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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
2 COMMISSION

3 WASHINGTON UTILITIES AND )  
TRANSPORTATION COMMISSION, )  
4 )  
Complainant, )  
5 )  
vs. ) DOCKET NO. UW-000405  
6 ) Volume V  
AMERICAN WATER RESOURCES, INC., ) Pages 77 - 179  
7 )  
Respondent. )  
8 -----

9  
10 A hearing in the above matter was held on  
11 January 3, 2001, at 1300 South Evergreen Park Drive  
12 Southwest, Olympia, Washington, before Administrative  
13 Law Judge LAWRENCE BERG.

14 The parties were present as follows:

15 AMERICAN WATER RESOURCES, INC., by VIRGIL  
16 FOX, President and CEO, 921-B Middle Fork Road,  
Onalaska, Washington 98570.

17 THE WASHINGTON UTILITIES AND TRANSPORTATION  
18 COMMISSION, by MARY M. TENNYSON, Senior Assistant  
19 Attorney General, 1400 South Evergreen Park Drive  
Southwest, Post Office Box 40128, Olympia, Washington  
98504.

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25 Kathryn T. Wilson, CCR  
Court Reporter (taken from tape-recording)

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1 (This volume was tape-recorded and later transcribed by  
2 the court reporter.)

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P R O C E E D I N G S

5 JUDGE BERG: This is a proceeding before the  
6 Washington Utilities and Transportation Commission in  
7 Docket Number UW-000405, captioned as Washington  
8 Utilities and Transportation Commission, Complainant,  
9 versus American Water Resources, Inc., Respondent.  
10 American Water Resources, Inc., may also be referred to  
11 as AWR.

12 Today's date is January 3, 2001. This is an  
13 evidentiary hearing being conducted at the Commission's  
14 headquarters in Olympia, Washington. My name is Larry  
15 Berg. I'm the presiding officer. Assisting me in this  
16 case is Mr. Maurice Twitchell of Commission staff, who  
17 is serving as an accounting advisor.

18 This case arises from tariff revisions filed  
19 by American Water Resources, Inc., on March 20, year  
20 2000, designed to extend an existing surcharge. The  
21 surcharge extension is to cover the additional cost of  
22 the Department of Health critical items under RCW  
23 80.28.022 and will expire May 1, 2004, or upon recovery  
24 of the loan principle, \$380,350 plus interest and  
25 taxes, whichever comes first. Extension of the

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1 surcharge would recover an additional amount of  
2 \$102,106. The operation of such tariff revision has  
3 been suspended by order of the Commission pending this  
4 hearing; that suspension occurring on April 26, 2000.

5           The ultimate issue involved is whether the  
6 extension of the surcharge to increase the amount  
7 collected is just and reasonable. The issue as to the  
8 justness and reasonableness of the surcharge includes  
9 consideration of alternative rate design or structure.  
10 Included within the consideration of alternative rate  
11 design is the validity and continuity of any water  
12 service provided under contract. In accordance with  
13 the provisions of RCW 80.04.130, the burden of proof to  
14 show that the increase is just and reasonable will be  
15 upon the Respondent, AWR.

16           At this point in time, I will take  
17 appearances from the parties, and we will begin with  
18 you, Mr. Fox, and you need only provide your name and  
19 the party whom you represent here today.

20           MR. FOX: My name is Virgil Fox, and I  
21 represent American Water Resource.

22           MS. TENNYSON: My name is Mary M. Tennyson.  
23 I'm a senior assistant attorney general representing  
24 Commission staff.

25           JUDGE BERG: I will just note for the record

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1 that both Mr. Fox and Ms. Tennyson have previously  
2 entered their appearances on the record. Let me ask  
3 both parties whether there are any objections to this  
4 hearing going forward at this time.

5 MR. FOX: No.

6 MS. TENNYSON: No.

7 JUDGE BERG: All right then, the first matter  
8 of business on the record will be to give both parties  
9 an opportunity to make a short presentation or summary  
10 of their position in this case and what they believe  
11 the evidence in this case will demonstrate, and we will  
12 begin with you, Mr. Fox.

13 MR. FOX: Thank you, Your Honor. I believe  
14 that the issues to be investigated, dealt with, and  
15 understood here today are first off, how is the budget  
16 for the surcharge established; why did the costs of the  
17 surcharge projects overrun the budget; understanding  
18 the bid process of how things happened and  
19 understanding -- and made through either American Water  
20 or Fox Company supplying the documentation to UTC that  
21 they wanted and then, of course, the question of should  
22 the surcharge be extended, and I think there seems to  
23 be to me a major amount of distrust involved in the  
24 situation. So I think I need to address my credibility  
25 to some extent.

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1           I do recognize and appreciate that the Staff  
2 has said they are just trying to be helpful, and I  
3 don't take that as some kind of a joke. I believe that  
4 it's the truth, and I would like to try to be helpful  
5 too. My biggest problem is that the information wasn't  
6 put together in a very good way to make that easy. I  
7 do also admit that when I feel like things are being an  
8 overkill, so then I tend to get a little bit obstinate.  
9 So I hope you will be patient with me on that issue.

10           To me, it's important that we kind of put  
11 things into perspective. I don't feel that I'm really  
12 asking for very much, or that doesn't seem to be the  
13 perception. As far as I know, the only thing that I'm  
14 asking for is an extension of the surcharge, which the  
15 customers either need to pay for in the form of  
16 extending the surcharge a little longer, or it's added  
17 to my rate base and I recover the investment over the  
18 30 years or whatever period it is.

19           So I don't visualize that this puts one penny  
20 either in my pocket or American Water's pocket, and for  
21 that reason and also for the fact that a reason that  
22 with two hearings, I believe public hearings, I believe  
23 one hearing was attended by two parties and another  
24 hearing by one party, and I'm not sure, maybe there was  
25 one comment or two out of that, so it's not exactly



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1 like the customers are up in arms and raising a big  
2 fuss. I believe that I've satisfied the Staff's  
3 request for information and other kind of things as far  
4 as I know, except for relative to the issues relating  
5 to Fox Company and the cost of the projects, and I'll  
6 try to do whatever else I can to address that.

7 I'm also prepared should someone, the Court  
8 or Ms. Tennyson or someone believe it appropriate or  
9 necessary to discuss things like my relationship with  
10 DOH or UTC or the Company's financial status grade or  
11 my personal financial commitment or other issues which,  
12 in my mind, are probably not relevant today, but should  
13 anyone be interested in discussing them, I'm more than  
14 willing and prepared to do so.

15 JUDGE BERG: Thank you, Mr. Fox.  
16 Ms. Tennyson?

17 MS. TENNYSON: Thank you. Since Your Honor  
18 has adequately summarized the basis of the case, I  
19 won't go into the details and numbers of what this case  
20 is about. I would like to back up a little bit though.  
21 When the matter of the surcharge initially came before  
22 the Commission April of 1999, the Commission had some  
23 concerns about how to insure that the surcharge funds  
24 were spent appropriately and had some concerns about  
25 the Company using VR Fox Company, an affiliated

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1 contractor, to perform work on the water company  
2 systems. Therefore, in the order approving the  
3 surcharge, which we do have as a proposed exhibit, the  
4 Commission did require the Company set up a reserve  
5 account for capital projects, required quarterly  
6 reports, required that the Company seek competitive  
7 bids on projects over \$20,000 and any projects that VR  
8 Fox Company was involved in that would amount to  
9 spending \$5,000 on a single system.

10 When the request to extend the surcharge was  
11 filed with this Commission and then came before the  
12 Commission on April 26, 2000, Staff recommended that  
13 Commission suspend the Company's filing to obtain more  
14 information from the Company about the reasons for the  
15 additional costs. Staff had originally requested this  
16 information from the Company as long ago as November  
17 1999 after the total principle amount of the original  
18 surcharge was paid out.

19 We don't believe that it is the job of Staff  
20 to prove the Company's case, but we do feel that Staff  
21 has bent over backwards in the course of trying to do  
22 this investigation to request the information that  
23 would allow the Staff to recommend approval. We will  
24 be presenting witnesses from the Staff and Department  
25 of Health about the projects and project time lines.

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1 We've received some information from the Company that  
2 the projects changed that we don't believe is supported  
3 by the evidence that has been presented to Staff prior  
4 to today. Staff will identify the information we  
5 received and questions that have come to mind from that  
6 information. We'll also be asking questions of Mr. Fox  
7 and the engineers under contract with AWR to try to  
8 determine what actually is the truth. What is it that  
9 was charged or paid by the Company for what work? Is  
10 it appropriately charged to the surcharge account or  
11 not.

12           At this point, Staff's position is the  
13 Company has not yet provided sufficient information and  
14 records to Staff to show that the additional funds it's  
15 requesting here were appropriately spent on projects  
16 required on the surcharge list. The information does  
17 show the projects were completed in 1999, but questions  
18 that Staff has repeatedly asked about; how did the  
19 scope of each of the projects change; some scope was  
20 reduced; some was increased; what's the breakdown of  
21 the costs related to those changes; what was spent?  
22 That information, Staff still has questions.

23           Basically, the question that Mr. Ward posed  
24 to the Company in his informal data request on April  
25 10, 2000, hasn't been answered: "Please provide a

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1 detailed analysis of why and by what amount each  
2 project deviated from the original engineering scope of  
3 work that was used in the surcharge filing and  
4 calculation." Mr. Fox's statement, I think, bears this  
5 out that that's how is the budget for the surcharge  
6 established and how did the costs change beyond the  
7 budget? What's the reason for those? Those are the  
8 questions we are here to answer.

9 Staff has asked for copies of vendor material  
10 invoices or even a breakdown or summary sheet of  
11 materials used in the projects, which at this point  
12 have not been received. The information when there was  
13 an issue of was a pump house to be repaired or  
14 replaced; what's the cost difference; what materials  
15 were used; was the pump house just painted; was it  
16 rebuilt; what work was done?

17 Whether or not the customers speak out, the  
18 customers of the water company are entitled to a  
19 rigorous examination of the costs which they are being  
20 asked to pay for, and in this case, to pay a premium  
21 over and above what many consider to be high prices for  
22 water usage that they pay for on a monthly basis.  
23 Thank you.

24 JUDGE BERG: Thank you, Ms. Tennyson.  
25 Mr. Fox, you may remain seated at this time. I'm going

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1 to ask you to raise your right hand.

2 (Witness sworn.)

3 JUDGE BERG: At this time, Mr. Fox, you may  
4 proceed to make your presentation.

5 MR. FOX: I'm a bit confused. I thought we  
6 were going to call the witnesses or Mary wanted to do  
7 that.

8 MS. TENNYSON: I said after you made your  
9 initial description of the documents and things. If we  
10 are going to ask them questions about it, you need to  
11 make your initial presentation.

12 MR. FOX: You want me to describe the  
13 exhibits that I brought?

14 JUDGE BERG: Just for point of clarification.  
15 To the extent that AWR has the burden of proof to  
16 establish that its requested tariff revision is just  
17 and reasonable, you will have to make some kind of  
18 direct presentation. As part of the hearing process,  
19 after you make your presentation, which would be  
20 similar to you giving direct testimony, Ms. Tennyson  
21 will have an opportunity to ask you questions about  
22 anything that you say in the course of your  
23 presentation, and it's her asking questions of you that  
24 we are going to postpone until after Mr. Hatton,  
25 Mr. O'Neil, and Ms. Woods has a chance to testify, but

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1 we still need to have you go through and make your best  
2 case in support of the request at this time.

3 MR. FOX: Okay. Thank, Your Honor. I  
4 believe that it would be very easy, would have been  
5 very easy for me to supply all the information that  
6 Ms. Tennyson is asking for if we had in any way had a  
7 clear understanding before these jobs were done what  
8 kind of records were expected. I've spent about 45  
9 years in various parts of the construction business,  
10 and I have bid literally thousands of jobs. I have bid  
11 them on a TNM basis. I've bid them on a lump sum  
12 basis, and I've bid them on a unit price basis, and  
13 I've bid them on every combination of those things.  
14 I've bid them to various private enterprises,  
15 universities, government agencies, Indian tribes, and  
16 everyone in the world. That's a part of the object of  
17 my Exhibit 7 is to show that I do have some amount of  
18 experience and credibility in those areas.

19 When you bid a job on a TNM basis, you keep  
20 the kind of records you can document virtually every  
21 move you make. You keep the invoice for every nail,  
22 and you keep the time records for every hour. You keep  
23 all of these kinds of records, and therefore, coming at  
24 it after the fact, as we are doing now, and looking for  
25 that information, it's very easy to simply pull out

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1 that file and there it is. Now, I have done that many  
2 times, but this was a lump sum bid job, and I have  
3 never in all of the jobs that I've bid been asked to  
4 supply that kind of information after the fact on a  
5 lump sum bid job, and I had no vague idea that I would  
6 be asked to supply it in this case.

7           So what has happened is we have got a rather  
8 confusing and inadequate amount of records to present  
9 things in that manner. We can, to some extent, go  
10 back, and I have, to some extent, gone back and pull  
11 out the computer run for the job costs, and we could,  
12 as I stated in the response to Ms. Tennyson's request,  
13 which is my Exhibit 3, stated that this is what the  
14 materials were. This is what the markup was on the  
15 materials. This is the rest that was labor or overhead  
16 and profit, and I stated that I was more than willing  
17 to swear under oath that that information was correct  
18 and accurate and could be given the additional cost of  
19 an outside auditor to come in and audit that. It would  
20 be proven to be totally correct.

