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BEFORE THE ARIZONA CORPORATIO
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COMMISSIONERS

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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
VALENCIA WATER COMPANY – TOWN 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

DOCKET NO. W-01212A-12-0309

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

IN THE MATTER OF THE APPLICATION OF WATER
UTILITY OF NORTHERN SCOTTSDALE, INC. FOR A
RATE INCREASE

DOCKET NOS. W-03720A-12-0311

IN THE MATTER OF THE APPLICATION OF
WATER 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

DOCKET NO. W-02450A-12-0312

IN THE MATTER OF THE APPLICATION OF
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

DOCKET NO. W-02451A-12-0313

Arizona Corporation Commission
DOCKETED

AUG 21 2013

DOCKETED BY NR

1 IN THE MATTER OF THE APPLICATION OF
2 GLOBAL WATER – SANTA CRUZ WATER COMPANY
3 FOR THE ESTABLISHMENT OF JUST AND
4 REASONABLE RATES AND CHARGES FOR UTILITY
5 SERVICE DESIGNED TO REALIZE A REASONABLE
6 RATE OF RETURN ON THE FAIR VALUE OF ITS
7 PROPERTY THROUGHOUT THE STATE OF ARIZONA

DOCKET NO. W-20446A-12-0314

5 IN THE MATTER OF THE APPLICATION OF
6 WILLOW VALLEY WATER COMPANY FOR THE
7 ESTABLISHMENT OF JUST AND REASONABLE
8 RATES AND CHARGES FOR UTILITY SERVICE
9 DESIGNED TO REALIZE A REASONABLE RATE OF
10 RETURN ON THE FAIR VALUE OF ITS PROPERTY
11 THROUGHOUT THE STATE OF ARIZONA

DOCKET NO. W-1732A-12-0315

NOTICE OF FILING

9
10 The Residential Utility Consumer Office (“RUCO”) hereby provides notice of filing the
11 Direct Testimony of Patrick J. Quinn in support of the Settlement Agreement, in the above-
12 referenced matter.

13 RESPECTFULLY SUBMITTED this 21st day of August, 2013.

14
15 
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17 Counsel

18 AN ORIGINAL AND THIRTEEN
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20 21st day of August, 2013 with:

21 Docket Control
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24 Phoenix, AZ 85007

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By Cheryl Traulob
Cheryl Traulob

GLOBAL WATER UTILITIES
DOCKET NO. W-01212A-12-0309 et al.

DIRECT TESTIMONY
OF
PATRICK J. QUINN
IN
SUPPORT OF THE SETTLEMENT AGREEMENT

AUGUST 21, 2013

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EXECUTIVE SUMMARY

1
2 The Arizona Residential Utility Consumer Office (“RUCO”) presents the
3 direct testimony of RUCO Director Patrick J. Quinn in support of the
4 Proposed Settlement Agreement of the Global Water Utilities Rate Cases
5 that resolves all issues in the various related dockets with the exception of
6 a SIB for Willow. Mr. Quinn recommends that the Arizona Corporation
7 Commission adopt the Proposed Settlement Agreement for the following
8 reasons:

9
10 The Proposed Settlement Agreement reflects an outcome that is fair to
11 both the consumer and Global Water Utilities and is in the public interest.

12
13 The Proposed Settlement Agreement is a comprehensive settlement
14 agreement. Its terms settle a wide range of issues that were of significant
15 interest to several of the interveners with the exception of the one issue:
16 the DSIC for Willow Valley. The parties will be filing testimony on the
17 issue, separately.

18
19 RUCO supports the Proposed Settlement Agreement in its entirety
20 because it contains numerous benefits to the consumer which will be
21 discussed in Mr. Quinn’s testimony.

22
23 The Proposed Settlement Agreement resolved several areas of
24 importance to RUCO in the underlying rate cases. This resolution of all
25 issues included Infrastructure Coordination and Financing Agreements,
26 the amount of revenue increase authorized for Global, the affect of the
27 increase on consumers’ rates and requiring the Company to not file
28 another rate case until at least May 31, 2016. All of these issues were
29 addressed satisfactorily in the Proposed Settlement Agreement and will be
30 explained more fully in Mr. Quinn’s testimony.
31

1 **INTRODUCTION**

2 **Q. Please state your name, occupation and business address for the**
3 **record.**

4 A. My name is Patrick J. Quinn. I am the Director of the Arizona Residential
5 Utility Consumer Office ("RUCO"). My business address is 1110 W.
6 Washington Street, Suite 220, Phoenix, Arizona 85007.

