

ORIGINAL



0000146381

BEFORE THE ARIZONA CORPORAT

COMMISSIONERS

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

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

2013 JUL 8 PM 2 41

THE MATTER OF THE APPLICATION OF)
VALENCIA WATER COMPANY -TOWN DIVISION) DOCKET NO. W-01212A-12-0309
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.)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. SW-20445A-12-0310
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)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-03720A-12-0311
WATER UTILITY OF NORTHERN SCOTTSDALE)
FOR APPROVAL OF A RATE INCREASE.)

IN THE MATTER OF APPLICATION OF WATER) DOCKET NO. W-02450A-12-0312
UTILITY OF GREATER TONOPAH 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.)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02451A- 12-0313
VALENCIA WATER COMPANY - GREATER)
BUCKEYE DIVISION 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.)

Arizona Corporation Commission

DOCKETED

JUL 08 2013

DOCKETED BY

LAWRENCE V. ROBERTSON, JR.
ATTORNEY AT LAW
P. O. Box 1448
Tubac, Arizona 85646

LAWRENCE V. ROBERTSON, JR.
ATTORNEY AT LAW
P. O. Box 1448
Tubac, Arizona 85646

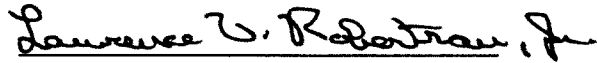
1 IN THE MATTER OF THE APPLICATION OF)
GLOBAL WATER – SANTA CRUZ WATER) DOCKET NO. W-20446A-12-0314
2 COMPANY FOR THE ESTABLISHMENT OF JUST)
AND REASONABLE RATES AND CHARGES FOR)
3 UTILITY SERVICE DESIGNED TO REALIZE A)
REASONABLE RATE OF RETURN ON THE FAIR)
4 VALUE OF ITS PROPERTY THROUGHOUT THE)
STATE OF ARIZONA.)
5)

6 IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01732A-12-0315
7 WILLOW VALLEY WATER COMPANY FOR THE)
ESTABLISHMENT OF JUST AND REASONABLE)
8 RATES AND CHARGES FOR UTILITY SERVICE)
DESIGNED TO REALIZE A REASONABLE RATE)
9 OF RETURN ON THE FAIR VALUE OF ITS)
10 PROPERTY THROUGHOUT THE STATE OF)
ARIZONA.)

11 City of Maricopa hereby provides notice of filing of the prepared Direct Testimony of
12 Paul Jepson in the above-docketed proceeding.

13 Dated this 3rd day of July 2013.

14 Respectfully submitted,

15 

16 Lawrence V. Robertson, Jr.
17 Attorney for City of Maricopa

18 The original and thirteen (13) copies
19 of the foregoing will be filed the 8th
20 day of July 2013 with:

21 Docket Control Division
22 Arizona Corporation Commission
23 1200 West Washington Street
Phoenix, Arizona 85007

24 A copy of the same served by e-mail
25 or first class mail that same date to:

26 All Parties of Record
27
28

Prepared Direct Testimony

Of

Paul Jepson

On Behalf

of

City of Maricopa, Arizona

1
2
3
4
5
6
7 **Q.1 Please state your name, business address and relationship with the City of**
8 **Maricopa.**

9 A.1 My name is Paul Jepson. My relationship with the City of Maricopa ("City") is
10 that of Assistant to the City Manager, and my business address in that capacity is
11 45145 west Madison Avenue, Maricopa, Arizona 85239.

12
13 **Q.2 The City is an intervenor in this proceeding. What occasioned the City's**
14 **intervention?**

15 A.2 The City intervened for two (2) reasons. First, as stated in its February 22, 2013
16 Application for Leave to Intervene, the City was concerned about the significant
17 increase in rates which is being requested by Global Water – Palo Verde Utilities
18 Company ("Palo Verde") and Global Water – Santa Cruz Water Company ("Santa
19 Cruz"). The City's concern in that regard is in terms of the economic impact of
20 the requested increases upon both residents of the City, who are customers of Palo
21 Verde and Santa Cruz, and upon the City itself as a customer of each of those
22 companies.

