 A. You lost me.

17 Q. Well, the way you have -- your recommendation  
18 here is that there are 4.7 million for plant for Water  
19 Utility of Greater Tonopah. You allocated 7 million --  
20 over 7 million of the ICFA fees to that utility; correct?

21 A. Yes.

22 Q. So is that scenario any different than if the  
23 company had received CIAC in that same amount as opposed  
24 to ICFA fees? Would it still reduce the rate base to a  
25 negative until growth picked up?

1 A. You will have to say it one more time.

2 Q. No. No. That is fine.

3 This is just another scenario, and I said I  
4 needed to use a hypothetical, but as opposed to this being  
5 ICFA fees, let's assume that the 7 million that was  
6 allocated was simply CIAC to begin with, and it was cash.

7 So you have the 4.7 in plant and 7 million and  
8 some odd dollars in CIAC.

9 A. In ICFA fees.

10 Q. Assuming they are CIAC to begin with.

11 A. Okay. That they just came in as CIAC to the  
12 utility?

13 Q. Yes.

14 A. Okay.

15 Q. Is the outcome the same as what Staff is  
16 recommending in this case?

17 A. Yes.

18 Q. Okay. Now, there was a series of questions asked  
19 about assured water supplies.

20 Do you recall that? And I think in particular  
21 there was a question asked something to the effect that a  
22 developer or builder could not build a house until it had  
23 100-year assured water supply?

24 A. Yes.

25 Q. And I think you answered something to the effect,

1 in a roundabout way, yes, or correct, or something along  
2 those lines.

3 What did you mean by that, in a roundabout way?

4 A. Well, in order to build the houses the developer  
5 has to get that report from the Department of Real Estate.  
6 And in order to get that they have to have the 100-year  
7 water supply either through a CAWS or a DAWS. And so that  
8 was a roundabout way. It's not direct. You have to go  
9 through the Department of Real Estate.

10 Q. And it could be done either through a certificate  
11 of assured water supply or somehow with a designation of  
12 assured water supply?

13 A. Yes.

14 Q. If I could have you turn to Exhibit 48. That was  
15 one of the ICFA agreements. It's A-48.

16 A. Okay. I have it.

17 Q. And on page 12 -- turn to page 12 if you would.

18 A. Okay.

19 Q. If I could have you read that first -- well,  
20 starting with the first full sentence at the top of the  
21 page to the bottom of that paragraph out loud.

22 A. It starts with "To the extent"?

23 Q. Yes.

24 A. "To the extent either Water Utility of Greater  
25 Tonopah or Hassayampa Utilities requests that landowner

1 contribute or advance moneys for off-site facilities to  
2 provide utility services to the land, coordinator hereby  
3 acknowledges and agrees that coordinator shall pay for  
4 such facilities."

5 Q. And what does the next sentence say?

6 A. "Coordinator shall be responsible for payment of  
7 any and all such additional costs for off-site facilities  
8 as requested by Greater Tonopah and Hassayampa."

9 Q. And then the next section, Subsection 8, it looks  
10 like -- if I could have you read that first sentence.

11 A. "Coordinator shall guarantee that HUC will  
12 construct, design, engineer, finance, and operate the  
13 necessary recycled treatment water plant to achieve and  
14 produce A-plus reclaimed water as defined by applicable  
15 regulatory agencies (recycle water)."

16 Q. Now, without delving into any sort of legal  
17 interpretation, what is your understanding of what the  
18 word "guarantee" means?

19 A. Well, usually a guarantee means if it isn't  
20 performed or it isn't performed as agreed to, that you  
21 would get your money back.

22 Q. Would it also be possible that if it's not  
23 performed by who is supposed to perform it that the person  
24 doing the guaranteeing would have to perform it?

25 A. Yes.

1 Q. Actually on that same document, turning to, I  
2 think it's the next page, page 13, Subsection C of  
3 Subsection A.

4 Do you recall reading through those different  
5 stages of recycled water?

6 A. Yes.

7 Q. And I think you were asked a question whether or  
8 not something like that would be in a main extension  
9 agreement or if that was something you would see in a main  
10 extension agreement?

