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BEFORE THE ARIZONA CORPORATION

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COMMISSIONERS

- BOB STUMP - Chairman
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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 APPROVAL OF A RATE INCREASE.

DOCKET NO. W-03720A-12-0311

IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH, INC. 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

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

DOCKET NO. W-20446A-12-0314

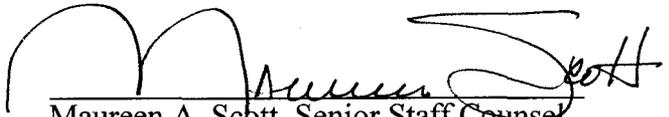
6 IN THE MATTER OF THE APPLICATION OF  
7 WILLOW VALLEY WATER COMPANY FOR THE  
8 ESTABLISHMENT OF JUST AND REASONABLE  
9 RATES AND CHARGES FOR UTILITY SERVICE  
10 DESIGNED TO REALIZE A REASONABLE RATE  
11 OF RETURN ON THE FAIR VALUE OF ITS  
12 PROPERTY THROUGHOUT THE STATE OF  
13 ARIZONA.

DOCKET NO. W-01732A-12-0315

**STAFF'S NOTICE OF FILING  
TESTIMONY IN SUPPORT OF  
SETTLEMENT AGREEMENT**

10  
11 Staff of the Arizona Corporation Commission ("Staff") hereby files the Testimony of Steven  
12 M. Olea in Support of the Settlement Agreement in the above docket.

13 RESPECTFULLY SUBMITTED this 21<sup>st</sup> day of August, 2013.

14  
15 

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17 Wesley C. Van Cleve, Attorney  
18 Brian E. Smith, Attorney  
19 Legal Division  
20 Arizona Corporation Commission  
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23 (602) 542-3402

23 Original and thirteen (13) copies  
24 of the foregoing filed this 21<sup>st</sup> day  
25 of August, 2013, with:

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

1 Copy of the foregoing mailed this  
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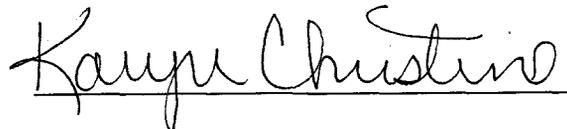
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
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 FOR APPROVAL OF A RATE )  
INCREASE )

DOCKET NO. SW-20445A- 12-0311

IN THE MATTER OF THE APPLICATION OF )  
WATER UTILITY OF GREATER TONOPAH, )  
INC. 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- 12-0312

IN THE MATTER OF THE APPLICATION OF )  
VALENCIA WATER COMPANY - GREATER )  
BUCKEYE DIVISION FOR THE ESTABLISH- )  
MENT 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- 12-0313

IN THE MATTER OF THE APPLICATION OF )  
GLOBAL WATER-SANTA CRUZ WATER )  
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- 12-0314

IN THE MATTER OF THE APPLICATION OF )  
WILLOW VALLEY WATER CO., INC. 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- 12-0315

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

AUGUST 21, 2013

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**EXECUTIVE SUMMARY**  
**GLOBAL WATER & WASTEWATER UTILITIES**  
**DOCKET NO. W-01212A-12-0309, ET. AL.**

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 parties 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.

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

7  
8 From August 1983 to August 1986 I was a Utilities Consultant/Water-Wastewater Engineer  
9 with the Utilities Division. My responsibilities were to provide engineering analyses of  
10 Commission regulated water and wastewater utilities for rate cases, financing cases, and  
11 consumer 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 somewhat  
21 the same as when I was the Engineering Supervisor, except that now I was less involved with  
22 the day-to-day supervision of the Engineering Staff and more involved with the  
23 administrative and policy aspects of the Engineering Section.

1 In April 2000 I was promoted to the position of one of two Assistant Directors of the Utilities  
2 Division. In this position I assisted the Division Director in the policy aspects of the Utilities  
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 two Utilities Division Assistant Directors and oversee the management of  
8 the Utilities Division's Telecom & Energy Section, the Financial & Regulatory Analysis  
9 Section, the Consumer Services Section, the Engineering Section, the Compliance Section  
10 and the Administrative Section. In addition, I am responsible for making policy decisions for  
11 the Utilities Division.

