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BEFORE THE ARIZONA CORPORA

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COMMISSIONERS

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

2012 NOV -1 A 10: 57

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
GLOBAL WATER – PALO VERDE UTILITIES
COMPANY FOR THE ESTABLISHMENT OF
JUST AND REASONABLE RATES AND
CHARGES FOR UTILITY SERVICE DESIGNED
TO REALIZE A REASONABLE RATE OF
RETURN ON THE FAIR VALUE OF ITS
PROPERTY THROUGHOUT THE STATE OF
ARIZONA

DOCKET NO. SW-20445A-12-0310

**NOTICE OF FILING
UPDATED DIRECT TESTIMONY**

On July 9, 2012, Global Water – Palo Verde Utilities Company (“Palo Verde” or
“Applicant”) filed the Direct Testimony of Brett Higginbotham, CPA. Mr. Higginbotham’s
testimony has been updated to reflect certain changes made in updated schedules previously filed
with the Commission in this matter. Accordingly, Applicant provides this notice of filing Mr.
Higginbotham’s updated testimony.

RESPECTFULLY SUBMITTED this 7th day of November 2012.

ROSHKA DEWULF & PATTEN, PLC

Arizona Corporation Commission

DOCKETED

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DOCKETED BY *ZM*

By *Timothy J. Sabo*
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1 Original + 13 copies of the foregoing
2 filed this 7th day of November 2012, with:

3 Docket Control
4 ARIZONA CORPORATION COMMISSION
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6 Phoenix, AZ 85007

7 Copies of the foregoing hand-delivered
8 this 7th day of November 2012, to:

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THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
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PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF
GLOBAL WATER – PALO VERDE UTILITIES
COMPANY FOR THE ESTABLISHMENT OF
JUST AND REASONABLE RATES AND
CHARGES FOR UTILITY SERVICE DESIGNED
TO REALIZE A REASONABLE RATE OF
RETURN ON THE FAIR VALUE OF ITS
PROPERTY THROUGHOUT THE STATE OF
ARIZONA.

DOCKET NO. SW-03575A-12-0310

Direct Testimony

of

Brett Higginbotham, CPA

July 9, 2012

Updated November 7, 2012

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1 **I. Introduction.**

2 **Q. Please state your name and business address.**

3 A. My name is Brett Higginbotham. My business address is 21410 North 19th Avenue, Suite
4 201, Phoenix, Arizona 85027.

5

6 **Q. By whom are you employed and what is your position?**

7 A. I am employed by Global Water Management, Inc. as Controller. I also serve as the
8 Controller of Global Water Resources, Inc.

9

10 **Q. Briefly describe your responsibilities a Global Water's controller.**

11 A. I am responsible for managing the company's accounting and financial reporting
12 functions.

13

14 **Q. Please describe your qualifications.**

15 A. I am a Certified Public Accountant (CPA) licensed in Arizona (#13105). In 1999, I earned
16 a Bachelor of Science and a Master's Degree in Accountancy from Brigham Young
17 University.

18

19 I joined Global as Controller in 2010. Prior to joining Global, I was a senior manager with
20 PricewaterhouseCoopers (PwC), a global public accounting firm. There, I was primarily
21 responsible for managing financial statement audit engagements for clients such as Amkor
22 Technology, Inc.- one of the world's largest providers of advanced semiconductor
23 assembly and test services. Other former clients include Honeywell, Disney, Raytheon,
24 Tekelec, and Digital Theater Systems. I have nearly 10 years of experience with the "Big
25 4" accounting firm, having served a diverse set of industries. I have experience in
26 technical accounting, revenue recognition, financial statement analysis, financial reporting,
27 Sarbanes-Oxley (SOX) internal control policies and procedures, systems implementations,

1 budgeting and cross-functional team management.