23 Second, to the extent that any of the requested increase in rates is
24 attributable to Global Water, Inc.'s ("Global") use of funds obtained by Global
25 under Infrastructure Coordination and Finance Agreements ("ICFAs"), the City
26 wanted to be in a position to endeavor to ascertain if Global's use of those funds
27 was consistent with certain criteria set forth in Resolution No. 11-40, which was
28 adopted by the City's Mayor and Council on June 23, 2011. In that resolution, the

1 City expressed support for the use of ICFAs as a means for financing water,
2 wastewater and recycled water infrastructure on a regional basis, subject to such
3 use (i) facilitating and resulting in appropriately priced rates and charges for water,
4 wastewater and recycled water services, (ii) compliance with certain criteria or
5 “pathways” governing the use of those funds and (iii) consistency with any
6 applicable rules and regulations of the Commission.
7

8 **Q.3 In the 2009 rate case proceeding which involved Palo Verde and Santa Cruz,**
9 **the City opposed Global’s requested ratemaking recognition for funds Global**
10 **had previously obtained under ICFAs, is that correct?**

11 A.3 Yes.

12
13 **Q.4 What circumstances led the City to adopt Resolution No. 11-40 thereafter?**

14 A.4 When the City intervened in the 2009 rate case proceeding, it knew very little
15 about either the nature of ICFAs as a means of funding or Global’s use of funds
16 obtained thereunder. However, it was the City’s understanding that a large
17 percentage of the increase in rates then being requested for Palo Verde and Santa
18 Cruz was attributable to Global’s requested ratemaking recognition of funds it had
19 obtained under ICFAs. Thus, like the Commission’s Staff and the Residential
20 Utility Consumers Office (“RUCO”), the City adopted a litigation position
21 opposing any ratemaking recognition of funds obtained by Global water under
22 ICFAs which would result in an increase in rates to customers served by Palo
23 Verde and Santa Cruz.

24 Subsequent to the Commission’s issuance of Decision No. 71878 on
25 September 14, 2010 in the 2009 rate case proceeding, the City had time to further
26 inform itself with respect to the nature of ICFAs as a means for facilitating
27 appropriately priced and sustainable water, wastewater and recycled water
28 services. For a region or area which has been and is likely to continue to be

1 subject to rapid and large scale residential and commercial growth, an
2 infrastructure facilitation means of this nature can be an important planning tool.
3 The City is precisely such an area, having grown from a population of 4,281 in
4 2003, when the City was incorporated, to a population of approximately 44,946 in
5 July 2012.

6 In addition, during this period of rapid growth for the City, Global had
7 enabled Palo Verde and Santa Cruz to be in a position to meet the ongoing and
8 ever-increasing needs of residents of the City, and the City itself, for water,
9 wastewater and recycled water service.

10 Thus, against this background, on June 23, 2011 the City's Mayor and
11 Council adopted two (2) resolutions and a related First Amended and Restated
12 Memorandum of Understanding ("Amended MOU") between the City and Global.
13 Resolution No. 11-40 was one of those resolutions, and the other one was
14 Resolution No. 11-39.

15
16 **Q.5 Please discuss Resolution No. 11-39 as the same pertains to the subject of**
17 **ICFAs.**

18 **A.5** This resolution does not specifically refer to the subject of ICFAs. However,
19 Resolution No. 11-39 acknowledges (i) the intent of the City to attract, facilitate
20 and manage further growth in accordance with its obligations under Arizona's
21 Growing Smarter and Growing Smarter Plus legislation, and (ii) the City's
22 conclusion that significant consultation and cooperation with Global would assist
23 the City in discharging that obligation. In addition, it expresses the belief that the
24 best interest of the City can be facilitated by entering into the Amended MOU, in
25 order

26 ". . . to maintain appropriately priced, high-quality water and
27 wastewater services . . . and to address the unique challenges in
28 meeting the community's current and future water resource needs
while attracting economic development of the area." [emphasis
added]

1
2 Accordingly, Resolution No. 11-39 authorized and instructed the City's Mayor to
3 execute the Amended MOU with Global.

