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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
DOCKETED
JAN 10 2014
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COMMISSIONERS
BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION OF TRUXTON CANYON WATER COMPANY, INC. FOR APPROVAL OF A RATE INCREASE.	DOCKET NO. W-02168A-11-0363
IN THE MATTER OF THE APPLICATION OF TRUXTON CANYON WATER COMPANY, INC. FOR APPROVAL OF A REVISION OF THE COMPANY'S EXISTING TERMS AND CONDITIONS OF WATER SERVICE.	DOCKET NO. W-02168A-13-0309
IN THE MATTER OF THE APPLICATION OF TRUXTON CANYON WATER COMPANY, INC. FOR AUTHORITY TO INCUR LONG-TERM DEBT.	DOCKET NO. W-02168A-13-0332 **NOTICE OF FILING REJOINDER TESTIMONY IN SUPPORT OF RATE AND FINANCE APPLICATIONS**

Truxton Canyon Water Company, Inc., hereby files testimony in support of its rate and finance applications as follows:

- Rejoinder Testimony of Matthew Rowell (*see* Attachment 1);
- Rejoinder Testimony of Rick Neal (*see* Attachment 2).

RESPECTFULLY SUBMITTED this 10th day of January, 2014.

MOYES SELLERS & HENDRICKS LTD.

Tracy Harvey for Steve Wene

Steve Wene
Attorneys for Truxton Canyon Water Company, Inc.

Original and thirteen (13) copies of the foregoing filed this 10th day of January, 2014 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of this foregoing mailed this 10th day of January, 2014 to:

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ATTACHMENT 1

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Q. Please state your name.

A. My name is Matthew Rowell.

Q. Are you the same Matthew Rowell who provided Rebuttal Testimony on December 6, 2013 in this case?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the proposed value of the assets owned by the Claude K. Neil Family Trust ("the Trust").

Q. Do you have specific responses to assertions made in Staff's Surrebuttal testimony?

A. Yes. At page 5 of Staff Witness Crystal Brown's Surrebuttal testimony Staff attempts to address the issue of capitalized repairs and replacements. In my Rebuttal Testimony I pointed out that the advanced age of the plant cannot be relied on to justify the assumption that the plant is fully depreciated. This is because over the years repairs and replacements have been made to the plant, some of which are properly characterized as capital improvements. Staff counters this argument by pointing to language in the Water Supply Agreement between Truxton and the Trust. The language Staff cites to is as follows:

> 8. Truxton Canyon shall pay to Family Trust all metered water deliveries at the agreed upon delivery points at the rate of $.65 per 1,000 gallons delivered. ... *Said price will be based upon the market value of the water considering the operation, maintenance and capital cost to Family Trust, plus a return on the value of the equipment and facilities* necessary to provide service under this agreement. (Emphasis mirrors that added by Staff.)

Based on this language from the Water Supply Agreement Staff concludes that "..not only have Truxton's customers already paid for capital costs related to the Trust's wells and other plant, they have also already been required to pay a rate of return on the assets, and they have paid all operating and maintenance costs associated with these assets." Staff's conclusion here is not supported by the quoted language from the Water Supply Agreement. The agreement indicates what the sale price of the water would be "based

upon" but that does not guarantee that "all operating and maintenance" costs have been covered by the $0.65 per thousand gallon charge. I am aware of no evidence on the record in this case that supports the idea that all of the Trust's operation, maintenance and capital cost have been covered by the $0.65 per thousand gallon charge.

More importantly, specifically, Staff's argument does not even address the point made in my Rebuttal Testimony that over the years replacements have been made. Simply because a rate was based on (among other things) capital costs and a return on capital costs does not mean that the depreciated value of the capital is zero. Staff's use of Paragraph 8 of the Water Supply Agreement in response to the argument that capitalized replacements have been made appears to be a complete non sequitur.

Q. Can you provide examples of plant improvements that have been made?

A. Yes. Several wells have had pumps and other equipment replaced over the past few years. Also, the underground storage tank was rebuilt approximately 5 years ago at which time it received a new roof, new internal steel supports and was resealed. Additionally, as leaks are detected sections of pipe have been replaced.

Q. In addition to replacements are there other issues with Staff's claim that the assets in question are fully depreciated?

A. Yes. The Trust owns a substantial amount of land that is used in the provision of service. Each well site and storage site sits on a piece of land. Land does not depreciate. Presumably, Staff intends the land to be transferred to the utility as well (otherwise the utility would still be required to pay some amount in rent to the Trust.)

