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Arizona Corporation Commission

DOCKETED

OCT 18 2013

DOCKETED BY 

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Alterra Homeowners Association

Cobblestone Farms Homeowners Association

Desert Cedars Homeowners Association

Desert Passage Community Association

Glennwilde Homeowners' Association

Homestead North Homeowners' Association

Maricopa Meadows Homeowners Association

Province Community Association

Rancho El Dorado Homeowners Association

Rancho El Dorado Phase III Homeowners Association

Rancho Mirage Master Planned Community

Homeowners Association

Senita Community Association

Sorrento Community Master Association

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman

GARY PIERCE

BRENDA BURNS

BOB BURNS

SUSAN BITTER SMITH

Docket No. W-01212A-12-0309

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

INITIAL CLOSING BRIEF

1 THE MATTER OF THE APPLICATION OF
2 GLOBAL WATER-PALO VERDE UTILITIES
3 COMPANY FOR THE ESTABLISHMENT OF
4 JUST AND REASONABLE RATES AND
5 CHARGES FOR UTILITY SERVICE
6 DESIGNED TO REALIZE A REASONABLE
7 RATE OF RETURN ON THE FAIR VALUE
8 OF ITS PROPERTY THROUGHOUT THE
9 STATE OF ARIZONA

Docket No. SW-20445A-12-0310

7 THE MATTER OF THE APPLICATION OF
8 WATER UTILITY OF NORTHERN
9 SCOTTSDALE, INC. FOR A RATE
10 INCREASE

Docket No. W-03720A-12-0311

9 THE MATTER OF THE APPLICATION OF
10 WATER UTILITY OF GREATER TONOPAH
11 FOR THE ESTABLISHMENT OF JUST AND
12 REASONABLE RATES AND CHARGES FOR
13 UTILITY SERVICE DESIGNED TO REALIZE
14 A REASONABLE RATE OF RETURN ON
15 THE FAIR VALUE OF ITS PROPERTY
16 THROUGHOUT THE STATE OF ARIZONA

Docket No. W-02450A-12-0312

14 THE MATTER OF THE APPLICATION OF
15 VALENCIA WATER COMPANY – GREATER
16 BUCKEYE DIVISION FOR THE
17 ESTABLISHMENT OF JUST AND
18 REASONABLE RATES AND CHARGES FOR
19 UTILITY SERVICE DESIGNED TO REALIZE
20 A REASONABLE RATE OF RETURN ON
21 THE FAIR VALUE OF ITS PROPERTY
22 THROUGHOUT THE STATE OF ARIZONA

Docket No. W-02451A-12-0313

19 THE MATTER OF THE APPLICATION OF
20 GLOBAL WATER-SANTA CRUZ WATER
21 COMPANY FOR THE ESTABLISHMENT OF
22 JUST AND REASONABLE RATES AND
23 CHARGES FOR UTILITY SERVICE
24 DESIGNED TO REALIZE A REASONABLE
25 RATE OF RETURN ON THE FAIR VALUE
26 OF ITS PROPERTY THROUGHOUT THE
STATE OF ARIZONA

Docket No. W-20446A-12-0314

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

Docket No. W-01732A-12-0315

9 The following Maricopa Area Homeowners' Associations submit this Initial Closing
10 Brief:

11 Acacia Crossings Homeowners Association

12 Alterra Homeowners Association

13 Cobblestone Farms Homeowners Association

14 Desert Cedars Homeowners Association¹

15 Glennwilde Homeowners' Association

16 Homestead North Homeowners Association

17 Maricopa Meadows Homeowners Association

18 Province Community Association

19 Rancho El Dorado Homeowners Association

20 Rancho El Dorado Phase III Homeowners Association

21 Rancho Mirage Master Planned Community Homeowners Association

22 Senita Community Association

23 Sorrento Community Master Association

24 For all of the reasons explained below and in testimony offered at the hearing on these topics,
25 the above Maricopa Area HOAs request that the Commission adopt the Settlement Agreement

26 ¹ Desert Passage Community Association has not yet signed the Settlement Agreement docketed on August 13, 2013.

1 filed with the Commission on September 13, 2013 in its entirety, without changes other than the
2 minor corrections made after September 13, 2013 by consensus of the Staff, RUCO, and the
3 Company (collectively referred to in this brief as the “Settlement Agreement”).