11 A. That's correct.

12 Q. And I think you said you hadn't seen something  
13 like that?

14 A. Yes.

15 Q. Does that mean it is something that cannot be in  
16 a main extension agreement?

17 A. No.

18 Q. And I guess I will ask the question, which I  
19 think the answer is obvious, but have you seen an  
20 agreement like this in your years working for the  
21 Commission?

22 A. No.

23 Q. There was some questions asked about -- I think  
24 it was in response -- I don't think, but in response to,  
25 correct me if I'm wrong, A-33, A-34, and A-35, that had

1 been specifically regarding the acquisition -- the amount  
2 of money that the company had spent on acquisitions.

3 Do you recall that line of questioning?

4 A. Yes.

5 Q. And I think they referred you to Exhibit S-3,  
6 which was one of them, and A-47, response to your data  
7 requests, giving some numbers as far as money that was  
8 spent on acquisitions.

9 Do you recall that?

10 A. Yes.

11 Q. To the best of your knowledge -- first of all,  
12 did the company submit the financial statements as an  
13 exhibit in this case?

14 A. No.

15 Q. Who did?

16 A. We did. Staff did.

17 Q. So is it fair to say that -- well, strike that.

18 Did the company provide any sort of -- well, do  
19 you believe that the company's testimony -- the prefiled  
20 testimony that was submitted in this case, did it address  
21 the acquisition numbers in any great detail prior to the  
22 rejoinder testimony?

23 A. I know Mr. Rowell testified that some of the  
24 funds were used for acquisitions.

25 Q. Did they provide anything subsequent that

1 addressed in further detail where they say the funds have  
2 been spent as far as acquisitions go?

3 A. No. I don't recall that until later.

4 Q. Until Exhibit A-33, for instance?

5 A. Yeah. Right.

6 Q. Or rejoinder testimony of Mr. Hill?

7 A. Yes.

8 Q. Okay. Is there anything about your testimony  
9 that you have provided so far that you would like to  
10 clarify?

11 A. No.

12 MR. VAN CLEVE: Okay. That's all the redirect I  
13 have, Your Honor.

14 ALJ WOLFE: Okay. Thank you.

15 Mr. Patterson, your name came up there.

16 Do you have recross on it?

17 MR. PATTERSON: I do have recross on that narrow  
18 issue.

19

20 RECCROSS-EXAMINATION

21

22 Q. (BY MR. PATTERSON) Good afternoon, Ms. Jaress.

23 A. Good afternoon.

24 Q. I asked you a series of scenarios, each of which  
25 was the second part of a two-step analysis. And while I

1 don't have the transcript in front of me, my recollection  
2 was that you concluded that the ACC would have to do a  
3 two-step analysis for various ratemaking issues.

4 Mr. Van Cleve asked you about that just now. The  
5 answer that you gave, although I don't have the transcript  
6 in front of me, was opposite from the answer I recall from  
7 last time. I would like to ask you simply two very short  
8 hypotheticals that are each less than one line.

9 And that is: If I build a well and it is  
10 determined to be used and useful and I build it with CIAC,  
11 what is my rate base?

12 A. Zero.

13 Q. Thank you.

14 If I build the same well also using CIAC and it's  
15 determined not to be used and useful, what is my rate  
16 base?

17 A. Negative.

18 Q. Negative what?

19 A. Well, you didn't say.

20 Q. I'm sorry. A \$100,000 well.

21 A. You said CIAC?

22 Q. I built a \$100,000 well with CIAC. It is  
23 determined not to be used and useful.

24 What is my rate base?

25 A. Okay. In that order, you built a well. You

1 built the well. You accepted CIAC. You come in for  
2 rates, and whether it's used and useful or not, it's zero.