2
3 **II. Rate Base Adjustments.**

4 **Q. Please describe Global's rate base adjustment #1 – Post Test Year Plant.**

5 A. Rate base adjustment # 1 represents post-test year plant. The post-test year plant is
6 described in Mr. Fleming's Direct Testimony. He also explains why the post-test year
7 plant should be included in rate base. The amount of Post-Test Year Plant of each utility is
8 as follows:

9	Santa Cruz	\$306,892
10	Palo Verde	\$818,395
11	Valencia – Town Division	\$672,571
12	Valencia – Greater Buckeye Division	\$ 0
13	Water Utility of Greater Tonopah	\$106,782
14	Willow Valley	\$ 80,436
15	Northern Scottsdale	\$ 0

16
17 **Q. Please describe Global's rate base adjustment #2 – ICFA CIAC Imputation on**
18 **Construction-Work-In-Process.**

19 A. As a result of Global's last rate case, funds received under Infrastructure Finance and
20 Coordination Agreements (ICFAs) are accounted for as Contributions in Aid of
21 Construction (CIAC). CIAC naturally has the effect of decreasing rate base, similar to
22 Advances in Aid of Construction (AIAC). In Global's last rate case, a portion of the ICFA
23 funds were attributed by the Commission toward construction work in process (CWIP).
24 The CWIP portion of ICFA funds did not get imputed as a reduction to rate base since the
25 CWIP assets were not in service and not included in rate base. Accordingly, rate base
26 adjustment #2 represents the portion of ICFA funds recorded as CIAC but attributed to
27 CWIP. This adjustment consists of removing the CWIP portion of ICFA CIAC from total

1 CIAC so that the CWIP portion of ICFA CIAC does not reduce rate base.

2
3 This adjustment also contains a corresponding decrease in the deferred tax asset that arose
4 as a result of the Company accounting for ICFA funds as CIAC. The deferred tax asset on
5 the books, as well as the rate base adjustment amounts to 38.7% (Global's effective
6 income tax rate) of the CIAC amount. Mr. Rowell explains the deferred tax asset in his
7 Direct Testimony.

8
9 **Q. Please describe Global's rate base adjustment #3 – ICFA CIAC Imputation on Plant**
10 **in Service.**

11 A. Similar to rate base adjustment #2 above, rate base adjustment #3 also relates to ICFA
12 funds recorded in Global's books as CIAC. Rate base adjustment #3 represents the amount
13 for ICFA CIAC attributed to plant in service pursuant to the decision of Global's last rate
14 case. As discussed Mr. Walker's Direct Testimony, Global requests that no ICFA funds be
15 imputed as a reduction to rate base. Accordingly, this adjustment effectively eliminates the
16 ICFA CIAC that would otherwise result in an imputed reduction to rate base.

17
18 This adjustment also contains a corresponding decrease in the deferred tax asset that arose
19 as a result of the Company accounting for ICFA funds as CIAC. The deferred tax asset on
20 the books, as well as the rate base adjustment amounts to 38.7% (Global's effective
21 income tax rate) of the CIAC amount. As noted above, Mr. Rowell addresses the deferred
22 tax asset in his Direct Testimony.

23
24 **III. Income Statement Adjustments.**

25 **Q. Please describe Global's income statement adjustment # 1 – 2008 Rate Case Costs**

26 A. In Global's last rate case, the Commission decided that Global could recover the
27 requested \$400,000 of costs which the Company incurred related to that rate case. This

1 \$400,000 is being amortized over a three year period. Accordingly, approximately
2 \$133,333 was recorded as expense during the 2011 test year on the books of the Global
3 utilities affected by the last rate case (allocated among the utilities in a systematic
4 manner). We assume that once the \$400,000 is completely amortized, the costs will not
5 be recurring on a go-forward basis.

6
7 Accordingly, income statement adjustment #1 removes these prior rate case costs from
8 operating expenses of the utilities. By the time new rates provided by this rate case are
9 effective, the \$400,000 will have been fully amortized. The amount removed from
10 operating expenses of each utility is as follows:

11	Santa Cruz	(\$53,333)
12	Palo Verde	(\$53,333)
13	Valencia – Town Division	(\$18,667)
14	Valencia – Greater Buckeye Division	(\$ 1,333)
15	Water Utility of Greater Tonopah	(\$ 1,333)
16	Willow Valley	(\$ 5,333)

17
18 **Q. Please describe Global's income statement adjustment #2 – 2011 Rate Case Costs.**

19 **A.** Similar to income statement adjustment #1, income statement adjustment #2 relates to
20 costs Global has and will incur in connection with the filing the current rate case. Such
21 costs primarily consist of legal and advisory costs incurred in preparation of this rate
22 case. Global currently estimates such costs will approximate \$787,174.