12  
13 In early 2010 I was given the task of being the Interim Director for the Commission's Safety  
14 Division (Railroad and Pipeline). The day-to-day activities of the Safety Division were  
15 overseen by the managers of the Railroad Safety Section and the Pipeline Safety Section with  
16 input from me. Together with the Commission's Executive Director, I was responsible for  
17 the policy decisions for the Safety Division up until a permanent Safety Division Director  
18 was hired late in 2012.

19  
20 **Q. What is the purpose of your testimony in this case?**

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

24  
25  
26

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

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

6  
7 **Q. Will there be other Staff witnesses providing testimony in this case?**

8 A. Mr. Jian Liu will be filing testimony later in this process to provide Staff's  
9 recommendations regarding the System Improvement Benefit ("SIB") mechanism, i.e., the  
10 Distribution System Improvement Charge ("DSIC") type mechanism that is being  
11 requested by the Willow Valley Water Company ("Willow Water"). In addition, all  
12 Utilities Division Staff ("Staff") witnesses that filed Direct Testimony prior to the  
13 Agreement will be available if the Commission has questions for them.

14  
15 **Q. Why is Mr. Liu not providing his SIB testimony at this time?**

16 A. As part of the Agreement, Staff and Willow agreed that Willow would try to timely  
17 submit all the information required to have a SIB mechanism approved for Willow. Staff  
18 committed to do its best to review all the information provided so it can submit its  
19 recommendations to the Commission prior to the hearing in this case. However, if Willow  
20 does not provide Staff the necessary SIB information in a timely fashion, Staff will most  
21 likely recommend that a SIB mechanism not be approved for Willow.

22  
23 **SECTION II – SETTLEMENT PROCESS**

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

25 A. Yes, I did.  
26

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

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

5  
6 **Q. Over what period did the Settlement meetings take place?**

7 A. Meetings were held on July 18 and 19, 2013.

8  
9 **Q. Who participated in those meetings?**

10 A. The following parties were participants in some or all of the meetings: Willow Water;  
11 Valencia Water Company, Inc.-Town Division ("Valencia-Town"); Global Water-Palo  
12 Verde Utilities Company ("Palo Verde"); Water Utility of Northern Scottsdale, Inc.  
13 ("Northern Scottsdale"); Water Utility of Grater Tonopah, Inc. ("Tonopah"); Valencia  
14 Water Company, Inc.-Greater Buckeye Division ("Valencia-Buckeye"); Global Water-  
15 Santa Cruz Water Company ("Santa Cruz"), (the Agreement collectively refers to the  
16 foregoing companies as the "Global Applicants"); Global Water-Picacho Water Company  
17 ("Picacho Water"); Global Water-Picacho Cove Utilities Company ("Picacho Utilities");  
18 Hassayampa Utilities Company, Inc. ("Hassayampa"); Global Water Resources, Inc.  
19 ("Global Parent"), (collectively referred to as the "Global Intervenors"); the City of  
20 Maricopa ("Maricopa"); Willow Valley Club Association ("Willow Club"); New World  
21 Properties, Inc. ("New World"); Sierra Negra Ranch, LLC ("SNR"); a group of  
22 homeowner's associations ("HOAs") known as the Maricopa Area Homeowner's  
23 Association ("Maricopa HOAs"); the Residential Utility Consumer Office ("RUCO"); and  
24 Staff.

25

26

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

2 A. Yes. The diverse interests included Staff, RUCO, the Global Applicants, the Global  
3 Intervenors, a municipality, developers and several HOAs.

