



BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP  
Chairman

2013 APR -2 P 4:49

GARY PIERCE  
Commissioner

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

BRENDA BURNS  
Commissioner

Arizona Corporation Commission  
**DOCKETED**

SUSAN BITTER SMITH  
Commissioner

APR 02 2013

BOB BURNS  
Commissioner

DOCKETED BY  
*[Signature]*

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN 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 EASTERN GROUP  
AND FOR CERTAIN RELATED  
APPROVALS

DOCKET NO. W-01445A-11-0310

**NOTICE OF FILING  
TESTIMONY IN SUPPORT OF  
SETTLEMENT**

Attached is Testimony in Support of Settlement of Thomas M. Broderick filed on  
behalf of EPCOR Water Arizona, Inc.

RESPECTFULLY SUBMITTED this 2nd day of April, 2013.

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ORIGINAL and thirteen (13) copies  
of the foregoing filed  
this 2nd day of April, 2013, with:

The Arizona Corporation Commission  
Utilities Division – Docket Control  
1200 W. Washington Street  
Phoenix, Arizona 85007

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman

GARY PIERCE

BRENDA BURNS

SUSAN BITTER SMITH

BOB BURNS

IN THE MATTER OF THE APPLICATION  
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FURNISHED BY ITS EASTERN GROUP  
AND FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-11-0310

**DIRECT TESTIMONY  
OF  
THOMAS M. BRODERICK  
ON BEHALF OF  
EPCOR WATER ARIZONA, INC.  
APRIL 2, 2013**

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1 **INTRODUCTION AND QUALIFICATIONS**

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

4 A. My name is Thomas M. Broderick. My business address is 2355 W. Pinnacle Peak Road,  
5 Suite 300, Phoenix, AZ 85027. My business phone is 623-445-2420.

6 **Q. IN WHAT CAPACITY AND BY WHOM ARE YOU EMPLOYED?**

7 A. I am employed by EPCOR Water (USA) Inc. ("EWUS"), the owner of EPCOR Water  
8 Arizona, Inc. ("EWAZ") and Chaparral City Water Company ("CCWC"), as Director,  
9 Rates.

10 **Q. PLEASE DESCRIBE YOUR PRIMARY RESPONSIBILITIES FOR THE**  
11 **COMPANY.**

12 A. I am responsible for water and wastewater rate cases, other regulatory applications and  
13 public utility regulation related activities and tasks.

14 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND**  
15 **EDUCATION.**

16 A. Prior to starting my present position in 2005, for more than 20 years I held various  
17 management positions in the electric-utility industry with responsibilities for regulatory  
18 and government affairs, corporate economics, planning, load forecasting, finance and  
19 budgeting with Arizona Public Service Company, PG&E National Energy Group and  
20 PG&E Energy Services, and the United States Agency for International Development. I  
21 was employed at APS for nearly 14 years as Supervisor, Regulatory Affairs, then  
22 Supervisor, Forecasting, and then Manager, Planning. For PG&E National Energy  
23 Group, I was Director, Western Region-External Relations. For USAID, I was Senior  
24 Energy Advisor to Ukraine.

1 I have a Masters Degree in Economics from the University of Wisconsin – Madison and  
2 a Bachelors Degree in Economics from Arizona State University.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

4 A. Yes, on many occasions.

5 **I PURPOSE OF TESTIMONY**

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

7 A. The purpose of my testimony is to express EWAZ's support for the Settlement  
8 Agreement Regarding Distribution System Improvement Charge ("DSIC") and Other  
9 DISC-Like Proposals docketed April 1, 2013 in Phase 2 of this Arizona Water Company  
10 ("AWC") rate case. EWAZ, a signatory, supports the Agreement for all of the reasons  
11 set forth in the Agreement and asks the Commission to find the Agreement in the public  
12 interest and approve it for implementation for AWC. CCWC, although not a signatory to  
13 the Agreement, also supports the implementation of the SIB mechanism for AWC.  
14 Although EWAZ and CCWC intend to seek a SIB mechanism in their future cases, the  
15 companies recognize and understand the provisions of Section 12 of the Agreement  
16 relating to the scope of the Settlement and its use in future cases.

17 **Q. DID YOU PARTICIPATE IN THE NEGOTIATIONS LEADING TO THE  
18 SETTLEMENT?**

19 A. Yes.

20 **Q. HOW DOES EWAZ SEE THE PUBLIC INTEREST BEING SERVED BY  
21 APPROVAL OF THE SIB MECHANISM?**

22 A. The SIB mechanism is one means of improving the fairness of water regulation. Arizona  
23 is a state which relies upon an historic test year, has a tradition of long rate case  
24 processing timelines, and has ever more conservation oriented water rate designs leading

1 to reduced water usage often in communities that are built out with aged water  
2 infrastructure which all together causes significant regulatory lag. The SIB mechanism  
3 reduces regulatory lag and can increase the likelihood of undertaking earlier, well-paced  
4 and necessary investments to replace water infrastructure to maintain or improve service  
5 to existing customers. The SIB does this by allowing cost recovery in customer rates  
6 sooner and in smaller increments than has been the case in Arizona in the past. Rather,  
7 recent history has seen a parade of large rate increases from Arizona's regulated water  
8 industry. EWAZ believes that a significant percentage of its customer base prefers  
9 gradualism in rates and, therefore, many customers are likely to see the SIB mechanism  
10 as beneficial and in contrast to the rate shock of the past.

11 **Q. HOW DOES EWAZ VIEW THE SIB EFFICIENCY CREDIT?**

12 A. EWAZ views the SIB Efficiency Credit as a major concession in the Agreement. There  
13 were a number of ways to cast an equivalent value of a concession. The Agreement  
14 settled on a SIB Efficiency Credit - an assumed 5% reduction in the amount otherwise  
15 eligible for recovery in the SIB mechanism's revenue requirement. As compared to other  
16 ways to structure this concession, EWAZ views the SIB Efficiency Credit as not only a  
17 revenue concession, but also as a means of incenting efficiency in the future, possibly  
18 leading to cost reduction that might not otherwise occur. EWAZ views this feature as  
19 superior to, say, casting an equivalent concession as a reduction in the return on equity.  
20 That would be a less direct and less understandable method of incenting efficiency.

21 **Q. WHAT IMPRESSED YOU MOST ABOUT THIS AGREEMENT?**

22 A. This is the first time I have seen a large segment of the water industry come together and  
23 speak, for the most part, with one voice throughout the Phase 2 process in support of  
24 another water company, AWC. As compared to other settlement agreements I have  
25 reviewed, this Agreement is more detailed and sets forth a clearer road map for what is to

1           happen throughout the time of AWC's SIB mechanism. That clarity should be useful to  
2           AWC and Staff as the SIB mechanism proceeds through the various upcoming filings and  
3           should be useful later to others that are parties to rate cases in which a SIB mechanism is  
4           under consideration. No doubt this will enable an evolution of the SIB mechanism  
5           through time to the continuing betterment of the public interest.

6   **Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7   **A.    Yes.**