

ORIGINAL



0000149259

RECEIVED

2013 OCT 31 P 3:56

1 FENNEMORE CRAIG  
2 A Professional Corporation  
3 Jay L. Shapiro (No. 014650)  
4 2394 East Camelback Road, Suite 600  
5 Phoenix, Arizona 85016  
6 Telephone (602) 916-5000

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

5 Attorneys for Liberty Utilities (Rio Rico  
6 Water & Sewer) Corp.

Arizona Corporation Commission

DOCKETED

6 Timothy J. Sabo (No. 021309)  
7 ROSHKA DeWULF & PATTEN, PLC  
8 One Arizona Center  
9 400 East Van Buren, Suite 800  
10 Phoenix, Arizona 85004  
11 (602) 256-6100

OCT 31 2013

DOCKETED BY

10 Attorneys for the Global Water Utilities

12 **BEFORE THE ARIZONA CORPORATION COMMISSION**

13 IN THE MATTER OF THE APPLICATION  
14 OF ARIZONA WATER COMPANY, AN  
15 ARIZONA CORPORATION, FOR A  
16 DETERMINATION OF THE FAIR VALUE  
17 OF ITS UTILITY PLANT AND PROPERTY  
18 AND FOR ADJUSTMENTS TO ITS RATES  
19 AND CHARGES FOR UTILITY SERVICE  
20 FURNISHED BY ITS EASTERN GROUP  
21 AND FOR CERTAIN RELATED  
22 APPROVALS.

DOCKET NO. W-01445A-11-0310

**NOTICE OF FILING RE-HEARING  
REBUTTAL TESTIMONY**

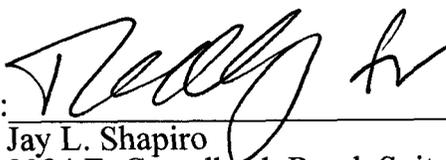
20 Intervenor Liberty Utilities (Rio Rico Water & Sewer) Corp. f/k/a Rio Rico  
21 Utilities, Inc. and the Global Water Utilities<sup>1</sup> hereby submit the Re-Hearing Rebuttal  
22 Testimonies of Paul Walker and Greg Sorensen. See **Exhibit A** attached hereto.

24 \_\_\_\_\_  
25 <sup>1</sup> Global Water – Palo Verde Utilities Company, Global Water – Santa Cruz Water Company, Valencia  
26 Water Company – Town Division, Valencia Water Company – Greater Buckeye Division, Water Utility of  
Greater Tonopah, Willow Valley Water Co. and Water Utility of Northern Scottsdale (collectively, the  
“Global Utilities”).

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

RESPECTFULLY SUBMITTED this 31st day of October, 2013.

FENNEMORE CRAIG, P.C.

By: 

Jay L. Shapiro  
2394 E. Camelback Road, Suite 600  
Phoenix, Arizona 85016-3429

*Attorneys for Liberty Utilities (Rio Rico  
Water & Sewer) Utilities, Inc.*

ROSHKA DEWULF & PATTEN, PLC

By: 

Timothy J. Sabo  
One Arizona Center  
400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004

*Attorneys for the Global Water Utilities*

**ORIGINAL** and 13 copies filed  
this 31st day of October, 2013 with:

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

**COPY** hand-delivered  
this 31st day of October, 2013 to:

Dwight D. Nodes, Assistant Chief Administrative Law Judge  
Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

1 Bridget A. Humphrey, Esq.  
2 Wesley C. Van Cleve, Esq.  
3 Legal Division  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007

7 **COPY** sent via U.S. mail  
8 this 31st day of October, 2013 to:

9 Daniel W. Pozefsky, Esq.  
10 Residential Utility Consumer Office  
11 1110 W. Washington Street, Suite 220  
12 Phoenix, Arizona 85007