23
24 The amount added to operating expenses of each utility is as follows:

25	Santa Cruz	\$105,801
26	Palo Verde	\$104,585
27	Valencia – Town Division	\$35,298

1	Valencia – Greater Buckeye Division	\$ 4,142
2	Water Utility of Greater Tonopah	\$ 2,140
3	Willow Valley	\$ 9,923
4	Northern Scottsdale	\$ 502

5

6 Global will allocate the rate case costs to its operating utilities proportionally based on
7 the number of active service connections. The rate case costs will be amortized as an
8 operating expense over a three year period.

9

10 **Q. Please describe Global’s income statement adjustment #3 – Low Income Relief Tariff.**

11 **A.** Global’s last rate case provided a mechanism to provide financial support to low income
12 rate payers, the Low Income Relief Tariff (the “LIRT”). The LIRT is funded equally by
13 Global’s shareholders and Global’s customers through a monthly customer surcharge and
14 an equal match by Global. The LIRP is capped at \$100,000 total annual funding
15 (shareholder and customer funds). The initial monthly LIRT surcharge was calculated as
16 \$0.11 per month, per connection. Collection of the LIRT began in August 2011 in
17 accordance with Decision No. 72440 (June 27, 2011).

18

19 For accounting purposes, Global records the shareholder match as an expense on the
20 books of Global’s utilities. However, since the matching funds provided by Global are
21 intended to come from shareholders rather than customers, it would not be appropriate for
22 Global to recover the match portion through rates. Accordingly, income statement
23 adjustment #3 removes the amount of Global’s matching LIRT contributions from
24 operating expenses of the Global utilities. The amount removed from operating
25 expenses of each utility is as follows:

26	Santa Cruz	(\$8,295)
27	Palo Verde	(\$8,407)

1	Valencia – Town Division	(\$2,761)
2	Valencia – Greater Buckeye Division	(\$ 334)
3	Water Utility of Greater Tonopah	(\$ 172)
4	Willow Valley	(\$ 842)

5

6 **Q. Please describe Global's income statement adjustment #4 – Annualize Revenue and**
7 **Expenses for End-of Year Customer Counts.**

8 A. Income statement adjustment #4 adjusts revenues and expenses to reflect the number of
9 customers served by each utility as of December 31, 2011. The adjustment to revenue is
10 the difference between revenues generated by the Test Year bill count, and a pro forma
11 bill count that reflects the number of customers served on December 31, 2011. The
12 revenue portion of income statement adjustment #4 for each utility is as follows:

13	Santa Cruz	(\$83,647)
14	Palo Verde	\$172,993
15	Valencia – Town Division	\$ 97,384
16	Valencia – Greater Buckeye Division	(\$ 494)
17	Water Utility of Greater Tonopah	(\$1,319)
18	Willow Valley	(\$1,974)
19	Northern Scottsdale	\$2,115

20 An increase in purchased power and water treatment expense is also calculated based on
21 the estimated increase in gallons to be sold resulting from the change in year-end
22 customer counts. The expense portion of income statement adjustment #4, related to
23 purchased power and water treatment, for each utility is as follows:

24	Santa Cruz	\$ 3,553
25	Palo Verde	\$11,376
26	Valencia – Town Division	\$12,993
27	Valencia – Greater Buckeye Division	(\$ 5)

1	Water Utility of Greater Tonopah	(\$78)
2	Willow Valley	(\$67)
3	Northern Scottsdale	\$148

4

5 **Q. Please describe Global's income statement adjustment #5 – Net change in accrued**
6 **revenue accounts during the 2011 Test Year.**

7 A. As a function of the fact that customers are typically not billed on the last day of each
8 month for usage up through the last day of the month, Global is required by accounting
9 rules to make certain period-end accruals in order to record and report revenues in the
10 period that those revenues were earned. Accordingly, accruals are used to account for
11 timing differences between when revenues are billed and when revenues are recognized
12 in the financial records. Global uses two separate accrued revenue related general ledger
13 accounts: 'accrued unbilled revenue' and 'deferred revenue'. The net change in these
14 accounts between two periods reflects the activity arising from the timing difference
15 referred to above. For Global's utilities, the net change in the accrual accounts increased
16 from December 31, 2010 to December 31, 2011, reflecting the fact that more revenue
17 was earned and recognized during the Test Year than was billed during the Test Year.
18 Accordingly, income statement adjustment #5 consists of reducing 2011 revenue by the
19 amounts not reflected in the Bill Count data. The revenue removed through income
20 statement adjustment #5 for each utility is as follows:

21	Santa Cruz	(\$312,254)
22	Palo Verde	(\$562,721)
23	Valencia – Town Division	(\$113,611)
24	Valencia – Greater Buckeye Division	(\$ 16,890)
25	Water Utility of Greater Tonopah	(\$ 5,712)
26	Willow Valley	(\$16,480)
27	Northern Scottsdale	(\$ 5,798)

1 **Q. Please describe Global's income statement adjustment #6 - purchased power**
2 **adjustment.**

3 A. This adjustment increases purchased power costs to reflect known and measurable rate
4 increases from our power service providers.