Q. Is the depreciated value of the plant determinative of its transfer cost?

A. No. The replacement value (or fair value) of the plant must be considered as well.

Q. Have you developed an assessment of the replacement value of the Trust's plant?

A. Yes. Using publicly available information I have developed an estimate of the replacement cost of the plant. I have tried to keep the estimate low, using cost estimates on the low end of a reasonable range. Additionally the estimate does not include several

costs. The cost of land is not included in the estimate. Further the costs of tees, valves and fittings necessary to interconnect distribution mains and to connect mains to the transmission line have not been included in the estimate. In spite of the exclusion of these significant costs and the use of low estimates the replacement value of the plant is estimated to be $11.5 million. Schedule 1 shows the development of this estimate.

Q. Do you have any additional comments about the assets in question?

A. Yes. The layout of the systems used to serve Truxton's customers is somewhat unusual. Most of the wells owned by the Trust are located approximately 15 miles away from Truxton's service territory. This requires 15 miles of transmission pipeline.[1] The transmission line itself is an extremely valuable asset that the Trust has made investments in over the years (through replacements of leaking sections.) Figure 1 (*see* Exhibit 1) shows the relative location of Truxton's customers and the Trust's wells. I believe Figure 1 allows for an understanding of the systems configuration. The transmission pipeline follows Route 66 from the wells in the Hackberry area down to the area where most of Truxton's customers are located. The transmission line crosses underneath both Route 66 and the railroad line that runs parallel to it. The significant costs associated with trenching under the highway and railroad line were not included in the above replacement cost estimate.

Given the value of the Trust's assets, Staff's contention that they should be transferred at zero cost seems unreasonable. The proposal made by the Company of a transfer price of $1.4 million seems to be a reasonable compromise position.

Q. Is this the end of your testimony?

A. Yes.

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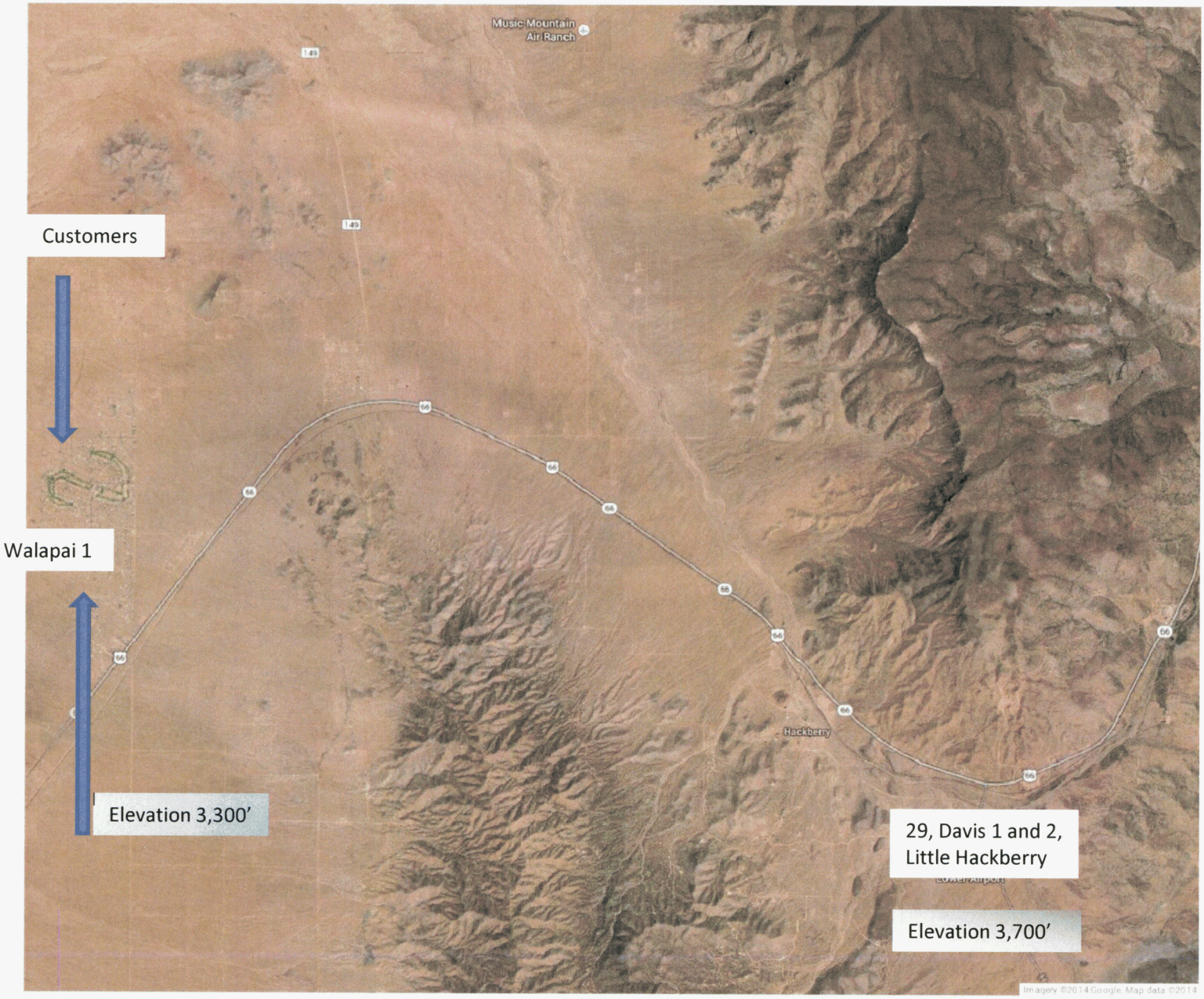
[1] In my Rebuttal Testimony I indicated the pipeline was 19.3 miles based on information from Decision 63713 but subsequent analysis indicates 15 miles is a better estimate.