13 Steven A. Hirsch  
14 Stanley B. Lutz  
15 Bryan Cave, LLP  
16 Two North Central Avenue, Suite 2200  
17 Phoenix, Arizona 85004-4406

18 Robert Geake  
19 Arizona Water Company  
20 P.O. Box 29006  
21 Phoenix, Arizona 85038

22 Kathie Wyatt  
23 1940 N. Monterey Drive  
24 Apache Junction, Arizona 85120

25 Thomas M. Broderick  
26 EPCOR Water Arizona, Inc.  
2355 W. Pinnacle Peak Road, Suite 300  
Phoenix, Arizona 85027

Michael M. Grant  
Gallagher & Kennedy, PA  
2575 E. Camelback Road  
Phoenix, Arizona 85016-9225

Gary Yaquinto  
Arizona Investment Council  
2100 N. Central Avenue, Suite 210  
Phoenix, Arizona 85004

1 Michael W. Patten  
Timothy J. Sabo  
2 Roshka Dewulf & Patten, PLC  
One Arizona Center  
3 400 E. Van Buren Street, Suite 800  
Phoenix, Arizona 85004  
4

5 Ron Fleming  
Global Water  
6 21410 N. 19<sup>th</sup> Avenue, Suite 201  
Phoenix, Arizona 85027  
7

8 Greg Patterson  
Water Utility Association of Arizona  
9 916 West Adams, Suite 3  
Phoenix, Arizona 85007  
10

11 Michael Hallam  
Lewis Roca Rothgerber, LLP  
12 40 N. Central Avenue  
Phoenix, Arizona 85004  
Attorneys for EPCOR Water Company  
13

14 Garry D. Hays  
Law Offices of Garry D. Hays, P.C.  
15 1702 E. Highland Avenue, Suite 204  
Phoenix, Arizona 85016  
16

17 By:   
18

19 8628990.1/080191.0014  
20  
21  
22  
23  
24  
25  
26

# EXHIBIT A

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**  
**BOB STUMP, Chairman**  
**GARY PIERCE**  
**BRENDA BURNS**  
**BOB BURNS**  
**SUSAN BITTER SMITH**

IN THE MATTER OF THE APPLICATION OF  
ARIZONA WATER COMPANY, AN ARIZONA  
CORPORATION, FOR A DETERMINATION OF  
THE FAIR VALUE OF ITS UTILITY PLANT  
AND PROPERTY AND FOR ADJUSTMENTS  
TO ITS RATES AND CHARGES FOR UTILITY  
SERVICE FURNISHED BY ITS EASTERN  
GROUP AND FOR CERTAIN RELATED  
APPROVALS.

DOCKET NO. W-01445A-11-0310

**REHEARING REBUTTAL TESTIMONY OF**

**PAUL WALKER**

**October 31, 2013**

1 **I. INTRODUCTION AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME.**

3 A. My name is Paul Walker.

4 **Q. ARE YOU THE SAME PAUL WALKER THAT FILED TESTIMONY IN**  
5 **THE DIRECT PHASE OF THIS REHEARING?**

6 A. Yes, I am a regulatory consultant with Insight Consulting, LLC and my direct  
7 testimony was submitted on October 4, 2013 jointly on behalf of Global Water and  
8 Liberty Utilities. I also testified in the Phase 2 proceedings that concluded with the  
9 approval of the SIB in Decision No. 73938 (June 27, 2013). On behalf of my  
10 clients and Arizonans for Responsible Water Policy, which I chair, I have  
11 participated in every workshop and other proceeding the Commission has held on  
12 approval of a DSIC-like mechanism for water and wastewater utilities under  
13 Commission regulation.