21           In the last few days in an effort to try  
22 to -- what should I say -- bolster that a bit, I did  
23 present the computer run on all of those costs, which  
24 is our Exhibit 6, the summary of the job costs, and to  
25 me, and I can understand, I guess, at this point, that

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1 that's not the way Ms. Tennyson is seeing it. Maybe  
2 it's not the way the world sees it, but I kind of took  
3 that more as an affront as anything because I'm not  
4 being trusted at all for what I said. Well, maybe I  
5 shouldn't be trusted. Maybe no one should. Maybe  
6 that's not the way it works, so I tried to go the extra  
7 step. The invoices, to back all those things up, could  
8 also, with enough work, be found. Again, I recognize  
9 I'm under oath and readily swear to that.

10           So the information is all there, but the  
11 reason that things have become so confusing and the  
12 reason that I haven't put it together right is because  
13 I had no suspicion in the beginning I should. So I  
14 think that's probably the most important point here, as  
15 I see it. I have given way back in the beginning the  
16 summary of the various jobs that were bid, what the  
17 bids were, and that's in Exhibit 5 that shows what bids  
18 were received from who and the contract and Notice to  
19 Proceed and various things on each job. That I had  
20 given very early on.

21           How I'm to better explain at this point how  
22 the jobs were bid and the estimates made and all these  
23 kinds of things because of the reasons that I've  
24 mentioned and the way records were kept, I can only do  
25 in pretty much of a conceptual type of manner. As



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1 everyone is aware, I'm not an accountant, and I'm not a  
2 lawyer, and I don't deal very well with these minute  
3 facts. I deal more on a gut level business  
4 comprehension type of approach, and while that may be  
5 an adequate approach from a legal standpoint, I think  
6 that under the circumstances that we've seen here and  
7 the way that these jobs were bid, I think there has to  
8 be some consideration given to the fact that I had no  
9 knowledge I was supposed to do it one way, and I did it  
10 the best I could and I, after the fact, have supplied  
11 the best information that I know how to do and have  
12 tried to be totally honest and straightforward about  
13 it.

14 I think another issue that is of concern, and  
15 the only issue that I can see that relates to the bid  
16 issue or the job cost, the interaction or relationship  
17 between Fox Company and American Water. To this  
18 extent, I can understand that someone may choose to  
19 believe that somehow Fox Company has got rich off of a  
20 deal, but when the jobs were put to public bid, and  
21 there was a tremendous amount of effort put out to get  
22 as many bids as possible on every job, and that was not  
23 accomplished as well as we would have liked to see it,  
24 but there was vast effort put out. I did midway  
25 through the project review with Jim Ward the efforts

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1 and the bids we had received, and his indication was,  
2 "You are doing fine. Just keep going."

3           So the competitive bid situation was an  
4 honest and serious effort, and in most cases, and I'm  
5 sure with respect to most of the dollars spent, they  
6 were spent under the competitive bid type of approach.  
7 So even if Fox Company had made some kind of excess  
8 profit, it still would have been fair under a normal  
9 bid situation. However, it did not make any excess  
10 profit. It made overall -- and another part of the  
11 circumstances that occurred is as these jobs were being  
12 done, this was a real pressure cooker. The DOH and the  
13 customers were all over me to get things done  
14 instantly, and the time to try to give bidders the  
15 opportunity to bid and get their bids back, and you  
16 can't expect them to start things the day that you  
17 receive their bid. So all of these times every day was  
18 absolutely critical, and the various people at DOH,  
19 particularly Bill Liechty, were all over me to get  
20 things done instantly. So there was a great amount of  
21 pressure there, and it just didn't leave as much time  
22 as we would have liked to to do things in a more  
23 orderly fashion.

24           In addition, that kind of caused the  
25 situation where as we were diving into all of these

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1 jobs at the same time, and I had to virtually divert  
2 all of the Fox Company crew from other jobs to see that  
3 these jobs got done as quickly as they could possibly  
4 get done, the issue of keeping track of time records  
5 and invoices and all these things that we didn't know,  
6 there was a high degree of preciseness in the beginning  
7 become even tougher, and I will readily admit that the  
8 labor, particularly for various jobs -- I kind of come  
9 to the attitude that this is one job. I've got to get  
10 the whole job done. I've got to get it done as fast as  
11 I can, and I've got to get it done right, and I really  
12 don't have the time or way of concerning myself with  
13 exactly where and how I'm accounting for each thing.  
14 So I started doing it as one job and accounting for it  
15 that way, and that's no doubt wrong, but it's what I  
16 had to do under the circumstances to get the job done.

17 We had not just DOH, but we had county  
18 commissioners; we had state representatives and  
19 newspaper, and everybody in the world was down my neck  
20 to get these things done. DOH was fining me, where I  
21 had a meeting with DOH in March of '99 before any of  
22 the surcharge projects were started, and the object of  
23 the meeting was to discuss what kind of timing would be  
24 necessary to get these jobs completed, and at that  
25 meeting was -- I know it was Sean Orr and Peter Beaton,

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1 and I'm not sure if Bill Liechty was there. It's  
2 possible that Gene might have been there. There was  
3 six or eight people I think Sandy Brentlinger from  
4 DOH, quite a number of people, and the question was,  
5 "How quick can you get these things done?" I said, "I  
6 will have them done before the end of the year," and  
7 the comment was, and I quote, "If these jobs are done  
8 before the end of the year, DOH will be in the streets  
9 dancing."

10           These jobs were done before the end of the  
11 year, and long before the end of the year, DOH was  
12 issuing orders and doing everything possible to put  
13 additional pressure on me thinking that that was going  
14 to cause me to get them done quicker. I, in fact, in  
15 the beginning when Chris McMeen first discussed the  
16 question of issuing an order, I said, "Well, maybe that  
17 would be helpful because I'm trying to get this  
18 surcharge thing solved and keep things moving, and  
19 maybe that would be helpful for people to understand  
20 the urgency of the situation." Well, I found out I was  
21 encouraging the ax to chop me up with, so that didn't  
22 work out very well.

23           The point I want to make is that Fox Company  
24 and American Water did everything possible to do these  
25 jobs as quickly and as efficiently as possible. Part

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1 of what relates to the question of how the bids were  
2 put together and why the costs were overrun, when we  
3 tried to make the budget and tried to determine what  
4 the surcharge requests should be, Steve Hatton and I  
5 discussed it, and we didn't go into a lengthy, detailed  
6 cost analysis. We did it with his experience, with my  
7 experience, putting our heads together, talking with my  
8 superintendents and various other kinds of things, and  
9 viewing it from today, made a little bit more of a gut  
10 level evaluation than an analytical evaluation. The  
11 balance was probably not quite as good as it should  
12 have been.

13 Another thing that affected the costs was I  
14 was very concerned with -- I have been trying to build  
15 a competent, good water company. The systems that are  
16 out there, my systems and the other systems out there,  
17 which is the object of my picture exhibit here is to  
18 show you something about that, the condition of a great  
19 many of these systems is rather horrific, and neither  
20 UTC nor DOH, unless customers complain or they have  
21 some particular reason to call their attention to those  
22 kind of conditions, pay virtually no attention to those  
23 kinds of things. If there is a water quality problem,  
24 a bad test, or if customers complain, then they jump in  
25 and look at that, but unless someone points out the

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1 insulation is falling out, the building is falling  
2 apart and is rat infested, nobody goes out to look or  
3 care.

4           A part of my objective was to see that I  
5 bring all of my systems up to a standard that was the  
6 kind of system I could take my customers to and show  
7 them where their water comes from and not be ashamed of  
8 myself, and I could take the inspector from the State,  
9 the engineer, and show them that we are doing a  
10 competent job. I wanted our systems to be good, so I  
11 set about building a spec book, which I made a part of  
12 one of the exhibits here -- Exhibit 4 is our spec  
13 book -- that would define how our system should be  
14 built, and I spent countless hours reviewing other  
15 documents and different things, getting that right. My  
16 secretary, Katie Woods, spent many hours typing and  
17 doing various work for that, all of which was done by  
18 Fox Company, by her and by me, which was not on  
19 American Water payroll, and was a benefit to American  
20 Water. That is just one of the ways that Fox Company  
21 has subsidized American Water rather than vice versa,  
22 which seems to be sometimes presumed.

23           As a result of making that spec book, I  
24 believe that we have demanded a little bit higher  
25 standard of the reconstruction and remodeling types of

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1 things that have gone on with the jobs we have done,  
2 and we've made that spec book a part of our specs for  
3 the surcharge and any other work that's done. Well,  
4 that did, no doubt, cause the cost to be a little bit  
5 higher than was anticipated because we did the job that  
6 should be done rather than merely putting a bandaid on  
7 the thing that was the critical DOH thing at the  
8 moment.

9           As far as our status of doing the jobs, we  
10 did them all quickly. We did them right, and at the  
11 same time maintaining the level of service to our  
12 customers and bringing up the level of service. We  
13 have complied with the DOH order to redo our water  
14 system plan, which was, again, a very big job and a  
15 very big expense and extremely time consuming, another  
16 project that Fox Company contributed to without any  
17 kind of payment. So we have put a lot into trying to  
18 take good care of our customers and treat them right.

19           I just can't visualize why the extension of  
20 this surcharge is in any manner an unreasonable  
21 request, and while I readily recognize that we haven't  
22 been able to supply Mary with everything she wanted and  
23 in the manner she wanted it, we have put forth our best  
24 effort to accomplish that and I think a reasonable  
25 effort that should be interpreted as a real, not only

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1 good faith effort, but there is no, as far as I can  
2 see, no room for any way that we could have, I guess,  
3 cheated or somehow unfairly benefited from the  
4 situation. I don't really know, without getting off on  
5 other tangents or being redundant, of anything else  
6 that I should be trying to discuss at the moment.

7 JUDGE BERG: Let me just ask one question.  
8 When was the spec book developed?

9 MR. FOX: June 1st was the date we finished  
10 it, published it.

11 MS. TENNYSON: What year?

12 MR. FOX: '99.

13 JUDGE BERG: Thank you, sir. Is it also your  
14 request, Mr. Fox, that the exhibits that were  
15 identified and marked as Exhibits 1 through 10 be  
16 admitted into the record?

17 MR. FOX: Yes, Your Honor. There is perhaps  
18 a couple of those that I may not have discussed there.  
19 One is Exhibit 2, which is the accounts payable, a copy  
20 of the invoices that Hatton, Godat had presented to me  
21 and a summary of those, and I believe that Mr. Hatton  
22 will verify that those are accurate. I guess with  
23 that, I believe I've covered all of the exhibits, I  
24 think.

25 JUDGE BERG: Ms. Tennyson, any objection to



00101

1 the admission of Exhibits 1 through 10?

2 MS. TENNYSON: I might voir dire on  
3 Exhibit 2.

4 JUDGE BERG: Yes.

5 MS. TENNYSON: Mr. Fox, you've referenced as  
6 your Exhibit 2 the Company's list of accounts payable  
7 showing amount due to Fox Company and Hatton, Godat,  
8 Pantier --

9 MR. FOX: Excuse me. I did not characterize  
10 that correctly. Exhibit 2, there is two pages to that.  
11 The first page is showing what Fox Company owes --  
12 excuse me, what American Water owes. There is  
13 approximately \$143,000 past due that American Water  
14 owes today that they have no possible means of paying,  
15 no revenue to pay.

16 MS. TENNYSON: But for clarification, you are  
17 not asserting that this \$143,000 all relates to  
18 surcharge moneys. This is all for accounts payable --

19 MR. FOX: That's correct --

20 MS. TENNYSON: Please let me finish first.

21 MR. FOX: As part of this, we see in there,  
22 Hatton, Godat, Pantier, \$9,600. We see Fox Company as  
23 two items, \$74,388, and \$14,635. Those are the amounts  
24 that are still due under the surcharge. All of these  
25 others are merely other bills that are a listing of the

00102

1 past due accounts of American Water.

2 MS. TENNYSON: \$14,635, reading across to me  
3 appears to be Water Management Lab Incorporated.

4 MR. FOX: I got the wrong line. You are  
5 right, but there are two lines. It is \$74,000 and  
6 \$9,600; right?

7 MS. TENNYSON: So the Virgil Fox is  
8 \$9,683.30, and VR Fox Company is \$74,388.46?

9 MR. FOX: Yes, and come to think of it, the  
10 first one that just says "Virgil Fox" is not surcharge  
11 related.

12 MS. TENNYSON: Referring then to the next  
13 page --

14 MR. FOX: Right. The other page is an  
15 itemization of what that \$74,388 is.

16 MS. TENNYSON: And this is owed to VR Fox  
17 Company. This is not representing bills from Hatton.

18 MR. FOX: No. The \$74,388, that is itemized  
19 on the first page, this is a breakdown of that \$74,388.

20 MS. TENNYSON: Can you tell me, there is  
21 several columns on this. The first one is labeled  
22 "type." The second one is "date." The third one is  
23 "number." Do you know what those numbers represent?  
24 Is it a water system number? Is it an invoice number?

25 MR. FOX: It's not a water system number.

00103

1 Some of them are, I believe.

2 MS. TENNYSON: If you don't know, that's  
3 fine --

4 MR. FOX: I don't remember at the moment what  
5 that is. Probably Katie can tell what you that number  
6 is when you ask her.

7 MS. TENNYSON: Thank you. I have no further  
8 questions. I have no objection to the admission of  
9 these documents.

10 JUDGE BERG: Exhibits No. 1 through 10 will  
11 be admitted. Mr. Fox, I'll ask that when we get  
12 together first thing tomorrow morning that you have the  
13 requisite number of copies, color copies of those  
14 photographs, and No. 9, if you want to produce, knowing  
15 that color copies can be expensive, Ms. Tennyson, one  
16 set for you; would that be satisfactory?