EXHIBIT 1



https://www.google.com/maps/preview#!data=!1m4!1m3!1d71656!2d-113.7076249!3d35.4040825!2m1!1e3&fid=7

ATTACHMENT 2

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IN THE MATTER OF THE APPLICATION OF TRUXTON CANYON WATER COMPANY, INC. FOR AUTHORITY TO INCUR LONG-TERM DEBT.	DOCKET NO. W-02168A-13-0332 **REJOINDER TESTIMONY OF RICK NEAL**

Q Please state your name and current employment position:

A My name is Rick Neal. I am currently a managing member of Blackhawk

Developers and managing the Truxton Canyon Water Company ("Truxton").

Q Explain what is your goal as the manager of Truxton.

A Like we have already accomplished with Cerbat Water Company, I want Truxton to be in compliance with the ACC and ADEQ rules, have Truxton become a stand-alone entity, and financially break even.

Q First of all, is there any changes you want to make in your previous testimony?

A No. I still hold the same positions and I have read the testimony of Michelle Monzillo and adopt that testimony as well.

Q Before we get into the details of issues that still exist, explain whether or not Truxton is willing to compromise on the matters before the court?

A The Company has already compromised many times. We are at the point where further "compromise" or concessions on behalf of the Company will be detrimental to both the Company and the community it serves. Accordingly, any further compromise must be well-founded, logical and not be an unreasonable detriment to the Company.

Q First, do you still support the concept of keeping the rates for VVPOA the same?

A The Company is willing to continue to charge VVPOA commodity rates of $1.70 per 1,000 gallons of water for 0-15,000,000 gallons of water delivered each month and $1.90 per 1,000 gallons thereafter.

Q On behalf of VVPOA, Wes Stewart testified that VVPOA should not have to pay for the cost to install the arsenic treatment plant, do you agree?

A Mr. Stewart is essentially saying that all of the cost to build the arsenic treatment plant should be paid by the Company's residential customers. If the Commission Staff and VVPOA want all of these costs to be borne by the residential customers, Truxton will accept that proposal. The arsenic treatment will consist of blending and VVPOA will be receiving treated water. While we agree that blended water is not needed for the golf course, VVPOA does receive drinking water and water for its pool.

Q What about the other improvements Truxton is seeking to finance?

A Mr. Stewart seems to be arguing that VVPOA should not have to pay for any of the requested financing. Again, if Commission Staff agree with that approach, Truxton would defer to Staff and VVPOA. To be clear, much of the requested financing is to implement what VVPOA needs or wants.

For example, the Company is seeking to convert its gas powered pumps ("Hualapai System") to electric power, which will cost approximately $127,000. Typically, the Hualapai Pumps are only used when VVPOA's golf course demands so much water that the wells in Hackberry cannot produce enough water for irrigation. The diesel engines at Hualapai are nowhere near reliable and replacement parts are no longer available. It was a small miracle that the Hualapai Pumps made it through the Summer of 2013. I expect one of these pumps will fail this upcoming Summer. If a pump fails VVPOA's peak demand will not be met unless the improvements can be made, and there is no money available to make these improvements and repairs.

Q So you are saying that you expect water shortages in the future, as early as this Summer?