3 Q. So the rate base is zero in both scenarios?

4 A. Yes.

5 MR. PATTERSON: No further questions.

6 ALJ WOLFE: Mr. Rich.

7 MR. RICH: Thank you, Your Honor.

8

9

RECROSS-EXAMINATION

10

11 Q. (BY MR. RICH) I just have a couple follow-up  
12 questions on Exhibit A-48.

13 And I guess as a follow-up to that, a couple  
14 sentences you read on page 12 -- at the top of page 12,  
15 you read the sentence, "Coordinator shall be responsible  
16 for payment of any and all such additional costs for  
17 off-site facility as requested by WUGT or HUC or as  
18 otherwise required."

19 Does that language suggest to you that this  
20 agreement is a substitute for the future payment of CIAC  
21 or AIAC?

22 A. Okay. Where are those sentences?

23 Q. I apologize. This is at the top of page 12.

24 A. Okay.

25 Q. I read the last sentence of the first paragraph.

1 Not No. 8, but at the top of the page that sentence reads,  
2 "Coordinator shall be responsible for payment of any and  
3 all such additional costs for off-site facilities as  
4 requested by WUGT or HUC or as otherwise required."

5 Do you see where I'm at?

6 A. Yes.

7 Q. Okay. And does that language suggest to you that  
8 this agreement and the money that is paid pursuant to this  
9 agreement is intended to replace any future payment of  
10 AIAC or CIAC?

11 A. Yes.

12 Q. And then, if I could, on page 3 of that same  
13 agreement, Exhibit A-48, the last full sentence, the last  
14 sentence that is entirely on that page, if you could read  
15 that.

16 A. "Coordinator shall coordinate and arrange" --

17 Q. I'm sorry to interrupt. The sentence following  
18 that, I believe. It's the last full sentence of the --

19 A. "Under this agreement" --

20 MR. SABO: Your Honor, I'm sorry. I'm going to  
21 object insofar as this is beyond the scope of the  
22 redirect.

23 MR. RICH: Your Honor, the redirect asked  
24 questions about this agreement and the provisions. If you  
25 want me to lay some more foundation from page 12.

1 ALJ WOLFE: You can ask foundational questions.  
2 I think I see where you are going.

3 MR. RICH: Sure.

4 Q. (BY MR. RICH) On page 12 -- sorry to make you  
5 turn the page again -- paragraph 8, the first sentence  
6 there, you, I believe, were asked to read aloud before,  
7 and I wouldn't ask you to do that.

8 Is that correct?

9 A. Yes.

10 Q. And did that suggest to you that this agreement  
11 guaranteed -- that through this agreement Global Water  
12 Resources was guaranteeing the construction, engineering,  
13 design, financing of water treatment facilities?

14 A. Yes.

15 Q. Or I'm sorry, of recycle water treatment plant?

16 A. Yes.

17 Q. And if you look at the last sentence -- the last  
18 full sentence on page 3 starting under this agreement,  
19 does that suggest to you that not only is the coordinator,  
20 Global Water Resources, required to build -- required to  
21 guarantee the construction of a recycled water treatment  
22 plant but also to guarantee the provision of all utility  
23 service?

24 A. To guarantee the provision of utility services,  
25 and I assume -- there it is -- water utility service are

1 water, wastewater, and reclaimed water, plant and services  
2 to the land collectively utility services.

3 Q So is it your understanding under this agreement  
4 that if the developer enters into this agreement and pays  
5 the amount due, that they are then guaranteed of paying no  
6 further amounts for the installation of water, sewer, or  
7 reclaimed water facilities; they get the guarantee that  
8 the plant will be installed -- I'm sorry -- and they get  
9 the guarantee that the plant will be installed?

10 A Yes.

11 MR. RICH: Thank you very much. I appreciate  
12 your time.

13 THE WITNESS: Okay.

14 ALJ WOLFE: Mr. Pozefsky.

15 MR. POZEFSKY: I just have a few, Your Honor.

16

17 RE-CROSS-EXAMINATION

18

19 Q (BY MR. POZEFSKY) Ms. Jaress, I want to follow  
20 up with a few questions that were asked by your counsel  
21 regarding the acquisition adjustment and the fact that  
22 they weren't requested here.