4
5 **Q.6 Please discuss Resolution No. 11-40.**

6 A.6 As previously indicated, Resolution No. 11-40 specifically addresses the subject of
7 ICFAs. There are several aspects of this resolution which warrant comment.

8 First, and similar to Resolution No. 11-39, there is a recognition of Global's
9 role as a "strategic partner" in connection with the provision of water, wastewater
10 and recycled water services to meet the needs of the City and its residents. In that
11 regard, an anticipated benefit from this relationship is the previously mentioned
12 "appropriately priced" services of the aforementioned nature.

13 Second, there is the expression of a belief held by both the City and Global

14 ". . . that ICFAs, when certain pathways are followed, [can] foster
15 consolidation of troubled water companies, enable better regional
16 water planning, and provide a level of protection to rate-paying
17 customers from the costs of acquisition and infrastructure carrying
18 costs . . ." [emphasis added]

19 Further, there is a recognition that ICFAs, when used in connection "with
20 certain pathways," can facilitate the concept of Total Water Management
21 ("TWM") practices.

22 Against this background of recitals, Resolution No. 11-40 provides that

23 ". . . subject to the approval of the Arizona Corporation Commission,
24 which has ratemaking authority over the ultimate ratemaking
25 treatment of ICFAs, the City generally supports the use of ICFAs,
26 when certain pathways are followed as one of the methods . . . [for]
27 expanding regional utility infrastructure within the City of Maricopa
28 conditioned on the [use of] ICFAs following certain pathways."
[emphasis added]

In addition, the resolution expresses the belief of the City that the use of
ICFAs is appropriate

". . . conditioned on certain pathways being followed and as long as

1 the ICFAs are used consistent with this Resolution and the rules and
2 regulations that may be imposed by the Arizona Corporation
3 Commission.” [emphasis added]

4 **Q.7 In what manner is the Amended MOU relevant to Resolution Nos. 11-39 and**
5 **11-40?**

6 A.7 The Amended MOU is the document that Resolution No. 11-39 authorized and
7 directed the Mayor to execute on behalf of the City. Section 4 of the Amended
8 MOU addresses the subject of TWM. It reflects the agreement of the City and
9 Global

10 “. . . that the use of Infrastructure Coordination and Financing
11 Agreements (“ICFAs”), when certain pathways are followed and in
12 accordance with rules and regulations promulgated by the ACC, is a
13 preferred methodology for the financing of costs related to TWM.”
[emphasis added]

14 **Q.8 Does this mean that the City now supports the use of ICFAs by Global as a**
15 **means for facilitating the construction of water, wastewater and recycled**
16 **water infrastructure within the certificated service areas of Palo Verde and**
17 **Santa Cruz?**

18 A.8 Yes, provided the criteria set forth in Resolution Nos. 11-39 and 11-40 and the
19 Amended MOU are satisfied.

20
21 **Q.9 Please be more specific.**

22 A.9 First, Global’s use of ICFAs and funds obtained by it under ICFAs must be in
23 compliance with the “certain pathways” referred to in Resolution No. 11-40 and
24 the Amended MOU.

25 Second, and assuming for discussion purposes that Global has complied
26 with the “certain pathways,” Global’s use of ICFA funds and any ratemaking
27 recognition of such use requested by Global must be in accordance with any
28 applicable rules and regulations promulgated by the Commission.

1 Finally, as a further condition to the City's support for the use of ICFA
2 and ICFA funds by Global, such use must result in "appropriately priced" rates for
3 the services provided to residents of the City, and the City itself, by Palo Verde
4 and Santa Cruz. Any other result is simply not in the "public interest" from the
5 perspective of the City.

