

Exhibit No.: \_\_\_\_\_  
Issue: Plant Capacity, Public  
Comments  
Witness: Charles A. Hernandez  
Type of Exhibit: Rebuttal  
Sponsoring Party: Algonquin Water  
Resources of Missouri, LLC  
Case No.: WR-2006-0425  
Date Testimony Prepared: Dec.28, 2006

MISSOURI PUBLIC SERVICE COMMISSION

ALGONQUIN WATER RESOURCES OF MISSOURI, LLC

CASE NO. WR-2006-0425

REBUTTAL TESTIMONY OF

CHARLES A. HERNANDEZ

Jefferson City, Missouri

**AFFIDAVIT**

STATE OF ARIZONA     )  
                                  )  
COUNTY OF MARICOPA   )

ss

I, Charles Hernandez, state that I am employed by Algonquin Water Services, LLC, the utility operator for Algonquin Water Resources of Missouri; that the Rebuttal Testimony attached hereto has been prepared by me or under my direction and supervision; and, that the answers to the questions posed therein are true to the best of my knowledge, information and belief.

Charles Hernandez

Subscribed and sworn to before me this 27<sup>th</sup> day of December, 2006.

Barbara Riden  
Notary Public

My Commission Expires:

Feb. 3, 2007

(SEAL)



## **TABLE OF CONTENTS**

<b><u>SUBJECT</u></b>	<b><u>PAGE</u></b>
WITNESS INTRODUCTION	1
HOLIDAY HILLS WELL NO. 2	2
PUBLIC COMMENTS	5

**WITNESS INTRODUCTION**

1  
2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**  
3 **ADDRESS?**

4 A. My name is Charles A. Hernandez and my business address is 12725 W. Indian  
5 School Road, Suite D101, Avondale, Arizona 85323.

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by Algonquin Water Services as a Regional Operations Manager.

8 **Q. PLEASE DESCRIBE YOUR EDUCATION, PROFESSIONAL**  
9 **EXPERIENCE AND TRAINING.**

10 A. I have 29 years experience in managing and operating water and wastewater  
11 treatment facilities. Almost 26 years of this experience was with the City of  
12 Phoenix, Water Services Department. My last position with the City was Plant  
13 Manager of a 171 MGD facility with a staff of 138 employees, which included  
14 management of construction projects up to \$210,000,000 and as many as eleven  
15 ongoing projects at once. I have operated and managed facilities from 0.1 MGD  
16 wastewater facility to a 245 MGD water facility before coming to Algonquin  
17 Water Services. During my time with the City of Phoenix, I also spent some time  
18 as a Construction Liaison to help complete a large project on time. I have received  
19 the Marvin M. Black award, ASMA Silver & Gold awards, AWPCA Mee's  
20 award for a 1988 study on odor control, EPA National award for second place in  
21 wastewater facilities, Build America award and numerous other awards.

1   **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
2       **PROCEEDING?**

3   A.   The purpose of my testimony is to respond to the Direct Testimony of Graham A.  
4       Vesely concerning his allegations of construction cost overruns related to the  
5       Holiday Hills Resort Well No. 2 project. I will also respond to public comments  
6       concerning leaks at OMR, high pressure at OMR, irrigation usage impact on  
7       owner association sewer bill at OMR, and the Holiday Hills increase in owners'  
8       association usage for watering.

9                               **HOLIDAY HILLS WELL NO. 2**

10   **Q.   STAFF WITNESS VESELY'S DIRECT TESTIMONY CONCERNING HIS**  
11       **PROPOSED DISALLOWANCE RELATED TO THE CONSTRUCTION**  
12       **THAT ADDED WELL NO. 2 TO THE HOLIDAY HILLS RESORT**  
13       **WATER SUPPLY SYSTEM?**

14   A.   Yes.

15   **Q.   WHAT IS MR. VESELY'S POSITION ON THIS ISSUE?**

16   A.   He alleges that a portion of the Silverleaf expenditures on the project were not  
17       necessary and prudent and therefore recommends a disallowance of \$186,373  
18       related to this project.

19   **Q.   IS THIS THE FIRST TIME THIS ISSUE HAS BEEN RAISED?**

20   A.   No. It was described in testimony as a part of Commission Case No. WO-2005-  
21       0206, the case where Algonquin's acquisition of the Silverleaf properties was  
22       considered.

1     **Q.     WHO ADDRESSED THE STAFF ALLEGED COST OVERRUNS IN CASE**  
2     **NO. WO-2005-0206?**

3     A.     The allegations were addressed in the Surrebuttal Testimony of Michael J. Brown,  
4             an engineer with Silverleaf Resorts, Inc., the previous owner of these systems. A  
5             copy of Mr. Brown's Surrebuttal Testimony is attached hereto as Schedule CAH-  
6             1.

7     **Q.     WHAT WAS THE NATURE OF THE SUBJECT PROJECT?**

8     A.     The Well No. 2 project consisted of the construction of water plant infrastructure  
9             around an existing bore hole (being a well that had not previously been used for  
10            potable water supply, but met most of the required specifications for such). The  
11            project consisted of well head refurbishment, piping, storage and pump station  
12            and all ancillary supporting infrastructures one would expect to find at a potable  
13            water supply location.

