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Thomas Bremer  
6717 E. Turquoise Ave.  
Scottsdale AZ 85253  
480-209-7112

January 6, 2013

AZ CORP COMMISSION  
DOCKET CONTROL

ORIGINAL

Arizona Corporation Commission  
Docket Control  
1200 W. Washington St.  
Phoenix, AZ 85007

**Subject: RESPONSES TO PAYSON WATER COMPANY (PWC) REGARDING IMPACT OF WATER RATE CASE ON EAST VERDE PARK (EVP) RATE PAYERS in the Applications of Payson Water Company for an Increase in its Rates and Charges for Utility Service, and to Incur Debt and Encumber its Property as Security for Such Indebtedness.**

**DOCKET NO. W-03514A-13-0111 and W-03514A-13-0142 (consolidated)**

**References:**

1. **W-03514A-13-0111 Document No. 0000149561, T. Bremer Request for Discovery, November 14 2013**
2. **W-03514A-13-0111 Document No. 0000149597, T. Bremer Notice of Errata and Revision, November 19 2013**
3. **Payson Water Company Docket No. W-03514A-13-0111, Response to Thomas Bremer, East Verde Park Water Comm. First Set of Data Requests, November 22, 2013**
4. **W-03514A-13-0111 Document No. 0000150385, PWC Rebuttal Testimony, December 6, 2013**
5. **W-03514A-12-0300 Document No. 0000136602, PWC Proposed Curtailment Tariff [Water Hauling Surcharge] for EVP Water System, July 3, 2012**
6. **W-03514A-12-0300 Document No. 0000138079, ACC Staff Response and Rejection of PWC Proposed Curtailment Surcharge for EVP Water System, July 19, 2012**
7. **W-03514A-13-0111 Document No. 0000145511, PWC's Rate Increase Application**

On November 15 I, Thomas Bremer, an intervenor in the cases of the above consolidated dockets, filed the Reference 1 Request for Discovery document.

On November 19 I filed the Reference 2 Notice of Errata and Revision to Reference 1.

On November 22, PWC provided by e-mail the Reference 3 response to Reference 1.

On December 6, PWC filed the Reference 4 document, which includes a renewed request for a water hauling surcharge in the EVP community.

The purpose of this present filing by intervenor Thomas Bremer is three-fold:

1. To bring to record the EVP water petition, provided in preliminary form as Attachment 1 of References 1 and 2.
2. To respond to PWC's inputs of Reference 3, which has not to date been brought to record in the docket documents.
3. To respond to PWC's re-proposal to impose water hauling surcharges on EVP customers, as described in Jason Williamson testimony of Reference 4.

In submitting this document, I do not expect response or comment from PWC before the scheduled January 13 Phase2 rate case hearing, as I expect the issues raised will be fully addressed in the hearing. However, I offer the signed EVP petition and my responses for consideration by the Arizona Corporation Commission (ACC) Staff, Judge, and Commissioners, in arriving at the ultimate decisions in the matters of the subject dockets.

**Part 1: Signed Petition, "Petition to Prevent Unjust and Unreasonable Increase in Fees and Rates for Water, Proposed by Payson Water Company, for Owners & Residents of the East Verde Estates Community near Payson, Arizona"**

The EVP petition was provided in Attachment 1 of References 1 and 2, without signatures, to document the basis for EVP's objection to PWC's proposed fee and rate increases. The petition with signatures from 75 EVP property owners, renters, and stakeholders affected by the PWC water service is provided in Attachment 1 of this present document.

**Part 2: T. Bremer Responses to PWC's "Response to Thomas Bremer, East Verde Park Water Comm. First Set of Data Requests", November 22, 2013**

The Reference 3 PWC responses to my data requests of References 1 and 2 are provided in Attachment 2. For ease of reading and interpretation, I have inserted my comments directly below the text of the PWC's responses in Reference 3.

**Part 3: Response to PWC Re-proposal to Impose Water Hauling Surcharges on EVP Customers**

In the Reference 4 document, specifically Part VI of the Jason Williams testimony, "Request for East Verde Park Hauling Surcharge", PWC proposes again to impose a water hauling surcharge on the ratepayers in the EVP community. The EVP Water Committee strongly objects to this proposal, for the following reasons:

1. PWC previously proposed water hauling surcharges for the EVP community, in the Reference 5 document. The ACC wisely rejected this proposal in Reference 6,

noting that “Expenses of these amounts [\$2850 for 2011 and \$5990 for 2012] provide insufficient information for Staff to conclude that any of the three usual requirements (situation of sudden change, situation of Company insolvency, or inability to maintain service) have been met to qualify as an emergency. Based on the information filed by the Company, Staff concludes there is no emergency condition existing currently.” The previous reason for rejecting an EVP hauling surcharge is still valid.

