The Sun City Home Owners Association (“SCHOA”) hereby files the Surrebuttal Testimony of Greg Eisert.

Respectfully submitted on February 1, 2017, by:

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Service List
BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

TOM FORESE, Chairman
BOB BURNS
DOUG LITTLE
ANDY TOBIN
BOYD W. DUNN

IN THE MATTER OF THE APPLICATION OF
EPCOR WATER ARIZONA INC. FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR
INCREASES/DECREASES IN ITS RATES AND
CHARGES BASED THEREON FOR UTILITY
SERVICE BY ITS AGUA FRIA, ANTHEM,
MOHAVE, SUN CITY, AND SUN CITY WEST
WASTEWATER DISTRICTS AND FOR
CONSIDERATION OF CONSOLIDATION AND
DE-CONSOLIDATION PROPOSALS.
PROCEDURAL ORDER

DOCKET NO. WS-01303A-16-0145

SURREBUTTAL TESTIMONY
OF
GREG EISERT
ON BEHALF OF
SUN CITY HOME OWNERS ASSOCIATION
FEBRUARY 1, 2017
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EXECUTIVE SUMMARY

Mr. Eisert first responds to the testimony filed by Kent Simer on behalf of the Verrado Community Association. Mr. Simer would have the Commission abandon time-proven rate-setting methodologies such as cost causation, used and useful, and gradualism. Without evidence, Mr. Simer claims that consolidation is needed to remedy an alleged subsidy Sun City customers receive from the City of Tolleson. Yet, Mr. Simer argues that the Commission should force low-income residential customers to subsidize wealthier customers in Anthem and Agua Fria. Mr. Simer also ignores persuasive Commission precedent against consolidation where districts are geographically separated and not interconnected.

Mr. Eisert next responds to testimony filed by Jenna Kohl on behalf of the Anthem Community Council. Anthem has completely flip-flopped from its prior strong support for deconsolidation. Anthem ignores the prior testimony of its own expert witness, Dan Neidlinger. Mr. Neidlinger testified that “Cost of service is the single most important criterion in the development of fair and reasonable rates ….” Anthem now wants to ignore the differing costs to serve the five EPCOR districts, even though, as Mr. Neidlinger testified this would be “inequitable” and would “create distortion in price signals.” Finally, Anthem alleges without any evidence at all that consolidation would be good in the “long-term” for all customers. Mr. Eisert exposes the fallacy of this allegation.

Mr. Eisert next responds to the testimony filed by Shawn Bradford on behalf of EPCOR. Mr. Bradford first argues that the EPCOR wastewater districts could be further deconsolidated if the Commission strictly followed the principal of cost causation. In response, Mr. Eisert cites recent Commission Decision 73227 concerning this very allegation. The Commission agreed that it could be possible to further perfect assignment of cost causation, but that cost causation should not be outright rejected because it was not perfect. Further, the Commission noted that no party had advocated further deconsolidation. Therefore, this issue was not ripe for Commission consideration. Similarly, no party has proposed further deconsolidation in this docket.

Like Anthem, Mr. Bradford argued that consolidation was justified in the long term. And just like Anthem, Mr. Bradford provided absolutely no evidence to support this assertion.

Mr. Bradford finally argued that consolidation was justified because Sun City customers paid rates that were the lowest percentage of income among the five wastewater districts. Mr. Bradford’s solution was to ignore cost causation and equalize rates between the districts. The result of Mr. Bradford’s equalization was that low-income Sun City and Sun City West customers would have the highest rates of the five districts as a percentage of income, while customers in the wealthier Anthem and Agua Fria districts would have the lowest rates, even below the state average. Mr. Bradford advocates a policy Mr. Eisert calls “Robin Hood in reverse.”

Finally, Mr. Eisert testifies that SCHOA opposes the partial settlement agreement at issue in this case and supports the revenue requirement recommended by the Residential Utility Consumer Office.
I  INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Greg Eisert. My address is 10401 W. Coggins Drive, Sun City, Arizona 85351. My phone number is 623-521-0986.