5

6 **Q. Who are the power service providers for Valencia Water Company, Water Utility of**
7 **Greater Tonopah, and Willow Valley Water Company?**

8 A. Arizona Public Service (APS) is the power service provider for Valencia Water Company
9 (both divisions), as well as Water Utility of Greater Tonopah. Mohave Electrical
10 Cooperative (MEC) is the power service provider for Willow Valley.

11

12 **Q. Please discuss Global's proposal to include APS's rate increase into the rates for**
13 **each of these utilities?**

14 A. On May 24, 2012 the Commission issued a decision, Decision No. 73183, on APS's rate
15 application. Based on the Commission's decision, Global Water will inevitably incur
16 greater purchased power expenses starting in 2013. This known and measureable rate
17 increase could not be captured in the 2011 test year, however Global is proposing to
18 adjust the purchased power expense to account for the increased rate that will be
19 incurred.

20

21 **Q. Please discuss Global's proposal to include MEC's anticipated rate increase into the**
22 **rates for each of these utilities?**

23 A. In Docket No. E-01750A-11-0136, the ACC Utilities Division Staff agreed with MEC
24 that the recommended revenue increase should be \$3.1 million or a 4.02%¹. While the
25 exact rate increase for Willow Valley is not known at this time, the probability of an
26

26

27 ¹ DOCKET NO. E-01750A-11-0136, page 2 line 12

1 increase in purchased power costs appears to be high, and therefore an adjustment to the
 2 purchased power costs should be allowed.

3
 4 **Q. How much of an increase to purchased power costs is Global Water proposing for**
 5 **each utility serviced by APS?**

6 **A.** Below is a summary of the anticipated increased costs on an annual basis from 2013 to
 7 2016. The "Difference" is the anticipated increase as a result of the recently approved
 8 rate case.

No Rate Increase						
	2013	2014	2015	2016		
VWC	\$ 411,216	\$ 411,216	\$ 411,216	\$ 411,216		
WUGB	\$ 25,206	\$ 25,206	\$ 25,206	\$ 25,206		
WUGT	\$ 20,455	\$ 20,455	\$ 20,455	\$ 20,455		
Total	\$ 456,877	\$ 456,877	\$ 456,877	\$ 456,877		

Scenario 1 - Four Corners Power Plant Not Included in Base Rates						
	2013	2014	2015	2016		
VWC	\$ 435,494	\$ 442,579	\$ 447,005	\$ 451,475		
WUGB	\$ 26,707	\$ 27,129	\$ 27,400	\$ 27,674		
WUGT	\$ 21,636	\$ 22,014	\$ 22,234	\$ 22,457		
Total	\$ 483,837	\$ 491,722	\$ 496,639	\$ 501,606		
Difference	\$ 26,960	\$ 34,845	\$ 39,762	\$ 44,729		

19
 20
 21 **Q. How did Global calculate the increased cost for the utilities served by APS?**

22 **A.** The rate increases were based on the ACC's decision dated May 24, 2012, Decision No.
 23 73183. Based on this decision, the following rates changes were factored into Global's
 24 existing power costs:

- 25 ■ Rates may increase by 6.4% in February of 2013 when the Power Supply Adjustor
 26 resets;

- 1 ▪ If the Four Corners transaction closes in 2012, there would be a reduction in the PSA
2 forward component, resulting in a negative 2.9 percent PSA impact, and the February
3 2013 PSA reset would be approximately 3.5 percent instead of 6.4 percent. However,
4 since it is unknown if the Four Corners transaction will close Global used an increase
5 of 6.4%;
- 6 ▪ When the first LFCR adjustment is approved by the Commission, a 0.2 percent
7 adjustment to bills would occur on March 1, 2013²;
- 8 ▪ LFCR will have an annual 1 percent year over year adjustment cap based on total
9 Company revenues³

10

11 Based on the adjustments identified above, a 6.4% increase was applied to the historical
12 rates Global Water has paid effective February 2013. Additionally, a 0.02% increase to
13 historical rates was applied effected March 2013 to account for the LFCR adjustment.
14 Lastly, an annual increase of 1% was applied to the historical rates to account for the
15 LFCR adjustment cap effective January 2014. The anticipated purchased power expenses
16 without a rate increase were compared to the anticipated purchased power expenses with
17 the anticipated rate increase. The difference between these two scenarios is the anticipated
18 increased purchased power expense.

