

Hello Neighbor,

1. Mr. Dan Jackson Responds to Errors in Economists.com Report

As you may recall, I identified six major errors in the cash flow and rate impact analysis that Economists.com produced last October. After my response to Mr. Jackson's unsatisfactory answers to my questions, the board informed me that they weren't going to talk to me anymore. I prepared a report, dated January 9, 2009, which discussed the six errors in detail and provided a corrected cash flow and rate impact analysis. On February 10, 2009, Mr. Jackson sent a letter to the board which attempted to refute the points that I had made in my report correcting his analysis. On February 26, 2009 I responded to his letter and showed that his arguments do not stand up to examination. All of the documents can be found here:

<http://www.waterforpinestrawberry.com/data%20pages/CashFlowCorrection.htm> . I have attached my response to Mr. Jackson. It is good to read for those who want to see more detail, but don't have time to wade through all of the documents. A summary of the positions on the six errors follows:

A. Double Counting of 8,245,000 gallons. This error deals with the fact that the 8,245,000 gallons of water that were transferred from Strawberry to Pine in 2006 are included in the Strawberry Water Company (SWCo) total gallons sold. They are also included in the Pine Water Company (PWCo) total gallons sold, so they need to be subtracted off so that they aren't counted twice.

- Mr. Jackson states that if those gallons are in the SWCo total gallons sold that it would be an error to not adjust for them.
- Mr. Jackson says that he doesn't know if they are included, but that his guess is that they aren't. He doesn't think an intra-company transfer would be included.
- In my response I pointed out that this is a transfer between two independently regulated companies, so it would have to be included. I pointed out that it specifically says this in the 2005 SWCo ACC report and point to other clues that point to the fact that it is there. I consider this error to have been confirmed by Mr. Jackson.

B. Counting Sales Tax Receipts as Revenue. For this error, the sales tax that is collected by Brooke is included in the Metered Water Revenue that is reported to the ACC and is subtracted off as Taxes Other Than Income. The Economists.com report removes the Taxes Other Than Income, but does not adjust the Metered Water Revenue value. That has the effect of converting the sales tax receipts into revenue in the Economists.com report.

- Mr. Jackson states that if sales tax receipts are included in the Metered Water Revenues that the Economists.com report would be in error.
- Mr. Jackson states that he doesn't know if they are included or not.
- In my response I provide him the information showing that they are. I pointed out that he got it right in the 2003 valuation that his company prepared. I consider this error to be confirmed by Mr. Jackson.
- Comment: For this error and the previous one, Mr. Jackson's defense is basically that he doesn't know enough about the information to make a proper decision about the error. Both of these are pretty basic things that are not unique in how

they are being accounted for by Brooke. I am surprised that there is any confusion on Mr. Jackson's part over these questions.

C. Reduced Operations Cost Growth Rate in 2011. This error has to do with the Economists.com report stating that operational costs will grow 4% a year. In the details within the report, the year 2011 only shows a 1.25% increase rather than the 4% increase.

- Mr. Jackson states that this happens because the cost of water purchased under the water sharing agreements goes away. He states that this is about \$27,000 in operational costs. He is taking this position because there was a note in the forecasted operational budget prepared by Coe and Van Loo (CVL) that stated that purchasing of water would stop once the immediate capital improvements were completed, i.e., the Milk Ranch well is hooked into the system.
- I point out that the board is making a big deal about having five new water sharing agreements lined up for when they take over. It wouldn't make sense to do those, only to turn around and not purchase water from them.
- I point out that it appears that the least expensive water is obtained from the water sharing agreements. Rate payers are going to continue to use water from the water sharing agreements in order to keep costs down.
- I point out that the water to replace the water sharing agreement is not free and that it doesn't appear that Mr. Jackson has taken the increased cost of the district producing the water into account.
- I also point out that it doesn't make operational sense. Strawberry gets about half of its water from water sharing agreements. It will be expensive to pump half of Strawberry's water up the hill from Pine.

D. Employee Costs Don't Reflect Operations Company Overhead. This error has to do with the cost for Wages and Salaries that CVL has in their forecasted operations budget. CVL assumed that the water system employees work directly for the district. The board has repeatedly said that they are going to hire a company to operate the water system. Hiring a company means more cost to cover that companies overhead and profits. Also missing are the costs for an administrative assistant.