4 **I. ADOPTION OF THE SETTLEMENT AGREEMENT IS IN THE PUBLIC**
5 **INTEREST**

6 The Maricopa Area HOAs intervened in this case primarily because of significant
7 concerns in Maricopa regarding the fairness of water and sewer rates charged by Global Water-
8 Santa Cruz Water Company and Global Water-Palo Verde Utilities Company (referred to
9 collectively as the “Company” or individually as “Santa Cruz” or “Palo Verde”). As is evident
10 from the extraordinary number of public comments filed in the Commission’s docket, concerns
11 exist at both at the homeowners association level and among individual residents.

12 The Company’s initial application proposed a rate increase that was objectionable to the
13 Maricopa Area HOAs, both in (1) the overall amount of the increase (a proposed \$3,662,560
14 required revenue increase for Palo Verde and \$2,730,367 required revenue increase for Santa
15 Cruz²) that would adversely impact Maricopa area homeowners associations and their members
16 as they continue their long recovery from an extraordinary recession, and (2) the original
17 proposed 250%+ increase in the effluent and non-potable groundwater rates -- an extraordinary
18 proposal that would have devastating impacts on the homeowners associations that use such
19 water to maintain facilities.

20 Although the Maricopa HOAs have or would have expressed significant concerns about a
21 number of issues raised in this case, on balance the Settlement Agreement joined by most of the
22 parties addresses these issues in a manner that promotes the public interest. From the Maricopa
23 Area HOA’s perspectives, the Settlement Agreement promotes the public interest for the
24 following reasons:

25 ² See Settlement Agreement Exhibit A, schedules A-1 for Global Water-Palo Verde Utilities Company and
26 Global Water - Santa Cruz Water Company (comparison of settlement numbers to application numbers).

1 **1. The Overall Amount of the Rate Increase is Reasonable as Proposed in the**
2 **Settlement Agreement**

3 The amount of the required revenue increase in the Settlement Agreement for Global
4 Water - Santa Cruz Water Company (“Santa Cruz”) (\$1,555,046³) and Global Water - Palo
5 Verde Utilities Company (“Palo Verde”) (\$1,888,939⁴) is roughly half of the proposed increase
6 in the Company’s initial application. In comparison, after conducting a lengthy review,
7 RUCO’s direct testimony filed on July 9, 2013 recommended a revenue increase for Santa Cruz
8 of \$1,454,179 and for Palo Verde of \$1,337,539.

9 **2. The Phase-In of Rates with No Rate Increase in the First Year Benefits**
10 **Customers**

11 The Settlement Agreement provides for an 8-year phase-in period for the rate increase for
12 Santa Cruz and Palo Verde customers, with no rate increase in the first year, and with no
13 recovery of revenues foregone under the phase-in.⁵ Customers have already experienced a
14 number of increases as a result of phased-in rates granted in the prior rate case, so maintaining
15 the existing rates for another year and phasing in higher rates gradually the following years will
16 allow customers to incorporate rate increases into their budgets gradually.

17 **3. No Rate Case before May 31, 2017**

18 In the Settlement Agreement, the Company has agreed it will not file a new rate case in
19 the Santa Cruz and Palo Verde systems until after May 31, 2017.⁶ This provision promotes
20 certainty in the rate amounts for customers for approximately four years after this rate case ends
21 and eliminates or at least reduces rate case expenses that might otherwise be incurred during that
22 time.

23 ³ See Settlement Agreement Exhibit A, schedules A-1 for Global Water-Palo Verde Utilities Company and Global
24 Water - Santa Cruz Water Company.

25 ⁴ *Id.*

26 ⁵ See Settlement Agreement, ¶3.4.

⁶ See Settlement Agreement, ¶2.1. The City of Maricopa joined the Settlement Agreement by filing a signature
 page on August 21, 2013. See also Settlement Agreement, ¶11.7 (counterpart signatures).