19

20 **Q. How much of an increase to purchased power costs is Global Water proposing to add
21 for Willow Valley as a result of MEC's rate increase application?**

22 **A.** Below is the estimated annual utility costs based on historical purchased power costs. The
23 "No Increase" estimate is based on historical costs. The "4.02% Increase" estimate
24 accounts for an increase in purchased power rates of 4.02%. The difference between these
25 two estimates is the proposed expense to be added.

26 _____
² Decision No. 73183, Page 26 line 11-20.

27 ³ Decision No. 73183, page 13 line 18.

Willow Valley Rate Increase					
	2013	2014	2015	2016	
No Increase	\$ 42,933	\$ 42,933	\$ 42,933	\$ 42,933	\$ 42,933
4.02% Increase	\$ 44,659	\$ 44,659	\$ 44,659	\$ 44,659	\$ 44,659
Difference	\$ 1,726	\$ 1,726	\$ 1,726	\$ 1,726	\$ 1,726

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5 **Q. How did Global calculate the increased cost for the utility served by MEC?**

6 **A.** The estimated increase in purchased power costs is based on the Staff Reply Brief in
7 Docket No. E-01750A-11-0136, in which the ACC Staff agrees with MEC that the
8 recommended revenue increase for MEC should be 4.02%⁴. Based on this concurrence,
9 Global calculated a 4.02% increase into the historical purchase power cost paid by WVWC
10 to MEC.

11
12 **Q. How can Global propose an increase to purchased power costs for the WVWC utility
13 when the proposed increase to MEC's rates has not been approved by the ACC?**

14 **A.** Global Water would like to reserve the right to propose an adjustment in rebuttal testimony
15 after the ACC issues its order in this case.

16
17 **Q. Please describe Global's income statement adjustment #7 – Remove ICFA CIAC
18 Amortization.**

19 **A.** As discussed for rate base adjustment #3 above, ICFA funds are recorded in Global's
20 books as CIAC and were imputed by the Commission in Global's last rate case as a
21 reduction to rate base. To the extent that ICFA CIAC attributed to plant is associated
22 with plant in service, the CIAC has been amortized as a reduction to depreciation
23 expense. As discussed in Mr. Walker's Direct Testimony, Global is requesting that no
24 ICFA funds be imputed as CIAC. If the Commission agrees, the CIAC imputation would
25 be reversed, and thus there would be no ICFA related CIAC to amortize. Accordingly,
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27 ⁴ DOCKET E-01750A-11-0136, Staff Reply Brief, Page 2 line 12.

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income statement adjustment #7 eliminates the amortization recorded during the test year for ICFA CIAC. The amortization reduction for each utility is as follows:

Santa Cruz	\$274,230
Palo Verde	\$366,809
Water Utility of Greater Tonopah	\$355,895

Q. Please describe Global's income statement adjustment #8 – Reclassify "unmeter" revenue to "metered".

A. Income statement adjustment #8 is a reclassification of revenue between accounts, with no net impact on operating income.

Q. Please describe Global's income statement adjustment #9 – Adjust for depreciation of post-test-year plant additions.

A. Income statement adjustment #9 represents the calculated annual depreciation expense on post-test year capital expenditures discussed in rate case adjustment #1 above. As previously noted, Mr. Fleming's Direct Testimony addresses the post-test year plant, and explains why it should be included in rate base. If the plant is included in rate base, a corresponding adjustment to depreciation expense is appropriate to reflect the additional plant. Additional depreciation expense added by income statement adjustment #9 for each utility is as follows:

Santa Cruz	\$15,345
Palo Verde	\$40,920
Valencia – Town Division	\$33,629
Water Utility of Greater Tonopah	\$ 5,339
Willow Valley	\$ 4,022

1 **Q. Please describe Global's income statement adjustment #10 – Adjustment for Final**
2 **Phase of Rate Phase In.**

3 A. For Global's Palo Verde Utility Company, rates established by the company's last rate
4 case are phased in over a three year period, with the final rates going into effect January
5 1, 2012. Income statement adjustment #10 consists of a \$2,080,277 pro forma
6 adjustment to 2011 revenues to assume that the final phased in rates were in effect during
7 the test year.