17 MS. TENNYSON: That's fine.

18 JUDGE BERG: And two sets for the Bench, so  
19 you need to bring --

20 MR. FOX: Three besides these.

21 JUDGE BERG: Correct. Bring the original and  
22 three with you tomorrow, and with regards to Exhibit  
23 10, the preliminary P&L for AWR, year 2000, if you  
24 would also bring those same copies, that will suffice.

25 MR. FOX: I will.

00104

1           JUDGE BERG: At this time, Mr. Fox, I'm going  
2 to essentially excuse you from further testifying, but  
3 you will be recalled after we take several witnesses  
4 out of order. When you are recalled, Ms. Tennyson will  
5 be asking you questions based upon your direct  
6 presentation, and I'll just say for the other witnesses  
7 and for yourself, while in an ordinary conversation,  
8 often two people can talk at one time and communicate  
9 clearly, it will be very difficult for you to do that  
10 in the course of the hearing. So when we do get to a  
11 question and answer phase, you will have to wait for a  
12 complete question to be asked before responding. Thank  
13 you.

14           Ms. Tennyson, why don't you go ahead and call  
15 your first witness.

16           MS. TENNYSON: Thank you. I would call  
17 Steven Hatton to the stand.

18           JUDGE BERG: Mr. Hatton, please raise your  
19 right hand.

20           (Witness sworn.)

21

22           MS. TENNYSON: Your Honor, at this point,  
23 what I would like to do, because some of the questions  
24 that I have relate to the exhibits that I had proposed  
25 for use with Mr. Fox, I would like to present those and

00105

1 offer them, if Mr. Fox does not have an objection, and  
2 provide a copy to the witness so he can refer to them.  
3 This would be Exhibits 101 through 115.

4 JUDGE BERG: Any objection to those being  
5 admitted, Mr. Fox?

6 MR. FOX: No objection.

7 JUDGE BERG: Exhibits 101 through 115 will be  
8 admitted at this time.

9

10 DIRECT EXAMINATION

11 BY MS. TENNYSON:

12 Q. Could you please state your name and full  
13 title for the record, please?

14 A. My name is Steven D. Hatton, H-a-t-t-o-n.  
15 I'm the president of Hatton, Godat, Pantier,  
16 engineering surveying firm here in Olympia.

17 Q. You are appearing here today under subpoena  
18 that I issued in this case; is that correct?

19 A. Yes.

20 Q. I have provided you with copies of Exhibits  
21 101 through 115, and I would note that you have two  
22 copies of Exhibit 107, one of which is an 11-by-17  
23 size, and one which is an eight-and-a-half-by-eleven  
24 size. You may refer to either of those if I ask  
25 questions related to those.

00106

1           Let's start off with how long have you or  
2 your firm been associated with American Water Company  
3 or Lewis County Utility, its prior name, or water  
4 systems that American Water purchased?

5           A.     I don't recall exactly when LCUC got started  
6 or if VR Fox owned a water company or two before that,  
7 but probably since its inception, probably the early  
8 '90's, maybe mid '90's.

9           Q.     So you are fairly familiar with the water  
10 systems and the engineering work required by Mr. Fox's  
11 water company, whatever it was named?

12          A.     Yes.

13          Q.     Could you describe your involvement in the  
14 surcharge project, as we've referred to it, that's the  
15 matter of this hearing?

16          A.     My company provided the engineering for, I  
17 think there were 13 water systems of varying degrees of  
18 improvements that were required. There was a certain  
19 amount of engineering required by the Department of  
20 Health, and a certain amount of effort that didn't  
21 necessarily require professional engineering work but  
22 something we were familiar with in terms of assembling  
23 bid packages and assisting AWR in collecting bids,  
24 things like that.

25          Q.     Did you participate in putting together the

00107

1 estimates that were used in AWR's request for the  
2 initial surcharge that was approved by this Commission  
3 in 1999?

4 A. I don't recall specifically what the purpose  
5 was, but Mr. Fox and I reviewed a capital improvement  
6 plan probably in the latter part of '98 and very early  
7 in '99, looking at a list of items that needed to be  
8 completed throughout his water systems, and then he and  
9 I jointly, with my expertise and his, assembled a  
10 budget for those improvements.

11 Q. And specifically, what did you contribute to  
12 that process of preparing the budget?

13 A. As we look at the capital improvement plan  
14 for 1999, there may be a line item for a chlorinator on  
15 a given system, and I would suggest that that would  
16 cost \$1,500 to design and \$2,500 or five grand to  
17 install, in general terms, and we would go down the  
18 list. Repair pump house, I may offer a comment on  
19 that. Rebuild pump house, we would probably be able to  
20 give a better number. Install new water pump, drill  
21 new wells, we would provide a number that I thought,  
22 generally speaking, that would cost.

23 MS. TENNYSON: Your Honor. I also have  
24 Exhibit 117 and 118 that I had prefiled for use with  
25 this witness. I would like to present him with copies

00108

1 at this time.

2 JUDGE BERG: All right.

3 Q. (By Ms. Tennyson) Mr. Hatton, I've provided  
4 you with a copy of what's been marked Exhibit 117 and  
5 will indicate to you this is the subpoena that I issued  
6 to you relating to your testimony at this hearing.  
7 Does that appear to be accurate?

8 A. Yes.

9 Q. In this subpoena, I asked you to bring  
10 various documents with you. Have you brought records  
11 with you today in response?

12 A. Yes.

13 Q. And for the record I may indicate, is this  
14 the box that is on the table to your left?

15 A. Yes.

16 Q. Exhibit 118, can you identify this document  
17 for me?

18 A. It is a letter to Mr. Jim Ward at the UTC  
19 dated February 22nd, 1999, from me to him. It is  
20 captioned, "AWR Capital Improvement Program," and there  
21 appears to be an attachment to it, which I take to be  
22 the CIP, capital improvement plan, for AWR.

23 Q. Let's go through the pages of this exhibit,  
24 and identify them. The first three pages are a letter;  
25 correct?



00109

1 A. Yes.

2 Q. And then the next page is titled, "American  
3 Water Resources-UTC meeting 2/25/99?"

4 A. Yes.

5 Q. Under that, it says "priority list." Do you  
6 know what this document is?

7 A. I don't know. I read it. It is a list of  
8 the 12 highest priority items of AWR systems, and then  
9 it captions some of those systems with some of the  
10 under order for chlorination and miscellaneous  
11 improvements, which would refer to a DOH order.

12 Q. Would it be correct to characterize this as a  
13 priority list of projects that the Company was required  
14 by Department of Health to do some work on?

15 A. That would be fair, yes.

16 Q. Following that, there are then two pages of  
17 other detailed information. Is this what you referred  
18 to as the capital improvement plan of AWR?

19 A. At least two pages of it. I don't recall if  
20 there may be more.

21 Q. This would be a list of projects that the  
22 Company for one reason or another was proposing to  
23 complete at some point in time; correct?

24 A. Yes.

25 Q. I would like you to refer at this point to

00110

1 what's been admitted as Exhibit 103 in the packet you  
2 have in front of you.

3 A. Okay.

4 Q. This appears to be a letter that you prepared  
5 dated March 10th, 1999; correct?

6 A. Correct.

7 Q. In this document then, there are your  
8 estimates of engineering costs for various projects?

9 A. Yes.

10 Q. Can you tell us how you prepared those  
11 estimates?

12 A. Building from the CIP list and that priority  
13 list, for each of these systems, we broke down specific  
14 tasks that needed to be accomplished for those systems,  
15 and then I worked up budgets for my engineering hours  
16 to do that work.

17 Q. I notice in each of these, for example,  
18 looking at the No. 1, Pleasant Valley, that part of the  
19 costs would include construction administration, work  
20 that your company would do relating to actual contract  
21 administration?

22 A. Yes.

23 Q. Do you know if that work was actually done on  
24 each of these projects?

25 A. I don't believe Terry Lane, and I'm not sure

00111

1 about Lazy Acres or Tolmie.

2 Q. And can you tell us what is your uncertainty  
3 about those items?

4 A. I believe Terry Lane, the work was not done  
5 at Terry Lane, or at least portions of it were not  
6 done. I think the same was true of Lazy Acres. We did  
7 some engineering on Tolmie, but I don't believe the  
8 improvements were made, so there wouldn't be any  
9 construction admin, and I believe the same was true of  
10 Crescent Park.

11 Q. So some of this work was not done, so you  
12 would have not done site visits during construction and  
13 that sort of thing?

14 A. Correct.

15 Q. If you could refer to Exhibits 112 and 113.  
16 Mr. Fox has submitted a whole group of responses to  
17 data requests as one exhibit, and I've broken a few of  
18 them out. Exhibit 112 is the AWRI's response to a data  
19 request that I prepared and submitted to the Company  
20 December 7, and 112 has a summary and then the 1999  
21 invoices from your company, and 113 has the year 2000  
22 invoices, so we have a road map of what we are looking  
23 at.

24 Now, I'd like you to turn to the third page  
25 of Exhibit 112, and this has your firm letterhead and

00112

1 then statement date, 5/18/99; do you have that?

2 A. Yes.

3 Q. This refers to services provided in the month  
4 of April 1999. Can you tell me from looking at this  
5 document what services were provided to AWR and why  
6 they were billed to the surcharge account?

7 A. I cannot. It appears to be a check has been  
8 placed on the original invoice, which is obscured, that  
9 type of information.

10 Q. There is a bill number, APR-99-116. Does  
11 that mean anything to you?

12 A. The 99-116 is the number that my company has  
13 to the surcharge account. I don't know what APR means.

14 Q. Do you generally supervise and review the  
15 bills that your company sends out to its clients?

16 A. Not the invoices, typically, particularly in  
17 '99.

18 Q. How about in the year 2000?

19 A. I think beginning sometime approximately June  
20 2000, we developed a new accounting software, and I  
21 find reviewing bills is actually easier to do with  
22 actually looking at invoices, so we started doing it  
23 about then.

24 Q. Just a point of clarification and maybe  
25 curiosity for myself, I notice many of these bills, the

00113

1 letterhead is Howard Godat, Pantier and Associates, and  
2 you referred to the firm as "your firm," and I believe  
3 the name has changed.

4 A. That's correct.

5 Q. How did the structure of the firm change, if  
6 at all?

7 A. Has not changed.

8 Q. So the name was changed, and when was that?

9 A. October of 2000, September maybe.

10 Q. So fairly recently.

11 A. Yes.

12 Q. Have you been the principle engineer for this  
13 firm during the entire years of 1999 and 2000?

14 A. Yes.

15 Q. Are you familiar with the Loma Vista system  
16 that AWR owns?

17 A. Yes.

18 Q. Were you aware of construction documents for  
19 that system being submitted to Department of Health in  
20 1998?

21 A. I don't recall the time. We have submitted  
22 corrosion control plans and chlorination plans.

23 Q. Were you aware of water quality problems with  
24 the Loma Vista system, including a boil-water notice  
25 being issued in 1998?

00114

1 A. Yes.

2 Q. Did you prepare any plans for disinfection or  
3 chlorination system at that time?

4 A. We prepared it at some time. I don't recall  
5 the date offhand. I believe it would be that September  
6 '98 date.

7 Q. Was any construction of the disinfection  
8 system for Loma Vista begun in 1998?

9 A. I don't recall. It has been built. I don't  
10 recall when it was built.

11 Q. Referring again to Exhibit 118, and  
12 specifically the last two pages of that document, the  
13 attachments, there is various cost estimates included  
14 in that document; is that correct?

15 A. Yes.

16 Q. Did you prepare those cost estimates?

17 A. That would overstate it, but I contributed to  
18 these cost estimates, particularly the engineering  
19 costs.

20 Q. So the engineering costs and the construction  
21 cost, which you've described as your participation in  
22 the process earlier, this would include participation  
23 in preparing these estimates?

24 A. I believe so. I can't read the date. This  
25 looks like 2/98. I think we are talking about January

00115

1 '99.

2 Q. I would refer you to the date in the lower  
3 right-hand corner which is not obscured by the hole  
4 punch.

5 A. Thank you. That says 2/98.

6 Q. Do you believe that date to be correct or  
7 not?

8 A. I assume this date is correct for this  
9 printout. It seemed to me we had a January '99 CIP,  
10 but I may have looked at this one too. I don't know.

11 Q. So you don't know whether this was prepared,  
12 in fact, in '98 or '99; is that what I'm hearing?

13 A. Well, my knowledge of the spreadsheet tells  
14 me that's a standard footer and prints out the date it  
15 was printed, so I presume this was built in '98.

16 Q. Was this a document that you or someone under  
17 your supervision prepared?

18 A. No.

19 Q. Do you know whether the cost of preparing  
20 this letter, the February 22nd, 1999 letter, was billed  
21 to AWRI as part of the cost of the surcharge project?

22 A. No, I do not believe that it was.

23 Q. We referred again to your March 10th, 1999  
24 letterhead, estimated engineering costs, and you  
25 indicated, I believe, there were changes in the scope

00116

1 of the work that was done on those projects, and  
2 therefore, the scope of the engineering work you  
3 actually performed did differ somewhat.