14 **Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY IN THIS**  
15 **REHEARING?**

16 A. I will respond to the direct filing made by RUCO. Specifically, I will try to  
17 respond to RUCO by reminding the Commission of the important policy reasons it  
18 considered and approved the SIB in the first place. Unfortunately, RUCO  
19 continues to try to hold the Commission to unnecessary regulatory constraints that  
20 deny customers the benefits of rate gradualism and limit the state's ability to meet  
21 the challenges of infrastructure replacement. It is time RUCO realize that its  
22 policies may keep a few more dollars in customer pockets every year (until the next  
23 rate case) but they also can interfere with innovative solutions to accelerate  
24 improvements in deteriorating infrastructure, mitigate "lumpy" rate increases, and  
25 undermine the financial health of an entire industry. None of these things promote  
26 safe, reliable and economic water and wastewater utility service.

1 **II. RESPONSE TO RUCO'S REHEARING DIRECT**

2 **Q. WHAT ARE RUCO'S ARGUMENTS AGAINST THE SIB?**

3 A. Mr. Mease makes four arguments in his testimony:

- 4 1. The improvements are routine in nature;
- 5 2. Utilities need to make these improvements anyway as assets near the end of
- 6 their useful life;
- 7 3. Normal rate cases can handle these costs; and
- 8 4. RUCO has "consistently" opposed cost recovery mechanisms that do not
- 9 follow the general rate case process.

10 Mr. Parcell then testifies that AWC should get a lower return because it has less

11 risk.

12 **Q. ARE THESE NEW ARGUMENTS BY RUCO?**

13 A. Not at all. As to the latter testimony by Mr. Parcell, RUCO's former cost of capital

14 witness already testified in both of the previous two phases that AWC should get a

15 lower ROE. The Commission disagreed and Mr. Parcell not only offers nothing

16 that should change the Commission's decision, but as Mr. Sorensen explains,

17 RUCO continues to ignore the fact that all of their ROE proxy companies have

18 DSIC-like mechanisms.<sup>1</sup>

19 Moreover, Mr. Mease's testimony and RUCO's four reasons simply repeat

20 the same arguments RUCO makes in response to every adjustor requested by a

21 water or wastewater provider and they all boil down to one theme - "There is

22 nothing wrong with the way things are done". And that's where RUCO's stale

23 arguments fail.

24

25

26

---

<sup>1</sup> Re-hearing Rebuttal Testimony of Greg Sorensen.

1 Q. WHY IS THAT MR. WALKER?

2 A. RUCO is ignoring two critical facts that underlie the Commission's approval of a  
3 SIB. First, customers want rate gradualism, as shown by the studies I submitted in  
4 the Phase 2 hearing. Second, this state's water and wastewater providers, like  
5 those all over this nation, face the need to replace vast amounts of water and  
6 wastewater infrastructure.

7 Q. WOULD YOU PLEASE DISCUSS THIS "NEED FOR  
8 INFRASTRUCTURE" YOU MENTION IN FURTHER DETAIL?

9 A. Yes. Studies by the U.S. Congressional Budget Office and the U.S. Environmental  
10 Protection Agency concerning the issue of repairing and replacing aging  
11 infrastructure; like similar American Society of Civil Engineers, the American  
12 Water Works Association, the National Regulatory Research Institute studies, all  
13 show that this nation faces a critical need for investment in water and wastewater  
14 infrastructure. The first two, for example, consistently estimate that this country  
15 will need over \$10 billion of infrastructure investment *every year* simply to repair  
16 and replace existing water and wastewater infrastructure.<sup>2</sup>

17 Similarly, the Society of Civil Engineers issued a "report card" on U.S.  
18 infrastructure this past summer, and water and wastewater infrastructure received a  
19 D. The Society's findings conclude "much of our drinking water infrastructure is  
20 nearing the end of its useful life. There are an estimated 240,000 water main  
21 breaks per year in the United States."<sup>3</sup>

22

23

24

25

26

---

<sup>2</sup> See the CBO's "Future Investment in Drinking Water and Wastewater Infrastructure" and the EPA  
"Drinking Water Needs Assessment" (<http://water.epa.gov/infrastructure/drinkingwater/dwns/> ).