4  
5 **Q. How many of these parties executed the Agreement?**

6 A. As of the date of the writing of this testimony, the Agreement was signed by all  
7 participants with the exception of Maricopa, Willow Club, New World, SNR, and several  
8 of the HOAs associated with Maricopa HOAs. Maricopa has indicated that it may sign  
9 the Agreement after its City Council has had an opportunity to review the Agreement and  
10 vote on it.

11  
12 **Q. Can other intervenors still sign on to the Agreement?**

13 A. Yes. Section 11.7 of the Agreement provides that "... any party to the Global Rate  
14 Dockets may join in this Settlement Agreement as a signatory by filing a signed signature  
15 page for that party with the Commission's Docket Control in the Global Rate Dockets  
16 listed above."

17  
18 **Q. Was there an opportunity for all issues to be discussed and considered?**

19 A. Yes, each party had the opportunity to raise and have its issues considered.

20  
21 **Q. Were the Signatories able to resolve all issues?**

22 A. The Signatories were able to resolve and reach agreement on all issues, except the SIB as  
23 previously mentioned.

24

25

26

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 parties executed the Agreement, I must re-emphasize that all parties had the opportunity to  
5 be heard and to have their positions 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 diverse interests**  
18 **including those of residential customers, HOAs, municipalities, developers and**  
19 **utilities. Please discuss how the Agreement addresses the diverse interests of these**  
20 **entities.**

21 A. In the Agreement, there are specific provisions which address many of the concerns  
22 expressed by the various interests. The two primary issues in this case involve the rate  
23 increase and the treatment of the Infrastructure Coordination and Financing Agreements  
24 ("ICFAs"). The Agreement calls for rates to be phased in over eight (8) years and three  
25 (3) years, depending on the system, with no rate increase in the first year; this is a benefit  
26 for all customers. The Signatories have also agreed to Staff's level of expenses which will

1 be phased in over three (3) years for all Global Applicants. The rate for non-potable or  
2 recycled water, a concern of the HOAs, will be phased in over eight (8) years where there  
3 are existing customers.

4  
5 Global Parent will no longer enter into ICFA's and a portion of the funds of future ICFA  
6 payments will go directly to the Global utilities to pay for backbone plant; this gives some  
7 assurance to developers that the utilities will have funds available to construct plant to  
8 serve their projects. Allowing payments to be made directly to the utilities, and not Global  
9 Parent, will also avoid the unnecessary taxation of those payments, thereby allowing a  
10 greater portion of the payments to be devoted to putting utility plant in the ground. The  
11 contribution in aid of construction ("CIAC") imputation of ICFA's from the last rate case  
12 will be reversed in a way that will not unduly impact rate payers and at the same time help  
13 Global Parent improve its Balance Sheet, thereby giving more stability to all the Global  
14 utilities, which not only benefits Global Parent and its affiliated utilities but also is a  
15 benefit to customers.

16  
17 Another benefit to customers is that the Global utilities will not file another rate case  
18 earlier than May 31, 2016; if Maricopa signs on to the Agreement, Palo Verde and Santa  
19 Cruz will extend that stay-out until May 31, 2017.

20  
21 **Q. What is the return on equity ("ROE") requested by the Global Applicants compared**  
22 **to what is in the Agreement?**

23 A. Global Applicants requested an ROE of 11.44 percent. In its Direct Testimony, Staff  
24 recommended an ROE of 9.4 percent. The Agreement contains an ROE of 9.5 percent.

25

1 **SECTION III – SETTLEMENT AGREEMENT**

2 **Q. Please describe Part I of the Agreement.**

3 A. Part I is a general description of the settlement process and the Agreement itself, which  
4 also includes a brief description about why Staff believes the terms of the Agreement are  
5 just, reasonable, fair and in the public interest.

6  
7 **Q. Please describe Part II of the Agreement.**

8 A. Part II of the Agreement speaks to the stay-out and the revenue increase. Global  
9 Applicants agree to not file their next rate case earlier than May 31, 2016. If Maricopa  
10 signs the Agreement, Palo Verde and Santa Cruz agree not to file their next rate case  
11 before May 31, 2017. This section of the Agreement refers to Attachment A, which  
12 contains all the schedules with agreed upon rate bases, revenues, expenses, and rates. All  
13 these portions of the Agreement are designed to ensure rate stability for Global  
14 Applicant's customers while providing revenue to the Global Applicants that is fair, just  
15 and reasonable and adequate to allow them to provide safe and reliable water and  
16 wastewater services.