6
7 **Q.10 What are the "certain pathways" to which you have made reference in your**
8 **preceding answers?**

9 A.10 They are expressly set forth in Resolution No. 11-40, and are as follows:

- 10 "a. ICFA funds, reduced by normal tax effects, used to construct
11 infrastructure shall be treated as contributions in aid of construction
12 (CIAC) in accordance with normal industry practices.
- 13 b. Carrying costs associated with regional infrastructure used for Total
14 Water Management and paid for by ICFA funds shall not be an
15 allowable cost to be passed on to the rate-payers. However, ICFA
16 funds used for these purposes shall not be treated or imputed as CIAC.
- 17 c. Costs associated with the purchase of undercapitalized utilities paid for
18 from ICFA revenue shall not be an allowable cost to be passed on to
19 the rate-payers . However, ICFA funds used for these purposes shall
20 not be treated or imputed as CIAC.
- 21 d. If ICFA funds are used in connection with acquisitions, all of the
22 following shall apply:
- 23 i. Use of developer funds to acquire utilities shall preclude
24 Global and any other utility from seeking a regulatory
25 "acquisition adjustment" that increases their regulated rate base
26 to the extent of such use of developer funds.
- 27 ii. The acquisition must be part of a regional plan of consolidation
28 and conservation.
- iii. Developer(s) shall not exercise permanent control over the
utility system, management, or planning as a result of the
implementation of the ICFA."

1 **Q.11 In connection with the ratemaking recognition of Global's use of ICFAs and**
2 **ICFA funds which Global is requesting in this proceeding, has Global**
3 **complied with these "certain pathways"?**

4 A.11 As of this juncture in the proceedings, the City does not know if Global has
5 complied with these "certain pathways," which as previously noted are a condition
6 precedent to the City's support of Global's use of ICFAs and ICFA funds. The
7 City has conducted some discovery in that regard, and may conduct further
8 discovery prior to the commencement of the evidentiary hearings in this case.
9 Also, the City intends to cross-examine the appropriate witness(es) of Global and
10 other parties on this subject. Hopefully, by the end of the hearings, the City will
11 be in a position to conclude whether or not the City believes that Global in fact has
12 complied with these "certain pathways," as relevant to this case, and what the
13 position of the City is with respect to Global's requested ratemaking recognition of
14 its use of ICFAs and ICFA funds.

15
16 **Q.12 Who has the burden of demonstrating such compliance?**

17 A.12 The City's attorneys have advised the City that the burden of proof is for Global to
18 satisfy.

19
20 **Q.13 Let's discuss the second criterion set forth in Resolution No. 11-40. Has the**
21 **Commission promulgated specific rules and regulations governing how**
22 **Global Should use ICFAs and ICFA funds?**

23 A.13 Not to my knowledge, other than in Decision No. 71878 in the 2009 rate case,
24 when the Commission specified the ratemaking treatment to be accorded ICFA
25 funds obtained and used by Global up to that point in time.

26
27 **Q.14 What then is the relevance of this criterion within the context of Resolution**
28 **No. 11-40 and the Amended MOU?**

1 A.14 The relevance is that the City's support for the use of ICFAs and ICFA funds for
2 the indicated purposes is contingent upon satisfying (i) the "certain pathways"
3 criterion, (ii) the compliance with Commission rules and regulations criterion, and
4 (iii) the "appropriately priced" resulting rates criterion. In this instance, even if
5 Global complied with the "certain pathways," but its use of ICFAs and ICFA
6 funds was found to not be in accordance with the Commission's rules and
7 regulations, then Global would not have the support of the City under those
8 circumstances.

9
10 **Q.15 Finally, what about the "appropriately priced" rates criterion, as contained in**
11 **Resolution No. 11-40?**

12 A.15 Simply stated, the City could not, and does not, support any use of ICFAs and
13 ICFA funds by Global that would result in "inappropriately priced" rates or rates
14 that were too high for services provided by Palo Verde and Santa Cruz to residents
15 of the City and to the City itself.