<sup>3</sup> See The American Society of Civil Engineers Report Card, Water Section  
(<http://www.infrastructurereportcard.org/a/#p/drinking-water/overview> ).

1 Q. DO WATER MAIN BREAKS POSE A THREAT TO THE PUBLIC  
2 HEALTH AND SAFETY?

3 A. Yes, as detailed in the presentation given by Graham Symmonds, P.E., in the  
4 Commission's water workshops.<sup>4</sup>

5 Q. THANK YOU. WHAT DOES THE AMERICAN WATER WORKS  
6 ASSOCIATION SAY ABOUT WATER AND WASTEWATER  
7 INFRASTRUCTURE CHALLENGES?

8 A. In "Buried No Longer" the Association found that "more than one million miles of  
9 pipes beneath our streets, are nearing the end of its useful life and approaching the  
10 age at which it needs to be replaced.... [replacing them] will cost at least \$1 trillion  
11 over the next 25 years, if we are to maintain current levels of water service.  
12 Delaying the investment can result in degrading water service, increasing water  
13 service disruptions, and increasing expenditure for emergency repairs."<sup>5</sup>

14 The NRRI has likewise weighed in on this issue. In "Effective Regulation:  
15 Guidance for Public-Interest Decision Makers", the NRRI cautioned that  
16 "problems persist for small water systems. The situation is likely only to worsen as  
17 infrastructure replacement needs increase and as new regulatory requirements  
18 demand increased investment in water systems... The challenges for state  
19 commissions in addressing small water system issues cannot be solved through rate  
20 cases alone." The NRRI further found that "Surveys conducted by the EPA  
21 suggest that the need for water and wastewater infrastructure improvement and  
22 replacement (both privately and publicly owned) over the next 20 years is between  
23 \$500 billion and \$1 trillion. This dollar level reflects a growing need across the

24  
25 <sup>4</sup> See "DSICs, Water Loss and Human Health" (workshop presentations, filed Jan. 20, 2011 in Docket  
No. W-00000C-06-0149, at 31-49).

26 <sup>5</sup> See The American Water Works Association, "Buried No Longer"  
(<http://www.awwa.org/portals/0/files/legreg/documents/buriednolonger.pdf>).

1 nation to replace water and sewer pipes and other water and wastewater facilities as  
2 they approach the end of their useful lives... Water and wastewater utilities need to  
3 manage those assets actively or risk adverse economic consequences, such as  
4 unplanned system failures, increased maintenance costs, and unbudgeted repair and  
5 replacement costs.”<sup>6</sup>

6 **Q. SOUNDS LIKE A LOT OF INDUSTRY LEADING ORGANIZATIONS**  
7 **HAVE IDENTIFIED A SERIOUS PROBLEM. ANYONE OFFERING**  
8 **SOLUTIONS?**

9 A. Yes. The NRRI recognized that we need to foster timely investment without  
10 crushing rate shock. It wrote that “One challenge is how to finance the necessary  
11 infrastructure replacements such that (a) rates increase gradually (as opposed to  
12 sudden spikes in rates) while (b) maintaining the utilities’ financial stability...  
13 Adding to the challenge is the absence, for most utilities, of a designated fund  
14 available to replace aging infrastructure – an absence attributable to ratemaking  
15 practices which have kept depreciation rates low and have disallowed or  
16 discouraged rate recovery of contributions in aid of construction.”<sup>7</sup>

17 Clearly, the Commission is aware of the severity and cost of this challenge –  
18 and adopted a DSIC-type mechanism, the SIB, to address it.