23 In this case it is Global's parent that made the  
24 acquisitions; correct?

25 A Yes.

1 Q And the only way an acquisition adjustment could  
2 be passed on to ratepayers is if the utility actually  
3 requests it; correct?

4 A Yes.

5 Q And as we've established, the utility hasn't  
6 requested it here in this case; correct?

7 A Correct.

8 Q Do you know why?

9 A Nope, I don't.

10 Q Part of Global's -- part of the utility's parent  
11 acquiring all of its acquisition, did the utility come in  
12 before the Commission and ask for predetermination of  
13 ratemaking treatment?

14 A No.

15 Q Given the company's recommendations, do you think  
16 that would have been advisable?

17 A Yes.

18 Q In your opinion, Ms. Jaress, should the company  
19 be rewarded in this case in some other manner for not  
20 requesting an acquisition premium?

21 A No.

22 Q You were handed an exhibit -- and there should  
23 only be two more questions -- Exhibit No. A-46, and that  
24 had to do with regard to the acquisition adjustment. You  
25 were asked some questions on that, one of the orders.

1 That decision was decided in 2000?

2 A. Was that the water task force decision?

3 Q. Yes.

4 A. Yes.

5 Q. Has the Commission adopted a policy since then  
6 awarding acquisition adjustments when requested?

7 A. Have they -- I'm sorry.

8 Q. Adopted a policy of allowing for acquisition  
9 adjustments when they have been requested since then?

10 A. No, not that I'm aware of.

11 Q. Is there anything unique about this case or this  
12 period of time in Arizona history that the Commission  
13 should change its policy and start approving acquisition  
14 adjustments, in your opinion?

15 A. No.

16 MR. POZEFSKY: Thank you, Ms. Jaress. That is  
17 all I have.

18 Thank you, Your Honor.

19 ALJ WOLFE: Mr. Sabo, do you have any?

20 MR. SABO: Can I have a moment?

21 ALJ WOLFE: Yes.

22 MR. SABO: No questions, Your Honor.

23 ALJ WOLFE: Okay. Do you have any redirect on  
24 the recross, Mr. Van Cleve?

25 MR. VAN CLEVE: No, Your Honor.

1 ALJ WOLFE: Okay. Thank you for your testimony.

2 You are excused as a witness.

3 THE WITNESS: Thank you.

4 ALJ WOLFE: Mr. Sabo did a very thorough job.

5 Mr. Van Cleve and Ms. Vohra, does that conclude  
6 Staff's presentation of its case?

7 MR. VAN CLEVE: That does, Your Honor.

8 ALJ WOLFE: Yes, Mr. Patten.

9 MR. PATTEN: Your Honor, we would like to call  
10 Mr. Hill as a rebuttal testimony. Probably 15 minutes of  
11 questions for him at most.

12 ALJ WOLFE: Okay. I have a feeling that might  
13 elicit some other examination. We can bring him up and --  
14 but if there are some other questions, we will go ahead  
15 and convene tomorrow morning. I want people to know that.  
16 I don't want to go too much past 4:45 today. That is  
17 fine.

18 Would you rather wait until tomorrow?

19 MR. PATTEN: No, we will go ahead and put him up  
20 now.

21 ALJ WOLFE: Let's go off the record so we can get  
22 situated.

23 (Discussion off the record.)

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

25 Mr. Patten, would you like to recall your

1 witness?

2 MR. PATTEN: Sure. We call Trevor Hill.

3

4

TREVOR HILL,

5 called as a rebuttal witness herein, appearing on behalf  
6 of the Applicants, having been previously sworn by the  
7 Certified Reporter, was examined and testified as follows:

8

9

ALJ WOLFE: Good afternoon, Mr. Hill.

10

THE WITNESS: Good afternoon.

11

ALJ WOLFE: Please, go ahead.

12

13

DIRECT EXAMINATION

14

15 Q. (BY MR. PATTEN) Mr. Hill, you participated in  
16 several acquisitions within the state of Arizona, haven't  
17 you?