7
8 **Q. Please state your educational background and qualifications in the**
9 **utility regulation field.**

10 A. I have a BS in Mathematics and a MBA from the University of South
11 Dakota. Additionally, I have 35 plus years of experience in the
12 Telecommunications Industry and the Consulting business dealing with
13 utility regulation. I have testified over 50 times before state and federal
14 regulatory commissions on issues including finance, economics, pricing,
15 policy and other related areas.

16
17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to explain RUCO's support of Global
19 Water Utilities ("Global") Proposed Settlement Agreement ("Agreement").

20
21 ...

22 ...

23 ...

1 **Q. Have you participated in other settlement negotiations?**

2 A. Yes. I have participated in settlement negotiations in other matters that
3 have come before the Arizona Corporation Commission ("ACC" or
4 "Commission") both from the utility and consumer side. The majority of
5 these negotiations have resulted in reaching an accord with the utility and
6 the other settling parties, leading to the signing and supporting of a
7 settlement agreement. On the other hand, I have walked away from
8 settlement talks when negotiations produced a result I could not support. I
9 have been involved in several recent negotiations where I represented
10 RUCO. Some have resulted in settlements and others did not settle
11 because RUCO found that they were not in the best interest of residential
12 ratepayers. RUCO does not enter into settlements lightly. RUCO will not
13 agree to settle simply as a means of avoiding litigation. However, in this
14 matter, negotiations did produce reasonable and fair terms that RUCO can
15 and does support.

16

17 **THE SETTLEMENT PROCESS**

18 **Q. Was the negotiation process that resulted in the Settlement**
19 **Agreement a proper and fair process?**

20 A. Yes. The Agreement is the result of numerous hours of negotiation and a
21 willingness among the parties to compromise. The negotiations were
22 conducted in a fair and reasonable way that allowed each party the
23 opportunity to participate. All intervenors had an opportunity to participate

1 in every step of the negotiation. Notice for each scheduled meeting was
2 sent to all parties electronically. Persons were able to participate via
3 teleconference, if necessary.

4
5 By RUCO's count, at least 10 parties participated in the Agreement.
6 These participants represent a wide range of interests including Home
7 Owners Associations, the city of Maricopa, developers, Commission Staff
8 ("Staff") and RUCO.

9
10 **Q. Did all the parties sign the Agreement?**

11 A. No. At the very end, six parties chose to sign the Agreement. The parties
12 that did not sign have the opportunity to file testimony to explain their
13 reasons for not signing the Agreement.

14
15 **Q. Why is a negotiated settlement process an appropriate way to
16 resolve this matter?**

17 A. By its very nature, a settlement finds middle ground that the parties can
18 support. All the parties that participated in the settlement talks were
19 sophisticated parties who were well seasoned in the ACC's regulatory
20 processes and veterans of the negotiating table. The fact that six parties
21 representing such varied interests were able to come together to reach
22 consensus illustrates the balance, moderation and compromise of the
23 document.

1 Settlement negotiations began only after each party had the opportunity to
2 analyze Global's Application, file its direct testimony and read the direct
3 testimony of other Intervenors. Of course, the Agreement in no way
4 eliminates the ACC's constitutional right and duty to review this matter and
5 to make its own determination whether the Agreement is truly balanced
6 and the rates are just and reasonable.

7
8 **SUMMARY OF TESTIMONY**

9 **Q. Please summarize your testimony.**

10 **A.** The Agreement reflects an outcome that is fair to both the consumer and
11 Global and is in the public interest. Furthermore, this is a comprehensive
12 agreement. Its terms settle a wide range of issues that were of significant
13 interest to several of the intervenors.

14
15 RUCO supports the Agreement in its entirety because it contains
16 numerous benefits to the consumer. I will list those benefits later. There
17 were four areas of importance that needed to be resolved in the
18 Agreement before RUCO could become a signatory. They were the
19 resolution of all issues relating to Infrastructure Coordination and
20 Financing Agreements ("ICFAs"), the amount of revenue increase that
21 Global was granted, the impact on residential rates and the rate design
22 which includes both a phase in and a stay out provision. Some of these
23 issues are very complex and contain many moving parts. All of these

1 were addressed satisfactorily in the Agreement and will be explained later
2 in my testimony. During the resolution of those issues, Global also agreed
3 to not file another rate case before May 31, 2016. That date could change
4 to 2017 if the city of Maricopa signs the agreement.

