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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- BOB STUMP - CHAIRMAN
- GARY PIERCE
- BRENDA BURNS
- BOB BURNS
- SUSAN BITTER SMITH

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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

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

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

RESPECTFULLY SUBMITTED this 3rd day of May, 2013.



 Wesley C. Van Cleve
 Charles H. Hains
 Matthew Laudone
 Attorneys, Legal Division
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85007
 (602) 542-3402

Original and thirteen (13) copies of the foregoing filed this 3rd day of May, 2013, with:

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

Arizona Corporation Commission
DOCKETED
 MAY 3 2013

DOCKETED BY 

1 **Copy of the foregoing mailed this**
2 **3rd day of May, 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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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
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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

RESPONSIVE TESTIMONY

IN SUPPORT OF

THE SETTLEMENT AGREEMENT

STEVEN M. OLEA

DIRECTOR

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 3, 2013

**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.

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

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

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

3

4 **Q. Are you the same Steven M. Olea that has previously filed testimony in this case?**

5 A. Yes.

6

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

8 A. The purpose of my testimony is to provide the Arizona Corporation Commission
9 (“Commission”) Utilities Division’s (“Staff”) response to the testimony opposing the
10 Proposed Settlement Agreement (“Agreement”) filed by Mr. William A. Rigsby of the
11 Residential Utility Consumer Office (“RUCO”) and support the Agreement.

12

13 **Q. Has the testimony opposing the Agreement filed by RUCO changed your position
14 regarding the Agreement?**

15 A. No, I still believe that the Commission should approve the Agreement as proposed.

16

17 **Q. Mr. Rigsby states that RUCO is opposed to the System Improvement Benefits
18 (“SIB”) mechanism contained in the Agreement. Has Mr. Rigsby provided any new
19 arguments or reasons for RUCO’s opposition?**

20 A. Not in my opinion. RUCO made similar arguments in the Arizona Water Company
21 (“AWC” or “Company”) Eastern Group rate case. As in the AWC Eastern Group case,
22 Staff believes that the SIB mechanism does not shift risk from the Company to the
23 ratepayers without adequate financial consideration. Staff believe there to be no flaws in
24 the SIB. Staff attorneys consider the SIB mechanism to be legal and within the
25 Commission’s authority to approve as proposed. Therefore, the SIB mechanism as
26 proposed is in the public interest.

1 **Q. Does the Agreement contain an adjustment for future declining water use by AWC**
2 **customers?**

3 A. Yes.

4

5 **Q. Has this or a similar adjustment been proposed by water utilities in the past and**
6 **been opposed by Staff?**

7 A. Yes.

8

9 **Q. Why is Staff not opposing it in this case?**

10 A. For many years now Staff has been recommending, and the Commission has been
11 approving, inclining block tiered rates. The purpose of these type rates has been to
12 promote more efficient use of Arizona's limited water resource, particularly groundwater.
13 Staff has continued to recommend this type of rate design because it believes that the
14 inclining block rates cause ratepayers to conserve water, i.e., use it more efficiently. If
15 this is not the case, then the Staff and the Commission have been wasting their time
16 designing these rates and arguing over them. In addition, the Arizona Department of
17 Water Resources ("ADWR") and the Commission have been approving water
18 conservation tariffs as Best Management Practices ("BMPs") that also lead to more
19 efficient use of water. With these two factors in mind, Staff believes that there is a very
20 high likelihood that AWC's customers will in fact use less water than in the test year. If
21 this is not the case, then the Commission approved rate design along with the Commission
22 approved and ADWR sanctioned BMPs will have been approved for naught.

1 **Q. Mr. Rigsby states in his testimony that RUCO believes that if the Commission**
2 **approves the SIB mechanism and the declining water use adjustment, the**
3 **Commission needs to grant AWC a lower return on equity (“ROE”) than that**
4 **contained in the Agreement. Does Staff agree with that recommendation?**

5 A. No.

6
7 **Q. Why does Staff not agree?**

8 A. A primary reason that Staff has disagreed in the past with the SIB type mechanisms that
9 have been recommended by water utilities is that there was no monetary benefit to the
10 ratepayers. All the utilities could seem to come up with was that there would be rate
11 gradualism; smaller rate increases approximately every year as opposed to larger rate
12 increases every few years. While rate gradualism may be a benefit, Staff has advocated
13 for something more than just that. Staff believes that the five percent (5%) efficiency
14 credit provides an additional monetary benefit not included in previous proposals by water
15 utilities. Although reducing the ROE by some amount (which would be quite a
16 contentious issue) might be another way to provide a monetary benefit to ratepayers for
17 the SIB mechanism, Staff believes that the efficiency credit is a more direct way of
18 providing such a benefit. Staff does not believe doing both, i.e., having an efficiency
19 credit and lowering the ROE, is appropriate.

20
21 **Q. How about with regard to the declining water use adjustment?**

22 A. Again, because AWC will not only continue with inclining block rates but will also
23 implement BMPs, the chance of water use per customer remaining the same as in the test
24 year, or much less increasing, is remote. Therefore, Staff does not consider it appropriate
25 to reduce the Company’s ROE due to the declining water use adjustment.

26

1 **Q. Does this conclude your testimony?**

2 A. Yes.