18

A. Yes.

19

20 Q. And by acquisitions it's acquisition of water and  
21 or sewer companies?

21

A. Yes.

22

23 Q. And how many acquisitions have you actually  
24 completed in Arizona?

24

A. In the range of 25 to 30 acquisitions.

25

Q. And was that both in your role for Global Water

1 and your prior employer?

2 A. Yes.

3 Q. And have those acquisitions ranged in the  
4 purchase price?

5 A. Yes. There a dramatic range in purchase price  
6 when it comes to acquisitions, anything from less than \$1  
7 million and paid immediately to greater than \$60 million  
8 paid over time. So there is a significant range to prices  
9 as they relate to acquisitions.

10 Q. And your participation in acquisitions have  
11 covered that range?

12 A. It has.

13 Q. All right. And have those acquisitions that you  
14 have participated in varied in CC&N size?

15 A. Yes. In addition to the range in prices there is  
16 also a very dramatic range in CC&N areas from anything  
17 from maybe a few hundred acres to up to 100 square miles  
18 or multiple tens of thousands of acres. So the ranges of  
19 CC&Ns can be very dramatic.

20 Q. And have the operating revenues of the target  
21 companies varied in your acquisitions?

22 A. Absolutely. In some cases we've acquired tiny  
23 companies without any operating revenues; in other cases  
24 we've acquired companies with 10- or \$20 million of  
25 operating revenue. So, yes, a huge range as well.

1 Q In your experience what have you found to be the  
2 main valuation factors in the mind of the owners of the  
3 target companies?

4 A Well, there is a broad disparity of views on  
5 valuation. And in the minds of the owners, valuation  
6 stems from revenues, territory, their CC&N, location,  
7 growth potential, their rate base, and other factors.

8 Q And the priority of those factors vary from owner  
9 to owner?

10 A They do.

11 Q And in your mind what are the most vital  
12 valuation factors?

13 A Well, there are many, and the calculus is complex  
14 to be sure. But suffice it to say that --

15 Q To clarify, that is in your mind as a buyer one  
16 of the most important factors when purchasing?

17 A As a buyer there are many criteria to evaluate,  
18 and certainly the list I have given you is not inclusive.  
19 But suffice to say that this Commission over its history  
20 has in some cases granted very large CC&N areas to very  
21 tiny companies. And on many occasions I find myself  
22 looking at areas 60, 70, 80, 90 square miles, some cases  
23 with 100 or 200 customers, and trying to develop a  
24 methodology for valuing CC&N.

25 This is a very difficult process. CC&N really

1 has no book value or is limited value from a Corporation  
2 Commission perspective. But from a valuation perspective,  
3 particularly in the eyes of the owner, a 100-square-mile  
4 CC&N has tremendous value.

5 So it's very difficult to establish a multiple of  
6 rate base or multiple of cash flow when you are dealing  
7 with a situation with a few hundred customers in  
8 potentially 100 square miles of CC&N. And this has been  
9 the complexity -- the most complex element of my role in  
10 performing, personally, multiple acquisitions in Arizona.

11 MR. VAN CLEVE: Your Honor, I am wondering what  
12 the relevance of this is in this case.

13 ALJ WOLFE: Mr. Patten?

14 MR. PATTEN: There has been a fair amount of  
15 discussion about acquisitions in this case, and there has  
16 been some suggestion supplied by Staff that perhaps Global  
17 has paid more than they should have and made comments to  
18 the extent of what an appropriate acquisition price would  
19 be. But I don't think Staff has provided any personal  
20 experience on that, so we are providing some information  
21 on the acquisition process and how we end up reaching the  
22 acquisition prices that we've paid and the premiums that  
23 go on long with those acquisitions.

24 ALJ WOLFE: I will allow it. I do see that it's  
25 relevant.

1           So please go ahead.

2           MR. PATTEN: Thank you.

3           Q.     (BY MR. PATTEN) Is it fair to say, Mr. Hill,  
4 that there is usually spirited negotiation over which  
5 valuation factors to use in a particular acquisition?