5
6 **SETTLEMENT PROVISIONS**

7 **Q. In summary, what are the benefits to the residential consumer?**

8 A. The benefits to the residential consumer are as follows:

- 9 • No increase in residential rates for the first year
10 • Rate increases for authorized expenses phased in over three years
11 with no increase in the first year
12 • Rate increases for resolution of ICFAs phased in over eight years with
13 no increase in the first year
14 • Revenue requirement that was less than 50 percent of what the
15 Company requested
16 • Resolution to all issues concerning ICFAs
17 • Stay out provision until at least May 31, 2016 for filing a rate case
18 • Future investment must be funded with debt, equity, hookup fees and
19 main extension agreements
20 • Code of Conduct to be developed to define how certain transactions
21 between Global and other entities would operate in the future
22

1 **PUBLIC INTEREST**

2 **Q. How is the public interest satisfied by the Agreement?**

3 A. At the most fundamental level, the Agreement satisfies the public interest
4 from RUCO's perspective in that it provides favorable terms and
5 protections for residential consumers as defined above. The Agreement
6 also satisfies the public interest by providing a fair and balanced approach
7 to addressing the Company's concerns on financial and operating issues.

8

9 **FOUR AREAS OF IMPORTANCE**

10 **Q. You mentioned four areas of importance that are critical for RUCO to**
11 **sign on to the Agreement. Would you like to address them?**

12 A. Yes. One major area of concern was resolution of all issues concerning
13 ICFA's. ICFA's are a very complex way for the Company to finance capital
14 expenditures. Basically developers sign a contract with the Company's
15 parent to give them cash up front to insure that when they start building
16 their homes the necessary facilities will be in place. It was essential to
17 RUCO in resolving this case to settle all issues concerning ICFA's Section
18 VI of the Settlement explains in detail the various resolutions to the many
19 ICFA issues. In the end RUCO was very satisfied with the results of the
20 Settlement on this issue.

21

22

1 **Q. Another concern is the issue on the amount of revenue increase**
2 **authorized for the Company. Please explain this issue.**

3 A. One of the major issues in a rate case is how much is the Company going
4 to be allowed to increase their revenues. The rate increases to
5 consumers is affected directly by the increase in revenues. During the
6 negotiation process the Company and intervenors made adjustments to
7 the authorized rate of return, revenues, operating expenses and rate base.
8 In this case the results of these negotiated adjustments ended up reducing
9 the original request of the Company by almost 50 percent. This translated
10 into significantly smaller rate increases.

11
12 **Q. Another concern is the issue on the amount of increase to residential**
13 **rates. Please explain this issue.**

14 A. Yes. One of RUCO's main priorities is to analyze monthly rate increases
15 to determine if the increases are in the best interest of the residential
16 ratepayer. Through the negotiation process in this settlement there will be
17 no first year increases on residential consumers' rates. Any rate increase
18 for authorized expenses will be phased in over three years with no
19 increase in the first year. Additionally, any rate increase associated with
20 the resolution of the ICFA's will be phased in over eight years with no
21 increase in the first year. The phase in of both of these increases for
22 residential consumers will allow for gradual increases and time to plan for
23 the future increases.

1 **Q. Additionally there is always a concern on how soon a company can**
2 **come back in and file a new rate case. Please explain this issue.**

3 A. This is usually referred to as a stay out provision that prevents a company
4 from filing a rate case before a certain date. So as part of these rate
5 cases, a stay out until May 31, 2016 was negotiated and agreed to by the
6 Company. The year may change to 2017 for Santa Cruz and Palo Verde
7 systems, if the City of Maricopa votes to sign on to the Settlement.

8
9 **Q. Regarding these four areas were there any that were more critical to**
10 **RUCO's becoming a signatory?**

11 A. Yes. The ICFA issues and the increase on residential consumers rates
12 needed to be resolved before RUCO could sign on and they were in the
13 Agreement.

14
15 **Q. Does this conclude your testimony on the Agreement?**

16 A. Yes it does.