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BEFORE THE ARIZONA CORPORATION

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AZ CORP COMMISSION
DOCKET CONTROL

COMMISSIONERS

BOB STUMP, Chairman

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SUSAN BITTER SMITH

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

SEP 13 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

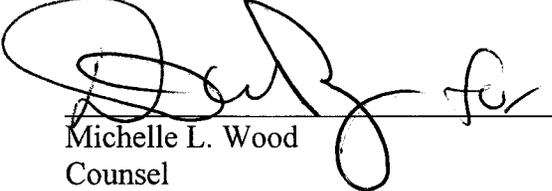
5 IN THE MATTER OF THE APPLICATION OF
6 WILLOW VALLEY WATER COMPANY FOR THE
7 ESTABLISHMENT OF JUST AND REASONABLE
8 RATES AND CHARGES FOR UTILITY SERVICE
9 DESIGNED TO REALIZE A REASONABLE RATE OF
10 RETURN ON THE FAIR VALUE OF ITS PROPERTY
11 THROUGHOUT THE STATE OF ARIZONA

DOCKET NO. W-1732A-12-0315

NOTICE OF FILING

12 The Residential Utility Consumer Office (“RUCO”) hereby provides notice of filing the
13 Responsive Testimony of Robert B. Mease, in the above-referenced matter.

14 RESPECTFULLY SUBMITTED this 13th day of September, 2013.

15 
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17 Counsel

18 AN ORIGINAL AND THIRTEEN
19 COPIES of the foregoing filed this
20 13th day of September, 2013 with:

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By Cheryl Graulob
Cheryl Graulob

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

RESPONSIVE TESTIMONY
OF
ROBERT B. MEASE

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 13, 2013

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EXECUTIVE SUMMARY

1
2 On July 9, 2012, Global Water, LLC (“Global Water” or “Company”) filed
3 general rate applications for Valencia Water Company – Town Division
4 (“VWCT”), Global Water – Palo Verde Utilities Company (“Palo Verde”),
5 Water Utility of Northern Scottsdale (“WUNS”), Water Utility of Greater
6 Tonopah (“WUGT”), Valencia Water Company – Greater Buckeye Division
7 (“VWCGB”), Global Water – Santa Cruz Water Company, (“Santa Cruz”),
8 and Willow Valley Water Company (“Willow Valley”) for the establishment
9 of just and reasonable rates using a test year ending December 31, 2011.
10 WUGT and VWCGB are classified as Class C utilities; WUNS is classified
11 as a Class D utility while the remaining four locations are classified as
12 Class A utilities.

13
14 On July 12, 2012 a Motion to Consolidate was filed by the Company and
15 on November 20, 2012, the motion was granted under Docket No.
16 W-01212A-12-0309 ET AL.

17
18 In addition to requesting an adjustment in rates the Company was also
19 requesting, among other things, a Distribution System Improvement
20 Charge (DSIC) for its water systems and a Collection System Improvement
21 Charge (CSIC) for its wastewater system.

22
23 On August 13, 2013, a Proposed Settlement Agreement (“Settlement
24 Agreement”) was filed and the Settlement Hearing began on September 5,
25 2013. The DSIC was not resolved in the Settlement Agreement.

26
27 On August 27, 2013, a Procedural Order was issued and set the Hearing
28 on the SIB Mechanism for September 19, 2013.

29
30 RUCO Chief of Accounting and Rates, Robert B. Mease, recommends
31 that the Arizona Corporation Commission (“ACC” or “Commission”) reject
32 the Company’s request for a DCIS/SIB Mechanism in its Willow Valley
33 Water System.
34

1 **INTRODUCTION**

2 **Q. Please state your name, position, employer and address.**

3 A. My Name is Robert B. Mease. I am Chief of Accounting and Rates
4 employed by the Residential Utility Consumer Office ("RUCO") located at
5 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

6
7 **Q. Please state the purpose of your testimony.**

8 A. The purpose of my testimony is to present RUCO's recommendations
9 regarding the Applicants request for a DSIC and CSIC mechanism. I will
10 also adopt Mr. William A. Rigsby's testimony as was filed in this docket on
11 July 8, 2013.