19 **Q. DOES RUCO DENY THAT THESE INFRASTRUCTURE NEEDS EXIST?**

20 A. No, RUCO’s position is more akin to that of someone living in a flood plain,  
21 dealing with floods year after year, but thinking there’s nothing to be done but  
22 rebuild, over and over. The question should be “what is the effect of your current  
23 course of action, and isn’t there a better path?” Yes, utilities have to make these  
24

25 <sup>6</sup> Effective Regulation: Guidance for Public Interest Decisionmakers  
([http://books.google.com/books/about/Effective\\_Regulation.html?id=W2z4tgAACAAJ](http://books.google.com/books/about/Effective_Regulation.html?id=W2z4tgAACAAJ).)

26 <sup>7</sup> *Id.*

1 investments, and yes, in rate cases these costs will be passed through to ratepayers  
2 – but that isn't all that the SIB does. It doesn't create a new right to recover  
3 investments; it provides a lower cost means of rate recovery on plant that makes  
4 service and reduces rate shock.

5 **Q. WHAT DOES RUCO SAY ABOUT RATE GRADUALISM?**

6 A. Nothing. No party has ever challenged Responsible Water's position that: (A) our  
7 polling results last year showed that over 89 percent of Arizonans prefer smaller,  
8 more manageable rate increases rather than larger, infrequent rate increases, and  
9 (B) every public comment session on water rates hears countless customers making  
10 the same plea – “why can't the rate increases be done on a smaller, annual basis,  
11 instead of in one large jump.” The Commission has thoroughly evaluated an  
12 abundance of evidence in this now three part proceeding, and rightly concluded  
13 that there is an unprecedented challenge, for which it adopted a common approach  
14 - a DSIC-type mechanism but with Arizona's own specific touches that make it the  
15 most balanced and customer friendly mechanism of this type in the country.

16 **Q. BUT ISN'T THIS CONTRARY TO THE COMMISSION'S DUTY TO**  
17 **PROTECT CUSTOMERS?**

18 A. Absolutely not. This is exactly the Commission's mission and purpose. It is  
19 solving a very large problem with a known tool that provides utility stability and  
20 meets the customers desire for manageable rate increases, aka, “rate gradualism”.  
21 RUCO supports adjustors for gas and electric providers so it must understand that  
22 rate gradualism is of benefit to customers. Respectfully, however, RUCO either  
23 doesn't care to see the challenges facing water and wastewater utilities, or it wants  
24 them solved entirely on the backs of the water and wastewater utilities. That's not  
25 the balanced approach I understand our Commission is required to take to protect  
26 the interests of customers and the utilities that serve them. Which this Commission

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

is doing by ironically, approving the very thing RUCO's constituency wants - rate gradualism. It is well past time for RUCO to see that the same things that help APS and its customers can help and are needed now to help water and wastewater utilities and their customers.

**Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

A. Yes.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**  
BOB STUMP, Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF  
ARIZONA WATER COMPANY, AN ARIZONA  
CORPORATION, FOR A DETERMINATION OF  
THE FAIR VALUE OF ITS UTILITY PLANT  
AND PROPERTY AND FOR ADJUSTMENTS  
TO ITS RATES AND CHARGES FOR UTILITY  
SERVICE FURNISHED BY ITS EASTERN  
GROUP AND FOR CERTAIN RELATED  
APPROVALS.

DOCKET NO. W-01445A-11-0310

**REHEARING REBUTTAL TESTIMONY OF  
GREG SORENSEN**

**October 31, 2013**

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Greg Sorensen. My business address is 12725 W. Indian School Road,  
4 Suite D-101, Avondale, AZ 85392.

5 **Q. BY WHOM ARE YOU EMPLOYED?**

6 A. I am employed by Liberty Utilities as President.

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

8 A. On behalf of the Intervenor Rio Rico Utilities, Inc. dba Liberty Utilities (“Liberty  
9 Utilities”).

10 **Q. PLEASE DESCRIBE LIBERTY UTILITIES AND YOUR ROLE AS  
11 PRESIDENT.**

12 A. Liberty Utilities is the Algonquin Power and Utilities Corporation subsidiary that  
13 owns and operates water, wastewater, gas and electric utilities in Arizona,  
14 Arkansas, California, New Hampshire, Georgia, Missouri, Illinois, Texas and Iowa  
15 ([www.libertyutilities.com](http://www.libertyutilities.com)). I am currently responsible for Liberty Utilities’ water  
16 and wastewater operations in Texas, Missouri, Illinois, and Arizona.