17  
18 **Q. Please describe Part III of the Agreement.**

19 A. This section of the Agreement addresses the rate design and bill impacts resulting from the  
20 settlement. The rate increases for Palo Verde and Santa Cruz will be phased in over eight  
21 (8) years. There is no revenue change for Northern Scottsdale, but its rate design is being  
22 modified such that it will have six (6) tiers and a Conservation Rebate similar to the other  
23 Global Applicants providing water service. Due to this change in rate design, Northern  
24 Scottsdale's lower use customers will see a lower bill than today while the higher use  
25 customers will see a higher bill. The rate increases for the remaining Global Applicants  
26 will be phased in over three (3) years. All the Global Applicants receiving a rate increase

1 rate increase in year one and new rates will not begin until year two, i.e., for all Global  
2 Applicants, except Northern Scottsdale, there will be no change in rates and/or rate design  
3 until year two (January 2015).

4  
5 **Q. Please discuss Part IV of the Agreement.**

6 A. This section contains the capital structure (57.8 percent long term debt and 42.2 percent  
7 common equity), the ROE of 9.5 percent, the cost of debt of 6.1 percent and the fair value  
8 rate of return of 7.5 percent.

9  
10 **Q. Please describe Part V of the Agreement.**

11 A. This section discusses the depreciation rates. The Signatories agree to the depreciation  
12 rates proposed by Staff with a modification to the rates for Account 348 (Other Tangible  
13 Plant) and 398 (Other Tangible Plant).

14  
15 **Q. Please describe Part VI of the Agreement.**

16 A. This section deals with the ICFA issue. I would say that this was the major issue for the  
17 Global Applicants, the Global Intervenors, and most if not all the parties to this case. In  
18 the last rate case involving Global utilities, the Commission imputed the ICFA monies  
19 received up to that point as CIAC. According to Global Parent and Global Applicants this  
20 caused a major problem with the Global Parents Balance Sheet resulting in a detrimental  
21 effect not only on Global Parent but also on the Global Applicants. Global Parent stated  
22 that the result was so serious that it could have a negative effect on the service being  
23 provided by the Global Applicants and all Global affiliated utilities. Based on the  
24 information provided, Staff believed this was a real possibility. Staff believes that the  
25 Agreement provides a mechanism for Global Parent to restore its Balance Sheet while at  
26 the same time not unduly burdening the Global Applicants' customers.

1 This section of the Agreement states that neither Global Parent nor any of its affiliates or  
2 Global utilities will enter into any ICFAs or ICFA-type contracts/agreements in the future.  
3 Even though RUCO and Staff already have such a right (and some would say obligation),  
4 Paragraph 6.1.2 specifically states that Staff and RUCO reserve the right to monitor  
5 Global Parent's and its affiliates' dealings with ICFAs.

6  
7 Part VI describes how future ICFA payments from developers to Global Parent will be  
8 handled. The Agreement contains Hook-Up Fee ("HUF") Tariffs for all the Global  
9 Applicants. The other Global utilities will file with the Commission for approval of HUF  
10 Tariffs within thirty (30) days of a Commission decision in this case. As developers pay  
11 their obligations per the ICFAs, a portion of those payments will go to the Global  
12 individual utilities as HUFs, with the remainder being retained by Global Parent to meet  
13 its obligations per each ICFA. Regardless of the amount of the ICFA payment made by  
14 any particular developer, Global Parent will be responsible to pay the total required HUF  
15 after receipt of the total payment required by the ICFA and whichever one of the  
16 following occurs first: 1) final plat for the development, 2) the start work date for that  
17 development, or 3) the date required by the HUF Tariff.

