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BEFORE THE ARIZONA CORPORATION

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BOB STUMP - Chairman
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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
SAHUARITA WATER COMPANY, L.L.C.,
FOR A RATE INCREASE.

DOCKET NO. W-03718A-09-0359

STAFF'S NOTICE OF FILING
SETTLEMENT AGREEMENT
TESTIMONY OF DARRON W. CARLSON

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Settlement Agreement Testimony of Darron W. Carlson ("Agreement"), in the above-referenced matter.

RESPECTFULLY SUBMITTED this 26th day of August, 2013.

for Wesley C. Van Cleve
Wesley C. Van Cleve, Attorney
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 26th day of August, 2013, with:

Arizona Corporation Commission
DOCKETED

AUG 26 2013

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

DOCKETED BY *NR*

Copy of the foregoing mailed this 26th day of August, 2013, to:

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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)
SAHUARITA WATER COMPANY, LLC FOR A)
RATE INCREASE.)
_____)

DOCKET NO. W-03718A-99-0143

AND

DOCKET NO. W-03718A-09-0359

TESTIMONY

IN SUPPORT OF THE SETTLEMENT AGREEMENT

OF

DARRON W. CARLSON

PUBLIC UTILITIES ANALYST MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 26, 2013

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EXECUTIVE SUMMARY
SAHUARITA WATER COMPANY, LLC
DOCKET NOS. W-03718A-99-0143 AND W-03718A-09-0359

Sahuarita Water Company, LLC (“Sahuarita” or “Company”) is an Arizona public service corporation engaged in providing water utility services to approximately 5,430 customers. The Company serves an area consisting of approximately fourteen square miles south of the city of Tucson, in Pima County. Sahuarita’s current minimum and commodity rates were approved in Decision No. 72177, dated February 11, 2011. Sahuarita’s current off-site hook-up fee rates were approved in Decision No. 62032, dated November 2, 1999.

On October 30, 2012, the Company filed a motion pursuant to Arizona Revised Statutes §40-252 to amend the aforementioned Decisions to increase off-site hook-up fees. After telephonic discussions, the Company and Staff agreed to a settlement. The Settlement Agreement, filed on May 29, 2013, will provide the Company with an increase in its off-site hook-up fees and does not affect any other rates previously established.

1 **INTRODUCTION**

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

3 A. My name is Darron W. Carlson. My business address is 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5
6 **Q. Where are you employed and in what capacity?**

7 A. I am employed by the Utilities Division ("Staff") of the Arizona Corporation Commission
8 ("ACC" or "Commission") as a Public Utilities Analyst Manager.

9
10 **Q. How long have you been employed with the Utilities Division?**

11 A. I have been employed with the Utilities Division since September of 1991.

12
13 **Q. Please describe your educational background and professional experience.**

14 A. I hold a Bachelor of Arts degree in both Accounting and Business Management from
15 Northeastern Illinois University in Chicago, Illinois.

16
17 I have participated in quite a number of seminars and workshops related to utility rate-
18 making, cost of capital, income taxes, and similar issues. These have been sponsored by
19 organizations such as the National Association of Regulatory Utility Commissioners
20 ("NARUC"), Duke University, Florida State University, Michigan State University, New
21 Mexico State University, and various other organizations.

22
23 **Q. Briefly describe your responsibilities as a Public Utilities Analyst Manager.**

24 A. In my capacity as a Public Utilities Analyst Manager, I supervise analysts who examine,
25 verify, and analyze utilities' statistical, financial, and other information. These analysts
26 write reports and/or testimonies analyzing proposed mergers, acquisitions, asset sales,

1 financings, rate cases, and other matters in which they make recommendations to the
2 Commission. I provide support and guidance along with reviewing and editing the work
3 products. I also perform analysis as needed on special projects. Additionally, I provide
4 expert testimony at formal hearings. Finally, I assist Staff members during formal
5 hearings and supervise responsive testimonies, as needed, during the hearing process.
6

7 **Q. Did you participate in the discussion which gave rise to the Settlement Agreement**
8 **between Staff and Sahuarita Water Company, LLC (“Sahuarita” or “Company”)?**

9 A. Yes, I did. I was part of the Staff negotiating team, designated by the Utilities Division
10 Director, Mr. Steve Olea.
11

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

13 A. The purpose of my testimony is to describe the settlement process and to explain Staff’s
14 view regarding the Settlement Agreement between Staff and the Company.
15

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

17 A. My testimony is organized into six sections. Section I is the introduction, Section II
18 provides discussion of the settlement process, Section III discusses the settlement meeting,
19 Section IV discusses the various parts of the Settlement Agreement, Section V discusses
20 the rationale of why the Agreement is in the public interest, and Section VI is the
21 conclusion.
22

23 **SETTLEMENT PROCESS**

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

25 A. The settlement process was open and transparent. There were no intervenors in this case.
26 Both Staff and the Company participated in telephone and e-mail communications.