17 In Arizona, I am responsible for the daily operations and administration of  
18 all the utilities, for the financial and operating results for each utility, for capital  
19 and operating cost budgeting, for rate case planning and oversight, and rate setting  
20 policies and procedures as they relate to the operations under my responsibility.  
21 I also oversee customer and development services, human resources, engineering  
22 and conservation planning.

23 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

24 A. Yes, I have testified in Commission proceedings for all of Liberty Utilities’  
25 affiliate entities, including several rate cases.

26

1 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

2 A. To respond to RUCO's Direct Testimony.

3 **II. THE SIB REHEARING**

4 **Q. WHAT WAS THE PURPOSE OF THE REHEARING?**

5 A. Our understanding is that the rehearing was intended by the Commission to address  
6 two issues: first, is the SIB an adjustor mechanism, and second, should the  
7 inclusion of a SIB result in a lower return on equity for AWC?

8 **Q. CAN YOU SUMMARIZE RUCO'S REHEARING DIRECT TESTIMONY**  
9 **CONCERNING THESE TWO ISSUES?**

10 A. Mr. Mease testifies that he will explain why the Commission "made a mistake" in  
11 approving the SIB for AWC but does not address either of the two issues in the  
12 rehearing.<sup>1</sup> Nowhere does Mr. Mease explain why the SIB is not an adjustor  
13 authorized within the Commission's broad discretion of rate setting or why the SIB  
14 should have led to a lower equity return.

15 **Q. WHAT ABOUT THE TWO EXPERT WITNESSES RUCO HIRED FOR**  
16 **THIS REHEARING?**

17 A. It is unclear why RUCO felt the need to engage two expert witnesses at this late  
18 stage of this now-three phase proceeding; neither adds much to the issues at hand.  
19 Mr. Smith, who claims he is both an accountant and a lawyer, spends most of his  
20 testimony describing his qualifications and a background on DSIC's. The portion  
21 of his testimony where he discusses DSIC's in other states and risk, are not  
22 quantitative in nature; he simply draws inferences based on decisions made in other  
23 places. As such, and with all due respect, we did not find that Mr. Smith provided  
24 any new information germane to the rehearing.

25

26 

---

<sup>1</sup> Direct Testimony of Robert B. Mease ("Mease Dt.") at 3:1-5.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

Mr. Parcell is also a heavily credentialed witness with decades of experience testifying as a hired expert, and he does address one of the two issues in this rehearing. Specifically, Mr. Parcell attempts to link the SIB to reduced risk and then makes the leap to a lower return.<sup>2</sup> I am not a cost of capital expert, nor do I know or understand how this rate of return testimony differs from the testimony presented by RUCO's Phase 1 and Phase 2 cost of capital expert. In any event, it seems to us that the Commission has already considered whether the approval of a SIB warranted a different ROE for AWC than the one it approved, and no matter how many different cost of capital experts RUCO trots out, that decision was explained and supported by the evidence.

In sum, if RUCO has the burden on the two issues in this rehearing, we do not see that they have offered any evidence that would persuade the Commission to change its previous decision in any material manner.

**A. The SIB is an Adjustor?**

**Q. SO RUCO DID NOT ADDRESS WHETHER THE SIB IS AN ADJUSTOR?**

A. Not really. Mr. Mease does complain that plant replacement is routine, and that the adjustor only covers some plant and not other elements of ratemaking.<sup>3</sup> Certainly, these arguments could apply equally to a variety of adjustors, and while I am not a lawyer, we have submitted evidence of three instances of SIB-similar adjustors approved for APS.<sup>4</sup> All three of these mechanisms have striking similarities to the SIB and were supported by RUCO in the underlying rate cases. I don't know why RUCO supports these adjustors for APS (and other electric and gas utilities)

---

<sup>2</sup> Direct Testimony of David C. Parcell at 19:22-26.

