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BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA CORP COMMISSION  
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2 COMMISSIONERS

- 3 BOB STUMP - CHAIRMAN
- 4 GARY PIERCE
- 4 BRENDA BURNS
- 4 BOB BURNS
- 5 SUSAN BITTER SMITH

7 IN THE MATTER OF THE APPLICATION OF  
 8 ARIZONA WATER COMPANY, AN ARIZONA  
 8 CORPORATION, FOR A DETERMINATION  
 9 OF THE FAIR VALUE OF ITS UTILITY  
 9 PLANT AND PROPERTY AND FOR  
 10 ADJUSTMENTS TO ITS RATES AND  
 10 CHARGES FOR UTILITY SERVICE  
 11 FURNISHED BY ITS NORTHERN GROUP  
 11 AND FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-12-0348

**STAFF'S NOTICE OF FILING  
SETTLEMENT AGREEMENT  
TESTIMONY OF STEVEN M. OLEA**

12 The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission"),  
13 hereby files the Settlement Agreement Testimony of Steven M. Olea ("Agreement"), in the above-  
14 referenced matter.

15 RESPECTFULLY SUBMITTED this 26<sup>th</sup> day of April, 2013.

16   
 17 \_\_\_\_\_  
 18 Wesley C. VanCleve  
 18 Charles H. Hains  
 19 Matthew Laudone  
 19 Attorneys, Legal Division  
 20 Arizona Corporation Commission  
 20 1200 West Washington Street  
 21 Phoenix, Arizona 85007  
 21 (602) 542-3402

23 **Original and thirteen (13) copies of**  
24 **the foregoing filed this 26th day of**  
**April, 2013, with:**

25 Docket Control  
26 Arizona Corporation Commission  
26 1200 West Washington Street  
27 Phoenix, Arizona 85007

Arizona Corporation Commission  
**DOCKETED**

**APR 26 2013**

|             |   |
|-------------|---|
| DOCKETED BY |  |
|-------------|---|

1 **Copy of the foregoing mailed this**  
2 **26th day of April, 2013, to:**

3 William M. Garfield, President and  
4 Chief Operating Officer  
5 ARIZONA WATER CO.  
6 P.O. Box 29006  
7 Phoenix, Arizona 85038-9006

8 Steven A. Hirsch  
9 Stanley B. Lutz  
10 BRYAN CAVE, LLP  
11 Two North Central Avenue, Suite 2200  
12 Phoenix, Arizona 85004-4406

13 Daniel W. Pozefsky  
14 Chief Counsel  
15 Residential Utility Consumer Office  
16 1110 W. Washington Street, Suite 220  
17 Phoenix, Arizona 85007

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24  
25  
26  
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Roseann Osorio

**BEFORE THE ARIZONA CORPORATION COMMISSION**

BOB STUMP  
Chairman  
GARY PIERCE  
Commissioner  
BRENDA BURNS  
Commissioner  
BOB BURNS  
Commissioner  
SUSAN BITTER SMITH  
Commissioner

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA WATER COMPANY, AN ARIZONA )  
CORPORATION, FOR A DETERMINATION )  
OF THE FAIR VALUE OF ITS UTILITY PLANT )  
AND PROPERTY AND FOR ADJUSTMENTS )  
TO ITS RATES AND CHARGES FOR UTILITY )  
SERVICE FURNISHED BY ITS NORTHERN )  
GROUP AND FOR CERTAIN RELATED )  
APPROVALS. )  
\_\_\_\_\_ )

DOCKET NO. W-01445A-12-0348

TESTIMONY  
IN SUPPORT OF  
THE SETTLEMENT AGREEMENT  
STEVEN M. OLEA  
DIRECTOR  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

APRIL 26, 2013

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**EXECUTIVE SUMMARY  
ARIZONA WATER COMPANY  
DOCKET NO. W-01445A-12-0348**

Mr. Olea's testimony supports the adoption of the Settlement Agreement ("Agreement") as proposed by the Signatories in this case. This testimony describes the settlement process as open, candid, transparent and inclusive of all Signatories to this case. Mr. Olea explains why Staff believes this Agreement is in the public interest.

Mr. Olea's testimony recommends that the Commission adopt the Agreement as proposed.