2. In Reference 6, the ACC further suggested that PWC may include any such request in a future permanent rate case filing. However it is totally inappropriate for PWC to sneak additional costs into the rate case of Docket W-03514A-13-0111 at this late date, without prior disclosure, public notice, or opportunity for detailed review and debate.
3. Water hauling at EVP is necessitated by the inadequate water system infrastructure in the EVP community, as was described in Item 10 of References 1 and 2. It is not reasonable for PWC to charge ratepayers at EVP for these long-standing deficiencies.
4. In Reference 4, Mr. Williamson contends that “The wells in EVP are like most well sources in this area - they just do not produce a consistently sustainable supply in significant quantities, and it is generally uncertain whether there is more water deeper down.” This statement is pure conjecture, with no substantiating data. In fact, there is evidence to the contrary. EVP is not like Mesa Del Caballo (MDC), which is located on a high mesa requiring well depths up to 450 feet. Well-drilling at MDC has been stated by PWC to entail a high risk of “dry holes”. In contrast, EVP is located in a canyon atop a productive aquifer with stable water level, requiring well depth of 100 feet or less (the existing PWC wells have casing depths ranging from 40 to 100 feet, according to Reference 7). There are a number of productive private wells throughout the community, attesting to the widespread distribution of accessibility to the aquifer. The most recent private well was brought into service this past summer at 723 W. Detroit Drive.

PWC has made no attempt has been made to upgrade the 1950s-era water infrastructure at EVP, despite acknowledgement by Brooke Utilities’ Robert Hardcastle as far back as 2001 that this is necessary, although deemed a low priority at the time. Refer to Mr. Hardcastle’s letter of January 2001, in Attachment 2B of References 1 and 2: “We have budgeted improvements totaling \$16,000, which involve production, storage, site security, instrumentation and controls, and pressurization”, and “In some cases this production surplus is not as great as desired and contributes to our **[PWC’s] recognition that the improvements scheduled for next year are warranted and necessary**”. Nothing has been done in the intervening 13 years, and now Mr. Williamson summarily dismisses infrastructure improvements in favor of water hauling surcharges.

5. In Reference 4, Mr. Williamson further contends that “Additionally, SRP, who controls the flow of the East Verde River, which runs adjacent to EVP, has some claims related to all of the water in the area.” This is not true. While SRP has claim

to the surface water in the EVP community, specifically the East Verde River, SRP has no current claim to subsurface ground water in the EVP community. This was corroborated by Brooke Utilities' Robert Hardcastle during meeting with EVP representatives on March 20, 2013. The possibility for future SRP claim to groundwater at EVP was discussed at length in the meeting. Mr. Hardcastle specifically noted that PWC's groundwater sources serving EVP are under little or no influence of surface water, based on comparison of water flow measurements of the East Verde River upstream and downstream of the EVP community, providing little basis for such SRP claim under current statutes or precedents. Of course, this could change in the future, and after 13 years of non-action, one questions if PWC's strategy is to continue to stall and delay any additional well capability until such time that they can validly assert that an additional PWC well conflicts with other claims.

6. To the extent that hauling surcharges are intended to promote water conservation, it should be pointed out that the average monthly water consumption at EVP is already the third lowest of all the PWC water systems. 2012 data indicate an average per-customer consumption of 2208 gallons at EVP, compared to 3081 average for all PWC water systems. This is even lower than the 2964 gallon average 2012 monthly per-customer usage at MDC, when hauling surcharges were in effect at MDC.
7. Water production and usage data for EVP do not support a water hauling surcharge. The summary of water systems in PWC's original rate case filing, Exhibit A of Reference 7, indicate that in 2012 PWC sold 3,736,000 gallons to EVP customers, while pumping 5,923,000 gallons (see excerpt below). A full 2,187,000 more gallons were pumped from EVP wells than were sold to EVP customers. This is not explained by water leakage from the system, especially in light of the March 20 2013 meeting between Brookes Utilities' Robert Hardcastle and EVP representatives, during which Mr. Hardcastle emphatically stated that the EVP water system is sound and has very low leakage. This 2-million-plus gallon disconnect supports the conclusion that the water curtailments are not due to PWC's claim of insufficient available water in the local aquifer. This also supports anecdotal accounts by some EVP residents that PWC has in fact been hauling water out of EVP to other communities during the dry season. If PWC is pumping substantially more water at EVP than they are delivering to EVP customers, then a water hauling surcharge is outrageous.

In short, PWC's request for a water hauling surcharge at EVP is unjust, unreasonable, and should be dismissed.

Furthermore, it should be pointed out that the criteria proposed by PWC in Exhibit JW-RB3 of Reference 4, for determining a customer's compliance with mandatory water restrictions, are not reasonable, as they are not uniformly applied to all customers. Compliance is based on percentage reductions from the each customer's prior usage history, the higher of either the previous month or the same month for either of the last two years. Obviously, this history varies by customer. Under this criterion, for example, a PWC customer who is sometimes absent from EVP (not unusual for seasonal residents) and used zero gallons the prior month and zero gallons in the same month of

the preceding two years could have water service disconnected and subject to up to a \$1500 reconnection fee for using a single gallon of water.