Q. ARE YOU THE SAME GREG EISERT WHO PREVIOUSLY SUBMITTED TESTIMONY IN THIS DOCKET?

A. Yes. I am again testifying on behalf of the Sun City Home Owners Association ("SCHOA").

II  PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS DOCKET?

A. I am responding to testimony previously filed by various parties in this docket. Upon review of the recently docketed testimonies submitted by the various interveners in this case, it is clear that SCHOA has already addressed most issues in my Direct Testimony. There are however, a few issues that need to be addressed concerning deconsolidation. As requested in the January 18, 2017, Procedural Order, I will also offer SCHOA’s opinion concerning the partial settlement agreement between EPCOR and the Commission’s Utility Division Staff.
III  RESPONSE TO THE VERRADO COMMUNITY ASSOCIATION

Q.  DO YOU HAVE ANY RESPONSE TO THE VERRADO COMMUNITY ASSOCIATION?

A.  Yes. Kent Simer, a utility rate consultant, testifies on behalf of the Verrado Community Association. Mr. Simer lists a plethora of alleged “isms” to challenge the concept of “cost causer” in favor of “consolidating” EPCOR’s current district configuration. Although his intent is clear, his arguments provide no basis for the Commission to abandon cost-causation and approve consolidation.

Q.  WHAT IS YOUR FIRST RESPONSE TO MR. SIMER?

A.  Mr. Simer states (7:18): “Rate design is an imperfect science and subsidies are a natural result.” This is a true statement, just as it is true that economics is an imperfect science. But it doesn’t mean that the Commission should abandon time-honored principals of rate design any more than the Federal Reserve should abandon the use of supply-demand curves.

For more than 100 years, cost-of-service regulation has been the fundamental basis for setting rates for regulated utilities. Cost-of-service regulation is the most basic tool that regulatory authorities use to set rates for monopoly utilities. The goal is that rates should be no higher than required to ensure that the utility is allowed a reasonable opportunity to earn a reasonable return on and of its investment dedicated to public service.

Ratemaking is comprised of two major activities: cost of service and rate design. Cost of service is an objective mathematical exercise – Rate Base x Allowed Rate of Return, plus Expenses.
Once the utility’s revenue requirement is determined, a cost-of-service study is performed. A cost-of-service study apportions the total utility costs among the various customer rate classes in a fair and equitable manner using established cost of service standards. The cost-of-service study operates on the principle that the rate class within the district, which receives a particular service and causes the associated costs to be incurred, should pay for that service. From there, historically proven rate-design principles are used to create reasonable and sustainable rate designs. Departing from established cost-of-service and rate-design principles leads to prices that do not correspond to the way utility costs are incurred.

Q. **ARE SUBSIDIES A NORMAL PART OF RATE DESIGN?**

A. Not as I understand rate design. The rate design for each rate class normally reflects the costs and revenue requirements identified in the cost-of-service study as closely as possible. Subsidies should be avoided where possible and if they cannot be avoided they should be limited, transparent, and for a legitimate public purpose. Forcing low-income residential customers to subsidize higher-income residential customers is clearly not a legitimate public purpose. In fact, it is directly contrary to one traditional subsidy that has been allowed by the Commission in ratemaking. There the Commission has authorized limited deviation from cost causation principles to allow utility customers to somewhat subsidize low-income customers. In contrast, Mr. Simer wants the Commission to abandon cost causation and instead authorize subsidies in the opposite direction, to force low-income customers to subsidize higher income customers.
Q. HAS THE COMMISSION PREVIOUSLY CONSIDERED WHETHER TO CONSOLIDATE EPCOR’S WASTEWATER DISTRICTS?

Yes. Just six years ago, the Commission unanimously rejected consolidation of EPCOR’s water and wastewater districts (Decision No. 72047 at 84:15-24):

[E]ach case considering rate consolidation must be considered independently based on the facts and circumstances of the particular case. … After careful consideration of the facts and argument presented by the parties, we decline to order the implementation of consolidated rates for the Arizona-American districts at this time.