18  
19 With regard to ICFA payments that have already been received or should have been  
20 received (by requirements of an ICFA), Global Parent will retain those funds and use them  
21 to meet obligations of the ICFAs.

22  
23 **Q. Please describe Part VII of the Agreement.**

24 **A.** Part VII lists and discusses HUFs. If the Agreement is approved by the Commission, the  
25 Global Applicants will have HUFs as outlined in Part VII and the remaining Global

1 utilities will file HUF Tariff applications with the Commission within thirty (30) days of a  
2 decision in this case.

3  
4 **Q. Please describe Part VIII of the Agreement.**

5 A. This section of the Agreement addresses a code of conduct (“COC”) and other various  
6 tariff issues. Staff requested and Global Parent and its utilities agreed to establish a COC  
7 to make sure that the dealings/interactions between Global Parent and all its affiliates were  
8 as transparent as possible and not detrimental to utility customers. In addition, this part of  
9 the Agreement discusses the Global Applicants’ low income tariff, the Central Arizona  
10 Groundwater Replenishment District adjustor, Best Management Practices water  
11 conservation tariffs, and Terms and Conditions tariffs.

12  
13 **Q. Please describe Part IX of the Agreement.**

14 A. Part IX states that the Global Applicants agree to file the water loss reports recommended  
15 by Staff.

16  
17 **Q. Please describe Part X of the Agreement.**

18 A. This portion of the Agreement is typical to settlement agreements presented to the  
19 Commission and states that the Commission is not bound by the Agreement and will  
20 review it independently. It also discusses the responsibilities and options of the  
21 Signatories to the Agreement if the Commission does or does not approve the Agreement.

22  
23 **Q. Please describe Part XI of the Agreement.**

24 A. This part of the Agreement contains the typical miscellaneous provisions of a settlement  
25 agreement.

26

1 **SECTION IV - PUBLIC INTEREST**

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

3 A. Yes, in Staff's opinion, the Agreement is fair, balanced, and in the public interest.  
4

5 **Q. Would you summarize the reasons that lead Staff to conclude that the Agreement is**  
6 **fair, balanced, and in the public interest?**

7 A. This Agreement results in a settlement package that addresses the needs of the Global  
8 Applicants', Global Parent and other Global utilities while balancing those needs with  
9 terms and conditions that provide significant customer benefits, such as:

- 10 • A phase-in of any rate increase resulting from this case;
- 11 • No rate increase in year one of the phase-in for any of the utilities (this case results  
12 in a zero revenue increase for Northern Scottsdale, however, rate design will be  
13 modified which will result in a bill decrease for lower use customers and a bill  
14 increase for higher use customers);
- 15 • the rate increase for Palo Verde and Santa Cruz will be phased in over eight (8)  
16 years;
- 17 • the rate increase for Valencia-Town, Valencia-Buckeye, Willow and Tonopah will  
18 be phased in over three (3) years;
- 19 • if Tonopah files a rate case within the next eight (8) years, rates from that case(s)  
20 will be set based on either a 10 percent operating margin or rate of return,  
21 whichever results in a lower revenue requirement;
- 22 • the Global Applicants will not file a new rate case application prior to May 31,  
23 2016, and if Maricopa signs on to the Agreement, Palo Verde and Santa Cruz will  
24 not file a new rate case application prior to May 31, 2017; and
- 25 • resolution of ICFA issues.

1     **Q.     Mr. Olea, do you believe that the Agreement results in just and reasonable rates for**  
2     **consumers?**

3     A.     Yes.  As stated above, the rates will be phased in over three years or eight years,  
4     depending on the system, and the first year will have no rate increase.  This will allow  
5     customers one year to prepare for the first rate increase and will make the entire rate  
6     increase gradual over time.  I do not believe that any of this could have been accomplished  
7     without a settlement agreement.

8  
9     **Q.     Please discuss how the Agreement is fair to the Global Applicants.**

10    A.     The revenue recommended will provide the Global Applicants with adequate funds to  
11    provide reliable and safe service, while at the same time ensuring the financial health of  
12    not only the Global Applicants, but also Global Parent.