1 **Q. Who participated in those discussions?**

2 A. Staff was represented by a member of the Director's Office, as well as Staff members who
3 were involved in the processing of the case. Staff also had legal representation from the
4 Commission's Legal Division. The Company was represented by outside legal counsel, a
5 consultant, and an officer of the Company.

6
7 **Q. Was there an opportunity for all issues to be discussed and considered?**

8 A. Yes, both parties had the opportunity to raise any issue and have their issues considered.
9 However, Staff notes that this current filing arose from an Arizona Revised Statutes
10 ("A.R.S.") §40-252 filing that the Company submitted to target only a discussion of
11 increasing the off-site hook-up fees. This was the focus of the filing and only related
12 issues were discussed.

13
14 **Q. Were the signatories able to resolve all issues?**

15 A. Yes, the signatories were able to resolve and reach agreement on the issues.
16

17 **SETTLEMENT MEETING**

18 **Q. Please describe how the meeting process developed in this case.**

19 A. Staff was contacted by a Sahuarita representative about the possibility of conducting
20 settlement discussions regarding the Company's A.R.S. §40-252 application in Docket
21 Nos. W-03718A-99-0143 and W-03718A-09-0359. The Administrative Law Judge
22 assigned to this proceeding issued Procedural Orders on March 13, 2013 and March 21,
23 2013, setting Procedural Conferences. At a telephonic Procedural Conference held on
24 March 24, 2013, the parties reported that they were close to signing a Settlement
25 Agreement. Staff recommended that an evidentiary hearing be held on the Settlement

1 Agreement with pre-filed testimony. This would allow for the Commission or any other
2 interested party to comment, object, or otherwise participate in the hearing process.

3
4 **Q. How did the settlement discussions take place?**

5 A. The Company provided a proposed settlement to Staff. Staff reviewed that proposal and
6 recommended certain alterations via a telephone conversation with counsel for the
7 Company. Some further discussions took place to work out details via telephone and e-
8 mail.

9
10 **Q. What was the result of those discussions?**

11 A. A settlement was reached and the Settlement Agreement was signed by the parties on May
12 28, 2013. Further, on May 29, 2013, Staff filed a Notice of Filing the Settlement
13 Agreement with Docket Control.

14

15 **OVERVIEW OF THE SETTLEMENT AGREEMENT**

16 **Q. Can you please briefly provide an overview of the Settlement Agreement?**

17 A. Yes. Section 1 Recitals, covers background and filing history in this case. Section 2
18 Resolution of HUF Modification Issue, deals with the disputed issues in this case and their
19 resolution through revised fees as attached to the Settlement Agreement. Section 3
20 Commission Approval, deals with the approval process for the Agreement. Section 4
21 Miscellaneous Provisions, deals with the various legal strictures in this case.

1 **Q. Does the Settlement Agreement alter the fair value rate base (“FVRB”) in this**
2 **docket?**

3 A. No, it does not. The FVRB for this docket was determined to be \$8,805,561 in Decision
4 No. 72177 dated February 11, 2011. That determination remains unchanged and this
5 Settlement Agreement does not alter that determination.

6
7 **Q. Why doesn’t the increase in the off-site hook-up fee rates affect FVRB?**

8 A. The revenue generated from off-site hook-up fees is not considered operating revenue.
9 Rather, such revenue is classified as contributions-in-aid-of-construction (“CIAC”). As
10 CIAC, these fees can be collected and do not affect FVRB until such time as those funds
11 are expended on plant and that plant is placed in service. At that time the appropriate
12 CIAC amount serves as an off-set to plant in service, so that the utility does not earn a
13 return on investments not funded by shareholders/owners.

14
15 **PUBLIC INTEREST**

16 **Q. Can you explain why Staff believes this Settlement Agreement is in the public**
17 **interest?**

18 A. Staff believes that this Settlement Agreement treats fairly the interests of the Company
19 and its ratepayers.

20
21 **Q. Why is an increase in the off-site hook-up fees in the public interest?**

22 A. It is in the public interest because the CIAC represented in hook-up fees allows a utility to
23 purchase plant for growth and expansion without unduly increasing the return ratepayers
24 fund in current rates for future growth. Further, it allows developers to fund an
25 appropriate portion of utility plant needed for expansion.

1 **Q. What is Staff's role in this case when making recommendations to the Commission?**

2 A. Staff's role in this case is to balance the interests of the Company, its shareholders, and its
3 ratepayers. Staff believes the Settlement Agreement accomplishes that.

4

5 **CONCLUSION**

6 **Q. Please describe Staff's understanding of the overall Settlement Agreement.**

7 A. Staff and the Company have devoted time, resources, and effort to reach a conclusion that
8 is fair and reasonable. Signatories to the Settlement Agreement have acknowledged their
9 acceptance of this Agreement, reached through open and frank discussions.

10

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

12 A. Yes.