12

13 **BACKGROUND**

14 **Q. In the Company's original rate application filing did they request a**
15 **DSIC or a CSIC?**

16 A. Yes. The Company's original application filing requested a DSIC on all of
17 its water systems except WUNS and a CSIC on its Palo Verde wastewater
18 system.

19

20

21

22

1 **Q. Did Global, in its original application filing, submit a detailed plan**
2 **that identified the projects, expected dates, and projected**
3 **expenditures that could be reviewed in order to determine if a DSIC**
4 **or CSIC was appropriate?**

5 A. No. There was considerable information provided by the Company in Mr.
6 Walker's original testimony identifying what would be provided at a later
7 date, but there were no details included in the Company's rate application.

8
9 **Q. Did the Company negotiate a Settlement Agreement with Staff, RUCO**
10 **and other intervening parties?**

11 A. Yes. A Settlement Agreement was reached with the majority of the
12 intervening parties and the Hearing began on September 5, 2013.

13
14 **Q. Did RUCO agree with the Proposed Settlement Agreement signed by**
15 **the parties involved and were they a signatory on the agreement?**

16 A. As explained by Mr. Pat Quinn in his testimony RUCO supports the
17 Proposed Settlement Agreement in its entirety. The Agreement settled a
18 wide range of issues with the exception of the DSIC for Willow Valley.
19 The parties, including RUCO, agreed to litigate this issue, separately.

20
21 **Q. What is the Company now requesting instead of a DSIC?**

22 A. Since Global's original application filing the Arizona Corporation
23 Commission ("ACC") issued on June 28, 2013, Decision No. 73938,

1 approving a System Improvement Benefits ("SIB") mechanism as part of
2 the Settlement Agreement entered into with Arizona Water Company's
3 ("AWC") Eastern Group. As a result of this settlement Global is now
4 requesting that their original DSIC proposal be replaced with the SIB
5 Mechanism as described in Decision No. 73938.

6
7 **Q. Is the Company now requesting a SIB for all of its water systems**
8 **included in its filing?**

9 A. No. Global Water is now requesting a SIB in the Willow Valley Water
10 Company system, only.

11
12 **Q. What about their request for a CSIC?**

13 A. The Company is no longer requesting a CSIC for the Palo Verde waste
14 water system.

15
16 **Q. Before we further discuss Global's request for a SIB, can we discuss**
17 **Decision No. 73938 and how this decision is related to Global's**
18 **filing?**

19 A. Yes. On August 5, 2011 AWC filed an application requesting adjustments
20 to its rates and charges in its Eastern Group water systems.

21
22 On February 20, 2013, the Commission issued Decision no. 73736
23 granting AWC a rate increase for its Eastern Group systems, however,

1 kept open for further consideration of a "Phase 2" DSIC Recommended
2 Order to be considered at the June 11 and 12, 2013 Open Meeting.

3
4 On April 8, 2013, an evidentiary hearing commenced on the merits of a
5 DSIC and ultimately concluded on April 11, 2013. On April 29, 2013, post-
6 hearing briefs were filed by all parties including RUCO. RUCO submitted
7 its brief on April 29, 2013 opposing the implementation of a DSIC or SIB.

8
9 On June 28, 2013, the Commission approved the SIB mechanism in
10 Decision No. 73938. On July 17, 2013, RUCO filed an Application for
11 Rehearing of Decision No. 73938 and specifically identified errors and
12 inconsistencies with this decision as well as the original Decision No.
13 73736.

14
15 **Q. What action did the Commission take on RUCO's Application for**
16 **Rehearing of Decision No. 73938?**

17 **A.** In the Staff Open Meeting held on August 15, 2013, the Commission
18 agreed to a (1) rehearing of Decision No. 73938, (2) the reopening of
19 Decision No. 73736 for consideration of modifying the decision, and (3)
20 consolidating these matters and directing the Hearing Division to hold
21 proceedings on the consolidated matters and prepare a recommended
22 opinion and order.