4 A. I don't recall --

5 Q. I'm sorry. That is Exhibit 103.

6 A. Could you ask the question again?

7 Q. I think I'll refer to the document myself.

8 This does include engineering fee estimates; correct?

9 A. That's correct.

10 Q. You had indicated that for some of these, for  
11 example, Terry Lane, Lazy Acres, Tolmie Park Estates,  
12 and Crescent Park, that the scope of work changed, and  
13 therefore, the actual work that your firm did also  
14 changed.

15 A. That's correct.

16 Q. Mr. Fox has referred to and I have referred  
17 you to the engineering invoices. Could you look at  
18 Exhibit 112, please, and I'd like to you just review  
19 each of the pages, and then I want to ask you a couple  
20 of other questions.

21 A. (Witness complies.) Okay.

22 Q. From these invoices, is there any way we can  
23 tell what water system the work was done for and  
24 precisely what work was being performed. If we were to  
25 look at and balance that you estimated \$3,000 in



00117

1 engineering costs for the Prairie Villa system, can we  
2 look at these invoices and say, this work was done on  
3 the Prairie Villa system?

4 A. Not within the surcharge. As I said, I think  
5 there was 12 or 13 systems in the surcharge, and all of  
6 the work done on those 12 or 13 systems was placed into  
7 this account, but not differentiating by system.

8 Q. Do you have documents available here today  
9 that would enable us to determine what work was done  
10 and what charges were made to AWR for the engineering  
11 work done on each of the systems?

12 A. The documents I have show the work that was  
13 done, but the accounting of the man hours that went  
14 into it was all placed into the 99-116 account in  
15 regards to what system we were working on. If it was  
16 one of those 12 or 13, it went into that account. So  
17 it would not be able to differentiate how many hours  
18 were spent on this one versus another one amongst those  
19 12.

20 Q. Mr. Fox testified a few minutes ago that the  
21 construction work on these projects was completed in  
22 1999, and if you refer to Exhibit 113, these are all  
23 invoices for engineering services from your firm billed  
24 to AWR surcharge No. 1 for the year 2000; is that  
25 correct?

00118

1 A. That's correct.

2 Q. If we refer back a minute to Exhibit 112 and  
3 the second page of that, there is a summary of those  
4 amounts, and I haven't independently verified and  
5 looked back at each of these amounts, but this Page 2  
6 of Exhibit 112 reflects that \$52,199.10 worth of  
7 engineering costs were billed to AWR designated as for  
8 the surcharge in the year 2000; correct?

9 A. Yes.

10 Q. Can you tell us what work was done in 2000  
11 that is appropriately billed to the surcharge account?  
12 What engineering work were you doing?

13 A. The first one on that list, 1600, was for  
14 work performed in December of '99. So that would  
15 presumably be to wrap up some of that surcharge that  
16 Mr. Fox indicated, so that would be consistent with  
17 what Mr. Fox apparently has said.

18 I guess I would take issue with what he said  
19 about it all being complete in '99 because part of the  
20 surcharge was corrosion control on Loma Vista, Prairie  
21 Villa, and Crowder, and the design work was performed  
22 on those corrosion control systems in 2000.

23 Q. I believe we referred to construction, and  
24 the construction he said was completed in 1999.

25 A. That would be correct because we haven't

00119

1 constructed those corrosion control systems yet either.  
2 The design work that you see in 67-2000 and 73-2000, I  
3 believe relates to the corrosion control systems for  
4 those three systems I just referred to, and then the  
5 bulk of the work in the last quarter of the year had to  
6 do with building the water system plan that DOH  
7 required. We had to go back and do revised water  
8 system plans on all the Group A systems and build a new  
9 umbrella for AWR. The invoices between February and  
10 May, I couldn't tell you what those are specifically.

11 Q. For the corrosion control systems that you  
12 refer to, what water systems do those relate to?

13 A. Loma Vista, Prairie Villa, and Crowder.

14 Q. Crowder Road?

15 A. Yes.

16 Q. I'd like to you refer at this point to  
17 Exhibit 107. Actually, it's a little awkward, but I  
18 want to look at a couple of different documents at one  
19 time. I'd like you to look at Exhibits 103 and 118,  
20 and specifically, I'm going to work from the top of  
21 this chart that is 107, and Pleasant Valley, referring  
22 to Exhibit 118 and the second to last page of Exhibit  
23 118.

24 There is an engineering cost listed for the  
25 Pleasant Valley system on 118 of \$2,500, and then on

00120

1 Exhibit 103, the engineering fee for the scope of work  
2 is \$3,000. Do you know what the actual bill to VR Fox  
3 for work on the Pleasant Valley system was?

4 A. No.

5 Q. Now, I'm not going to make you go through  
6 every single one of these. I don't want to spend all  
7 day. I would like to look at the Loma Vista system.  
8 Looking at Exhibit 118, the Loma Vista system appears  
9 on the chart on the second to last page about halfway  
10 down. That one has engineering costs of \$1,000 to  
11 reevaluate engineering, install chlorination, and  
12 miscellaneous; do you see that?

13 A. Yes.

14 Q. Then referring to back to Exhibit 103, Loma  
15 Vista, the second page of that exhibit has engineering  
16 fees for the above scope of work of \$7,000. Can you  
17 tell me what the difference is between those two?

18 A. Primarily, the corrosion control system.

19 Q. So that was an estimate, and again, you don't  
20 have the ability to tell us today what the actual  
21 engineering costs for the Loma Vista system were at  
22 this point, do you?

23 A. No, I do not, and I would also indicate that  
24 some of the difference can be the difference between  
25 February '98 and March '99 in terms of what we knew

00121

1 about the project, what engineering rates were, and  
2 what have you. The largest part of that would be the  
3 corrosion control system being added to the capital  
4 facility plan, but the others would come into play as  
5 well.

6 Q. Do you know about whether the corrosion  
7 control project was something required by the  
8 Department of Health or something the Company planned  
9 to do work on?

10 A. It's required by DOH.

11 Q. Do you know whether that was part of the work  
12 that was contemplated as being billed to the surcharge  
13 or not?

14 A. I thought it was. It's included in our  
15 proposal to do that work. So it's my impression that  
16 it was.

17 Q. So if I were to continue down and ask you  
18 similar questions on each of these systems on this  
19 chart, Exhibit 107, would your answer be the same that  
20 you can't tell us precisely what engineering costs were  
21 billed for work on each of these systems?

22 A. That would be correct. We do not  
23 differentiate in our accounting between systems.

24 Q. So there could have been much higher costs or  
25 lower costs for engineering on any of these systems.

00122

1           A.     Presumably, we could have come underbudget on  
2 some or overbudget on others, or maybe we hit them all  
3 dead-on.

4           Q.     Your firm, you and Mr. O'Neil, prepared  
5 reports to the Department of Health for approval on the  
6 surcharge projects; correct?

7           A.     Correct.

8           Q.     Isn't it true that all of those approvals  
9 were submitted in 1999?

10          A.     But for the corrosion control, I believe  
11 that's true.

12          Q.     So projects relating to corrosion control  
13 were not, but all the other work was completed in the  
14 documents submitted to Department of Health for  
15 approval in 1999.

16          A.     I believe so.

17          Q.     Referring again to our chart -- I believe  
18 it's Exhibit 107 -- for the South Prairie system --  
19 it's listed on Page 5, and it's also known as View  
20 Royal in most of the discussions that we who are  
21 familiar with the Company are accustomed to having.

22                 When I reviewed the chart that was attached  
23 to Exhibit 118, I did not find an engineering estimate  
24 for work on South Prairie or View Royal, and for your  
25 reference, the system number for this system is

00123

1 No. 343, and I didn't find an engineering estimate on  
2 your March 10th letter either, Exhibit 103, but  
3 referring to this chart that the Company's attorney had  
4 prepared and provided to Staff, under the column "work  
5 not included in estimate," it says, "substantial  
6 additional engineering required."

7 Can you tell us why this work wasn't included  
8 in the original or what engineering work was done on  
9 this project, or was there any? Is this an accurate  
10 statement?

11 A. I don't recall doing a significant amount of  
12 engineering at View Royal. We had done some consulting  
13 on various and sundry smaller items. I don't recall  
14 doing a substantial amount of engineering.

15 Q. Wasn't this the case where the county was  
16 going to be plowing up the road, and the mains needed  
17 to be relocated?

18 A. I know that's one of the things that happened  
19 at View Royal, yes.

20 Q. Would that require engineering work, or is  
21 that primarily a construction work issue?

22 A. Distribution mains with DOH are sometimes  
23 fuzzy. We didn't do any engineering on that other than  
24 maybe a site inspection, but whether or not somebody  
25 else did, I don't know.

00124

1 Q. So you couldn't tell us what the cost might  
2 have been of that engineering work, if any was  
3 required.

4 A. That's correct.

5 Q. Now, for the water system plan update, the  
6 original surcharge estimates included the amount of  
7 \$20,000 in engineering costs, and if we refer again to  
8 Exhibit 103, the box just below the South Prairie box  
9 that says, "WSP update, estimate \$20,000," and then  
10 again, the work not included in estimate refers to the  
11 umbrella WSP update, but in this case, it states that  
12 there was additional subplans required by the  
13 Department of Health. What does that refer to?

14 A. The original concept or assumption, I guess,  
15 in the budgeting process was, I think in '95 or '96,  
16 AWR had purchased a certain number of water systems,  
17 and at the time, DOH required us to develop subwater  
18 system plans for each of those systems. And basically,  
19 they were older systems that had fairly poor records,  
20 so we went through each file and pulled out all the  
21 information and compiled it and analyzed it in what by  
22 current standards might be a fairly brief way, and all  
23 of that was approved, ultimately in 1997. So when it  
24 came time to budget for this next round of CIP's, we  
25 figured we would have to do that type of work again,



00125

1 and we budgeted to do that accordingly.

2           In about -- I forget. Maybe Kevin would  
3 know, but I think it was the latter part of '97,  
4 perhaps '98, DOH adopted new standards for water system  
5 planning, and when it came time to actually do these  
6 subplans, the plans were extremely elaborate, and then  
7 they also required that the umbrella be updated to a  
8 rather high degree as well. So there was a  
9 considerable amount of work that went into both the  
10 umbrella and each of the subplans to not just do it the  
11 way we had done it before but to actually develop  
12 really elaborate plans for each of these systems.

13       Q.     So you referred in the initial part of your  
14 answer to assumptions that were made at the time you  
15 prepared the estimate. Who made those assumptions?

16       A.     I did.

17       Q.     However, these amounts, the \$20,000, was  
18 included in the amounts submitted to this commission  
19 for approval and inclusion in the surcharge in early  
20 1999; correct?

21       A.     Presumably. I haven't seen the package that  
22 came to UTC.

23       Q.     So at the time if Department of Health  
24 standards changed in '97 or '98, that was before 1999.  
25 The surcharge was actually approved in April of '99?

00126

1           A.     I think that may be a true statement, but I  
2 think the application of that regulation to develop a  
3 water system plan purely because of a transfer of  
4 ownership is not specifically addressed and was  
5 something that DOH could not necessarily be predicted  
6 to require, as far as expanding or new Group A systems.  
7 These systems were operating in largely approval status  
8 except for these improvements we had to make. The only  
9 change is a change of ownership.

10          Q.     In this case, on Page 5 of this exhibit, the  
11 parenthetical says the additional engineering work was  
12 \$19,161. Do you know where that figure came from?

13          A.     Most likely from my records, my invoices.

14          Q.     But you can't independently tell us today  
15 that's a correct amount.

16          A.     I believe it was in that order for sure,  
17 \$20,000, more or less, and whether I gave that number  
18 specifically to Mr. Finnigan when he prepared this or  
19 he derived it from my invoices, I couldn't tell you,  
20 but I'm quite sure it's in that magnitude.

21          Q.     So today, you can't point to an invoice from  
22 your company that reflects this amount related to this  
23 particular work.

24          A.     Not that amount. We would look back to --  
25 what was it -- 112 and the amount from about September

00127

1 through October of 2000. I don't know when  
2 Mr. Finnigan developed this spreadsheet, but he may not  
3 have all the numbers associated with that plan either.

4 Q. On your invoices, we refer to the code that  
5 reads 99-116, and I believe you indicated that this  
6 represents your firm's code for billing to AWR for the  
7 surcharge project work; correct?

8 A. Yes.

9 Q. Were there other billings to AWR during 1999  
10 or 2000 for engineering work that uses a different  
11 code?

12 A. I believe so, yes.

13 Q. Mr. Fox testified earlier today that the  
14 costs of preparing the specifications book -- what I  
15 heard was that Ms. Woods and he did a lot of that work,  
16 and yet, if we go to Page 6 of Exhibit 107, this  
17 Mr. Finnigan had indicated in this information given to  
18 Staff that the AWRI standards specification book  
19 required for the bids was an additional engineering  
20 cost. Did your firm prepare this book? Who did it?

21 A. We reviewed it, made some comments, but  
22 Mr. Fox correctly stated that he had done a good solid  
23 portion of it, perhaps the majority of it. We had  
24 provided some standard details of things we had done  
25 with water systems, but I think both are true. Whether

00128

1 in Mr. Finnigan's spreadsheet -- he calls it  
2 engineering, whether VR Fox did it or Hatton, Godat,  
3 Pantier did it would be the same type of thing.

4 Q. Do you know whether there were billings to  
5 AWR by Hatton, Godat, Pantier for costs specifically  
6 related to the specifications, development of the spec  
7 book?

8 A. I believe there was, yes.

9 Q. Do you know how much that was?

10 A. I couldn't break it out, and that would be  
11 probably not as easy to do as we talked about in the  
12 2000. I know we did chunks of work, but in '99, it was  
13 all done in a great big hodgepodge. The book was  
14 completed in June, I think we heard earlier, so it  
15 would have been a portion of the billings in the first  
16 half of '99, but what other things we were working on  
17 at that time, I couldn't differentiate.