**PWC Water Use Data for EVP, Excerpt from Reference 7, Exhibit A**

<b>COMPANY NAME:</b> Payson Water Co., Inc.				
<b>Name of System:</b> East Verde Park Estates <b>ADEQ Public Water System Number:</b> PWS 04-026				
<b><u>WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2012</u></b>				
<b>MONTH</b>	<b>NUMBER OF CUSTOMERS</b>	<b>GALLONS SOLD (Thousands)</b>	<b>GALLONS PUMPED (Thousands)</b>	<b>GALLONS PURCHASED (Thousands)</b>
JANUARY	143	179		
FEBRUARY	141	251		
MARCH	141	268		
APRIL	141	311		
MAY	141	369		
JUNE	142	494		74
JULY	141	414		74
AUGUST	140	356		15
SEPTEMBER	141	304		
OCTOBER	141	314		26
NOVEMBER	141	242		18
DECEMBER	140	228		
<b>TOTALS →</b>		3736	5923	207

**Attachments:**

1. Signed Petition, "Petition to Prevent Unjust and Unreasonable Increase in Fees and Rates for Water, Proposed by Payson Water Company, for Owners & Residents of the East Verde Estates Community near Payson, Arizona"
2. Payson Water Company Docket No. W-03514A-13-0111, Response to Thomas Bremer, East Verde Park Water Comm. First Set of Data Requests, November 22, 2013 [with T. Bremer responses Jan6, 2014 inserted]

**Copies to:**

ACC Docket Control (13 copies)

Jason Williamson, President of Payson Water Company  
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 Denver, CO 80230

Thomas J. Bourassa, Consultant for Payson Water Company  
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Kathleen M. Reidhead, Intervenor  
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Phoenix, AZ 85044

William Sheppard, Intervenor  
6250 North Central Avenue  
Phoenix, AZ 85012

J. Stephen Gehring & Richard M. Burt, Intervenors  
8157 W. Deadeye Rd.  
Payson, AZ 85541

Suzanne Nee  
2051 E. Aspen Dr.  
Tempe, AZ 85282

# Attachment 1

**Petition to Prevent Unjust and Unreasonable Increase in Fees and Rates for Water,  
Proposed by Payson Water Company,  
for Owners & Residents of the East Verde Estates Community near Payson, Arizona  
(Reference ACC consolidated dockets W-03514A-13-0111 and W-03514A-13-0142)**

We, the undersigned owners and residents of the East Verde Estates community (aka: East Verde Park [EVP]), north of Payson, Arizona, object to the fee and rate increases for water service provided by JW Holdings, dba Payson Water Company (PWC), as described in PWC's application for fee and rate increase, filed with the Arizona Corporation Commission (ACC) on docket W-03514A-13-0111, and announced to EVP customers via Public Notice in September water bill enclosure.

The justification for our objection is as follows:

1. The rate and fee increases result in water bills at EVP increasing by 115% to over 220%. Such a large increase is unjust and unreasonable, inconsistent with Arizona Revised Statute 40-361: "Charges demanded or received by a public service corporation for any commodity or service shall be just and reasonable. Every unjust or unreasonable charge demanded or received is prohibited and unlawful."
2. While the owners and residents of EVP properties understand that water is a precious commodity, PWC's increases are driven in large part by a base fee increase of \$145%, from \$16.00 to \$39.24 per month, which is completely unrelated to the cost of water. Such a large increase in the base fee is unjust and unreasonable.
3. The extreme base fee increase is especially outrageous considering the frequency of water restrictions imposed on EVP owners and residents. For example, in 2013 PWC imposed Stage 3 water restrictions at EVP, continuously during the months of May through September. It is unjust and unreasonable to levy an enormous increase in the fee for water service, without assuring reasonable availability of water.
4. Review of PWC's application for rate and fee increase reveals that PWC's justification for the magnitude of the rate and fee increase is unrelated to the actual cost of providing water service at EVP. The increases are instead based on a target profit relative to asset value. While the owners and residents at EVP acknowledge PWC's right to a reasonable profit, the proposed increases are not commensurate with the historical low level of service and water system maintenance provided by PWC. It is not reasonable to impose a monthly base fee of \$39.24 per customer per month, in order to support the cost of little more than running the well pumps, reading the water meters, and billing.
5. The decrepit condition of the water infrastructure and frequent water restrictions at EVP attest to the lack of necessary maintenance and water system improvements, needed to justify any increases in fees and rates for water service at EVP.
6. The rate and fee increases proposed for EVP are inextricably linked in ACC dockets W-03514A-13-0111 and W-03514A-13-0142 for water infrastructure improvements proposed by PWC at the Mesa del Caballo community, which are completely unrelated to the circumstances at EVP. This administrative linkage between unrelated communities and issues is driving the implementation of rate and fee increases at EVP without adequate attention to the specific considerations appropriate for EVP.
7. The public notice of the rate and fee increases was given by PWC as little as 1 day prior to the Phase 1 hearing on September 25, in violation of Arizona Administrative Code R14-3-109, requiring 10 day's advance notice, thereby violating the due process rights of PWC customers at EVP.

Therefore, we, the owners and residents of East Verde Park, hereby petition the Arizona Corporation Commission to require Payson Water Company to:

- A. Exclude EVP from the rate and fee increases proposed by PWC in consolidated dockets W-03514A-13-0111 and -0142.
- B. Address any proposed rate and fee increases at EVP by an application to the ACC that is separate from the applications in Dockets W-03514A-13-0111 and W-03514A-13-0142.
- C. Support any proposed rate and fee increases at EVP with an analysis of the actual costs of providing service at EVP.
- D. Conduct an evaluation of EVP water system vulnerabilities and upgrade needs to sustain future reliable operation, as requested in the meeting between several EVP residents and PWC's Robert Hardcastle at the

# Attachment 1

offices of Fennemore Craig law firm in Phoenix on March 20, 2013, and tie any proposed rate and fee increases at EVP to the implementation of necessary upgrades.

- E. Provide Public notice to their EVP customers at least 10 days in advance of ACC hearings, consistent with Arizona Administrative Code R14-3-109.

