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**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

GARY PIERCE, Chairman  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BOB STUMP  
BRENDA BURNS

Docket No. W-01303A-10-0448

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
COMPANY, AN ARIZONA  
CORPORATION, FOR A  
DETERMINATION OF THE CURRENT  
FAIR VALUE OF ITS UTILITY PLANT  
AND PROPERTY AND FOR INCREASES  
IN ITS RATES AND CHARGES BASED  
THEREON FOR UTILITY SERVICE BY  
ITS AGUA FRIA WATER DISTRICT,  
HAVASU WATER DISTRICT, AND  
MOHAVE WATER DISTRICT

**Notice of Filing Verrado  
Community Association, Inc.'s  
Testimony in Support of Settlement  
Agreement**

Verrado Community Association, Inc., through its undersigned counsel, hereby provides notice of filing the Testimony of Melinda Gulick regarding the proposed Settlement Agreement in the above-referenced matter.

DATED this 15th of December, 2011.

Arizona Corporation Commission

**DOCKETED**

DEC 15 2011

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1 ORIGINAL and 13 copies of the foregoing  
2 filed this 15th day of December, 2011, with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 W. Washington  
6 Phoenix, Arizona 85007

7 COPY of the foregoing mailed this  
8 15<sup>th</sup> day of December, 2011, to:

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11 Arizona Corporation Commission  
12 1200 W. Washington St.  
13 Phoenix, Arizona 85007

14 Lyn Farmer  
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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 GARY PIERCE, Chairman  
4 SANDRA D. KENNEDY  
5 PAUL NEWMAN  
6 BOB STUMP  
7 BRENDA BURNS

Docket No. W-01303A-10-0448

7 IN THE MATTER OF THE APPLICATION  
8 OF ARIZONA-AMERICAN WATER  
9 COMPANY, AN ARIZONA  
10 CORPORATION, FOR A  
11 DETERMINATION OF THE CURRENT  
12 FAIR VALUE OF ITS UTILITY PLANT  
13 AND PROPERTY AND FOR INCREASES  
14 IN ITS RATES AND CHARGES BASED  
15 THEREON FOR UTILITY SERVICE BY  
16 ITS AGUA FRIA WATER DISTRICT,  
17 HAVASU WATER DISTRICT, AND  
18 MOHAVE WATER DISTRICT

15 **Testimony**

16 **of**

17 **Melinda Gulick**

18 **on behalf of Verrado Community Association, Inc.**

19 **December 14, 2011**

1 **Q. Please state your name, position, business address, and telephone number.**

2 A. My name is Melinda Gulick. I am the current President of Verrado Community  
3 Association, Inc. ("Verrado" or the "Association"). I am also employed by DMB  
4 Associates as Vice President of Community Life. My business address for the  
5 Association is 4236 North Verrado Way, Suite A200, Buckeye, Arizona 85396.

6 **Q. Have you previously testified before the Commission?**

7 A. I previously provided Direct Testimony on June 27, 2011, and July 5, 2011, in this  
8 matter. I also provided testimony in docket number W-01303A-09-0343 regarding the  
9 proposal to deconsolidate Arizona-American Water Company's Anthem/Agua Fria  
10 Wastewater District.

11 **Q. What is the purpose of your testimony?**

12 A. The purpose of my testimony is to explain the reasons Verrado believes the Commission  
13 should adopt the Settlement Agreement terms as were summarized in the Letter of Intent  
14 docketed by the parties on December 8, 2011, and as were more fully developed in a final  
15 Settlement Agreement signed by the parties on December 14, 2011 ("Settlement  
16 Agreement").

17 **Q. What was Verrado's litigation position prior to the settlement?**

18 A. Verrado's litigation position is reflected in the written testimony provided by Kent Simer  
19 and by me in earlier filings in the docket for this case. Verrado objected strongly to the  
20 Company's proposed rate increase, primarily due to the Company's proposed rate  
21 treatment related to the White Tanks Treatment Plant.

22 **Q. Why has Verrado now decided to enter into the Settlement Agreement?**

23 A. I have been engaged in this case for many months now, and I, Verreado's attorneys, and  
24 experts have had the opportunity to review voluminous testimony and discovery  
25 responses regarding the data and issues affecting the proposed rate increase. While  
26 Verrado feels it has significant evidentiary support for its litigation position regarding the  
27  
28

1 issues previously cited in our testimony, litigation outcomes are uncertain, and there is  
2 always a chance that the hearing officer or the Commissioners will disagree with all or a  
3 portion of Verrado's case.  
4

5 Verrado's primary concern throughout this proceeding has been the potential for a  
6 significant and immediate negative rate impact on residents during a continuing historic  
7 economic downturn. The impact felt by residents through increased costs of the  
8 Association's water bill is another important concern. Our concern in this case is  
9 aggravated by the potential for a deconsolidation and up to a 139% wastewater rate  
10 increase in Arizona-American Water Company's Anthem/Agua Fria Wastewater District  
11 in case number W-01303A-09-0343.