Q. HAS MR. SIMER OFFERED ANY FACTS THAT HAVE CHANGED SINCE 2011 THAT NOW SUPPORT CONSOLIDATION?

A. No. The facts have not changed in any way that supports consolidation.

• The districts have remained unchanged.
• The populations of each district have remained relatively unchanged.
• The district configuration premises remain unchanged.

Therefore, the bases for the prior decision remain unchanged. There is no reason for the Commission to depart from its prior position that consolidation is not in the public interest.

Q. HAS THE COMMISSION REVISITED THE ISSUE OF CONSOLIDATION SINCE DECISION NO. 72047?

A. Yes. Just 17 months later the Commission again weighed the merits of consolidation. In Decision No. 73227, the Commission considered whether to continue consolidation of EPCOR’s Anthem-Agua Fria wastewater district or to deconsolidate the District into separate Anthem and Agua Fria wastewater districts. The Commission concluded (Decision No. 73227 at 30:18 – 31:1) that traditional ratemaking principles, especially cost-causation, justified deconsolidation:
Maintaining the Anthem-Agua Fria Wastewater District as a consolidated district would not result in just and reasonable rates for Anthem residents. This is so for at least two reasons. First, it is undisputed that the large disparity in deconsolidated rates is due to the Northwest Valley Plant, the Verrado Reclamation Facility and its expansion as well as the Russell Ranch Reclamation Facility. By virtue of geographic separation and no interconnection facilities, Anthem residents do not and cannot use these facilities, whereas Agua Fria wastewater customers do. Thus, in order to more accurately allocate costs to the cost-causers, we will deconsolidate Anthem from the Anthem/Agua Fria Wastewater District at this time. (Emphasis added.)

Q. IS THE SUN CITY WASTEWATER DISTRICT INTERCONNECTED WITH ANY OTHER EPCOR WASTEWATER DISTRICT?

A. No. Sun City’s wastewater is treated by contract at the Tolleson Municipal Wastewater Treatment Plant. No other EPCOR district connects to this treatment plant. Nor does Sun City’s wastewater get treated at plants supporting EPCOR’s other wastewater districts. The districts are also geographically separated.

Sun City is responsible for (causes) the costs associated with Tolleson treatment, so those costs should be allocated to Sun City. Similarly, each other district causes the costs of the treatment required to serve that district. Therefore, keeping Sun City and each district deconsolidated most accurately allocates costs to cost-causers. Mr. Simer has offered no reason why the Commission should not continue to require that each district should continue to have the costs that it causes allocated to that district.

Q. MR. SIMER CLAIMS THAT SUN CITY WASTEWATER RECEIVES A SUBSIDY; DO YOU AGREE?

A. No. The only basis for his claim is his statement (8:15-19): “This type of subsidy comes via subsidies from outside parties due to its wastewater treatment being processed via the City of Tolleson Wastewater Treatment Plant.” This is a bizarre statement. First, Mr. Simer provides no evidence that Tolleson residents are subsidizing Sun City. Nor does
he suggest any reason why Tolleson would want to subsidize Sun City. Presumably, the
parties entered into a treatment agreement because it was mutually beneficial. Sun City
residents receive treatment services and Tolleson residents benefit from Sun City’s
financial contribution, which offsets the cost that Tolleson’s residents would otherwise
pay.

Further, even if the Tolleson treatment contract came at the expense of Tolleson residents
(a proposition with no evidentiary support whatsoever), why should Sun City residents be
penalized because Citizens Utilities was able to negotiate a favorable deal? Mr. Simer
offers no regulatory or legal precedent for raising a district’s rates just because the utility
serving them got too good a deal.

Q. IS MR. SIMER REALLY AGAINST SUBSIDIES?

A. No. Mr. Simer actually wants to create subsidies. The EPCOR districts/communities
were envisioned and developed as unique and independent entities. Their utility needs
were also engineered to fit those unique community needs. If one were to combine a
number of very different and disconnected systems into a single entity, ratepayers in one
system would/could end up paying for facilities they do not use. The current system has
long been based on the “cost causer” ratemaking methodology, which has been, and
continues to be validated as the most appropriate methodology on which to base rates.