A Absolutely. Staff recommends that only $60,000 of financing be approved to convert the Hualapai Pumps from gas to electric power and such amount is insufficient to make the conversion, so the conversion will not occur. When these pumps fail, the Company will not be able to meet VVPOA's peak irrigation demand.

Q Why didn't the Company make these improvements earlier?

A The VVPOA and the Commission cancelled the water supply agreement ("Agreement") a couple years ago and the revenue to the Trust went away. In the past, the Trust would pay for the repairs to the Hualapai Pumps with money that it earned under the Agreement with VVPOA. Further, revenues derived from sales to VVPOA were reduced substantially when the Agreement was cancelled, resulting in a reduction of money received by the Company. There is now no money from either the Trust or the Company to repair or improve the Hualapai pumps.

Q. Mr. Stewart testified that the Trust did not invest in the water systems, do you agree?

A. Mr. Stewart's statements are untrue.

Q. Mr. Stewart also testified that the Trust made substantial profits selling water while not spending money on the water system infrastructure, do you agree?

A. No. Over the last 15 years, the combined revenues from the Trust and Company have not been sufficient to pay the expenses associated with delivering water to the customers, including VVPOA. Rather than profiting, my father mortgaged his home and sold off parts of the family ranch to keep the water system running. The most expensive

components that have often needed repairs are the Hualapai Pumps, which again are predominantly used to meet the peak water demands of the golf course.

Q Did the Trust derive profits from use of the pipeline historically?

A I don't know. I would be speculating if I answered that question either yes or no. Long before Truxton ever existed, the Neal family was ranching in the area. The family built a working ranch and developed good water source to sustain the family. Again, they didn't buy the wells, they built them. The Neal family has responded to various requests for help with the supply of land or water over many years. For example, over one hundred years ago, when the railroad needed a reliable water resource for its steam engines, they asked our family for help and we responded. Subsequently, in the 1940's, water was needed to serve the military base at the airport and a pipeline was constructed by the Army Corp. of Engineers. Again, any answer regarding the derivation of profits would be pure speculation.

Q So the implication that the Neal family was just given the water system for no reason is incorrect?

A Yes. The family developed the water source through wells, improved it, and helped build the related infrastructure, including the use of its land.

Q Will the Trust transfer its wells, pipeline, storage tanks and related infrastructure to Truxton for no value?

A No. These are assets far more valuable than the $1.4 million being asked.

Q What should happen if there is no agreement on the price to transfer the Trust's water system?

A For decades, the Commission and Staff had no problem with the Trust selling water to Truxton. In fact, in its last rate case based upon a 1999 test year, Staff took the position that the Trust was not charging Truxton enough for the water it delivered and increased the price. This is documented on page 3 of Decision No. 63713. If people do not want the Company to buy the Trust's water system, then the Trust would be willing to sell water to the Company at a reasonable rate, approximately $1.70 per thousand gallons.

Q Do you agree with Staff's proposal to decrease Truxton's rates and revenues?

A No. Staff's proposal will financially ruin the Company. First, Staff is recommending a reduction in rates based upon costs existing 15 years ago. Second, in 1999 the Trust also was receiving additional income from VVPOA that allowed it to operate and maintain its water system. As discussed above revenue was drastically reduced once the Agreement with VVPOA was cancelled by the Commission and there is not enough money to maintain the water system. Reducing the revenue would be catastrophic.

Q If the Company is in such dire straights, how is it maintaining water service?

A The Company is able to operate and maintain the systems using the Trust's equipment, such as its backhoe, trailer, equipment yard, shop, and other tools at little or no cost. For example, the Company uses the Trust's backhoe routinely, and sometimes for several consecutive days. Renting a backhoe for a week usually costs around $1,000 and purchasing a backhoe would be prohibitively expensive without substantial financing and monthly payments.

What seems most ironic is that so many people continue to imply that somehow the Trust is being enriched by the Company, when in fact the opposite is true – the Trust is subsidizing the Company.

Q Would Staff's allowance of $15,444 to maintain the Trusts wells and other plant be sufficient?

A No.

Q In summary, please explain the Company's position.

A There are two options that are reasonable. The Commission could agree to have the Trust's assets transferred to the Company for $1.4 million as suggested by the Company. Alternatively, the Company can purchase water from the Trust like it did for over 30 years. The express demand that the Trust transfer its valuable assets to the Company for free is not reasonable and would constitute a taking. Likewise, not compensating the Trust of delivering water to the Company is neither reasonable nor economically viable. Avoiding costs on paper may seem like a great idea, but when the water delivery systems fail and neither the Company nor the Trust has the money to make the necessary repairs.

Q Does this conclude your rejoinder testimony?

A Yes.