18 Q. I believe you indicated you had been working  
19 as an engineer with Mr. Fox probably since the  
20 inception of his company. Didn't Lewis County Utility  
21 have construction standards back in 1996?

22 A. Probably not. They probably used some of the  
23 details in the standard specs. We often reference  
24 "wash dot" standard specs and APWA, and we were  
25 probably using that at the time.

00129

1 MS. TENNYSON: Can I have a moment?

2 Q. Mr. Fox had testified that he consulted you  
3 in preparing the bids or the bid package that went to  
4 advertisement for bids that went out to the bidders on  
5 these projects; is that true?

6 A. Yes.

7 Q. Why don't you describe the process of  
8 developing the bid specs for us.

9 A. A large part of it was the spec book that we  
10 were just speaking of that detailed a lot of standard  
11 details and a lot of general specifications for how you  
12 proceed with work and things like that. Then we  
13 prepared all the technical specifications and drawings  
14 and assemble that package with the general specs, and  
15 then AWR would solicit the bids.

16 Q. In the process of developing these, did you  
17 write anything down, or was there any discussion? Did  
18 you put numbers on paper and keep copies of those?

19 A. I don't follow the question.

20 Q. In terms of the process of what needed to be  
21 included, did you -- one of your initial answers to one  
22 of my first questions, or maybe when we talked before,  
23 would you estimate what kinds of equipment would be  
24 required; for example, if it was a matter of installing  
25 a new source pump, what would your involvement in that

00130

1 be?

2 A. We would not go to equipment. If it was a  
3 matter of -- in that specific example, we would size  
4 the well pump, specify a make, model, horsepower,  
5 probably specify how it would be controlled and at what  
6 depth, whether it was a pitless adapter or a well with  
7 a sanitary seal and a doghouse on top, prepared those  
8 types of directions. We would not say you had to use a  
9 crane or a drill rig or whatnot but just describe what  
10 needed to be in the ground in the end.

11 Q. So you wouldn't have included an estimate  
12 that the source pump would cost \$3,000 or \$10,000 or  
13 anything like that?

14 A. No, we would not.

15 Q. You've referred several times to the standard  
16 specification book and we've discussed that a bit --

17 JUDGE BERG: Can we take a short break here?  
18 I need to check on our recording system. Hold that  
19 question, please.

20 (Pause in the proceedings.)

21 Q. The standard specification book that was  
22 prepared, this can be used for any construction that is  
23 done on any water system that American Water Resources  
24 has; correct?

25 A. Yes.

00131

1 Q. It's not specific to work to be performed  
2 only on the surcharge projects.

3 A. No. It would be relevant for other projects.

4 Q. In terms of the bills that your firm made to  
5 AWR with the code 99-116, who told you to bill the  
6 projects to the surcharge account?

7 A. I don't know if anybody told me that. I  
8 suppose at some point in time, AWR came to me and said,  
9 "We have the surcharge account, and we need to go do  
10 the work on these 12 or 13 systems, and let's get  
11 busy," so I started a new job number for that.

12 Q. Could you provide us with copies of invoices  
13 from your firm to AWR for other engineering work done  
14 in 1999 that was not coded to this account?

15 A. Well, it would take a considerable amount of  
16 work, but I presume I have invoices dating back to that  
17 time.

18 Q. I don't know your billing system. Would it  
19 be possible to do just a computer run or summary of  
20 those?

21 A. No, it would not.

22 Q. What about for the year 2000?

23 A. It may be easier in 2000, perhaps. I'm not  
24 sure. I'm not quite sure how much work we may have  
25 done in 2000, but it may be easier in 2000. I don't

00132

1 run the system. I don't know.

2 Q. I'd like to return again to just using  
3 Exhibit 107 for ease of reference, and I'm referring  
4 specifically to the column that's titled "estimate."  
5 Did you participate in the preparation or with Mr. Fox  
6 or anyone in the preparation of these estimated  
7 amounts?

8 A. Presumably, the amounts in this estimate came  
9 from the '99 CIP numbers, which I did contribute to.  
10 If they did not, then I don't have any knowledge of  
11 these numbers, but presumably, they are transcribed  
12 from that January '99 CIP.

13 Q. Do you have any written documentation of how  
14 you came up with those estimates or with your  
15 contribution of those estimates?

16 A. No. I think Virg and I sat in the room and  
17 we went down the list and said, "Here's a chlorinator.  
18 How much for that?" And I said, "\$2,500," or whatever  
19 the number was, and we worked down the list. I didn't  
20 do anything deeper than that, and I don't have anything  
21 written down other than what you see.

22 Q. And your estimate would have been for the  
23 engineering work required or for the cost of  
24 engineering work plus installation and construction?

25 A. We discussed both. I would have the



00133

1 engineering number, and then we would have discussed  
2 the construction number and come up with a number we  
3 thought was right.

4 Q. So would you describe that as a collaborative  
5 process with Mr. Fox, or was it your estimate?

6 A. It's collaborative, I suppose.

7 Q. Is that standard practice? Is that how you  
8 normally do it, prepare estimates for work?

9 A. The number of items in that CIP were not  
10 engineering items. It was something Mr. Fox would have  
11 more experience at than I. If it was something that he  
12 didn't know about and I would have that experience,  
13 then I would do it, but in this particular case, there  
14 was many items that were more O and M -- maybe that's a  
15 bad word, but more nonengineering. So I wouldn't be  
16 able to tell you what it cost to paint a pump house or  
17 sheetrock a pump house.

18 Q. Or put a new roof on a pump house. That  
19 wouldn't be an engineering expense.

20 A. If we estimate a whole new pump house, I  
21 could probably give you a number.

22 Q. Is that how you work with other clients in  
23 preparation of estimates, or is this unique to this  
24 company?

25 A. No. It's normally how I would work.

00134

1 MS. TENNYSON: I have no further questions  
2 for Mr. Hatton at this time.

3 JUDGE BERG: Mr. Fox, this is an opportunity  
4 for you to ask questions of Mr. Hatton based on his  
5 testimony here this morning.

6 MR. FOX: Thank you, Your Honor.

7 JUDGE BERG: I will just remind you to use  
8 that microphone.

9

10 CROSS-EXAMINATION

11 BY MR. FOX:

12 Q. Mr. Hatton, on 112, Page 2, there is a list  
13 of '99 charges, which is \$49,000, roughly, and the 2000  
14 charges with \$52,000. Ms. Tennyson asked a number of  
15 questions that related to that, and I think it was  
16 somewhat difficult to be real precise what goes where,  
17 but would it be reasonable to characterize that list as  
18 most of the '99 stuff was directly related to the  
19 engineering of the surcharge projects. Some of the  
20 early part of 2000 related to the corrosion control,  
21 and a great amount of the latter part of 2000 related  
22 to the WSP rework?

23 A. I believe that's close. I would characterize  
24 the corrosion control as more towards the middle of the  
25 year, and I think some of the early part of 2000 is

00135

1 actually wrapping up certifications and as-builts for  
2 work that was built in '99.

3 Q. Thank you. 107, and concerning the cost  
4 related to South Prairie Road, the South Prairie Road  
5 project, I believe, if I can remind you, was engineered  
6 by the county for the relocation of a water line;  
7 right?

8 A. Actually, I don't recall.

9 Q. The participation, and maybe I'm putting  
10 words in your mouth, which I don't mean to be doing,  
11 but the participation as I recall that your firm had in  
12 that project was primarily helping us with some  
13 inspection and knowing that the job had been done right  
14 to satisfy AWRI's requirements and concerns. Does that  
15 sound like I'm characterizing it right?

16 A. Yes. I believe if we did some work on that,  
17 it would have been in that fashion, maybe some  
18 inspection and plan review.

19 Q. It's customary for DOH to require an update  
20 of any water company's WSP every six years; isn't that  
21 correct?

22 A. That's correct.

23 Q. Because in DOH's perception and possibly  
24 UTC's input -- I don't know -- the thought was  
25 developed that because American Water was growing "too

00136

1 fast," it was necessary to update the WSP, and that  
2 prompted the extra costs and the much earlier update of  
3 the WSP than otherwise would have been done. Is that a  
4 fair characterization?

5 A. Yeah. I either read that statement in a DOH  
6 letter that the reason for the umbrella update was  
7 because you were growing too fast, or I heard it at a  
8 meeting from DOH; that that is correct.

9 Q. Thank you. Relative to the issue of invoices  
10 that Ms. Tennyson asked that were not related to the  
11 surcharge, in an effort to, what should I say, sort out  
12 or finalize the details of billings that you had made  
13 for us and whether or not we had paid them all and  
14 those kinds of things, recently, we reviewed all of  
15 those billings and the things that were surcharged and  
16 the things that weren't. If you recall, I had two  
17 stacks of invoices.

18 A. Correct.

19 Q. If the Court would wish or Ms. Tennyson would  
20 wish, I would be happy to give a copy of that other  
21 package, which I don't visualize as being related to  
22 this case, but I'm not adverse to giving it, would you  
23 expect that that package would accurately satisfy the  
24 answer to her question?

25 A. I don't know. I can't speak for

00137

1 Ms. Tennyson. I think that had a lot of the  
2 information. If you will recall the discussion, there  
3 was maybe some discrepancies in terms of you having  
4 paid more than we billed, so there may be invoices  
5 missing, but I think we agreed that those happened  
6 earlier in '96 or '97. So the question about charges  
7 outside the surcharge in '99 and 2000, that may  
8 suffice. I should clarify for Ms. Tennyson, those  
9 numbers were developed, but actually getting the  
10 invoices would be a bit of a chore.

11 Q. Which we both found in the process of getting  
12 our heads together on that issue.

13 MR. FOX: That's all the questions I have,  
14 Your Honor.

15 JUDGE BERG: I have a few questions,  
16 Mr. Hatton.

17

18 EXAMINATION

19 BY JUDGE BERG:

20 Q. Would you reiterate what WSP stands for?

21 A. Water system plan.

22 Q. And CIP?

23 A. Capital improvement plan.

24 Q. In looking at Exhibit 112, the list of  
25 invoices that are identified as relating to Project

00138

1 116, up above in the letterhead where there is a  
2 checklist, just look at the third page for example, one  
3 of the statements dated 5/18/99, is there any  
4 information that would otherwise appear in that area  
5 that's blacked out, or is that a design of the  
6 letterhead?

7 A. Yeah. That's just a logo.

8 MR. FOX: If I may clarify, Your Honor, I  
9 think I put those checks there when I was checking them  
10 off against the computation list.

11 Q. Mr. Hatton, also on some of these statements,  
12 there is a designation of 631 engineering. What does  
13 631 represent, if you know?

14 A. I don't know. I suspect Mr. Fox does.

15 Q. That's all right. I'll leave it for a later  
16 question for Mr. Fox. Mr. Hatton, with regards to your  
17 review or your firm's review of the specification book,  
18 what account would the expense for that time be  
19 recorded in?

20 A. In the 99-116.

21 Q. Just to confirm what I thought I heard, was  
22 this time spent developing bid specs -- let me restate  
23 that. Was time spent on developing bid specs that was  
24 charged to the 116 account?

25 A. For the surcharge projects, yes.

00139

1 Q. How does the time spent on developing bid  
2 specs differ from time spent reviewing the spec book?

3 A. The bid specs developed for individual  
4 projects would be technical specs more related to each  
5 particular installation. The pump specifications for  
6 that, the general spec book would deal with more  
7 uniform things. If you are going to build a well  
8 house, the roofing shall be 30-pound fiberglass, as  
9 opposed to on this particular job the pump will be  
10 X,Y,Z, five horsepower, 230 volt, that sort of thing.  
11 So the specs for the individual systems in that 99-116  
12 are specific to those systems and supplemental to the  
13 standard spec book.

14 Q. Did you review any of the timekeeping records  
15 of your firm for the billing of time to Project 116 to  
16 see -- let me restate that. If a review was conducted  
17 of Howard Godat firm timekeeping records, would there  
18 be additional information for the various hours  
19 reflected on the statements in Exhibit 112, in some  
20 instances where a principle engineer, a project  
21 engineer 3, a project engineer 4, would the actual  
22 timekeeping records contain any additional information  
23 that might be linked to specific system numbers?

24 A. I can state unequivocally that for my time,  
25 the principle engineer time, the answer would be no.

00140

1 Sometimes the project engineers and/or drafting staff  
2 may annotate their time card with, I was working on  
3 something. Generally not. It's an extra exercise that  
4 they don't typically do, but it could happen.

5 Q. Is any of the time billed into the surcharge  
6 account for fieldwork?

7 A. Certainly inspection and some as-building  
8 could constitute fieldwork, so yes, that would be in  
9 there. I don't recall offhand if we had any surveying  
10 in this account. It seemed to me we may well have on  
11 one or two that would constitute fieldwork.

12 Q. Would there be any records relating to  
13 fieldwork time that would be information specifically  
14 linked on a project-by-project basis?

15 A. Not in terms of hours. If a survey crew went  
16 out, they would keep separate notes about what they did  
17 that day, but it would not contain the fact that they  
18 spent four hours or eight hours. Same with as-builder  
19 inspections. There may well be a field report  
20 certifying that they went out and inspected, but it  
21 would not be very likely they would put, "I spent four  
22 hours doing it."