16
17 **Q.16 By way of summary then, is it the position of the City that in order to qualify**
18 **for the City's support for ratemaking purposes, Global's use of ICFAs and**
19 **fees collected thereunder must satisfy each and all of the three (3) criteria**
20 **contained within Resolution No. 11-40, as you have described them in this**
21 **testimony?**

22 A.16 Yes, that's correct.

23
24 **Q.17 Is that the position of the City with respect to reach of Global's utility**
25 **affiliates which is an applicant in this proceeding, or only Global's Palo Verde**
26 **and Santa Cruz systems?**

27 A.17 My testimony is not intended to address ratemaking matters which are related to
28 Global's other utility affiliate systems, which do not serve residents of the City or

1 the City, and which are not located within the municipal boundaries of the City.
2 Resolution No. 11-40 has no relevance to those other systems and Global's
3 activities within those other areas.
4

5 **Q.18 Does the City believe that the rate increases which Global has requested in**
6 **this case for its Palo Verde and Santa Cruz systems are too high?**

7 A.18 Yes.
8

9 **Q.19 Does the City know as of this juncture whether that excessiveness is a result**
10 **of Global's use of ICFAs and ICFA funds, or is a result of other rate case**
11 **issue areas, such as the requested (i) rate base, (ii) cost of capital, (iii)**
12 **operating and maintenance expenses and/or (iv) other issues in this rate case**
13 **which can affect the revenue requirement determination?**

14 A.19 Not as yet. Given the City's limited rate case technical expertise and resources,
15 we are hopeful that we will be able to gain insight and assistance in that regard
16 from the resources and expertise of the Commission's Staff, RUCO and other
17 parties in the prepared Direct Testimony they will be filing at the same time this
18 testimony is filed. Against the background of that testimony, and Global's
19 subsequent prepared Rebuttal Testimony, the City hopes to be in a position to
20 more fully address these issue areas in its prepared Surrebuttal Testimony. In
21 addition, the City is conducting discovery, as are other parties, and the City
22 anticipates that the responses to such discovery may assist and inform the City
23 incident to its reaching final position(s) on various issues which effect Global's
24 revenue requirement and related rates and charges for service.
25

26 **Q.20 Section 4 of the Amended MOU provides that Global will request of the**
27 **Commission a phase-in of any rate increase(s) that the Commission might**
28 **grant during the 10-year period following execution of the Amended MOU,**

1 with an “Annual Limit” on the order of 5% as to the amount of the rate
2 increase that incrementally may be implemented each year. Doesn’t that
3 provision address the City’s concern about excessive or “inappropriately
4 priced” increases in rates?

5 A.20 No, it does not, for two (2) reasons. First, Global and the City are not in a position
6 to tell the Commission how to set rates; and, the Commission is thus not obligated
7 to accept any phase-in of a rate increase that Global might request pursuant to the
8 Amended MOU. Second, if the amount of increase granted is too high to begin
9 with, the phasing-in provision simply means that Palo Verde and Santa Cruz
10 ratepayers quite possibly would be subjected to successive annual rate increases
11 each year until Global’s next rate case a few years from now. But, in no manner
12 would such phasing-in address the problem of an aggregate rate increase that was
13 too high to begin with. From the City’s perspective, that is not an acceptable
14 outcome.

15
16 **Q.21 The November 20, 2012 Rate Case Procedural Order issued in this**
17 **proceeding contemplates the possibility of settlement discussions among the**
18 **parties. Is the City willing to participate in settlement discussions?**

19 A.21 Yes. We believe such discussions would be constructive, and potentially cost-
20 saving for all concerned.

21
22 **Q.22 Does that complete your Direct Testimony on behalf of the City?**

23 A.22 Yes, it does.
24
25
26
27
28