14    **Q.     HAVING REVIEWED THE INFORMATION PROVIDED BY MR.**  
15    **BROWN AND THE ALLEGATIONS MADE BY MR. VESELY, DO YOU**  
16    **HAVE AN OPINION AS TO WHETHER SILVERLEAF'S ACTIONS AND**  
17    **EXPENSITURES IN REGARD TO THIS PROJECT WERE**  
18    **REASONABLE AND PRUDENT?**

19    A.     Yes. Silverleaf Resorts' decision to use the existing well bore with a known track  
20             record for producing a good quality and quantity of potable water was a  
21             reasonable and prudent choice. The extra cost of the extra piping required to make  
22             the system more flexible to serve the requirements of the resort is relatively small

1 compared to cost drilling a new well bore, assuming you would find equal quality  
2 and quantity of water with the new well bore.

3 Silverleaf Resorts' decision to replace a failing contractor that was requesting a  
4 disproportional amount and cost of change orders for a project that was  
5 competitively bid was a required decision since the contractor would not and  
6 could not complete the project. I agree that failing contractors will try to make up  
7 cost overruns by requesting a disproportionably higher amount and higher priced  
8 change orders to make up the difference in their loss. Also, in most cases even if  
9 the project is completed it will be at a higher cost, late and most likely be of a  
10 lower quality due to the financial loss to the contractor who may be tempted to cut  
11 corners on the project. The extra management and engineering costs incurred by  
12 Silverleaf Resorts due to changing contractors or the time delay would have been  
13 minimal and would probably equal or be less that if they continued to work with a  
14 failing contractor.

15 The first contractor (Snyder Construction) was only paid for work already  
16 completed and materials that were delivered or used. This cost would have been  
17 incurred even if Silverleaf Resorts did not change contractors. The second  
18 contractor was paid to continue on from where the first contractor left off and  
19 completed the project in a cost effective manner. There was a time lapse between  
20 contractors that did cause a minimal amount of time charged to the project, but  
21 that cost would have been equal or higher given the amount of time that would  
22 have been consumed by reviewing a failing project that was producing a high  
23 number and high priced change orders. If Silverleaf had waited for the first

1 contractor to fail and walk off the project without completion, it would have been  
2 even more costly and created longer time delays. This would have resulted in a  
3 higher cost for probably a less than desired late project due to having to come  
4 back in after the first contractor had failed with another contractor to pick up  
5 where the failed contractor left off. In my experience, Silverleaf Resorts made the  
6 most cost effective decision considering the choices given to them by the situation  
7 that developed.

8 **PUBLIC COMMENTS**

9 **Q. HAVE YOU REVIEWED THE TRANSCRIPT OF THE LOCAL PUBLIC**  
10 **HEARING IN THIS CASE?**

11 A. Yes.

12 **Q. WOULD YOU LIKE TO RESPOND TO ANY OF THE ISSUES THAT**  
13 **WERE RAISED AT THAT HEARING?**

14 A. Yes. I would like to the following issues that were raised by Mr. Mike Armfield:

- 15 1. Leaks at Ozark Mountain Condominiums;
- 16 2. High pressure at the Ozark Mountain Condominiums; and,
- 17 3. A question as to whether irrigation impacts the Ozark Mountain
- 18 Condominium Owners' sewer bill.

19 **Q. EXPLAIN THE ISSUE AS YOU UNDERSTAND IT RELATED TO LEAKS**  
20 **BROUGHT AT OZARK MOUNTAIN RESORT.**

21 A. All leaks that we know of at Ozark Mountain, whether reported by the customer  
22 or those located by company staff, are investigated by the company. This  
23 includes the hiring outside contractors to resolve leak issues, if required. The



1 resort's soil type is rocky, the terrain consists of different elevations and the units  
2 are built at different levels of elevation. When a leak is discovered, company staff  
3 will check the water for chlorine residual, which in most cases would let staff  
4 know if it was a leak or groundwater coming up. The contract operator,  
5 Construction Management Specialist (CMS), which is run by Stan Gilliam, uses a  
6 hydrophone system to assist in locating leaks. Specifically, Mr. Armfield referred  
7 to three leaks in his testimony. Two of those leaks turned out to be the  
8 responsibility of the resort -- one was on a fire line and the other was on the  
9 irrigation system on the resort's side of the water meter. The third leak was from  
10 a cracked water line. This leak did require a fair amount of review to find the  
11 source of the leak. However, once located, it was repaired.

12 **Q. ARE YOU AWARE OF HIGH WATER PRESSURE ISSUES AT OZARK**  
13 **MOUNTAIN RESORT?**

14 A. Yes. The resort's terrain consists of different elevations and the units are built at  
15 many different levels of elevation. When the condominiums were built each one  
16 had its own pressure regulator installed to prevent high pressure problems caused  
17 by the nature of the system. These pressure regulators belong to the owner of the  
18 unit and the owner is required to maintain their own pressure regulator. The  
19 regulators do not belong to the company.

20 **Q. ARE YOU AWARE OF THE SPECIFIC SITUATION BROUGHT UP IN**  
21 **MR. ARMFIELD'S TESTIMONY?**

22 A. Yes. In fact, this is a good example of the pressure regulator issue. The owner  
23 referred to by Mr. Armfield was having many problems regulating his water

1 pressure. Company staff helped the owner find the cause of his pressure  
2 problems, which turned out to be a faulty pressure regulator. Once the regulator  
3 was repaired, the problem was resolved.

4 **Q. DOES IRRIGATION IMPACT THE SEWER FEES PAID BY THE**  
5 **OZARK MOUNTAIN CONDOMINIUM OWNERS?**

6 A. No. We have reviewed the last 11 months of bills that have been sent to the  
7 owners association and the sewer charges are not based upon the irrigation meter  
8 readings.

9 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

10 A. Yes.