Signed by Residents and Owners at East Verde Park, Customers of Payson Water Company:

Printed Name	Signature
1 Thomas Bremer	Tom Bremer
2 Paulette Weaver	Paulette Weaver
3 MARY CAMBIER	Mary Cambier
4 Lorri Pfundheller	Lorri Pfundheller
5 William Schultz	William Schultz
6 Ruby Hunt	Den Darnay A. Hunt
7 Carol O Farrell	Carol O Farrell
8 John R Dint	Kathleen R Dint
9 RUBY AND JERRY McBEANNEY	Ruby McBeanney
10 HAL LYNDE	Hal Lynde
11 Ken Hogan	Ken Hogan
12 Marguerite Young	Marguerite Young
13 PATRIKIA GALIHER	Patricia Galihers
14 DONALD BROOKS	Donald Brooks
15 MICHAEL GUTMACHER	Michael Gutmacher
16 Amy G. Wurtz	Amy G Wurtz
17 DONALD L KOMAR	Donald L Komar
18 MARTIN L. CHRISTY	Martin L Christy
19 GEORGE FRANKSEN	George Frankson
20 TAMARA KINNAMAN	Tamara Kinnaman
21 James M. Hinton	James M. Hinton
22 Matalyn Gardner	Matalyn Gardner
23 Joan Perkins	Joan O Perkins
24 Gerald W Nenninger Jr	Gerald W Nenninger Jr
25 Mike McDONALD	Mike McDonald

# Attachment 1

offices of Fennemore Craig law firm in Phoenix on March 20, 2013, and tie any proposed rate and fee increases at EVP to the implementation of necessary upgrades.

- E. Provide Public notice to their EVP customers at least 10 days in advance of ACC hearings, consistent with Arizona Administrative Code R14-3-109.

Signed by Residents and Owners at East Verde Park, Customers of Payson Water Company:

Printed Name	Signature
26 <del>Kathy Pierce</del>	<del>Kathy Pierce</del>
27 Bobbie Pierce	Bobbie Pierce
28 MARY Lou Kellogg	Mary Lou Kellogg
29 Ruth E Hudson	Ruth E. Hudson
30 Julie Green	Julie Green
31 Craig Green	Craig Green
32 Wetdon J. Green	Wetdon J. Green
33 Mary Helen Green	Mary Helen Green
34 Doug Eckhardt	Doug Eckhardt
35 Julie Eckhardt	Julie Eckhardt
36 Ed Eckhardt	Ed Eckhardt
37 ANGIE COCKLE	A. J. Cockle
38 Mick COCKLE	Mick Cockle
39 Denise Roth	Denise Roth
40 DONALD VAUGHN	Donald Vaughn
41 Peggy Vaughn	Peggy Vaughn
42 Mary Greenwald	Mary Greenwald
43 <del>J. Greenwald</del>	<del>J. Greenwald</del>
44 John A. Gilligan	John A. Gilligan
45 Kathy J. Gilligan	Kathy J. Gilligan
46 Mary Jo Eckhardt	Mary Jo Eckhardt
47 ANNA M. CHRISTY	Anna M. Christy

# Attachment 1

offices of Fennemore Craig law firm in Phoenix on March 20, 2013, and tie any proposed rate and fee increases at EVP to the implementation of necessary upgrades.

- E. Provide Public notice to their EVP customers at least 10 days in advance of ACC hearings, consistent with Arizona Administrative Code R14-3-109.

Signed by Residents and Owners at East Verde Park, Customers of Payson Water Company:

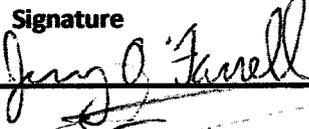
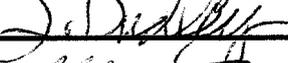
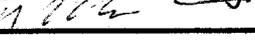
Printed Name	Signature
48 LINDA A. KRUSE	<i>Linda A. Kruse</i> 10/23/13 Lot #294
49 RICHARD LANDSHUT	<i>Richard Landshut</i>
50 <del>BRAD BOVHANS</del>	<del><i>Brad Bovhans</i></del> " "
51 <del>RAT BALCERZAK</del>	<del><i>RAT BALCERZAK</i></del> 2-5-13 #1372158
52 DAVID WRIGHT	<i>David Wright</i> 11/8/13 LOT #420 #421
53 DIANA WRIGHT	<i>Diana Wright</i> 11/14/13 25 21
54 Verla Docketer	<i>Verla Docketer</i> 11/15/13 Lot 198-197-
55 Susan McLean	<i>Susan McLean</i> 12/15/13 180
56 Gail Phillips-Hewlett	<i>Gail Phillips-Hewlett</i>
57 C. Roberts Hewlett	<i>C. Roberts Hewlett</i>
58 RICHARD BARRY	<i>Richard Barry</i>
59 SANDRA BARRY	<i>Sandra Barry</i>
60 Robert Gordon	<i>Robert Gordon</i>
61 Mary Gordon	<i>Mary Gordon</i>
<del>Judith</del>	
62 JUDITH SHERMAN	<i>Judith Sherman</i>
63 Debbie Weber	<i>Debbie Weber</i>
64 HERBERT L. SHERMAN	<i>Herbert L. Sherman</i>
<del>XXXXXXXXXXXX</del>	

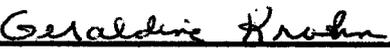
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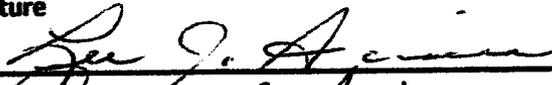
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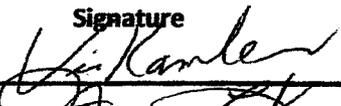
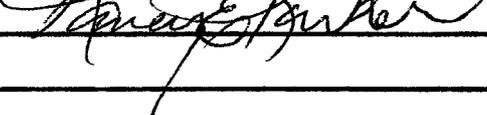
- E. Provide Public notice to their EVP customers at least 10 days in advance of ACC hearings, consistent with Arizona Administrative Code R14-3-109.