6           A.     Yes, that is fair to say.

7           Q.     And how long do -- these negotiations take some  
8 time to complete?

9           A.     I think it's fair to say there is no such thing  
10 as a rapid acquisition. These acquisitions generally take  
11 anywhere from many months to many years.

12          Q.     And is there an average time or is each one  
13 relatively unique?

14          A.     I would be guessing, but I would say six months  
15 would be the average.

16          Q.     Does the amount of the acquisition or size of  
17 acquisition price dictate the timing or are there other  
18 factors that dictate it as well?

19          A.     Well, prior to the economic turndown, timing was  
20 a very material issue. And primarily because growth was  
21 occurring in the areas where there were small less-capable  
22 utilities, and often there was pressure to develop those  
23 utilities rapidly or simulate them rapidly because time is  
24 money to developers. And in many case they were unable to  
25 develop within areas with smaller utilities in the path of

1 growth.

2 Q So when developers get involved, that affects the  
3 timing as well?

4 A Yes, it does.

5 Q You said you have been involved with 20 or 30  
6 acquisition transactions.

7 How many of those have actually been completed  
8 and closed?

9 A All of them.

10 Q Have there been any investigation of companies  
11 which you concluded not to purchase the companies?

12 A Yeah. My hit rate, I'm sure, is about one in  
13 ten. So for every company we ultimately acquire, I'm sure  
14 we've looked at ten times that.

15 Q Do the parties involved in acquisitions prefer a  
16 stock transaction or an asset sale transaction?

17 A Well, I would have to say that most sellers would  
18 prefer a stock transaction.

19 Q Why is that?

20 A Well, there are very, very material differences  
21 between a stock transaction and as asset transaction, and  
22 there are many different ways to look at that. But  
23 primarily the tax consequences of an asset transaction to  
24 the seller are profoundly different than the tax  
25 consequences of a stock transaction to the seller, and I

1 can explain if you would like.

2 Q. And from Global's point of view, is there a  
3 difference from an asset transaction or a stock  
4 transaction?

5 A. Well, historically we can pay less for a company  
6 by using a stock transaction, and that has primarily to do  
7 with the seller's tax consequences.

8 I can explain that if you would like.

9 Q. Sure.

10 A. What happens when you acquire a company and you  
11 acquire stock from a seller, particularly a mom-and-pop  
12 company that has been around for a long time, their stock  
13 base is typically zero. Whatever you pay them is deemed  
14 to be a capital by the IRS, and it's taxed at the capital  
15 gains rate, which is approximately 20 percent -- 15  
16 federal and 5 state. That is a significant benefit to the  
17 seller.

18 The benefit to the buyer in a stock transaction  
19 is that you have -- certainly that you have 100 percent of  
20 the regulated assets, which includes the physical assets  
21 as well as the CC&N and other assets associated with the  
22 utility including contracts, water rights, things of that  
23 nature. So there are benefits to both sides considering a  
24 stock transaction.

25 An asset transaction, on the other hand, is much

1 more complicated and much more time consuming.

2           When you look at an asset transaction, what you  
3 are essentially doing is buying assets out of an existing  
4 entity. What that means is that the company still exists,  
5 but the assets are being sold to another company. What  
6 that means is that the company, the shell company, the  
7 company that previously held the CC&N and the assets of  
8 the company, recognizes the sale of its assets and CC&Ns  
9 as ordinary income to that company. If that company is a  
10 C corporation, that company is taxed at a 40 percent or  
11 approximately 40 percent income tax rate.

12           So what happens is, hypothetical example, you buy  
13 a company for -- you buy the assets for a company for  
14 \$1 million. Those assets and the CC&N, other contracts  
15 transfer to the new owner. That company still exists. It  
16 recognizes \$1 million of taxable income, 40 percent of it  
17 is immediately taxed at the company level. Then the money  
18 -- to transfer that money to a seller is considered  
19 dividend income and is taxed again in the hands of the  
20 owner. And that is an additional 30 or 40 percent  
21 depending on the margin tax of the seller himself.