23 JUDGE BERG: Those are all my questions.

24 Ms. Tennyson, are there additional questions you would  
25 like to ask this witness?



00141

1 MS. TENNYSON: No.

2 MR. FOX: I have just one, Your Honor.

3 Listening to things and talking here, there seems to be  
4 considerable concern about the spec book issue, and I  
5 was trying to guesstimate what portion of this roughly  
6 \$100,000 might have been spent on that, and I'd like to  
7 ask Mr. Hatton, the percentages, I guess was around 40  
8 percent --

9 MS. TENNYSON: I would object. At this  
10 point, Mr. Fox appears to be looking to testify as  
11 opposed to asking a question.

12 JUDGE BERG: If you could phrase it as a  
13 question as to whether this witness has an ability to  
14 estimate a percentage of time that could be attributed,  
15 that's an acceptable form, I believe, but it would  
16 still be subject to objection. I'm just trying to give  
17 you some help in that.

18 MR. FOX: Do you expect that you could  
19 roughly guesstimate the percentage of time that was  
20 spent on four phases, one being system design, one  
21 being WSP, one being spec book, and one being corrosion  
22 control design?

23 THE WITNESS: I won't attempt to do the math  
24 up here. I think we've already talked about which  
25 portions of 2000 we think are WSP and corrosion

00142

1 control, so I let those speak for themselves. The spec  
2 book, my recollection is that if we spent a day, two  
3 days, three days, we would be in the three or  
4 four-thousand-dollar range, probably, something like  
5 that, a couple for us, and I know you guys spent  
6 considerable time.

7 MR. FOX: Thank you. That's all Your Honor.

8 JUDGE BERG: Anything else, Ms. Tennyson?

9 MS. TENNYSON: I actually had one question.

10 We had asked AWRI to provide the documents that were  
11 included with the contracts, reference that the work is  
12 to be performed in conformance with the AWR standard  
13 specifications and the engineering documents, and the  
14 Company provided us with copies of engineering plans,  
15 the blueprint type things. Are there any other written  
16 documents that would constitute engineering documents  
17 that the bidders or contractor would have to look at in  
18 order to determine what work was to be done?

19 THE WITNESS: I think I can speak for all 13  
20 projects, and the answer would be no. 99 percent of  
21 the time we place all our specs and drawings on the  
22 drawings themselves. The project report that goes to  
23 DOH typically doesn't go to the contractor, so that  
24 would not likely be in there. I think if you have the  
25 full size 24-by-36 plans, I'm relatively certain you

00143

1 have everything the contractors had.

2 MS. TENNYSON: Thank you. I have nothing  
3 further.

4 MR. FOX: That's all. Thank you, Your Honor.

5 JUDGE BERG: Ms. Tennyson, can this witness  
6 be released?

7 MS. TENNYSON: Yes, he can, and in fact,  
8 because I believe he's been able to answer the  
9 questions that I had for Mr. O'Neil, we can also excuse  
10 Mr. O'Neil. I had asked the Company whether I needed  
11 both of them, and they thought it was important.

12 JUDGE BERG: I'll give you a moment to  
13 consult with Mr. Ward.

14 MS. TENNYSON: A clarifying question.

15

16 REDIRECT EXAMINATION

17 BY MS. TENNYSON:

18 Q. With regard to the question I asked you about  
19 the engineers drawings, the drawings for each of the  
20 projects, did I understand you correctly to say that  
21 all the specifications were on the drawings or other  
22 sources?

23 A. The general spec book and the drawings should  
24 constitute everything the contractor had to perform the  
25 work. There was a project report that went to DOH, but

00144

1 that would not typically go to the contractor. It  
2 would be irrelevant to him about how to build it.

3 Q. So that was not made part of the contract.  
4 Didn't the Department of Health require some sort of  
5 engineering document or description go to them for  
6 approval before the construction was done?

7 A. That would be the same plans and  
8 specifications in the 24-by-36 format that went to DOH  
9 with the project report for approval.

10 Q. So it wouldn't be a written, like an  
11 eight-and-a-half-by-eleven report.

12 A. That would be the project report.

13 Q. And that was after the fact, after the  
14 construction is completed.

15 A. No. That's another document. Upon  
16 completion of the construction, there is a  
17 certification, one sheet, and then we turn in as-builts  
18 at the same time, which goes to DOH. It's not a part  
19 of the contract with a contractor. Lots of confusion.  
20 I'm not explaining myself well.

21 Q. Just so that we have a visual on record when  
22 we are talking about the 24-by-36, does this look like  
23 what you are talking about? (Indicating.)

24 A. That looks like the creature, yes. That  
25 would go with a project report to DOH for approval, and

00145

1 then the project report would be removed from the  
2 package. The general specs would join those drawings,  
3 and those would go to the contractor to build.

4 Q. And then you would do some additional work  
5 after the project was constructed in order to obtain  
6 approval from Department of Health if that was required  
7 for that project; correct?

8 A. Department of Health with the original  
9 package of drawings and project report approved the  
10 project for construction. Upon completion of  
11 construction, we go out and certify as-built and submit  
12 a one-page report to DOH for final project approval.

13 Q. Did your firm do work in 1998 related to the  
14 surcharge projects?

15 A. I believe there was some work done towards  
16 the very end of '98 that was applied to the surcharge,  
17 sort of retroactively.

18 Q. Looking at Exhibits 112 and 113, we don't  
19 have those invoices though, do we?

20 A. I thought I was going to get to go. Let me  
21 look through 112, which has all the invoices in it. A  
22 portion of the way through 112, there is an invoice  
23 dated 6/4/99, and in the description of the work  
24 performed, it says, moved from 3837 and moved from  
25 3837-1. Those would be the charges that were done in

00146

1 '98 that were retroactively placed into this account.

2 MS. TENNYSON: I now have no further  
3 questions.

4 JUDGE BERG: Mr. Fox, any follow-up?

5 MR. FOX: No further questions.

6 JUDGE BERG: Can this witness be excused?

7 MS. TENNYSON: Yes, he can.

8 JUDGE BERG: Thank you very much for being  
9 here, Mr. Hatton, and testifying. It's been very  
10 helpful. Ms. Tennyson, it's also my understanding that  
11 Mr. O'Neil may be excused.

12 MS. TENNYSON: That is correct.

13 JUDGE BERG: Mr. O'Neil, thank you very much  
14 for appearing here today. We appreciate you complying  
15 with your legal duty, and you probably have Mr. Hatton  
16 to thank for covering all the information you might  
17 otherwise have been called to testify about. Let's be  
18 off the record for a moment.

19 (Discussion off the record.)

20 JUDGE BERG: Ms. Tennyson, Mr. Twitchell  
21 reminded me that Exhibit 117 and 118 have not been  
22 offered. Is it your intent to have those admitted into  
23 the record?

24 MS. TENNYSON: Yes, it is.

25 JUDGE BERG: Mr. Fox, is there any objection?

00147

1 MR. FOX: No objection.

2 JUDGE BERG: Exhibits 117 and 118 are  
3 admitted. At this point, would you want to call  
4 Ms. Wood to the stand?

5 MS. TENNYSON: I would, but I need a  
6 five-minute break.

7 JUDGE BERG: All right.

8 (Recess.)

9 JUDGE BERG: Ms. Woods, would you stand and  
10 raise your right hand.

11 (Witness sworn.)

12

13 DIRECT EXAMINATION

14 BY MS. TENNYSON:

15 Q. Ms. Woods, could you state your name and  
16 spell your first name?

17 A. Katherine Woods, K-a-t-h-e-r-i-n-e.

18 Q. I asked you that because one of our court  
19 reporters is also named Kathryn, and she's very  
20 sensitive as to how one spells your name. I placed on  
21 the table in front of you a copy of Exhibit 116. This  
22 is a subpoena I issued to you for your appearance here;  
23 correct?

24 A. Yes.

25 Q. And you are here in response to that

00148

1 subpoena; correct?

2 A. Yes.

3 Q. In the subpoena, there is a listing of  
4 document types and documents that you were asked to  
5 bring with you. Did you bring any documents with you  
6 today?

7 A. The exhibit, I think it's 6, that Mr. Fox  
8 submitted.

9 Q. So am I understanding that the summary of job  
10 costs, Exhibit 6, includes documents that you believe  
11 are responsive to the request in the subpoena?

12 A. They are the job costs, yes.

13 MR. FOX: If I may interject, I suggested  
14 that because I brought this exhibit that she didn't  
15 need to bring it also. So if she didn't do what she  
16 should have, it's my fault.

17 MS. TENNYSON: That's what I'm trying to  
18 clarify; that this is the way in which she complied,  
19 and I'm understanding that rather than taking the  
20 position that she didn't comply.

21 MS. TENNYSON: Do you have a copy of  
22 Exhibit 6 that she could look at? Does that leave you  
23 with a copy for yourself.

24 MR. FOX: I don't need to at the moment.

25 Q. (By Ms. Tennyson) You are employed by VR Fox



00149

1 Company; is that correct?

2 A. Yes, it is.

3 Q. What is your position with that company?

4 A. Technically. I guess my title is an office  
5 manager. I'm secretary, personal assistant to Mr. Fox.

6 Q. How long have you been there?

7 A. I've been there for five-and-a-half years.

8 Q. In relation to this case, we do have copies  
9 of contracts that were entered into between VR Fox  
10 Company and American Water Resources, and you signed  
11 those contracts, didn't you?

12 A. Some of them, yes.

13 Q. Do you normally sign contracts for VR Fox  
14 Company?

15 A. I think it would depend on what it is. I  
16 have signed things before, yes.

17 Q. Have you signed contracts for VR Fox when  
18 it's a contract with someone other than American Water  
19 Resources?

20 A. I believe so, yes.

21 Q. Were you involved in the process of VR Fox  
22 Company submitting bids on the American Water Resources  
23 projects?

24 A. I did not -- do you mean for me to go to a  
25 vendor and ask for a bid or to make the numbers up?

00150

1 Q. Preparing the bids that VR Fox gave to  
2 American Water Resources for the work that VR Fox was  
3 proposing to do on projects.

4 A. I would have typed those. I wouldn't have  
5 gotten the numbers.

6 Q. So you wouldn't have any notes of costs of  
7 materials and things like that.

8 A. No.

9 Q. I would like you to refer to Exhibit 5, and  
10 Mr. Ward, if you could give her your copy of Exhibit 5.

11 MR. TWITCHELL: I'll give her mine.

12 Q. The title on this indicates it's a summary of  
13 bidders and bid documents for each job, and I think a  
14 couple of the pages are maybe out of order, but I just  
15 want to find one of the contracts. The first contract,  
16 I believe, is for the Crowder Road system, but the  
17 signature page is on top of the first page of the  
18 contract.

19 MS. TENNYSON: Your Honor, if we exclude the  
20 cover page, it would be the sixth or seventh page back.

21 JUDGE BERG: There is the document dated  
22 October 1, 1999, above the signature line?

23 MS. TENNYSON: No, I don't have a date on  
24 that. There is a note at the bottom, "works/general  
25 construction specification/Crowder contract.WPS."

00151

1 JUDGE BERG: I have that contract dated at  
2 the top, 28th day of September, 1999.

3 MS. TENNYSON: That's correct.

4 JUDGE BERG: Do you also have that,  
5 Ms. Woods?

6 THE WITNESS: Is that the Notice of Award?

7 MS. TENNYSON: It's after the Notice of  
8 Award, I believe.

9 THE WITNESS: Yes.

10 MS. TENNYSON: At least on my copy, the pages  
11 are in reverse order.

12 MR. FOX: I did that? I'm sorry.

13 MS. TENNYSON: That's okay. I'm just making  
14 sure everybody understands what we are looking at.

15 Q. (By Ms. Tennyson) For this contract, you  
16 signed for the contractor VR Fox Company; correct?

17 A. Yes, I did.

18 Q. Can you tell me, what responsibility did you  
19 have for this contract? You signed it. Did you  
20 schedule the work on the contract? Did you order  
21 materials?

22 A. I did not order materials. I signed the  
23 contract saying that VR Fox Company would enter into  
24 this contract with American Water and do these items  
25 that are here.

00152

1 Q. Referring to the first page of that contract,  
2 and there is in the paragraph Roman numeral III that is  
3 dollar amount of \$49,773 plus WSST, and I'm assuming  
4 that's Washington State sales tax.

5 A. Yes, it is.

6 Q. Where did this number, the \$49,773, come  
7 from?

8 A. That would have come from the bid that was  
9 accepted by American Water that VR Fox Company gave  
10 them.

11 Q. For this contract, did you do anything other  
12 than type up the bid for VR Fox? Did you prepare the  
13 bid? Did you participate in estimating those costs?

14 A. No, I did not.

15 Q. So after the signing of the contract, did you  
16 schedule when the work started? Did you notify people,  
17 call in workers, track the hours they worked or do any  
18 of that work on it?

19 A. I would be tracking material costs and time  
20 costs.

21 Q. How would you do that?

22 A. The invoices that are submitted from the  
23 vendors, I would match with the PO that was made for  
24 that and enter it into the computer and pay that bill.  
25 The same thing for time cards that were turned in, I

00153

1 would pay the employees.

2 Q. In the documents Mr. Fox has submitted in  
3 this case, is that information contained, and if so,  
4 where would we find it?

5 A. The materials and labor costs?

6 Q. Correct.

7 A. That would be in Exhibit 6.

8 Q. Prior to putting this Exhibit 6 together,  
9 have you prepared this information or given it to the  
10 Staff of the UTC in the past?