There are currently no subsidies between EPCOR districts. Instead, Mr. Simer wants the
Commission to create subsidies by forcing consolidation of the EPCOR districts. The
subsidies “unduly created” would shift close to $5 Million per year from the Sun City
district ratepayers to three wealthier districts.
Q. MR. SIMER INCLUDES AN EXTENSIVE DISCUSSION CONCERNING ALLEGED REGULATORY AND LEGAL PRECEDENT SUPPORTING CONSOLIDATION; HOW DO YOU RESPOND?

A. I am not an expert on utility regulation and I am not an attorney, so I will limit my response. Overall, my impression is that he has cherry-picked his precedent and ignored key regulatory principles such as cost-causation, used-and-useful, and gradualism. And he has offered no social or economic reasons at all why Sun City and Sun City West residents, the poorest 70 percent of EPCOR’s customers, should be forced to subsidize the wealthiest 30 percent.

SCHOA will have more to say concerning Mr. Simer’s alleged precedent in its legal briefs.

IV RESPONSE TO THE ANTHEM COMMUNITY COUNCIL

Q. JENNA KOHL TESTIFIES IN SUPPORT OF FULL CONSOLIDATION ON BEHALF OF THE ANTHEM COMMUNITY COUNCIL; DOES SHE MAKE A GOOD CASE?

A. No. Ms. Kohl does not explain Anthem’s opportunistic prior positions concerning deconsolidation. Before it supported consolidation, Anthem enthusiastically supported deconsolidation.

Anthem previously sponsored the testimony of Dan Neidlinger to support deconsolidating the Anthem-Agua Fria Wastewater District. Mr. Neidlinger was the President of Neidlinger & Associates, Ltd., a consulting firm specializing in utility rate economics. Mr. Neidlinger explained why continued consolidation was contrary to traditional ratemaking.
The underlying need for deconsolidation is the large difference in cost of service between the two districts. ... Cost of service is the single most important criterion in the development of fair and reasonable revenues and related rates for a utility in a regulated environment. In this instance, the current rates are not cost-based. This is not only inequitable, but it creates distortion in price signals to both Anthem and Agua Fria customers concerning the use of the wastewater services provided by the Company. (Direct Testimony of Dan L. Neidlinger, dated August 16, 2011, at 2:25 – 3:3, in Dockets No. W-01303A-09-0343/ SW-01303A-09-0343, emphasis added.)

Q. DOES ANTHEM’S EXPERT TESTIMONY SUPPORT SCHOA’S OPPOSITION TO CONSOLIDATION?
A. Yes. As EPCOR’s evidence demonstrates, there are large differences in cost of service between the five wastewater districts. Mr. Neidlinger testified on Anthem’s behalf that deconsolidation is proper when there are large differences in the cost of service between districts.

Anthem has now flip-flopped and wants the Commission to ignore cost of service, “the single most important criterion in the development of fair and reasonable revenues and related rates” in the opinion of Anthem’s own expert witness. Contrary to its expert, Anthem now advocates rates that would not be cost-based and would distort price signals.

Q. ON ANTHEM’S BEHALF, DID MR. NEIDLINGER SUPPORT THE PRINCIPLE OF COST CAUSATION?
A. Clearly he did. In the cited passage, Mr. Neidlinger stated that not basing rates on cost of service was “inequitable” and “create[d] distortion in price signals to ... customers concerning the use of the wastewater services ...” This seems to me as just an eloquent way of saying that cost causers should pay for the associated costs.
Q. IN THE “LONG-TERM” WILL CONSOLIDATION BE GOOD FOR ALL EPCOR RATEPAYERS, AS MS. KOHL CLAIMS (3:9-14)?