1 **SECTION I - INTRODUCTION**

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

3 A. Steven M. Olea, 1200 West Washington, Phoenix, Arizona, 85007.

4  
5 **Q. By whom and in what capacity are you employed?**

6 A. I am employed by the Arizona Corporation Commission (“Commission”) as the Director of  
7 the Utilities Division (“Staff”).

8  
9 **Q. Please state your educational background.**

10 A. I graduated from Arizona State University (“ASU”) in 1976 with a Bachelors Degree in Civil  
11 Engineering. From 1976 to 1978 I obtained 47 graduate hours of credit in Environmental  
12 Engineering at ASU.

13  
14 **Q. Please state your pertinent work experience.**

15 A. From April 1978 to October 1978, I worked for the Engineering Services Section of the  
16 Bureau of Air Quality Control in the Arizona Department of Health Services (“ADHS”). My  
17 responsibilities were to inspect air pollution sources to determine compliance with ADHS  
18 rules and regulations.

19  
20 From November 1978 to July 1982, I was with the Technical Review Unit of the Bureau of  
21 Water Quality Control (“BWQC”) in ADHS (this is now part of the Arizona Department of  
22 Environmental Quality [“ADEQ”]). My responsibilities were to review water and  
23 wastewater construction plans for compliance with ADHS rules, regulations, and  
24 Engineering Bulletins.

25

1 From July 1982 to August 1983, I was with the Central Regional Office, BWQC, ADHS.  
2 My responsibilities were to conduct construction inspections of water and wastewater  
3 facilities to determine compliance with plans approved by the Technical Review Unit. I also  
4 performed routine operation and maintenance inspections to determine compliance with  
5 ADHS rules and regulations, and compliance with United States Environmental Protection  
6 Agency requirements.

7  
8 From August 1983 to August 1986, I was a Utilities Consultant/Water-Wastewater Engineer  
9 with the Division. My responsibilities were to provide engineering analyses of Commission  
10 regulated water and wastewater utilities for rate cases, financing cases, and consumer  
11 complaint cases. I also provided testimony at hearings for those cases.

12  
13 From August 1986 to August 1990, I was the Engineering Supervisor for the Division. My  
14 primary responsibility was to oversee the activities of the Engineering Section, which  
15 included one technician and eight Utilities Consultants. The Utilities Consultants included  
16 one Telecommunications Engineer, three Electrical Engineers, and four Water-Wastewater  
17 Engineers. I also assisted the Chief Engineer and performed some of the same tasks as I did  
18 as a Utilities Consultant.

19  
20 In August 1990, I was promoted to the position of Chief Engineer. My duties were  
21 somewhat the same as when I was the Engineering Supervisor, except that now I was less  
22 involved with the day-to-day supervision of the Engineering Staff and more involved with  
23 the administrative and policy aspects of the Engineering Section.

24

1 In April 2000, I was promoted to the position of one of two Assistant Directors of the  
2 Division. In this position, I assisted the Division Director in the policy aspects of the  
3 Division. I was primarily responsible for matters dealing with water and energy.  
4

5 In August 2009, I was promoted to my present position as Director of the Utilities Division.  
6 In this position, I manage the day-to-day operations of the Utilities Division with the  
7 assistance of the Utilities Division Assistant Directors and oversee the management of the  
8 Division's Telecom & Energy Section, the Financial & Regulatory Analysis Section, the  
9 Consumer Services Section, the Engineering Section, the Compliance Section, and the  
10 Administrative Section. In addition, I am responsible for making policy decisions for the  
11 Division.  
12

13 **Q. What is the purpose of your testimony in this case?**

14 A. The purpose of my testimony is to support the Proposed Settlement Agreement  
15 ("Agreement"). I will also provide testimony which addresses the settlement process,  
16 public interest benefits and general policy considerations.  
17

18 **Q. Did you participate in the negotiations that led to the execution of the Agreement?**

19 A. Yes, I did.  
20

21 **Q. How is your testimony being presented?**

22 A. My testimony is organized into five sections. Section I is this introduction, Section II  
23 provides discussion of the settlement process, Section III discusses the various parts of the  
24 Agreement, Section IV identifies and discusses the reasons why the Agreement is in the  
25 public interest and Section V addresses general policy considerations.  
26

1    **SECTION II – SETTLEMENT PROCESS**

2    **Q.    Please discuss the settlement process.**

3    A.    The settlement process was open, transparent and inclusive. All parties received notice of  
4           the settlement meetings and were accorded an opportunity to raise, discuss, and propose  
5           resolutions to any issue that they desired.