<sup>3</sup> Mease Dt. at 4:1-5.

<sup>4</sup> Re-Hearing Direct Testimony of Paul Walker at 2-6 (those adjustors are the Renewable Energy Surcharges, Demand Side Management Surcharge and Environmental Improvement Surcharge).

1 but opposes them for water and sewer utilities. But RUCO's inconsistent positions  
2 do not change the fact that the Commission uses adjustors all the time.

3 **Q. DO YOU WISH TO DIRECT ATTENTION TO ANYTHING ELSE IN THE**  
4 **RECORD CONCERNING THE ISSUE OF WHETHER THE SIB IS AN**  
5 **ADJUSTOR?**

6 A. Yes, I would just remind Judge Nodes and the Commission that our joint closing  
7 brief dated April 29, 2013 (with Global Water) contained our legal arguments in a  
8 section entitled "The SIB Complies with All Requirements for an Adjustment  
9 Mechanism Under Arizona Law."<sup>5</sup> The legal arguments advanced by Liberty and  
10 Global are remarkably consistent with the Commission's findings in Decision No.  
11 73938 (June 27, 2013). For example, the Commission stated that "The SIB  
12 mechanism embodied in the Settlement Agreement is compliant with the  
13 Commission's constitutional requirements, as well as the case law interpreting the  
14 Commission's authority and discretion in setting rates. The Commission has the  
15 constitutional ratemaking authority to approve adjustment mechanisms in a general  
16 rate case."<sup>6</sup> Similarly, the Commission found that "The Settlement Agreement, and  
17 the SIB mechanism incorporated therein, with the modifications discussed above,  
18 satisfies the fair value concerns addressed by various court decisions."<sup>7</sup> Nothing  
19 has changed, nor should the Commission's decision to approve the SIB as an  
20 adjustor.

24 <sup>5</sup> Joint Closing Brief of Liberty Utilities and Global Water at 11-15.

25 <sup>6</sup> Decision No. 73938 at Conclusion of Law No. 4.

26 <sup>7</sup> Decision No. 73938 at Conclusion of Law No. 5.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**B. Should Approval of a SIB Lower AWC'S Return on Equity?**

**Q. WHAT WAS THE PURPOSE OF THE REHEARING APPLICATION AS IT RELATES TO ROE?**

A. As I discussed earlier, the Commission wanted to examine the link, if any, between the presence of a SIB and ROE.

**Q. MR. SORENSEN, ARE YOU AN ROE EXPERT?**

A. No, I am not. I expect that AWC witnesses Mr. Reiker and Ms. Ahern will address the specific issues of their rate case and the possible link, if any, of a SIB and ROE. For our part, one thing stands out that RUCO continues to ignore. That is the fact that all of the ROE analysis in this docket includes an implied adjustment for the presence of DSIC-like mechanisms.

**Q. WHAT DO YOU MEAN, MR. SORENSEN?**

A. As Mr. Reiker correctly points out in his direct testimony, all of the proxy group companies had a DSIC-like mechanism when the ROE recommendations were made in this case.<sup>8</sup> The implication of this is that the original ROE models presented assumed a DSIC-like mechanism because all of the proxy group companies have DSIC-like mechanisms. In other words, RUCO is not making an apples-to-apples comparison and this failure undermines Mr. Parcell's updated ROE recommendations.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.

---

<sup>8</sup> Direct Testimony of Joel M. Reiker at 16:1-10.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

Table of Contents

I. INTRODUCTION AND PURPOSE OF TESTIMONY ..... 1  
II. THE SIB REHEARING ..... 2

8628192.1/080191.0014