- Mr. Jackson states that the water system employees will work directly for the district.
- The board's public plan is to hire an operations company. If the board has a different plan now, they should make it public so this error can be taken off the table.

E. Use of Three Tier Rate Structure Instead of Four Tiers. This error is the result of trying to merge the two tier Strawberry rate structures into the three tier rate structure that Pine has. Because the different tiers cover different amounts of usage, a four tier structure needs to be used to correctly merge them.

- Mr. Jackson acknowledged that this is an error and stated that it will be corrected.

F. Incorrect Distribution of Water Usage Between the Rate Tiers. The Economists.com report creates an error in the distribution of water usage between the rate tiers to counter balance the errors from double counting the 8,245,000 gallons of water and from not knowing how the customers and water usage is spread amongst the current rate tiers. This is okay for the years where the rates don't change from their current values, but when the rates are all consolidated into one rate set, it begins to add significant error to the revenue projections.

- Mr. Jackson basically avoids addressing this error by focusing on the estimate of the usage distribution that I came up with in my January 9th report.

2. Local Letters to the Editor about the Errors in the Economists.com Report

Mr. Jackson, Mr. Haney, and myself have exchanged opinions in the Payson Roundup over the problems with the Economists.com report.

- My February 10th Letter to Editor:
http://www.paysonroundup.com/news/2009/feb/10/public_deserves_honest_information_pswid_board/
- Mr. Haney's February 17th Letter to Editor:
http://www.paysonroundup.com/news/2009/feb/17/unfounded_accusations_waste_time_and_resources_wa/
- Mr. Jackson's February 17th Letter to Editor:
http://www.paysonroundup.com/news/2009/feb/17/attacks_against_consulting_firm_baseless/
- My February 27th Letter to Editor:
http://www.paysonroundup.com/news/2009/feb/27/community_deserves_accurate_information_purchase/

3. Effort to Negotiate Sale Appears to be DOA

- Brooke filed a status report with the ACC. The report can be found here:
<http://www.waterforpinestrawberry.com/data%20pages/PurchasePSWIDDocs.htm>.
- States that the meeting on February 5th was not successful.
- Indicates that Brooke has received no further communication from the district and that Brooke anticipates a lengthy and expensive litigation over the sale.
- Comment: The implication is that there was no agreement to meet again made in the February 5th meeting and that no meeting has been scheduled since then. Given the complexity of the issues and the lack of trust between the two sides, it is unrealistic to expect the negotiation to be completed in a single meeting. If the district is refusing to continue discussions, it would seem to be a sign of bad faith on their part. The board received their escrow money back so they could avoid bankruptcy and then appear to have walked away from the negotiation part of the agreement. We will have to wait and see what happens before coming to a final judgment as to what is going on.

4. Correction to February 8, 2009 PSWID Meeting Summary

- In the email I had the sentence: "Mr. Ploughe was instrumental in selecting the drilling site for the K2 well and has been paid in the past by Mr. Pugel to provide an evaluation of the well's quality and performance." I typed K2 when I meant to refer to the Milk Ranch well. The sentence should read: "Mr. Ploughe was instrumental in selecting the drilling site for the **Milk Ranch** well and has been paid in the past by Mr. Pugel to provide an evaluation of the well's quality and performance." I apologize for any confusion that this mistake may have caused.

This email is from the group Water For Pine Strawberry. We will be sending out an email after each of the PSWID meetings with a summary of what the board did, additional facts that are relevant to what went on, and some commentary. Please forward this email to

friends and neighbors that are interested in the local water issues. If you would like to be added to or removed from the list for these emails, please reply to WaterForPineStrawberry@hotmail.com. Emails on earlier meetings are available on our website: www.WaterForPineStrawberry.com .

Water For Pine Strawberry is a group of residents who are concerned about the communities water issues and how they can best be resolved. Visit our web site, www.WaterForPineStrawberry.com, for more information. The website for PSWID is www.pswid.org .

Clarifications can be submitted by anyone who is explicitly named, implicitly identifiable, or a board member to items in this email. Clarifications will be posted on our website. We reserve the right to post a response. Clarifications must deal with the topics discussed in the email that relate to the individual or the board. They must be in family friendly language and be non-abusive. When the clarification is accepted, it will be posted to the website and notice of that posting will be added to the next email.