23

1 **Q. Are there other rate case decisions pending that will be affected by**
2 **the outcome of the rehearing of Decision No. 73938?**

3 A. Yes. A Settlement Agreement has been negotiated in AWC's Northern
4 Group which includes a SIB mechanism.

5

6 **Q. Was RUCO a signatory on the Settlement Agreement with AWC**
7 **Northern Group?**

8 A. No. RUCO was not a signatory on this Settlement Agreement for the
9 same reasons that they were not a signatory on the AWC Eastern Group
10 Settlement Agreement.

11

12 **Q. Can you please explain why RUCO has opposed a SIB mechanism in**
13 **past rate cases?**

14 A. Yes. While RUCO's opposition to a DSIC, CSIC or a SIB is thoroughly
15 explained in Mr. Rigsby's testimony, I will provide a brief summary. In
16 past rate cases RUCO has opposed a DSIC mechanism, and/or a SIB
17 mechanism, for the following reasons: (1) It allows for the recovery of
18 routine plant improvements outside of a rate case that would normally be
19 recovered in a general rate case filing, (2) The SIB is a one-sided
20 mechanism that works only for the benefit of the company and the
21 company's shareholders, (3) There has been no Federal or State
22 mandates that requires recovery of routine plant investments through a
23 surcharge, (4) Global has not provided proof that they would be unable to

1 ensure safe and reliable water service or achieve cost recovery without
2 the adoption of a SIB mechanism. In addition, the legal aspects of a SIB
3 mechanism are of concern to RUCO and are discussed in Mr. Rigsby's
4 testimony.

5
6 **CURRENT STATUS OF COMPANY'S REQUEST FOR A SIB**

7 **Q. Has the Company filed testimony regarding its request for a SIB**
8 **Mechanism?**

9 A. Yes. The Company filed its testimony requesting a SIB mechanism for its
10 Willow Valley Water Co. on August 21, 2013.

11
12 **Q. Did the Staff consider the Company's filing sufficient?**

13 A. No. The Staff requested additional information in order to evaluate the
14 need for a SIB.

15
16 **Q. Did the Company file with the Commission Staff an Engineering**
17 **Report and updated schedules for further consideration of a SIB for**
18 **the Willow Valley System?**

19 A. Yes. The Company submitted a "Revised Willow Valley Water Co. SIB
20 Engineering Study" dated September 4, 2013. The information submitted
21 did not conform to the level of detail that was initially approved by the
22 Commission in the AWC Eastern group SIB request. See Decision No.

1 73938. The SIB mechanism approved in the Eastern Group's case has
2 been used as a template in AWC Northern case as well as this case.

3

4 **Q. Did the Commission Staff approve Willow Valley's SIB proposal?**

5 A. Yes. See Mr. Jian W. Liu's testimony filed on September 6, 2013, Page 2,
6 "Staff recommends approval of Willow Valley's Table I of SIB eligible
7 projects for purposes of SIB approval."

8

9 **Q. Are you saying that within a two day period that the Company filed a**
10 **revised Engineering Study, the Staff engineer reviewed the**
11 **Engineering Study, and approved the Company's SIB request?**

12 A. Yes, but no analysis was included in the Staffs approval.

13

14 **Q. Does RUCO believe that adequate time was spent on the review**
15 **process of the Company's revised filing?**

16 A. RUCO doesn't believe that sufficient time was allowed for Staff, RUCO or
17 any of the other parties to reach an informed decision on such an
18 important issue. The whole subject of a DSIC, CSIC and/or SIB is
19 extremely important and sufficient time should be allocated as the decision
20 affects rates that individuals have to pay for future service for many years
21 to come.

22

1 **Q. Did Staff have any additional recommendations related to the filing**
2 **of the Company's SIB request?**

3 A. Yes. Mr. Liu further recommends "that Willow Valley file its SIB PLANT
4 TABLE II using the form labeled Attachment A to this testimony."