## Signed by Residents and Owners at East Verde Park, Customers of Payson Water Company:

Printed Name	Signature
65 Jerry O'Farrell	
66 John Sperry	
67 William Dudley	
68 Jessica Dudley	
69 G Kussler	

Printed Name	Signature
70 KENNETH KROHN	
71 GERALDINE KROHN	

Printed Name	Signature
72 LEE J. ACCIACCA	
73 Pamela L. Acciaccia	

Printed Name	Signature
74 VICKAMBER	
75 NANCY E. KAMBER	

PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO THOMAS BREMER,  
EAST VERDE PARK WATER COMM.  
FIRST SET OF DATA REQUESTS

November 22, 2013

Response provided by: Jason Williamson

Title: President

Company: Payson Water Company

Address: 7581 E. Academy Blvd., Suite 229

Denver, CO 80230

Company Response Number: 1

[T. Bremer Question] Q.

Please explain the relationship between the Mesa del Caballo (MDC)-Cragin project and its financing, and the general fee and rate increase affecting all communities served by PWC. If there is no relationship between these two matters, then why did PWC find it necessary to propose both in the same request, Document 0000145511 of Docket W-03514A13-0111, dated April 22, 2013?

[PWC] RESPONSE: If by "general fee and rate increase" the Intervenor means the determination of a Company-wide revenue requirement that provides the Company with a reasonable opportunity to recover its authorized return, then no, the cost of the financing the MDC-Cragin Project is not connected. The Company is not sure what is meant by both being filed in the same request as the Company filed a rate case on April 22, 2013 and a financing request on May 17, 2013. Consolidation of the two matters was not sought until August 15, 2013. It is appropriate to consider the two matters together, however, because the Company's overall financial health (to be achieved through the requested additional revenue) is necessary in order to show it can service debt. While the Company proposes that the direct cost for servicing debt will be funded only by the users of the capital improvements through a surcharge, the Company could not finance the project if its overall financial health was deemed to be inadequate to allow it to recover its cost of service. ACC and WIFA both define cost of service to be a return on and of the fair value of the utility's rate base in addition to the operating costs.

*T. Bremer Response, Jan 6, 2014: PWC's original rate increase application, Document 0000145511 of Docket W-03514A13-0111, dated April 22, 2013, proposed both the company-wide revenue requirement and the fees specific to the MDC-Cragin issue. Therefore, it is correct to assert that these two matters were linked well before PWC filed the Motion to Consolidate dockets 03514A13-0111 (rate case) and W-03514A-13-0142, on August 15, 2013.*

PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO THOMAS BREMER,  
EAST VERDE PARK WATER COMM.  
FIRST SET OF DATA REQUESTS

November 22, 2013

Response provided by: Thomas J. Bourassa, CPA

Title: Rate Consultant

Address: 139 W. Wood Drive

Phoenix, AZ 85029

Company Response Number: 2

[T. Bremer Question] Q.

Referring to Document 0000145511 of Docket W-03514A-13-0111, dated April 22, 2013: PWC's consultant, Thomas J. Bourassa, notes that "the Company is proposing to consolidate rates for all of its systems into one." [Bourassa Testimony, p14] There is no explanation given why, other than "this makes the most sense". Please explain why it is deemed just and reasonable per Arizona Revised Statute 40-361 to charge all PWC customers the same base fees and rates throughout the various communities served by PWC, without regard to differences in the cost of providing services in the individual communities.

[PWC] RESPONSE: There are a number of reasons why rate consolidation makes sense including: 1) all of the systems are owned and operated by a single utility; 2) rate consolidation is consistent with the functional consolidation in metering services, billing, collecting, management and customer service; 3) economies of scale are achieved by sharing costs over a greater number of customers; 4) all of the systems are located in the same geographical area; 5) consolidated rates promote rate and revenue stability, and improved affordability for customers of small systems; 6) equalizing rates through consolidation of systems provides a smoothing effect over discrete cost spikes across systems and over time, much like insurance pooling; 7) consolidated rates are easier to implement and less costly to administer; and 8) the predecessor water utilities (United Systems and C&S Water) were previously under consolidated rate designs.

*T. Bremer Response, Jan6, 2014: I understand the rationale, but the justification seems weak. The overall justification for a uniform rate across all systems seems to be convenience for PWC, and not fairness to customers.*

PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO THOMAS BREMER,  
EAST VERDE PARK WATER COMM.  
FIRST SET OF DATA REQUESTS

November 22, 2013

Response provided by: Jason Williamson

Title: President

Company: Payson Water Company

Address: 7581 E. Academy Blvd., Suite 229

Denver, CO 80230

Company Response Number: 3

[T. Bremer Question] Q.