6  
7    **Q.    Who participated in those meetings?**

8    A.    The following parties were participants in some or all of the meetings: Arizona Water  
9           Company (“AWC” or “Company”); the Residential Utility Consumer Office (“RUCO”);  
10          and Staff. No other party intervened in this case.

11  
12   **Q.    Could you identify some of the interests that were involved in this process?**

13   A.    Yes. The diverse interests included Staff, RUCO, and AWC.

14  
15   **Q.    Did all three parties execute the Agreement?**

16   A.    AWC and Staff (“Signatory Parties” or “Signatories”) executed the Agreement. RUCO  
17          chose not to sign the Agreement.

18  
19   **Q.    Was there an opportunity for all issues to be discussed and considered?**

20   A.    Yes, each party had the opportunity to raise issues and have them considered and  
21          discussed.

22  
23   **Q.    Were the Signatories able to resolve all issues?**

24   A.    Yes, the Signatories were able to resolve and reach agreement on all issues.

1 **Q. How would you describe the negotiations?**

2 A. I believe that all participants zealously advocated and represented their interests. I would  
3 characterize the discussions as candid but professional. While acknowledging that not all  
4 participants executed the Agreement, I must re-emphasize that all participants had the  
5 opportunity to be heard and to have their issues and input fairly considered.

6

7 **Q. Would you describe the process as requiring give and take?**

8 A. Yes, I would. As a result of the varied interests represented in the settlement process, a  
9 willingness to compromise was necessary. As evidenced in the Agreement, the  
10 Signatories compromised on what could be described as vastly different litigation  
11 positions.

12

13 **Q. Because of such compromising, do you believe the public interest was compromised?**

14 A. No. As I will discuss later in this testimony, I believe that the compromises made by the  
15 Signatories further the public interest.

16

17 **Q. Mr. Olea, you have indicated that the Agreement incorporates varied interests.  
18 Please discuss how the Agreement addresses the varied interests of these entities.**

19 A. As is typical in a rate case, the varied interests deal with those of AWC (the utility  
20 industry) and the interests of the ratepayers/customers. At first glance these interests may  
21 seem to be opposite of each other, but actually they are quite similar. Both sides of the  
22 issue want the same outcome, i.e., the provision of proper, adequate, safe and reliable  
23 water utility service at a fair and reasonable price. The differences in opinion come about  
24 because the thoughts/ideas on how to achieve this goal are not always the same. I believe  
25 the Agreement provides the means for AWC to carry out its mandate of providing safe,

1 reliable, proper and adequate water service to its customers, while doing so at fair and  
2 reasonable rates.

3  
4 **SECTION III – AGREEMENT**

5 **Q. Mr. Olea can you please describe Section 2 of the Agreement?**

6 A. Section 2 speaks to the revenue requirement, rate base, and income statements. The  
7 revenue increase that would result from the Agreement is \$2,240,329 as opposed to the  
8 increases recommended by each of the Parties listed in Section 1.5 of the Agreement. The  
9 fair value rate base contained in the Agreement is \$36,045,295, which is slightly less than  
10 both AWC's and Staff's original recommendations.

11  
12 **Q. Please describe Section 3 of the Agreement?**

13 A. Section 3 discusses the cost of capital and capital structure. The Agreement calls for a  
14 return on common equity ("ROE") of ten percent (10%), resulting in a weighted average  
15 cost of capital ("WACC") of 8.44 percent. This compares to the following original  
16 recommendations by the Parties:

| <u>Party</u> | <u>ROE</u> | <u>WACC</u> |
|--------------|------------|-------------|
| AWC          | 11.3%      | 9.11%       |
| Staff        | 9.1%       | 7.9%        |
| RUCO         | 8.75%      | 7.81%       |

17  
18  
19  
20  
21  
22 **Q. Please describe Section 4 of the Agreement.**

23 A. This part of the Agreement discusses the rate design. The rate design is Staff's typical  
24 with three tiers. The rate design and the resulting typical bill analyses are contained in the  
25 schedules attached to the Agreement. In addition, the rate design incorporates an assumed  
26 five percent (5%) reduction in water sales due to the tiered rate design for this case.