A. No. “In the long term” is a nebulous statement at best. EPCOR’s numbers show that between test years 2008 and 2015 the Sun City district cost of service rose ($7.00 per month, or $1.00/year. Other districts rose at similar rates. Subsequent testimony by both the ACC Staff and RURO list the increase as actually being closer to zero. It is ludicrous to assume a $100%+ increase for the Sun City ratepayers is in their best interest.

It is undeniable that the numbers don’t support the forced consolidation of the Sun City district “in the long term” – If all the districts are increasing at similar rates, then Sun City’s costs will never catch up to the other districts. Even if other districts’ costs were to remain constant (an extremely unrealistic assumption), at a dollar or less a year of Sun City cost increases, it would take decades before the “long-term” justified consolidation. By no measure is there any sound reasoning for the abandonment of the principles of cost causation or used and useful in this case. The Commission should not radically depart from these historic regulatory principles and force Sun City to subsidize other districts based on vague and unsupported assumptions concerning the “long term.”

Q. DO YOU HAVE ANY FINAL THOUGHTS ABOUT ANTHEM’S NEW-FOUND SUPPORT FOR CONSOLIDATION?

A. Yes. The bottom line is, “it’s all about the money.” First, Anthem supported consolidation when they thought that it could reduce rates. Then, Anthem enthusiastically supported deconsolidation when they thought they could reduce their rates at the expense of Agua Fria customers. Now, consolidation is again great. Anthem advocates Robin Hood in reverse.
RESPONSE TO EPCOR

Q. MR. BRADFORD’S ARGUES THAT IF THE COMMISSION FOLLOWED STRICT PRINCIPLES OF COST CAUSATION, EPCOR WASTEWATER COULD BE FURTHER DECONSOLOIDATED; IS THIS A REASON TO SUPPORT FULL CONSOLIDATION?

A. No. In fact, the Commission previously considered and rejected this exact argument in support of consolidation.

Some have argued against deconsolidating Anthem from the Agua Fria Wastewater District by pointing out that the Agua Fria district itself is made up of three distinct wastewater systems that are not interconnected and do not share infrastructure with one another. Accordingly, these parties argue that the deconsolidation of Anthem will not result in a pure assignment of cost causation among the three separate systems within the Agua Fria wastewater district. We are not persuaded by this line of argument. First, we do not believe the perfect (a complete allocation of costs to each system within the Agua Fria wastewater district) should be the enemy of the good (a more accurate allocation of costs between the Anthem and Agua Fria wastewater districts). Second, no party has actively sought to deconsolidate the separate systems within the Agua Fria wastewater district as Anthem has done in this one. If parties believe that fairness requires the Commission to consider further deconsolidation of the Agua Fria district they are free to advocate for such a result in future Commission proceedings. (Decision No. 73227 at 31:2-13, emphasis added.)

Just as in Decision No. 73227, Mr. Bradford seeks to make perfect the enemy of the good. It is true that costs on EPCOR’s system could be more perfectly allocated, but that is no reason to abandon the very good allocations that have been in effect for the past decades. This would be like not building a very good wall because it could not perfectly block every human being from crossing it.

Second, just as the Commission noted in Decision No. 73227, no party has argued in favor of further deconsolidation. Mr. Bradford refutes a position taken neither by Sun City or any other party.
Q. **MR. BRADFORD ALSO ARGUES THAT CONSOLIDATION WILL PAY OFF IN THE LONG-TERM; DO YOU AGREE?**

A. No. Just like Anthem, Mr. Bradford has provided no credible evidence that consolidation will benefit customers in the long-term. Instead, he offers vague, conclusory statements. EPCOR offers no long-term studies that forecasts expenses, infrastructure investment, depreciation, and resulting rates under the consolidation and deconsolidation scenarios. Nor does EPCOR forecast rates for Agua Fria as depreciation reduces net investment and expected customer growth allows investment and expenses to be spread over more and more customers.

Q. **MR. BRADFORD SUPPORTS CONSOLIDATION BY ARGUING THAT SUN CITY’S WASTEWATER RATES ARE A COMPARATIVELY LOW PERCENTAGE OF HOUSEHOLD INCOME; DOES HE PERSUADE YOU?**

A. No. First, Mr. Bradford seems to imply that it’s alright to increase Sun City’s rates because they are a slightly lower percentage of household income than the State average. Of course, there is no regulatory principle that supports raising rates just because they are lower than average. Rates are set based on cost of service, not some sort of regulatory socialism.