5
6 **Q. Do you believe that the requirements have been met for the Staff to**
7 **have approved the SIB as filed by the Company?**

8 A. No. When reviewing the "template" prepared in the AWC Eastern case
9 additional schedules were filed that provided far more information to
10 support the SIB application. For example, a schedule was provided
11 showing the effects going forward on ratepayers should a SIB be
12 approved. RUCO believes that the future SIB increases and how it affects
13 residential ratepayers needs to be identified prior to Commission
14 approved. Indeed, the Company has not notified ratepayers that they are
15 requesting the SIB or its potential impact on their rates.

16
17 **Q. Has RUCO prepared an analysis calculating the expected SIB**
18 **increase and the effects on residential ratepayers?**

19 A. Yes. RUCO has prepared a schedule and has included the detailed
20 calculations as Attachment A. When reviewing the five year effect on
21 residential ratepayers and keeping the number of residential ratepayers
22 constant the overall rate increase over the five year period is \$106,464 in
23 additional revenues to the Company (after the efficiency credit). By the

1 end of the five year SIB period, the average residential ratepayer will be
2 paying an additional \$5.18 per month, equating to a 21.2 percent increase
3 based on existing residential rates.

4
5 **Q. Was your calculation for the ratepayer affect consistent with**
6 **Decision No. 73938?**

7 A. Yes. While the Schedules included in the decision were unique for AWC,
8 they have been approved by the Commission as a template and are being
9 used in other water company applications when a SIB is being requested.

10
11 **Q. What is the effect on ratepayers resulting from the approved 5**
12 **percent efficiency credit?**

13 A. Over the five year period the total savings to ratepayers is approximately
14 \$5,603. The 5 percent efficiency credit is very insignificant compared to
15 the \$106,464 the Company will be collecting in SIB charges and provides
16 very little relief to the ratepayer.

17
18 **Q. Do you believe that the 5% efficiency credit that is provided to**
19 **ratepayers is representative of the true savings to the Company?**
20 **Wouldn't you expect to see a reduction in Operating and**
21 **Maintenance ("O&M") expense exceeding the amount of this credit?**

22 A. I would think that a Company investing \$876,233 over a five year period in
23 old, outdated and leaking infrastructure would expect savings in O&M

1 expenses in excess of \$5,603. The first year efficiency credit as shown on
2 Attachment A, of \$1,352 is less than one-percent of the Willow Valley
3 O&M expenses.

4

5 **Q. Did the Company propose a reduction in O&M expenses when**
6 **submitting its proposal for a SIB?**

7 A. No. The Company proposed no reductions in future O&M expenses when
8 submitting its proposal.

9

10 **Q. Mr. Mease, can you please summarize RUCO's position on the**
11 **establishment of SIB Mechanism in this rate case and future rate**
12 **cases?**

13 A. Yes. RUCO does not agree with the establishment of a SIB in this case or
14 future rate cases.

15

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

17 A. Yes.

ATTACHMENT A

**WILLOW VALLEY WATER COMPANY
COST OF SIB TO RESIDENTIAL RATEPAYERS**

<u>PROJECT LOCATIONS</u>	<u>Year 1 2014</u>	<u>Year 2 2015</u>	<u>Year 3 2016</u>	<u>Year 4 2017</u>	<u>Year 5 2018</u>	<u>Five Year Total Costs</u>
King Street - SIB Additions	\$ 211,491	\$ 171,022	\$ 145,040	\$ 133,701	\$ 214,979	\$ 876,233
Commercial Street - SIB Additions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL	\$ 211,491	\$ 171,022	\$ 145,040	\$ 133,701	\$ 214,979	\$ 876,233