22           So the combined effect of those two principals  
23 deals a 60 or 70 percent tax rate on the sale of the  
24 company's assets to the ultimate seller or the individual.

25           So it's a material swing in value. And what that

1 typically does -- all owners know this -- and as a result  
2 of that the price to buy exactly the same company in an  
3 asset sale versus a stock sale can be 60 or 70 percent  
4 greater.

5 Q. Is Global indifferent to the price it pays for  
6 acquisitions?

7 A. Absolutely not. We consider ourself to be frugal  
8 and also good negotiators, so, no.

9 Q. Any other reasons for not being indifferent to  
10 the price?

11 A. Well, we ultimately, because of the complexity of  
12 the valuation equation, we've attempted to drive the price  
13 down as low as possible through prolonged and complex  
14 negotiations.

15 MR. PATTEN: I think that's all I have, Your  
16 Honor. Thank you.

17 ALJ WOLFE: Thank you.

18 Mr. Patterson, do you have any cross-examination  
19 on that rebuttal testimony?

20 MR. PATTERSON: About three minutes' worth, Your  
21 Honor.

22 ALJ WOLFE: Okay.

23

24

25

## 1 CROSS-EXAMINATION

2

3 Q. (BY MR. PATTERSON) Good afternoon, Mr. Hill.

4 Can you tell me in laymen's terms what a CC&amp;N is?

5 A. Well, in laymen's terms a CC&N is the service  
6 territory right -- a perpetual service territory right.

7 Q. Is it a monopoly?

8 A. It is.

9 Q. So it's a unique right to serve water in a  
10 certain area?

11 A. It is.

12 Q. And there are other industries that provide  
13 monopolies as well, for example, car dealerships,  
14 McDonald's restaurants, franchises?

15 A. I would have to say those are different.

16 Q. They are different in that you can compete with  
17 other things, but if you have a McDonald's and it comes  
18 with a right to be the only person that serves McDonald's  
19 hamburgers within a certain geographic area, is that right  
20 valuable?

21 A. It is.

22 Q. And if I were choosing between buying a  
23 McDonald's that has an exclusive franchise within a  
24 one-block area of the existing asset and an identical  
25 McDonald's that has an exclusive right to sell McDonald's

1 hamburgers within 60 square miles of that McDonald's,  
2 would those McDonald's have the same value?

3 A. No, they would not.

4 Q. Which one would be worth more?

5 A. I think we would have to conclude that the  
6 McDonald's with the greater franchise area, exclusive  
7 franchise area, would be worth more than the one with the  
8 smaller franchise area.

9 Q. And yet from a traditional ratemaking view they  
10 would look identical?

11 A. They would.

12 Q. And so if you bought one, you would have a large  
13 acquisition premium, and if you bought one, you wouldn't?

14 A. That is true.

15 Q. Does that mean you are a bad negotiator?

16 A. I would hope not.

17 Q. Reminding you that you are under oath, Mr. Hill,  
18 do you pay your taxes?

19 A. I do.

20 Q. Can you eventually prove to the Commission that  
21 you pay your taxes?

22 A. I can.

23 Q. Indeed. No further questions.

24 ALJ WOLFE: Mr. Rich?

25 MR. RICH: I have no questions. Thank you.

1 ALJ WOLFE: Mr. Pozefsky?

2 MR. POZEFSKY: I have no questions. Thank you.

3 ALJ WOLFE: Mr. Van Cleve?

4 MR. VAN CLEVE: Just one question, I think.

5

6

CROSS-EXAMINATION

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8 Q (BY MR. VAN CLEVE) Would you agree it's a  
9 business decision to decide to acquire another water  
10 company and all that goes along with it?

11 A Yes, it is.

12 Q So the decision to pay more or less for a company  
13 is a decision that the company makes in deciding to  
14 purchase that company?

15 A Yes, it is.

16 Q And then I lied. I have one more question.

17 The other is, is another reason that it's  
18 preferable to acquire a company through stock versus  
19 assets is that you have to come to the Commission for  
20 approval to purchase assets?