1 **Q. Please describe Section 5 of the Agreement.**

2 A. Section 5 discusses the rate consolidation for the water systems within the two Divisions  
3 for AWC's Northern Group. The rates for the Lakeside, Pinetop Lakes, Overgaard, and  
4 Forest Towne systems (Navajo Division) have been consolidated and the rates for the  
5 Sedona, Valley Vista, Pinewood, and Rimrock systems (Verde Valley Division) have been  
6 consolidated.

7  
8 **Q. Can you please describe Section 6 of the Agreement?**

9 A. Section 6 describes the Signatory Parties' agreement regarding the System Improvement  
10 Benefits ("SIB") mechanism. The Agreement states that the Signatory Parties agree to the  
11 same SIB mechanism contained in the SIB settlement agreement filed in Docket No.  
12 W-01445A-11-0310. The Plant Table I for the Northern Division has not been completed  
13 in time to file at the time this testimony is due, but will be completed and docketed prior to  
14 the hearing date.

15  
16 **Q. Please describe Section 7 of the Agreement.**

17 A. This part of the Agreement discusses three other issues. First, the Signatory Parties have  
18 agreed to the Off-Site Facilities tariff attached to the Agreement. Second, the Signatory  
19 Parties have agreed to an Arsenic Cost Recovery Mechanism for AWC's Northern Group.  
20 Lastly, AWC may defer those costs not already included in its base rates for implementing  
21 and performing Commission approved water conservation Best Management Practices.

22

23 **SECTION IV – PUBLIC INTEREST**

24 **Q. Mr. Olea, is the Agreement in the public interest?**

25 A. Yes, in Staff's opinion, the Agreement is fair, balanced, and in the public interest.

1 **Q. Would you summarize the reasons that led Staff to conclude that the Agreement is**  
2 **fair, balanced, and in the public interest?**

3 A. As I stated earlier, it allows AWC to provide proper, adequate, safe and reliable water  
4 service at just, fair and reasonable rates. This balances both the interests of AWC's rate  
5 payers and AWC's investors.

6  
7 **Q. Mr. Olea, what was Staff's goal when it agreed to be a Signatory to the Agreement?**

8 A. The primary goal of Staff in this matter, as in all rate proceedings before the Commission,  
9 is to protect the public interest by making recommendations that are just, fair and  
10 reasonable for both the ratepayers and the Company. Staff believes it has accomplished  
11 this objective by reviewing the facts presented and making the appropriate  
12 recommendations to the Commission for its consideration. Staff believes that the  
13 proposed settlement balances the interests of AWC and its ratepayers, by ensuring that the  
14 Company will have the tools and financial health to provide safe, adequate and reliable  
15 service, while complying with Commission requirements at just and reasonable rates.

16

17 **SECTION V – POLICY CONSIDERATIONS**

18 **Q. Mr. Olea, what do you believe were the major policy considerations the Signatories**  
19 **had to deal with in this Docket?**

20 A. The first was whether AWC should have a SIB mechanism approved for its Northern  
21 Group. As with AWC's Eastern Group, Staff believes that AWC's ability to use a SIB  
22 mechanism for its Northern Group will be beneficial to not only the Company, but also to  
23 its customers for all the same reasons outlined by Staff in the AWC's Eastern Group rate  
24 case.

25

1           The second was the allowance for a five percent reduction in water sales due to the  
2           inclining block tiered rate design and the BMP measurers being implemented by the  
3           Company. Staff believes that its proposed rate design along with the Commission  
4           approved BMPs will be effective in reducing overall water use by AWC customers.  
5           Therefore, in order to allow AWC to have the opportunity to earn its approved rate of  
6           return, some type of water use reduction had to be included in the revenue requirement  
7           calculation. Staff believes that the five percent figure is proper and adequate for AWC in  
8           this case.

9  
10       **Q.    Is there anything else you would like to add regarding the Agreement?**

11       A.    I would like to reiterate that the settlement discussions were transparent, candid,  
12           professional and open to all parties in this docket. All Parties were allowed to openly  
13           express their views and opinions on all issues. I believe the Settlement Agreement is in  
14           the public interest.

15  
16       **Q.    Does this conclude your testimony?**

17       A.    Yes.