Will all of the costs of financing and operating the MDC-Cragin project be entirely paid by PWC customers in the MDC community, specifically through debt recovery surcharges, operating and maintenance recovery (O&M) surcharges, and Town of Payson commodity cost recovery surcharges?

[PWC] RESPONSE: That is up to the Commission, however, in the pending dockets the Company has requested that cost recovery related to the MDC Cragin project come only from customers in the MDC system.

*T. Bremer Response, Jan6, 2014: Here is Judge Node's footnote on page 4 of W-03514A-13-0111 Document 0000148779: "Further, contrary to the concerns expressed by certain customers located in other systems outside Mesa del Caballo, PWC's financing request for the Cragin pipeline, including the expedited Phase 1 request for the Payson interconnection, will affect only customers in the Mesa del Caballo system and not customers in other PWC systems." Clearly Judge Nodes was under the impression when he wrote this footnote that the MDC-Cragin financing and costs will not affect communities other than MDC. However, the PWC response above suggests that this has not been established for certain. Any spill-over of MDC-Cragin financing and M&O costs to other communities is not just and reasonable.*

PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO THOMAS BREMER,  
EAST VERDE PARK WATER COMM.  
FIRST SET OF DATA REQUESTS

November 22, 2013

Response provided by: Jason Williamson

Title: President

Company: Payson Water Company

Address: 7581 E. Academy Blvd., Suite 229

Denver, CO 80230

Company Response Number: 4

[T. Bremer Question] Q.

Will any of the costs of financing and operating the MDC-Cragin project ever be charged to PWC customers in communities outside the MDC community?

[PWC] RESPONSE: That is up to the Commission and the Company cannot state what a future Commission might determine is just and reasonable. At this time, as stated in response to Data Request 3 supra, the Company seeks to recover those costs from the MDC customers.

*T. Bremer Response, Jan6, 2014: See response to Question No. 3.*

PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO THOMAS BREMER,  
EAST VERDE PARK WATER COMM.  
FIRST SET OF DATA REQUESTS

November 22, 2013

Response provided by: Thomas J. Bourassa, CPA

Title: Rate Consultant

Address: 139 W. Wood Drive

Phoenix, AZ 85029

Company Response Number: 5

[T. Bremer Question] Q.

Referring to Document 0000145511 of Docket W-03514A-13-0111, dated April 22, 2013: PWC's accountant, Thomas Bourassa is asked by ACC staff, "When would the debt recovery surcharge [for the MDC-Cragin Pipeline] cease?" [Bourassa Testimony, p18] Mr. Bourassa responds, "In the next rate case, I anticipate the recovery of the capital costs and depreciation would be included in base rates and the Debt Recovery Surcharge could be discontinued." In light of PWC's stated objective to consolidate rates for all of its systems into one, this suggests that in the next rate case the recovery of the capital costs and depreciation for the MDC-Cragin Pipeline will be included in base rates for all customers of PWC, not only customers at MDC. This contradicts PWC's previous statement in the referenced document that the costs of the MDC Cragin project will be paid entirely by PWC customers in the MDC community. Please explain.

[PWC] RESPONSE: As is typical, debt recovery surcharges are generally intended to be temporary. The purpose of a debt recovery surcharge mechanism is to allow a utility to be able to pay the principle and interest payments on the loan and to meet loan debt service coverage requirements for needed new plant investment that are not captured in the current revenue requirement and rates. Eventually, the plant investment and associated costs are embedded in base rates and the surcharge eliminated. In a future rate case the Commission will decide if the debt recovery surcharge is eliminated and how inclusion of the cost of the Cragin Pipeline in base rates will be implemented; whether that is inclusion in all base rates or just base rates for MDC customers.

*T. Bremer Response, Jan6, 2014: See Response to Question No. 3.*

PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO THOMAS BREMER,  
EAST VERDE PARK WATER COMM.  
FIRST SET OF DATA REQUESTS

November 22, 2013

Response provided by: Thomas J. Bourassa, CPA

Title: Rate Consultant

Address: 139 W. Wood Drive

Phoenix, AZ 85029

Company Response Number: 6

[T. Bremer Question] Q.

Referring to Document 0000145511 of Docket W-03514A-13-0111, dated April 22, 2013: PWC's accountant, Thomas J. Bourassa is asked by ACC staff, "When would the O&M recovery surcharge [for the MDC-Cragin Pipeline] cease?" [Bourassa Testimony, p19] Mr. Bourassa responds, "In the next rate case, I anticipate the recovery of the O&M costs would be included in base rates and the O&M Cost Recovery Surcharge would be discontinued." In light of PWC's stated objective to consolidate rates for all of its systems into one, this suggests that in the next rate case the operating and maintenance costs for the MDC-Cragin Pipeline will be included in base rates for all customers of PWC, not only customers at MDC. This contradicts PWC's previous statement in the referenced document that the costs of the MDC Cragin project will be paid entirely by PWC customers in the MDC community. Please explain.

[PWC] RESPONSE: Mr. Bourassa only anticipates the O&M surcharge would be included in base rates. Further, he did not specify whether the base rates for all customers or just the MDC customer base rates would be impacted. In a future rate case the Commission will decide whether elimination of the O&M surcharge is warranted and, if the O&M surcharge is eliminated, how inclusion of the O&M costs in base rates will be implemented.