8
9 **Q. Please describe Global's income statement adjustment #11 – Adjust Bad Debt**
10 **Expense for Pro Forma Adjustments to Test Year Revenues.**

11 A. Income statement adjustment #11 applies the historical bad debt rates of Global's utilities
12 and calculates bad debt expense that could reasonably be expected based on the pro forma
13 adjustments to test year revenues. The adjustment to bad debt expense for each utility is as
14 follows:

15	Santa Cruz	(\$1,249)
16	Palo Verde	\$ 10,729
17	Valencia – Town Division	(\$ 1)
18	Valencia – Greater Buckeye Division	(\$ 425)
19	Water Utility of Greater Tonopah	(\$ 161)
20	Willow Valley	(\$ 171)
21	Northern Scottsdale	\$ 0

22
23 **Q. Please describe Global's income statement adjustment #12 – Adjust Property Tax**
24 **Expense for Pro Forma Adjustments to Test Year Revenues.**

25 A. Because property taxes paid by Global's utilities are based on the utilities' operating
26 revenues, income statement adjustment #12 adjusts property tax expense of Global's
27 utilities that could reasonably be expected based on the pro forma adjustments to test year

1 revenues. The adjustment to property tax expense due to pro forma adjustments to test
2 year revenues for each utility is as follows:

3	Santa Cruz	\$172,531
4	Palo Verde	\$543,541
5	Valencia – Town Division	\$109,464
6	Valencia – Greater Buckeye Division	(\$7,514)
7	Water Utility of Greater Tonopah	\$3,502
8	Willow Valley	\$11,257
9	Northern Scottsdale	(\$ 590)

10
11 **Q. Please describe Global’s income statement adjustment #13 – Adjust MOU License**
12 **Fee Expense for Pro Forma Adjustments to Test Year Revenues.**

13 **A.** Global’s Santa Cruz and Palo Verde utilities incur license fees pursuant to a long-term
14 Memorandum of Understanding (MOU) with the City of Maricopa, payable to the City.
15 Such fees are calculated based on 2% of utility revenues plus a fee of \$50 per new
16 residential service connection. The 2% of revenues fee was accepted by the Commission
17 as recoverable test year expenses in Global’s last rate case. Because the license fees are
18 derived based on the utilities’ revenues, income statement adjustment #13 adjusts the
19 operating expense of the Santa Cruz and Palo Verde utilities to reflect the increased MOU
20 license fees that are be expected based on the pro forma adjustments to test year revenues.
21 The adjustment to MOU license fee expense due to pro forma adjustments to test year
22 revenues for each utility is as follows:

23	Santa Cruz	(\$4,980)
24	Palo Verde	\$34,989

1 **Q. Please describe Global's income statement adjustment #14 – Adjust Income Tax**
2 **Expense for Pro Forma Adjustments to Test Year Revenues.**

3 **A.** Because income taxes paid by Global's utilities are based on the utilities' pre-tax operating
4 income, income statement adjustment #14 adjusts income tax expense of Global's utilities
5 that could reasonably be expected based on the pro forma adjustments to test year
6 revenues. The adjustment to income tax expense due to pro forma adjustments to test year
7 revenues for each utility is as follows:

8	Santa Cruz	(\$836,406)
9	Palo Verde	(\$508,053)
10	Valencia – Town Division	(\$ 65,115)
11	Valencia – Greater Buckeye Division	(\$ 17,716)
12	Water Utility of Greater Tonopah	(\$186,461)
13	Willow Valley	(\$ 63,583)
14	Northern Scottsdale	(\$ 1,463)

15
16 **Q. Please describe Global's income statement adjustment #15 – Proposed Revenue**
17 **Increase and Adjust Bad Debt Expense for such Rate Increase.**

18 **A.** Income statement adjustment #15 adjusts proposed revenues based on the revenue
19 requirement calculated on Schedule A-1. The adjustment to proposed revenue for each
20 utility is as follows:

21	Santa Cruz	\$2,730,367
22	Palo Verde	\$3,662,560
23	Valencia – Town Division	\$ 823,424
24	Valencia – Greater Buckeye Division	\$ 36,423
25	Water Utility of Greater Tonopah	\$677,458
26	Willow Valley	\$507,537
27	Northern Scottsdale	\$ 0