21 A Well, not in my case, no. We are a Class  
22 A utility, and therefore there is no differentiation  
23 between asset and stock purchases at this stage. So, no,  
24 that is not a factor.

25 Q Who is the Class A utility?

1 A Well, Global, because the affiliate rules now is  
2 deemed to be a Class A holder of utilities.

3 Q Global parent?

4 A Global parent, as the ultimate acquirer.

5 MR. VAN CLEVE: Okay. That is all the questions  
6 I have.

7 MR. PATTEN: Just for the record, it's Santa Cruz  
8 and Palo Verde, I think, both exceed the \$5 million of  
9 annual revenue that make them a Class A utility.

10 ALJ WOLFE: Okay. Thank you.

11 Do you have any redirect?

12 MR. PATTEN: No redirect.

13 ALJ WOLFE: Okay. Thank you very much for your  
14 testimony again. You are excused as a witness.

15 THE WITNESS: Thank you.

16 ALJ WOLFE: And let's go off the record for a  
17 moment while we discuss schedules for post-hearing  
18 filings.

19 (Discussion off the record.)

20 ALJ WOLFE: There was a discussion about briefing  
21 schedules, and it was determined that the best dates would  
22 be February 5th for filing of the closing briefs. And  
23 parties would file their closing schedules on that date as  
24 well. And reply briefs would be due February 19th.

25 Okay. Are there any other procedural issues that

1 the parties would like to discuss?

2 MR. PATTEN: We do have a late-filed exhibit to  
3 submit that Commissioner Mayes asked for, and we are in  
4 the process of getting that together. We will hopefully  
5 file that within the next week or so.

6 ALJ WOLFE: I'm going to go ahead on the record  
7 and have that referred to as Exhibit A-53, and that is a  
8 late-filed exhibit regarding renewable energy cost  
9 recovery that was discussed when Commissioner Mayes was  
10 asking questions when Mr. Hill was on the stand.

11 MR. PATTEN: Correct. We will also provide a  
12 corrected Exhibit A-3 to the court reporter directly.

13 ALJ WOLFE: That sounds acceptable.

14 MR. PATTEN: I think Mr. Sabo has a couple other  
15 questions.

16 MR. SABO: Just on the post-hearing submission, I  
17 think you had also asked for the decision number of that  
18 WIFA loan approval.

19 ALJ WOLFE: Yes.

20 MR. SABO: And then those were all the  
21 post-hearing things that I had in my notes, but I wanted  
22 to see if you were expecting anything else.

23 ALJ WOLFE: That's it. You don't have that  
24 decision number right now? Will you put it in your brief?

25 MR. SABO: Unfortunately I forgot to bring it

1 with me.

2 ALJ WOLFE: That is not a problem. It will be  
3 referred to in your brief?

4 MR. SABO: Yes.

5 ALJ WOLFE: That is just fine.

6 Is there anything else?

7 Okay. Thank you very much. It's been a very  
8 interesting hearing, and I look forward to reading your  
9 briefs. Thank you.

10 (The hearing concluded at 4:58 p.m.)

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1 STATE OF ARIZONA )  
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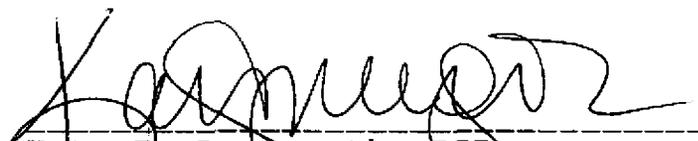
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I, KATE E. BAUMGARTH, RPR, Certified Reporter  
 No. 50582, for the State of Arizona, do hereby certify  
 that the foregoing printed pages constitute a full, and  
 accurate transcript of the proceedings had in the  
 foregoing matter, all done to the best of my skill and  
 ability.

WITNESS my hand this 8th day of January, 2010.

  
 Kate E. Baumgarth, RPR  
 Certified Reporter, No. 50582