*T. Bremer Response, Jan6, 2014: See Response to Question No. 3.*

PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO THOMAS BREMER,  
EAST VERDE PARK WATER COMM.  
FIRST SET OF DATA REQUESTS

November 22, 2013

Response provided by: Jason Williamson

Title: President

Company: Payson Water Company

Address: 7581 E. Academy Blvd., Suite 229

Denver, CO 80230

Company Response Number: 7

[T. Bremer Question] Q.

Referring to the financial data on page 3 of Document 0000145511 of Docket W-03514A-13-0111, dated April 22, 2013: The following summary of the basis for rate and fee increases is given "During the test year [2012], PWC's adjusted gross revenues were \$320,525 from water utility service. The adjusted operating income (loss) was \$182,479, leading to an operating income deficiency of \$255,020." [p3]. Please explain the difference between an "operating income (loss)" and an "operating income deficiency".

[PWC] RESPONSE: Operating Income (Loss) is Operating Revenues less Operating Expenses. Operating income deficiency refers the difference between the Required Operating Income and the Operating Income (Loss). The Required Operating Income is the Rate Base times the Required Rate of Return.

*T. Bremer Response, Jan6, 2014: OK, thanks.*

PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO THOMAS BREMER,  
EAST VERDE PARK WATER COMM.  
FIRST SET OF DATA REQUESTS

November 22, 2013

Response provided by:

Title:

Company:

Payson Water Company

Address:

Company Response Number: 8

[T. Bremer Question] Q.

Referring to the financial data on page 3 of Document 0000145511 of Docket W-03514A-13-0111, dated April 22, 2013: Since revenue minus operating expenses equals operating income, PWC's operating expenses in the 2012 test year are calculated to be approximately \$503,004 [i.e.:  $\$320,525 - (-\$182,479) = \$503,004$ ]. Furthermore, PWC's requested revenue increase of \$399,785 will provide a total revenue after the rate and fee increase of \$720,310 [i.e.:  $\$320,525 + \$399,785 = \$720,310$ ]. PWC is not claiming any change in operating expenses, other than costs related to the MDC-Cragin project, which are claimed to be supported by charges to MDC customers separate from the general rate and fee increases for all PWC customers. Therefore, the financial data on page 3 of the reference document indicate an operating income after the rate and fee increases of \$217,306 [i.e.:  $\$720,310 - \$503,004 = \$217,306$ ], providing a return on the stated \$659,457 fair value rate base of 32.95% [i.e.:  $\$217,306 / \$659,457 = 32.95\%$ ]. This is considerably higher than the stated target 11% rate of return on the fair value rate base from water operations. Please explain the disconnect.

[PWC] OBJECTION: The Company does not agree with the calculations contained in the data request that result in the allegation that it is seeking or would receive a return on rate base in excess of 30 percent. The Company's direct filing, including the schedules contained therein, speak for themselves and reflect the Company's request for recovery of operating expenses (including property and income taxes) equal to \$647,770 and a return on its proposed rate base equal \$72,540. These figures can be found on the Schedule C-1, page 1 (last column). The total revenue requirement the Company proposed in its direct filing is \$720,310 (\$647,770 plus \$72,540). The \$720,310 revenue requirement is shown on Schedule A-1. The Company's proposed rate of return on rate base is the weighted cost of capital consisting of a capital structure of 100 percent equity at a cost of 11 percent and 0 percent debt as shown on Schedule D-1 and summarized on Schedule A-1.

*T. Bremer Response, Jan6, 2014: I still cannot draw a clear connection between the PWC financial data page 3 of Document 0000145511 of Docket W-03514A-13-0111 and the schedules. At this point I don't intend to explore this further, as ACC staff also has some issues with PWC's method and math, as evidenced by staff filings.*

PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO THOMAS BREMER,  
EAST VERDE PARK WATER COMM.  
FIRST SET OF DATA REQUESTS

November 22, 2013

Response provided by: Jason Williamson

Title: President

Company: Payson Water Company

Address: 7581 E. Academy Blvd., Suite 229

Denver, CO 80230

Company Response Number: 9

[T. Bremer Question] Q.

What are the benefits of the MDC-Cragin project to PWC customers in communities outside of MDC.

[PWC] RESPONSE: The most significant benefit to customers outside MDC will be the ability of PWC's management to allocate more time and resources to other system needs, once the biggest water supply issue facing PWC has been resolved.

*T. Bremer Response, Jan6, 2014: OK, as long as MDC customers are happy with the Cragin project and are willing to fully pay for it.*

PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO THOMAS BREMER,  
EAST VERDE PARK WATER COMM.  
FIRST SET OF DATA REQUESTS

November 22, 2013

Response provided by:

Title:

Company: Payson Water Company

Address:

Company Response Number: 10 (revised)

[T. Bremer Question] Q.