1 Income statement adjustment #15 also applies the historical bad debt rates of Global's
2 utilities and calculates bad debt expense based on the proposed revenue requirement. The
3 adjustment to bad debt expense for each utility is as follows:

4	Santa Cruz	\$14,071
5	Palo Verde	\$23,174
6	Valencia – Town Division	\$ 5,150
7	Valencia – Greater Buckeye Division	\$ 890
8	Water Utility of Greater Tonopah	\$15,553
9	Willow Valley	\$5,906
10	Northern Scottsdale	\$ 0

11
12 **Q. Please describe Global's income statement adjustment #16 – Adjust MOU License**
13 **Fee Expense based on Proposed Revenue Increase.**

14 **A.** Global's Santa Cruz and Palo Verde utilities incur license fees pursuant to a long-term
15 Memorandum of Understanding (MOU) with the City of Maricopa, payable to the City.
16 Such fees are calculated based on 2% of utility revenues plus a fee of \$50 per new
17 residential service connection. As previously noted, the 2% of revenues fee was accepted
18 by the Commission as part of recoverable test year operating expenses in Global's last rate
19 case. Because the license fees are derived the utilities' revenues, income statement
20 adjustment #16 adjusts operating expense of the Santa Cruz and Palo Verde utilities to
21 reflect the increased MOU license fees that are expected as a result of the proposed
22 increase in revenues. The adjustment to MOU license fee expense for each utility is as
23 follows:

24	Santa Cruz	\$56,099
25	Palo Verde	\$75,577

1 **Q. Please describe Global's income statement adjustment #17 – Adjust Property Tax**
2 **Expense based on Proposed Revenue Increase.**

3 **A.** Because property taxes paid by Global's utilities are based on the utilities' operating
4 revenues, income statement adjustment #17 adjusts property tax expense to levels that can
5 be reasonably expected as a result of the proposed increase in revenues. The adjustment
6 to property tax expense for each utility is as follows:

7	Santa Cruz	\$69,837
8	Palo Verde	\$93,271
9	Valencia – Town Division	\$14,871
10	Valencia – Greater Buckeye Division	\$ 306
11	Water Utility of Greater Tonopah	\$11,580
12	Willow Valley	\$ 8,171
13	Northern Scottsdale	\$ 0

14
15 **Q. Please describe Global's income statement adjustment #18 – Adjust Income Tax**
16 **Expense based on Proposed Revenue Increase.**

17 **A.** Because income taxes paid by Global's utilities were based on the utilities' pre-tax
18 operating income, income statement adjustment #18 adjusts income tax expense to levels
19 that can be reasonably expected as a result of the proposed increase in revenues. The
20 adjustment to income tax expense for each utility is as follows:

21	Santa Cruz	\$1,059,113
22	Palo Verde	\$1,339,589
23	Valencia – Town Division	\$ 310,105
24	Valencia – Greater Buckeye Division	\$ 13,597
25	Water Utility of Greater Tonopah	\$251,018
26	Willow Valley	\$190,449
27	Northern Scottsdale	\$ 0

1 **Q. Please describe Global's income statement adjustment #19 – Adjustment for**
2 **Additional Treatment Costs at Willow Valley.**

3 A. This adjustment relates to additional water treatment costs to be incurred at Global's
4 Willow Valley utility after the test year. This matter is discussed in detail in Mr.
5 Fleming's Direct Testimony.

6
7 **Q. Please describe Santa Cruz's income statement adjustment #21 – Adjustments made**
8 **in 2011 Test Year for pre Test Year billing errors Costs.**

9 A. During the Test Year, through internal exception reporting and analysis Global
10 determined that prior to 2011, Santa Cruz had overbilled a small number of customers.
11 In total, the amount overcharged amounted to \$144,561. The majority of this amount is
12 attributable to two irrigation customers and resulted from applying an incorrect multiplier
13 calculation to the customers' water consumption.

14
15 Once these matters were identified, Global worked with the customers and issued credits
16 to the customers, and also recorded a reduction to revenue in the general ledger. These
17 credits have been purposely excluded from the Bill Count data in the H schedules of the
18 rate application. Accordingly, the amount of the credits has been added back on
19 Schedule C-2 through adjustment # 21 in order to reconcile general ledger revenue to
20 Schedule H-1.