1 **4. The Settlement Agreement’s Proposed Rate Design for Effluent and**
2 **Nonpotable Groundwater Incorporates More Gradual Increases**

3 Another of the Maricopa Area HOAs’ primary concerns regarding the rate design
4 proposed by the Company at the initiation of this case was the proposal to immediately increase
5 the effluent and non-potable groundwater rates from the current amount, \$0.57 per 1,000
6 gallons, to \$2.00 per 1,000 gallons, an increase of over 250% percent. Such an immediate and
7 unreasonable increase was expected to have a devastating impact on the expenses and overall
8 budgets of the Maricopa Area HOAs.⁷ The Settlement Agreement instead proposes to raise
9 these rates gradually over an 8-year period to \$1.6380 per 1,000 gallons in 2021. The rates for
10 effluent and non-potable groundwater proposed in the Settlement Agreement for earlier years
11 are closer to amounts currently paid for similar services elsewhere.⁸

12 **5. The Settlement Agreement Resolves Longstanding Arguments Regarding**
13 **ICFAs in a Balanced Manner**

14 A significant portion of the proposed rate increase in the Company’s application related
15 to the proposed reversal of the Commission’s prior decision to treat as contributions in aid of
16 construction (“CIAC”) funds provided by developers to Global’s parent company pursuant to
17 Infrastructure Coordination and Finance Agreements (“ICFAs”). The Company urged reversal
18 of the Commission’s prior decision, and testified as to the continuing negative effects of the
19 prior decision on its financial health.⁹ This is the second rate case in which arguments regarding
20 the treatment of ICFA funds have been a primary issue. Had the Settlement Agreement not be
21 entered into, the Maricopa Area HOAs would have urged that the Commission continue to treat
22 developer-provided contributions to the Company’s parent company as contributions in aid of
23 construction (“CIAC”).

24 _____
25 ⁷ See Testimony of Brian Quillen (docketed on July 8, 2013), pp. 5-6.

26 ⁸ *Id.* at pp. 6-7 (comparable services offered by other providers are currently \$0.63-0.84 per 1000 gallons).

⁹ See Testimony of Trevor Hill, Ex. A1, pp. 4-6.

1 Also of primary concern to the Maricopa HOAs, however, is ensuring that water and
2 sewer service are delivered safely, responsibly, and continuously at a fair price going forward.
3 A substantial benefit of the Settlement Agreement is that it resolves longstanding arguments
4 regarding the treatment of ICFA funds in a comprehensive manner that is intended to promote
5 the delivery of water and sewer service at a fair price. The Settlement Agreement proposes clear
6 accounting treatments for past and future ICFA payments that are intended to provide the utility
7 companies with better access to and control over funds paid as hook-up fees that they can use
8 for infrastructure construction, and to provide consumers, without further argument, with the
9 rate relief that comes with treatment of hook-up fees as CIAC. Further, it also brings to an end
10 the use of ICFAs.

11 One of the concerns specific to the Santa Cruz and Palo Verde systems regarding reversal
12 of a portion of the prior CIAC determinations was the potential for rate shock if the \$32 million
13 Southwest Plant Held For Future Use (*see* Settlement Agreement, ¶6.3.3) comes online and
14 enters rate base as a used and useful facility suddenly during the 8-year phase-in period. This
15 concern is addressed in the Settlement Agreement through a phase-in of the plant eligible for
16 rate base treatment over a period of years.

17 In summary, the parties in this case still have significant disagreements regarding the
18 policies and proposals in the Company's original application. However, through a robust
19 discussion of the facts, the law, and practical considerations, the Maricopa Area HOAs believe
20 that the Commission's approval of the Settlement Agreement terms would be in the public
21 interest.

22 **II. THE SETTLEMENT AGREEMENT SHOULD BE APPROVED WITHOUT**
23 **CHANGES**

24 Each of the parties to the Settlement Agreement, who represented a variety of stakeholder
25 interests, carefully negotiated and considered the terms adopted in it, and no terms can be altered
26 without potentially affecting a party's support. In recognition of the careful balance of terms in
the Settlement Agreement, Section 10.5 provides that any party may withdraw from the

1 Settlement Agreement if the Commission “fails to issue an order adopting all material terms...”
2 The materiality of any provision is determined by the party seeking to withdraw from the
3 Settlement Agreement. Given the significant disputes resolved by settlement in this case, it is in
4 the public interest to preserve the negotiated terms to prevent further turmoil. So long as the
5 Commission agrees the Settlement Agreement terms, as proposed, are in the public interest, the
6 Maricopa Area HOAs urge the Commission to adopt the agreement in its entirety without
7 change.

8 RESPECTFULLY SUBMITTED this 18th day of October, 2013.

9 RYLEY CARLOCK & APPLEWHITE

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