12 It became apparent through the proceedings and settlement discussion, however,  
13 that, even if Verrado was successful in all of its litigation positions in this case, including  
14 exclusion of the White Tanks Treatment Plant from the rate base, there would still likely  
15 be an immediate and significant rate increase approved for the Agua Fria Water District –  
16 somewhere in the range of 21%-37%, depending upon which White Tanks Treatment  
17 Plant-associated amounts were excluded. If Verrado was not successful, the immediate  
18 rate impact could be as high as the Company's request (originally estimated at roughly  
19 \$25 per month for a typical residential customer).  
20

21 The Settlement Agreement offered a way for Verrado to negotiate an overall rate  
22 increase that, although still higher than Verrado would like to see, is phased in over 3  
23 years, and will be lowered through the provisions described in the Settlement Agreement.

24 **Q. What terms of the Settlement Agreement were Important in Verrado's decision?**

25 A. Verrado carefully reviewed all terms of the Settlement Agreement. Although many terms  
26 in the Settlement Agreement are material to Verrado's decision, I will mention a few of  
27 the more important ones.  
28

1  
2 First, the initial and overall dollar rate increases to all customer classes were key  
3 numbers, and the phase-in provision is a key term. Verrado insisted that the parties look  
4 at ways to lower the initial dollar rate impact on residential rates and, of course, to lower  
5 the overall cost of rates. The three-year phase-in period that starts no earlier than July 1,  
6 2012, and the Company's agreement to forego lost revenue in the first two years of the  
7 phase-in period were important stipulations. While the typical residential customer in the  
8 most common meter class will still bear a significant increase in the initial year of the  
9 phase-in, we feel that a projected increase of \$12.93 per month in the first year, and \$3.09  
10 per month in the second and third years is a favorable resolution given the potential  
11 alternatives. Of course, customers that are not "average" in this category may see rates  
12 increase more or less.

13 Second, Verrado requested a hook-up fee credit that has the potential to decrease  
14 the typical dollar impacts described above, especially if the housing economy improves.  
15 Hook-up fees collected from new customers were intended to fund the White Tanks  
16 Treatment Plant, but collections have been much lower than originally projected by the  
17 Company due primarily to the economic downturn. It is important that the Company  
18 continue to collect these fees from new customers as the new customers will likely use  
19 the existing White Tanks Treatment Plant capacity. In the Settlement Agreement, the  
20 Company agreed to credit Agua Fria customers with the revenue equivalent of hook-up  
21 fees actually collected within a year of collection. Starting in the second year, customers  
22 will see this credit as a separate line item on their bill. The amount of the hook-up fee  
23 credit will not be known until fees are actually collected, but we are hopeful the fee  
24 collections will increase in future years and provide customers with additional relief.

25  
26 Third, existing customers should get a credit if the treatment plant is used to  
27 provide services to entities that are not paying the new rates, such as a city or other water  
28

1 provider. The Settlement Agreement provides for a direct credit to Agua Fria customers  
2 if such sales of services occur using the existing facilities.  
3

4 Fourth, the Company has agreed to file its next rate case only after it has collected  
5 at least six months of actual experience data at the third year rate level, effectively  
6 meaning that the next rate case will likely not be finally determined by the Commission  
7 until at least 2015. This stipulation provides customers with additional certainty  
8 regarding the timing of future rate increases.

9 Finally, the parties agreed that the settlement must be a “global settlement” and  
10 resolve all issues in the case. This is an important term in order for each of the parties to  
11 avoid having to spend more time and money litigating and possibly appealing the result.  
12 Verrado agreed to many provisions that were difficult to negotiate in order to advance a  
13 global settlement that included the terms I have described, and I request that the  
14 Commission honor the desire of the parties to keep the settlement agreement terms intact  
15 in its final decision in this matter.