CALCULATION OF OVERALL SIB REVENUE REQUIREMENTS & EFFICIENCY CREDIT

1							
2	Total Authorized Revenue Requirement - Settlement	\$ 1,106,966	\$ 1,140,175	\$ 1,174,380	\$ 1,209,612	\$ 1,245,900	\$ 5,877,033
3							
4	SIB Revenue CAP %	5%	5%	5%	5%	5%	5%
5							
6	Net SIB Revenue Cap (Ln 2 x Ln 4)	\$ 55,348	\$ 57,009	\$ 58,719	\$ 60,481	\$ 62,295	\$ 293,852
7							
8	SIB Eligible Plant in Service - Per Above	\$ 211,491	\$ 171,022	\$ 145,040	\$ 133,701	\$ 214,979	\$ 876,233
9							
10	Accumulated Depreciation- 1/2 Year Convention (Ln 24*.5)	\$ 2,929	\$ 2,369	\$ 2,009	\$ 1,852	\$ 2,977	\$ 12,136
11							
12	SIB Rate Base (Ln 8 - Ln 10)	\$ 208,562	\$ 168,653	\$ 143,031	\$ 131,849	\$ 212,002	\$ 864,097
13							
14	Pre-Tax Cost of Capital	10.16%	10.16%	10.16%	10.16%	10.16%	10.16%
15							
16	Required SIB Operating Income (Ln 12 x Ln 14)	\$ 21,191	\$ 17,136	\$ 14,533	\$ 13,396	\$ 21,540	\$ 87,796
17							
18	Gross Revenue Conversion Factor - Per Decision No.	N/A	N/A	N/A	N/A	N/A	N/A
19							
20	Revenue Requirement - Return on SIB (Ln 16 x Ln 18)	\$ 21,191	\$ 17,136	\$ 14,533	\$ 13,396	\$ 21,540	\$ 87,796
21							
22	Applicable Depreciation Rate - Est. Average	2.77%	2.77%	2.77%	2.77%	2.77%	2.77%
23							
24	SIB Depreciation Expense (Ln 8 x Ln 22)	\$ 5,858	\$ 4,737	\$ 4,018	\$ 3,704	\$ 5,955	\$ 24,272
25							
26	Less: Depre Assoc with Applicable Retirements	-	-	-	-	-	-
27							
28	Net Depreciation Expense - SIB Eligible Plant (Ln 24 - Ln 26)	\$ 5,858	\$ 4,737	\$ 4,018	\$ 3,704	\$ 5,955	\$ 24,272
29							
30	SIB Capital Costs - Pre Tax Ret. + Depre. (Ln 20 + Ln 28)	\$ 27,049	\$ 21,873	\$ 18,550	\$ 17,100	\$ 27,495	\$ 112,067
31							
32	Under or Over recovery Form Previous Period	-	-	-	-	-	-
33							
34	Overall SIB Revenue Requirement Lessor of Net SIB Rev						
35	Cap or SIB Capital Costs	\$ 27,049	\$ 21,873	\$ 18,550	\$ 17,100	\$ 27,495	\$ 112,067
36							
37	SIB Efficiency Credit %	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%
38							
39	Overall SIB Efficiency Credit	\$ (1,352)	\$ (1,094)	\$ (928)	\$ (855)	\$ (1,375)	\$ (5,603)
40							
41	NET SIB REVENUE INCLUDING EFFICIENCY CR	\$ 25,697	\$ 20,780	\$ 17,623	\$ 16,245	\$ 26,120	\$ 106,464
42							
43	Base Rates Residential Ratepayer	\$ 24.40	\$ 30.57	\$ 37.03	\$ 37.03	\$ 37.03	\$ 24.40
44	Increase to Residential Ratepayers	\$ 1.25	\$ 1.01	\$ 0.86	\$ 0.79	\$ 1.27	\$ 5.18
45							
46	Percentage Increase to Residential Ratepayer	5.12%	3.31%	2.31%	2.13%	3.43%	21.22%
47							
48	<u>Pre-Tax Cost of Capital</u>						
49	Weighted Cost of Equity	4.00%					
50	Revenue Conversion Factor	1.6651					
51	Pre-Tax Weighted Cost of Equity	6.66%					
52	Weighted Cost of Debt	3.50%					
53	Pre-Tax Cost of Capital	10.16%					