Second, Mr. Bradford should have compared Sun City’s rates if the Commission imposed consolidation. The following table provides that information based on the ASU Study and EPCOR’s requested rate increase:

<table>
<thead>
<tr>
<th></th>
<th>Monthly Wastewater Bill</th>
<th>Annual Wastewater Bill</th>
<th>Mean Household Income</th>
<th>Annualized Wastewater Bill as % of Income</th>
<th>EPCOR Suggested - Consolidated</th>
<th>EPCOR Suggested Annual Bill - Consolidated</th>
<th>Annualized WW Bill as % of Income - Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agua Fria District</td>
<td>$71.16</td>
<td>$853.62</td>
<td>$75,000.00</td>
<td>1.14</td>
<td>$41.00</td>
<td>$492.00</td>
<td>0.66</td>
</tr>
<tr>
<td>Anthem District</td>
<td>$60.33</td>
<td>$723.96</td>
<td>$95,500.00</td>
<td>0.76</td>
<td>$41.00</td>
<td>$429.00</td>
<td>0.52</td>
</tr>
<tr>
<td>Mohave District</td>
<td>$63.84</td>
<td>$796.00</td>
<td>$45,800.00</td>
<td>2.06</td>
<td>$41.00</td>
<td>$492.00</td>
<td>1.07</td>
</tr>
<tr>
<td>Sun City District</td>
<td>$22.11</td>
<td>$265.32</td>
<td>$44,600.00</td>
<td>0.99</td>
<td>$41.00</td>
<td>$429.00</td>
<td>1.10</td>
</tr>
<tr>
<td>Sun City West District</td>
<td>$32.46</td>
<td>$369.52</td>
<td>$55,500.00</td>
<td>0.70</td>
<td>$41.00</td>
<td>$492.00</td>
<td>0.89</td>
</tr>
<tr>
<td>State of Arizona</td>
<td>$38.42</td>
<td>$461.04</td>
<td>$56,400.00</td>
<td>0.70</td>
<td>$41.00</td>
<td>$492.00</td>
<td>0.70</td>
</tr>
</tbody>
</table>
The table shows that under EPCOR’s redistribution proposal, Sun City would have the highest rates of the five districts as a percentage of income. In contrast, wastewater customers in Anthem and Agua Fria, EPCOR’S two youngest and wealthiest districts, would have the lowest rates as a percentage of income. Both districts would have rates and below state averages. Again, EPCOR advocates a policy of Robin Hood in reverse.

VI RESPONSE TO OTHER PARTIES

Q. DO YOU WISH TO RESPOND TO THE CORTA BELLA COUNTRY CLUB ASSOCIATION, THE CROSS RIVER HOMEOWNERS ASSOCIATION, OR THE RUSSELL RANCH HOMEOWNERS’ ASSOCIATION?

A. No. For the reasons given in my Direct Testimony and this Surrebuttal Testimony, SCHOA does not agree with their positions on consolidation. I do not see any new arguments not made by other parties, but if I have inadvertently failed to address any argument it should not be construed that SCHOA accepts that argument.

VII RESPONSE TO PARTIAL SETTLEMENT AGREEMENT

Q. DOES SCHOA SUPPORT THE SETTLEMENT AGREEMENT BETWEEN STAFF AND EPCOR?

A. No. SCHOA opposes this partial settlement agreement, not joined in by the Residential Utility Consumer Office (“RUCO”). SCHOA was not going to take a position on revenue requirement, but Hearing Division and Commissioner Little have asked for an opinion. Although I am not otherwise testifying concerning revenue requirement, I have read the revenue-requirement testimony filed by EPCOR, Staff, and RUCO. RUCO’s testimony is persuasive and SCHOA supports it, along with the supporting schedules.

Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

A. Yes.