11 A. I believe that they were given the costs in  
12 the past.

13 Q. In what form?

14 A. In a spreadsheet that stated what the costs  
15 were.

16 Q. Was this a spreadsheet of invoices or  
17 materials costs and labor broken down as this is?

18 A. It would not have been broken down like this,  
19 no.

20 Q. How did you get this information to put this  
21 transaction detail together?

22 A. When I receive invoices, they are coded to  
23 the job that they go to, and they are entered in the  
24 computer that way, so I can sort in the computer, get  
25 those codes. Like South Prairie Road, the VR Fox

00154

1 Company job number is 333, and so I would sort by that,  
2 get all of the costs associated with that, and they are  
3 all listed here, every invoice, and on the time part,  
4 it's listed under service.

5 Q. Why don't you just walk me through it. Let's  
6 look at Page 1 of the actual cost detail. Explain to  
7 me what this shows and how it got here. Who did the  
8 coding that tells you it's Prairie Road or whatever,  
9 what project it is?

10 A. The coding would be on the PO that was  
11 written for the materials.

12 Q. The purchase order?

13 A. Uh-huh. So when the invoice would come into  
14 my desk, the invoice should have the PO number on it,  
15 and I would match those up so I would know it went to  
16 this and it was equipment rental or fill material or  
17 plumbing. That's all written on the PO. I enter that  
18 as codes in the computer.

19 Q. So let's go to the part that says "fill  
20 material" near the top of the page. On the left-hand  
21 side it says, "bill 6/29/99." What does that  
22 represent?

23 A. That would have been the date that either I  
24 entered it in the computer or the date of the invoice  
25 itself.

00155

1 Q. From Tim Corliss and Sons, in this case?  
2 A. Uh-huh.  
3 Q. Presumably, there might be other information  
4 like how much fill material or when it was delivered,  
5 but this is a summary.  
6 A. Yes.  
7 Q. Miscellaneous material, again, if it was not  
8 on the purchase order or the document you got did not  
9 have a coding number on it, what would you do?  
10 A. If it didn't tell me what system it went to?  
11 Q. Correct.  
12 A. I would ask the job foreman. I would give  
13 him the invoice and say, "What is that for?"  
14 Q. Going on down under "plumbing," just describe  
15 what these show for us.  
16 A. These are all invoices. From where it says  
17 "source name" is the vendor, HD Fowler -- Lumbermen's,  
18 these are all invoices from them for material that we  
19 used for plumbing on this job, and in this sense,  
20 "plumbing" would mean any pipe, pipe fittings which  
21 maybe you wouldn't think of as plumbing.  
22 Q. Not plumbing we would see in our home,  
23 anyway.  
24 A. No.  
25 Q. And "small tool PU"?

00156

1       A.     That would be a small tool that needed to be  
2 purchased to do their work that they were doing.  
3       Q.     So PU, that refers to --  
4       A.     Purchase.  
5       Q.     Sales tax?  
6       A.     That's tax that's paid at the source when we  
7 buy the material.  
8       Q.     So it would be in addition to the actual  
9 amounts that are in the sections above.  
10      A.     Yes, it would.  
11      Q.     Now, going down below - "service,  
12 construction, 16 miscellaneous labo." Is that  
13 shortened for labor?  
14      A.     Yes. The computer takes only so many  
15 letters.  
16      Q.     What does this refer to?  
17      A.     That refers to when we had to hire, I think  
18 it's probably flaggers from Express Personnel to do  
19 traffic control.  
20      Q.     So Express Personnel is a business name?  
21      A.     It's a temporary business, yes.  
22      Q.     And then going to Page 2, there are various  
23 person's names.  
24      A.     Yes. Those would be what we paid that person  
25 for -- unfortunately, it doesn't have quantity on it,



00157

1 but how many hours and under plumbing that Danny Jarvis  
2 received.

3 Q. Where would you get that information from?

4 A. Originally, it comes from their time cards,  
5 and when I enter it into the computer, the first number  
6 there says actual dollar amount, and the numbers  
7 underneath that that have the same check number on it  
8 are payroll expenses. The computer automatically does  
9 those.

10 Q. So then for under 23-A supervisor, so the  
11 same thing that there would have been from the time  
12 card, the number of hours reported, and from that, you  
13 would input it, and it would compute the dollar amount.

14 A. Yes.

15 Q. Are you aware that VR Fox has an affiliated  
16 interest filing with this agency related to work that  
17 it does for American Water Resources?

18 A. I'm sorry. Would you ask me that again?

19 Q. Are you aware of VR Fox having an affiliated  
20 interest filing with this Commission for when it does  
21 work for American Water Resources?

22 A. Yes.

23 Q. And that has particular labor costs, rates,  
24 for work done for American Water Resources in the  
25 filing?

00158

1 A. I don't know what those are.

2 Q. For the work that we have recorded on Page 2,  
3 do you know whether the amounts calculated were billed  
4 at the amounts set forth in the affiliated interest  
5 agreement or --

6 A. What these employees are paid per hour, this  
7 is their actual amount. I know that when we maybe do a  
8 job, we charge more per hour than what they are  
9 actually paid for overhead. Do you know what I mean?

10 Q. This is the actual amount received. This  
11 isn't representing necessarily the amount billed to the  
12 company on the contract?

13 A. This would not be exactly what was billed,  
14 no, because in the bid, it would have markup and  
15 overhead added to these figures.

16 Q. Were you the supervisor for any of the  
17 contracts that you signed on behalf of VR Fox with  
18 American Water Resources?

19 A. Did I supervise the work itself out in the  
20 field; is that what you are asking?

21 Q. In any fashion. Let's start with out in the  
22 field.

23 A. No, I was not in the field.

24 Q. Did you supervise the work, retrack it as it  
25 was performed in terms of number of hours spent or

00159

1 materials costs?

2 A. Yes, I did.

3 Q. Would you call that supervision, or how would  
4 you term what you did? What would be a description of  
5 what you did?

6 A. I don't know.

7 Q. So if I'm understanding from your description  
8 of the information in Exhibit 6, VR Fox is able to  
9 determine how many hours each of its workers worked on  
10 a particular project; is that correct?

11 A. Yes, most of the time. I do know that on  
12 these surcharge projects that a lot of the times, they  
13 would have put on their time card that they worked on  
14 the American Water job, meaning all 13, but not  
15 breaking it out, and when I had the person in the  
16 office, I might say, "Where did you work on this day?"  
17 And they might tell me Loma Vista or View Royal or  
18 wherever, and then I would allot those hours to there,  
19 but they didn't always specify the job they were  
20 working on.

21 Q. On these contracts, do you know who  
22 determined when the work would start, what job they  
23 would be working on each day, and that's what I was  
24 asking in terms of did you supervise the work. Were  
25 you assigning workers to a job, or who did that?

00160

1       A.     I believe that Mr. Fox or maybe Mr. Steepy  
2 would have done that.

3       Q.     Mr. Steepy, would that be Craig Steepy?

4       A.     Yes, it would.

5       Q.     What function did Mr. Steepy perform in his  
6 work for VR Fox?

7       A.     I think that he solicited bids.

8       Q.     Would he have supervised the jobs?

9       A.     I don't think personally he would have. We  
10 would have had a foreman on the job that would have  
11 done that.

12      Q.     I understand that Mr. Steepy no longer works  
13 for VR Fox Company. Can you tell me approximately when  
14 he left?

15      A.     I believe he left in July of 2000.

16      Q.     Were you responsible for sending out the  
17 invoices to American Water Resources on these  
18 contracts?

19      A.     Yes, I was.

20      Q.     How did you prepare the invoices?

21      A.     From the bid, or on a few cases, and I don't  
22 remember which ones they were, we billed a progress  
23 billing, saying if we had 50 percent, we billed 50  
24 percent of the bid.

25      Q.     How did you determine when a progress billing

00161

1 would go out?

2 A. When Mr. Fox told me.

3 Q. In the documents that were provided today, we  
4 don't have copies of those, do we, the invoices?

5 A. We don't have copies of all those invoices,  
6 no. They are in the office.

7 Q. Looking at this point, I'd like to refer you  
8 to documents which should be on the table in front of  
9 you marked Exhibits 104, 105, and 106. Let's look  
10 first to 104, and this is titled "Exhibit A, Pleasant  
11 Valley." It has, bid, contract, cause sheets, and  
12 invoices and the lines checked behind them, and I'm  
13 going to ask you to look at the third page of that  
14 exhibit. Is that an invoice that you prepared? I'm  
15 sorry. I'm counting the cover sheet as a page.

16 A. Yes, I would have prepared this.

17 Q. Tell me how you would have put this together?

18 A. Well, this was apparently the bid price for  
19 this job. Says, "water system repair as per bid,  
20 \$23,118.60." So this job was, I'm assuming, complete  
21 at this time and was then billed.

22 Q. Now, there is some handwritten information on  
23 this. Is this your handwriting?

24 A. No, it's not.

25 Q. Did you have any conversations with the

00162

1 person who may have put this information on here as to  
2 what happened here?

3 A. It looks like I calculated the tax on the  
4 wrong amount. It was probably a different tax rate for  
5 where this work was performed.

6 Q. So that the total was changed, and do you  
7 know if the amount AWR paid was the higher amount?

8 A. I'm assuming it was.

9 Q. If you could turn to Exhibit 105, please,  
10 this relates to the Loma Vista system, and as we turn  
11 the pages through this, again, you signed this  
12 contract, didn't you?

13 A. Yes, I did.

14 Q. Then directly behind the signature page of  
15 the contract is a document called, "Change Order No.  
16 1"?

17 A. Yes.

18 Q. Are you aware of what happened, why this  
19 particular change order was issued?

20 A. It looks like they found other work that  
21 needed to be performed.

22 Q. But you didn't sign the change order here,  
23 did you?

24 A. No.

25 Q. Going to the second to the last page of this

00163

1 exhibit, this is an invoice; although, the top  
2 left-hand corner is cut off. Is this an invoice that  
3 you prepared?  
4 A. Yes, it is.  
5 Q. Would the job have been complete at the time  
6 this invoice was prepared?  
7 A. Yes.  
8 Q. Proceeding to Exhibit 106, entitled "Exhibit  
9 A, Elk Heights," after the cover page, the first page  
10 is a letter that you prepared; correct?  
11 A. Yes.  
12 Q. And you signed this?  
13 A. Yes, I did.  
14 Q. And is this the VR Fox Company's bid  
15 proposal?  
16 A. Yes, it is.  
17 Q. The amount of the proposal at this point is  
18 \$72,844 plus tax; correct?  
19 A. Yes.  
20 Q. Where did you get that number?  
21 A. It was probably given to me probably from  
22 either Mr. Fox or Mr. Steepy.  
23 Q. So you didn't independently create that  
24 number?  
25 A. No.

00164

1 Q. Again, going on through the exhibit pages,  
2 you signed this contract; correct?

3 A. Yes.

4 Q. There are four invoices attached at the back  
5 of this exhibit, and the first one is dated 11/3/99,  
6 Invoice No. 283; do you have that?

7 A. Yes, I do.

8 Q. The description is "partial billing."

9 A. Yes.

10 Q. Is this what you were describing earlier when  
11 you said there might be a partial billing?

12 A. Yes.

13 Q. Why did you do a billing at this time?

14 A. Because Mr. Fox directed me to.

15 Q. Let's go to the next page. This says Invoice  
16 No. 291 at the top, and it's cut off on the left side a  
17 little bit, but it appears to say, "water storage tank  
18 for Elk Heights."

19 A. Yes.

20 Q. This has the amount of \$20,570. Do you know  
21 whether that amount being billed to American Water  
22 Resources includes a markup for materials?

23 A. No. That's the actual invoice that VR Fox  
24 Company paid for that tank, and then after VR Fox  
25 Company had paid that, I was told that American Water



00165

1 was paying for the tank separate, so that is why I  
2 billed them, and that is the cost, and if you look in  
3 the --

4 Q. How can we verify that is the actual cost --

5 A. If you look at No. 6 under Loma Vista, it  
6 will have an invoice number there and the same amount  
7 listed.

8 Q. Do you know how these are organized in terms  
9 of --

10 A. Loma Vista is VR Fox's Company Job No. 354,  
11 and it should be second in that group.

12 Q. So that starts on Page 3 of Exhibit 6. Can  
13 you find this amount for us in the listing for Loma  
14 Vista?

15 MR. FOX: You are looking for the tank costs?

16 THE WITNESS: Yes. I'm not seeing it here.

17 JUDGE BERG: It looks like there is a large  
18 number for total direct costs at the top of Page 3 that  
19 is not an express summation.

20 MR. FOX: I believe I could explain that, if  
21 you would like, Your Honor.

22 MS. TENNYSON: No. There is other direct  
23 costs that that totals up from Page 2 and from Page 1.  
24 I can ask Mr. Fox about this later. We don't see an  
25 invoice that --

00166

1 THE WITNESS: I'm sorry. I'm not finding it  
2 myself either, but I can tell you that it is on Elk  
3 Heights, and there could be several different reasons  
4 it's not showing there.

5 Q. (By Ms. Tennyson) Why don't we look at Elk  
6 Heights.

7 A. It's on Page 3 of Elk Heights, and it's under  
8 reservoir.

9 Q. So with each system, we start over with page  
10 numbers; correct?

11 A. Yeah. It's about in the middle of the page.

12 Q. So this would be reservoir check 721999616,  
13 Elk Heights, Reliable Steel, and then we have a bill.  
14 Explain this to me, a check and a bill, two different  
15 dates, five months apart; what are these two?