16 **Q. Does this conclude your testimony in this case?**

17 **A. Yes.**  
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9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 **COMMISSIONERS**

11 **GARY PIERCE, Chairman**  
12 **SANDRA D. KENNEDY**  
13 **PAUL NEWMAN**  
14 **BOB STUMP**  
15 **BRENDA BURNS**

16 **IN THE MATTER OF THE APPLICATION**  
17 **OF ARIZONA-AMERICAN WATER**  
18 **COMPANY, AN ARIZONA**  
19 **CORPORATION, FOR A**  
20 **DETERMINATION OF THE CURRENT**  
21 **FAIR VALUE OF ITS UTILITY PLANT**  
22 **AND PROPERTY AND FOR INCREASES**  
23 **IN ITS RATES AND CHARGES BASED**  
24 **THEREON FOR UTILITY SERVICE BY**  
25 **ITS AGUA FRIA WATER DISTRICT,**  
26 **HAVASU WATER DISTRICT, AND**  
27 **MOHAVE WATER DISTRICT**

Docket No. W-01303A-10-0448

**Notice of Filing DMB White Tank,  
LLC's Testimony in Support of  
Settlement Agreement**

28 DMB White Tank, LLC, through its undersigned counsel, hereby provides notice of  
filing the Testimony of David Nilsen regarding the proposed Settlement Agreement in the  
above-referenced matter.

DATED this 15th of December, 2011.

RYLEY CARLOCK & APPLEWHITE

By Michele Van Quathem  
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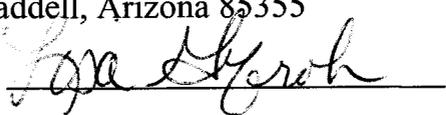
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15 THEREON FOR UTILITY SERVICE BY  
16 ITS AGUA FRIA WATER DISTRICT,  
17 HAVASU WATER DISTRICT, AND  
18 MOHAVE WATER DISTRICT

14 **Testimony**

15 **of**

16 **David Nilsen**

17 **on behalf of DMB White Tank, LLC**

18 **December 14, 2011**

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1 **Q. Please state your name, position, business address, and telephone number.**

2 A. My name is David Nilsen. I am Director of Development for DMB Associates. I am  
3 responsible for development activities in the Verrado master planned community, and the  
4 operation of subsidiary entities relating to Verrado, including DMB White Tank, LLC  
5 (collectively "DMB"). My business address is 7600 E. Doubletree Ranch Road, Suite  
6 300, Scottsdale, Arizona 85258-2137. My telephone number is (480) 367-7000.

7 **Q. Have you previously testified before the Commission?**

8 A. I previously provided Direct Testimony on June 27, 2011, in this matter. I also provided  
9 testimony in docket number W-01303A-09-0343 regarding the proposal to deconsolidate  
10 Arizona-American Water Company's Anthem/Agua Fria Wastewater District.

11 **Q. What is the purpose of your testimony?**

12 A. The purpose of my testimony is to confirm that DMB agrees with the Settlement  
13 Agreement terms as were summarized in the Letter of Intent docketed by the parties on  
14 December 8, 2011, and as were more fully developed in a final Settlement Agreement  
15 signed by the parties on December 14, 2011 ("Settlement Agreement").

16 **Q. What was DMB's litigation position prior to the settlement?**

17 A. DMB offered limited testimony regarding the water rates it pays and DMB's request that  
18 Arizona-American Water Company's application be amended to reflect that Decision  
19 Number 72047 in docket number W-01303A-09-0343 moved the effluent rate from  
20 Arizona-American Water Company's Agua Fria Water Tariff to the Anthem/Agua Fria  
21 Wastewater Tariff. The parties' recognition of this change was subsequently reflected in  
22 updated testimony filed prior to the Hearing.

23 **Q. Why has DMB entered into the Settlement Agreement?**

24 A. DMB participated in settlement discussions, studied the issues and parties' positions, and  
25 agrees the Commission should adopt the Settlement Agreement terms as agreed by the  
26 parties. DMB agrees with the written testimony of Verrado Community Association,  
27  
28

1 Inc., witness Melinda Gulick regarding the reasons for agreeing to the Settlement  
2 Agreement. In particular, DMB believes it is important for Arizona-American Water  
3 Company to continue to collect hook-up fees to offset the White Tanks Treatment Plant  
4 rate base and provide a corresponding revenue credit to customers on a regular basis as  
5 proposed in the Settlement Agreement. DMB requests that the Commission approve the  
6 Settlement Agreement terms as agreed by the parties as a reasonable resolution of  
7 disputed matters.  
8

9 **Q. Does this conclude your testimony in this case?**

10 **A. Yes.**  
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