The PWC customers in the East Verde Estates (aka "East Verde Park" (EVP)) have long complained that the current base fee and rates for water service, though affordable, do not provide a good value in light of the decrepit state of the water infrastructure in the community. The complaints of EVP residents are summarized in the attached "Petition to Prevent Unjust and Unreasonable Increase in Fees and Rates for Water, Proposed by Payson Water Company, for Owners & Residents of the East Verde Estates Community near Payson, Arizona" (Attachment 1), currently being circulated in the EVP community. The EVP Water Committee requested that infrastructure improvements be made as early as September 2000 (Attachment 2A), and was promised that improvements would be made as priorities permit (Attachment 2B). No infrastructure improvements were made then or since. The poor condition of the EVP water system was the most significant concern identified in the 2012 EVP water survey (Attachment 3, Section 5), which was reviewed with Brooke Utilities' Robert Hardcastle in March, 2013. Concerns raised in the survey included:

- a. Lack of sufficient well capacity to service EVP without frequent water restrictions, seasonal water hauling, and considering future development of the EVP community.
- b. Condition of the well by the East Verde River, the foundation of which has been undermined by erosion from floods.
- c. The condition of the water tank and ancillary equipment, including concerns about potential silt build-up.
- d. The condition of the water pipes of the EVP system, which were assessed in 1976 to be the asbestos cement (AC) type commonly used in the 1950's when the EVP water system was installed, and which are known to have a finite life (internet sources suggest as low as 50 years, depending upon water softness and soil movement). Please explain in detail what improvements to EVP water infrastructure will be implemented by PWC, that justify increases in the average monthly water bill for EVP customers of \$25.58 per month, or \$306.96 per year.

[PWC] OBJECTION: The Company objects to this data request. To begin with, the request assumes facts not yet in evidence. The Company does not agree with many of the factual and other statements and references, and conclusions and recommendations in the attached Petition. Therefore, because the data request is predicated on the claims and conclusions in the Petition, the Company cannot respond. For example, in the data request itself, the Company is asked to justify an increase in rates based on plans for future investment in the EVP system. Yet, under Arizona and federal law, the Company is entitled to rates that provide it recovery of its operating expenses and a reasonable opportunity to earn its

authorized return on the fair value of its current rate base. Only when and if the Company makes future investment can it seek rates that include a recovery on and of that additional investment. Additionally, the attached Petition has not yet been offered as public comment or evidence, but could be offered as one or the other. Until the allegations and recommendations contained in the Petition are properly designated for the record in this consolidated docket, the Company should not be asked to respond to them or to questions that presume the truth of the claims and conclusions contained therein. For these reasons, the Company cannot respond to this data request.

*T. Bremer Response, Jan6, 2014: It seems contradictory that for MDC additional investment is being secured in concert with the rate case, whereas for other communities PWC holds additional investment to be contingent of first getting the rate increase approved. The EVP petition is attached, with 75 signatures of PWC customers, property owners, and stakeholders, in order to bring the petition to the record. As stated in the petition, it is not just and reasonable for PWC's proposed 119% average water cost increase to be imposed without a plan to address the long-standing water system shortfalls at EVP, which were admitted by Brooke Utilities' Robert Hardcastle in 2001 (Reference Attachment 2b of W-03514A-13-0111 Document No. 0000149561, T. Bremer Request for Discovery). In light of this admission, it is not reasonable for PWC to contend that the EVP system upgrade needs are not factual.*

PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO THOMAS BREMER,  
EAST VERDE PARK WATER COMM.  
FIRST SET OF DATA REQUESTS

November 22, 2013

Response provided by:

Title:

Company: Payson Water Company

Address:

Company Response Number: 11

[T. Bremer Question] Q.

The PWC customers in the East Verde Estates (aka "East Verde Park" (EVP) have long complained that the current base fee and rates for water service, though affordable, do not provide a good value in light of the frequent water restrictions in the community. The complaints of EVP residents are summarized in the attached "Petition to Prevent Unjust and Unreasonable Increase in Fees and Rates for Water, Proposed by Payson Water Company, for Owners & Residents of the East Verde Estates Community near Payson, Arizona"(Attachment 1), currently being circulated in the EVP community. In short, PWC customers at EVP are facing a huge increase in costs for water service, but then PWC frequently and for prolonged periods imposes severe restrictions on the availability of water. The impact on EVP customers and their frustration are well-stated in the attached Payson Roundup "Letter to the Editor" in October, 2012 (Attachment 4). Most recently, in 2013, the EVP community was at Stage 3 water restrictions continuously from May through most of September. Please explain in detail what improvements to EVP water availability will be implemented by PWC, that justify increases in the average monthly water bill for EVP customers of \$25.58 per month, or \$306.96 per year

[PWC] OBJECTION: The Company objects to this data request. To begin with, the request assumes facts not yet in evidence. The Company does not agree with many of the factual and other statements and references, and conclusions and recommendations in the attached Petition. Therefore, because the data request is predicated on the claims and conclusions in the Petition, the Company cannot respond. For example, in the data request itself, the Company is asked to justify an increase in rates based on plans for future investment in the EVP system. Yet, under Arizona and federal law, the Company is entitled to rates that provide it recovery of its operating expenses and a reasonable opportunity to earn its authorized return on the fair value of its current rate base. Only when and if the Company makes future investment can it seek rates that include a recovery on and of that additional investment. Additionally, the attached Petition has not yet been offered as public comment or evidence, but could be offered as one or the other. Until the allegations and recommendations contained in the Petition are properly designated for the record in this consolidated docket, the Company should not be asked to respond to them or to questions that presume the truth of the claims and conclusions contained therein. For these reasons, the Company cannot respond to this data request.

*T. Bremer Response: What facts are not in evidence? Does PWC not know the frequency of their own imposition of water restrictions at EVP? To the extent that the water restrictions are the result of water system inadequacies, see response to 10.*