21
22 **Q. Please describe Palo Verde's and Santa Cruz's income statement adjustment #20 –**
23 **Adjustment to eliminate self billing included in Bill Count.**

24 A. Global's Palo Verde and Santa Cruz utilities sell a relatively small amount of water to
25 themselves. Within their billing systems, Palo Verde and Santa Cruz are set up and billed
26 as any other third party customer. For financial reporting purposes, Palo Verde and Santa
27 Cruz reverse ("eliminates") the revenue that it charges itself. The reversal of the self

1 billed revenue is recorded outside of the billing system. In total, Palo Verde billed itself
2 \$5,047 during the Test Year, and the same amount was reversed in the general ledger.
3 The amount for Santa Cruz is \$8,974. Accordingly, the amount of self billed revenue that
4 was reversed in the general ledger is added back on Schedule C-2 through adjustment #
5 20 in order to reconcile to Schedule H-1.
6

7 **IV. Schedules.**

8 **Q. Please describe the schedules you are sponsoring.**

9 A. I am sponsoring all of the Company's schedules, with the exception of the Cost of Capital
10 Schedules (A-3, D-1 to D-4, and H1 to H5), which are sponsored by Mr. Rowell.
11

12 **Q. Please describe the "A" schedules (A-1 to A-5).**

13 A. Schedule A-1 provides an overview of the rate increase. Schedule A-2 provides a
14 Summary of Results of Operations. Schedule A-4 provides Construction Expenditures and
15 Gross Utility Plant in Service. Schedule A-5 provides a summary of changes in financial
16 position.
17

18 **Q. Please describe the rate base schedules (B-1 to B-5).**

19 A. Schedule B-1 provides an overview of the original cost rate base. Schedule B-2 provides
20 details of the pro-forma adjustments to the original cost rate base. Global did not prepare a
21 Reconstruction Cost New (RCN), and accordingly adopts its original cost rate base as its
22 fair value rate base for the purposes of this case. Accordingly, there are no RCN schedules
23 (B-3 and B-4). Schedule B-5 provides the computation of working capital. In this case,
24 Global is not requesting an allowance for working capital.
25
26
27

1 **Q. Please describe the income statement schedules (C-1 to C-3).**

2 A. Schedule C-1 is the adjusted test year income statement. Schedule C-2 shows each pro-
3 forma adjustment to the test year income statement. Schedule C-3 provides the
4 computation of the gross revenue conversion factor.
5

6 **Q. Please describe the Financial and Statistical Schedules (E-1 to E-9).**

7 A. Schedule E-1 provides comparative balance sheets for the test year and the two previous
8 fiscal years. Schedule E-2 provides comparative income statements for the test year and
9 the two previous fiscal years. Schedule E-3 provides the comparative statement of changes
10 in financial position for the test year and the two previous fiscal years. Schedule E-4
11 provides a statement of changes in stockholder's equity for the test year and the two
12 previous fiscal years. Schedule E-5 provides the detail of utility plant for the test year and
13 the two previous fiscal years. Schedule E-6 is not relevant. Schedule E-7 provides certain
14 key operating statistics for the test year and the two previous fiscal years. Schedule E-8
15 provides a schedule showing all significant taxes charged to operations for the test year and
16 the two previous fiscal years. Schedule E-9 provides notes to financial statements.
17

18 **Q. Please describe Projections and Forecasts Schedules (F-1 to F-4).**

19 A. Schedule F-1 provides a schedule showing the income statement for the projected year,
20 compared with actual test year results, at present rates and proposed rates. Schedule F-2
21 provides a schedule showing projected changes in financial position for the projected year
22 as compared with the test year, at present and proposed rates. Schedule F-3 provides a
23 schedule showing the projected annual construction requirements, by property
24 classification, for 1 to 3 years subsequent to the test year compared with the test year.
25 Schedule F-4 provides documentation of the key assumptions used in preparing the
26 forecasts and projections.
27

1 **Q. Please describe the "H" schedules (H-1 to H-5).**

2 A. Schedule H-1 provides a summary of revenues at present and proposed rates. Schedule H-
3 2 provides the Analysis of Revenues by Detailed Class of Service. Schedule H-3 provides
4 the changes in rate schedules. Schedule H-4 provides the typical bill analysis, while
5 Schedule H-5 is the bill count.

6
7 **Q. Does this conclude your direct testimony?**

8 A. Yes.

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