16 A. One we were required to put a down payment on  
17 the tank, and if I could back up a minute, the invoice  
18 we were looking for before, it does say for Elk Heights  
19 and not Loma Vista, so it's in the wrong sheet.

20 Q. That's interesting, because I just copied  
21 that from what the Company gave us. It is all Elk  
22 Heights on Exhibit 106. So there we have the total  
23 tank costs. Then does that match up with the amount?

24 A. \$20,570, yes.

25 Q. On the way that you record things here then,

00167

1 this shows \$20,570 but doesn't include tax. Is tax  
2 reflected somewhere else in your spreadsheet?

3 A. Under sales tax, and I think if I remember  
4 correctly, those were from Sunnen.

5 Q. Reliable Steel.

6 A. Reliable Steel.

7 Q. So this then does reflect the amounts billed  
8 to AWR for the tank on Elk Heights was a direct  
9 pass-through of costs.

10 A. Yes, it is.

11 Q. You indicated that you get the costs that you  
12 are including on Exhibit 6 from a purchase order for  
13 materials. Information that the Staff had previously  
14 been provided was that VR Fox doesn't purchase  
15 materials by the job so there wasn't a way to provide  
16 this kind of information; is that accurate?

17 A. No.

18 Q. So this information you have, job materials  
19 are purchased for the job?

20 A. Yes, they are. We didn't keep those invoices  
21 in a job file that said Elk Heights on it. They are in  
22 a job file for United Rentals, Hardel's, for A-1, for  
23 whatever the vendor was. They are in that job file.  
24 So to go back and find all of these numbers from the  
25 past year in a vendor file would take just a tremendous

00168

1 amount of time.

2 Q. I'm understanding that you helped prepare the  
3 information that Mr. Fox submitted today as exhibits.

4 A. Yes.

5 Q. And Exhibit 6 is one of those that you helped  
6 prepare?

7 A. Yes, it is.

8 Q. Did anyone else help prepare this?

9 A. No. This came from my computer.

10 Q. Is this a matter of asking it to spit out  
11 reports? What's the work required to get this  
12 documentation?

13 A. It was asking for a job cost on these  
14 separate jobs and having the computer sort through all  
15 of the years up until now to find all the receipts that  
16 would have been for this.

17 Q. So to put the information together in Exhibit  
18 6, you didn't have to dig through those Hardel invoice  
19 files.

20 A. No, I did not.

21 Q. And these were from Exhibit 6. This was  
22 prepared from records that existed before you received  
23 the subpoena? You didn't input all this information  
24 since you got the subpoena, did you?

25 A. No. They would have been put in the computer

00169

1 when I received the invoice.

2 Q. How long would you say it took to get these  
3 job printouts, to get this information?

4 A. At least six hours.

5 Q. To tell the computer you wanted it and to  
6 print it out?

7 A. Yes.

8 Q. When you are inputting this information into  
9 the document, you refer to purchase orders. Who would  
10 have prepared those purchase orders?

11 A. A variety of people. It could have been  
12 anybody involved with that job that needed to order  
13 material for it.

14 Q. So for example, we looked at one that said  
15 "small tool." If somebody needed to stop by Hardel  
16 Lumber and pick that up, that individual may have given  
17 you that?

18 A. Yes.

19 Q. Then you took that information and input it  
20 into the system; correct?

21 A. Yes.

22 Q. One of the other documents that Mr. Fox has  
23 given us today is an Exhibit 3, which is a copy of the  
24 Company's response to data requests that I'd asked the  
25 Company to answer as part of the formal process in this

00170

1 case. One of those is No. 8, which -- I believe I have  
2 another copy of it here. It should be No. 114 on the  
3 stack that is to your left. My question is, did you  
4 participate in preparing this response?

5 A. I typed the spreadsheet on the last page.

6 Q. You didn't compile any of the numbers?

7 A. Well, the numbers are taken from the actual  
8 material costs in Exhibit 6 and a markup applied to  
9 that. I'm sorry, I don't remember the exact markup  
10 that we used.

11 Q. So in order to prepare this response, you  
12 needed to have the information that is in Exhibit 6;  
13 correct?

14 A. Yes.

15 Q. So where did you get the numbers? Did you  
16 have this Exhibit 6 at the time you put the spreadsheet  
17 together, that you typed the spreadsheet?

18 A. I had the information in my computer. I'm  
19 not sure that I had run all of these copies out, but  
20 taken from the computer, the same information, so  
21 essentially, yes.

22 Q. Thank you.

23 MS. TENNYSON: I have no further questions at  
24 this time.

25 JUDGE BERG: I think we will take a break for

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1 lunch, and Mr. Fox, would you rather ask follow-up  
2 questions to Ms. Woods now or after we take a break for  
3 lunch?

4 MR. FOX: At your pleasure, Your Honor. I  
5 think that my take on it is I would just as soon not  
6 have lunch and work on getting done, so whatever you  
7 want to do is just fine.

8 JUDGE BERG: We need to take some break.

9 MS. TENNYSON: If we could finish with  
10 Ms. Woods so she could return to her normal duties, I  
11 would have no objection.

12 MR. FOX: I would be happy to do that, if you  
13 like.

14 JUDGE BERG: Let's get that done, and then we  
15 will take some time off before coming back.

16 MR. FOX: Thank you.

17

18 CROSS-EXAMINATION

19 BY MR. FOX:

20 Q. Katie, you were asked about the one thing --  
21 it's pretty small, but about the interim billing  
22 situation. These jobs were generally of a pretty short  
23 time frame. Is it fair to say that only a couple them  
24 had any interim billings because they were short? I  
25 didn't ask you to do interim billings?

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1 MS. TENNYSON: I will object to the question.  
2 The documents speak for themselves if he's provided us  
3 with the invoices.

4 JUDGE BERG: I'll let the witness --

5 MR. FOX: It's not a big deal. I think it's  
6 probably true; the documents do speak for themselves.  
7 I was just trying to make sure we were clear.

8 JUDGE BERG: In that case, I will let the  
9 objection stand, and certainly you can confirm the  
10 specifics of the documents as they exist if that's  
11 helpful.

12 MR. FOX: Thank you, Your Honor.

13 Q. (By Mr. Fox) You were asked if you  
14 supervised any of the hours spent or how hours were  
15 spent on a job or whatever, and I believe you said no.  
16 You did compile the time records of how hours were  
17 spent; right?

18 A. Yes, I did.

19 Q. There was a question about the spreadsheet  
20 that's part of No. 6, which I've loaned to Katie.

21 MS. TENNYSON: Do you need a copy to refer  
22 to?

23 MR. FOX: I don't have No. 6. I think it was  
24 that relative to the spreadsheet.

25 Q. My question then was relative to Exhibit 6,



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1 which you explained some. The summary that I had you  
2 type for Mary Tennyson that is the Exhibit 8 that you  
3 just referred to, did you do that by my direction and  
4 look the costs up in the computer and put down the  
5 accurate material costs and mark them up 30 percent as  
6 I asked you to do?

7 A. Yes.

8 Q. And the remainder of that spreadsheet you put  
9 together at my direction?

10 A. Yes.

11 Q. Has Fox Company done TNM or cost-plus jobs  
12 before?

13 A. Yes.

14 Q. Would a good example of those jobs be the  
15 current jobs we just completed for people by the name  
16 of Hoyle and Thorpe?

17 A. Yes.

18 Q. Can you explain how we did our accounting on  
19 those jobs?

20 A. For every invoice that came in that was for  
21 those jobs, I made a copy of that invoice and put it in  
22 a special file for that job. Every time card,  
23 everything was accounted for.

24 Q. And is it true that we have told the  
25 customers that that file is theirs at the end of the

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1 job if they would like it?

2 A. Yes.

3 Q. Would you perceive that that kind of an  
4 accounting is what UTC would like to see here?

5 A. It was.

6 MS. TENNYSON: I would object. That calls  
7 for speculation.

8 JUDGE BERG: Mr. Fox, I understand the point  
9 you are making. I think it's a point you can make just  
10 as well as Ms. Woods.

11 Q. (By Mr. Fox) Were you involved in the  
12 soliciting of bids for the surcharge projects?

13 A. At first -- you mean for Fox Company to get  
14 the numbers for the Fox Company bid or to get bids for  
15 American Water?

16 Q. In American Water's effort to obtain bids for  
17 these surcharge projects, were you involved in that  
18 process?

19 A. I contacted several people that we wanted to  
20 get bids from and asked them for bids on behalf of  
21 American Water, yes.

22 Q. Who else worked on soliciting those bids?

23 A. I think mostly Heidi Powell.

24 Q. The various work that you did relative to  
25 soliciting those bids for the surcharge projects, were

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1 either you or Fox Company paid for your time to do  
2 that?

3 A. Well, I was paid by Fox Company, but I did  
4 not bill American Water for that time, no.

5 Q. The work that you put in to helping me  
6 compile the spec book for American Water, did American  
7 Water in any way pay for your time to do that?

8 A. No, they did not.

9 Q. In the beginning of American Water, or LCUC  
10 which it was then, did you do at the beginning all of  
11 the various office, secretarial, etcetera work for  
12 Lewis County Utilities?

13 A. In the beginning for LCUC, yes.

14 Q. And as we moved from changing the name and  
15 growth and other people becoming involved, did you help  
16 with both the transfer of knowledge and to some  
17 degree -- I don't know if you would say supervision,  
18 but education of those other people working for  
19 American Water?

20 A. Definitely, yes.

21 Q. Were you or Fox Company paid for that effort?

22 A. No.

23 MS. TENNYSON: Your Honor, I would object to  
24 continuing questioning along this line as it relates to  
25 the relevance of the surcharge project that happened in

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1 1999.

2 MR. FOX: It's happened continually and does  
3 today, Your Honor. The only objective I have is to  
4 help show that Fox Company has in no way been taking  
5 advantage of American Water, and the honest fact is it  
6 results the opposite. So I'm happy to stop this line  
7 of questioning at this moment. That's fine.

8 JUDGE BERG: All right, Mr. Fox.

9 MR. FOX: I don't think I need to ask any  
10 further questions, Your Honor.

11 JUDGE BERG: Any follow-up, Ms. Tennyson?

12 MS. TENNYSON: I have two things. One is to  
13 offer Exhibit 116. It is the subpoena for Ms. Woods  
14 just so we have it in the record and creates the  
15 records our financial accounting people need to pay her  
16 witness fee.

17 JUDGE BERG: Any objection, Mr. Fox?

18 MR. FOX: No.

19 JUDGE BERG: Exhibit 116 shall be admitted.

20 MS. TENNYSON: And I just have a couple of  
21 follow-up questions.

22

23 REDIRECT EXAMINATION

24 BY MS. TENNYSON:

25 Q. Ms. Woods, you testified that you compiled

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1 the time records on the time that the workers for VR  
2 Fox spent.

3 A. Yes.

4 Q. When you answered my questions, you had said  
5 that you sort of lumped -- it became one project for VR  
6 Fox.

7 A. Yes.

8 Q. So did you keep it as separate projects or  
9 lump it into one project? How did you know which  
10 particular system or project to bill the workers' costs  
11 to?

12 A. On their time cards, they put down which job  
13 they were working on, and if they did not specify a  
14 specific job, I could ask, "Where were you working,"  
15 and if they told me Tenino, then I would know it was  
16 Loma Vista.

17 Q. We discussed that process earlier. We don't  
18 need to reiterate it. What you are saying is you  
19 actually did keep records and determine which project  
20 or job each of the workers were working on.

21 A. To the best of our ability at that time, yes.

22 Q. I'd like you to refer once more to  
23 Exhibit 114, and I had a question relating to the last  
24 page of that exhibit, and this says, "surcharge  
25 material-labor," except where the hole is punched out;

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1 is that correct?

2 A. Surcharge material-labor, yes.

3 Q. In the second line below the headings, it  
4 says, Loma Vista, and if you go over to labor charge is  
5 says negative \$13,096. Is that a correct entry?

6 A. That is a correct entry.

7 Q. So if we went down and added those things  
8 up -- we would subtract out \$13,000 in order to get the  
9 \$139,000?

10 A. Yes, it would.

11 Q. So how can you have a negative charge of  
12 \$13,000 performed on a particular system? Was there  
13 any work done on the system?

14 A. Yes, there was, but the way we came to that  
15 was we took the actual material costs and marked that  
16 up and then subtracted that from the contract amount  
17 and so we lost money. We lost quite a bit of money on  
18 Loma Vista job.

19 Q. But the material costs does include a  
20 30-percent markup on the actual cost; correct?

21 A. Yes.

22 Q. So essentially, you put the negative \$13,000  
23 to labor in order to just meet the bid price as opposed  
24 to charging more.

25 A. Yes.

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1 Q. Thank you. I had been curious about that.

2 MS. TENNYSON: I have no further questions  
3 for Ms. Woods.

4 JUDGE BERG: Anything, Mr. Fox?

5 MR. FOX: No, Your Honor.

6 JUDGE BERG: Thank you very much, Ms. Woods.  
7 Even though I think we all share the desire to make up  
8 the lost time this morning, my experience is that by  
9 the end of the day, people's blood sugar seems to drop  
10 off. So we will take a break. Let's resume at 2:15  
11 sharp. That means you should plan to be back a little  
12 bit before that.

13 There is a court reporter that will be here  
14 for the afternoon, but she will have to leave for  
15 another commitment at around 4:20, and I expect we will  
16 get another two hours in this afternoon, and then we  
17 will be back on a full schedule tomorrow. We are off  
18 the record.

19 (Lunch Recess - Time unknown.)

20

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