13  
14    **Q.     Mr. Olea, what was Staff's goal when it agreed to be a Signatory to the Agreement?**

15    A.     The primary goal of Staff in this matter, as in all rate proceedings before the Commission,  
16    is to protect the public interest by recommending rates that are just, fair and reasonable for  
17    both the ratepayers and the Global Applicants.  Staff believes it has accomplished this by  
18    reviewing the facts presented and making the appropriate recommendations to the  
19    Commission for its consideration, which will balance the interests of the Global  
20    Applicants and the ratepayers, by promoting the Commission's desire to ensure that the  
21    Global Applicants have the tools and financial health to provide safe, adequate and  
22    reliable service, while complying with Commission requirements at just and reasonable  
23    rates.

24  
25  
26

1    **SECTION V – POLICY CONSIDERATIONS**

2    **Q.    Mr. Olea, what were the major policy considerations the parties had to deal with in**  
3       **this Docket?**

4    A.    I believe there was one major policy consideration that Staff and other Signatories had to  
5       address in order to balance the interests of all parties, and that was the issue of ICFAs. A  
6       major concern of the Global Applicants and Staff was whether or not the imputation of the  
7       ICFA funds as CIAC from the last rate case should be modified, and if so, how.

8  
9    **Q.    How does the Settlement Agreement address this ICFA issue?**

10   A.    As a result of the last rate case, the Commission had Staff contract with an accounting  
11       firm to answer the basic question – could the Global utilities have paid for their rate base  
12       absent the ICFA funds. The Commission asked for this assistance to allow it to have  
13       information to possibly modify the CIAC treatment of the ICFA funds. Staff hired  
14       Ullman & Company, P.C. (certified public accountants) for this endeavor. The report  
15       resulting from the Ullman undertaking showed that but for a small portion, the Global  
16       Applicants could have paid for plant-in-service additions made between 2004 and 2008  
17       without using funds generated from the ICFAs. However, this report did not conclusively  
18       determine how the ICFA funds had been used. After giving consideration to the  
19       information provided in the Ullman report together with other financial information  
20       provided by the Global Applicants and Global Parent, Staff believed it would be in the  
21       public interest to reverse the CIAC imputation of ICFA funds, but only if it could be done  
22       in a manner that would have limited impact on the customers of the Global Applicants.  
23       Staff believed this was accomplished by having an eight (8) year phase-in of rates for Palo  
24       Verde and Santa Cruz, requiring Tonopah’s rates to be set on a ten percent operating  
25       margin or rate of return (whichever results in a lower revenue requirement) over the next  
26       eight (8) years (this does not restrict the Commission from continuing this practice beyond

1 the 8 years), having all the Global utilities establish HUF Tariffs which will reduce rate  
2 base in the future, and having no rate increase resulting from this case earlier than January  
3 1, 2015.

4  
5 **Q. The Agreement calls for an eight (8) year rate phase-in for Palo Verde and Santa**  
6 **Cruz, but only requires a rate application stay-out until May 31, 2016 (May 31, 2017,**  
7 **if Maricopa signs on), which is less than three (3) years from now. How is this**  
8 **supposed to work?**

9 A. The rate phase-in applies only to the rates resulting from this case. Any rate increases  
10 resulting from future rate filings, i.e., those filed after May 31, 2016 (or possibly May 31,  
11 2017), would stand on their own and would be implemented per the Commission decision  
12 resulting from that specific future application.

13  
14 **Q. Is there anything else you would like to add regarding the Agreement?**

15 A. I would like to reiterate that the settlement discussions were transparent, candid,  
16 professional and open to all parties in this docket. All parties, even those that did not sign  
17 the Agreement, were allowed to openly express their views and opinions on all issues. I  
18 believe the Settlement Agreement is in the public interest.

19  
20 **Q. Does this conclude your testimony?**

21 A. Yes, it does.