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BEFORE THE ARIZONA CORPORATION COMMISSION

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- BOB STUMP, Chairman
- GARY PIERCE
- BRENDA BURNS
- BOB BURNS
- SUSAN BITTER SMITH

AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

IN THE MATTER OF THE APPLICATION OF
JOHNSON UTILITIES, LLC., DBA JOHNSON
UTILITIES COMPANY FOR AN INCREASE
IN ITS WATER AND WASTEWATER RATES
FOR CUSTOMERS WITHIN PINAL
COUNTY, ARIZONA.

DOCKET NO. WS-02987A-08-0180

**STAFF'S NOTICE OF FILING
RESPONSIVE TESTIMONY**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Responsive Testimony of Darron W. Carlson regarding RUCO's Direct Testimony in support of the Settlement Agreement in the above-referenced matter.

RESPECTFULLY SUBMITTED this 12th day of February, 2014.

Robin R. Mitchell
Attorney, Legal Division
Arizona Corporation Commission
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Original and thirteen (13) copies
of the foregoing were filed this
12th day of February, 2014 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85008

Arizona Corporation Commission

DOCKETED

FEB 12 2014

Copy of the foregoing mailed and/or emailed this
12th day of February, 2014 to:

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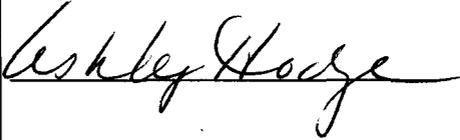
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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
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SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. WS-02987A-08-0180
JOHNSON UTILITIES, LLC, DBA JOHNSON)
UTILITIES COMPANY, FOR AN INCREASE IN)
ITS WATER AND WASTEWATER RATES FOR)
CUSTOMERS WITHIN PINAL COUNTY,)
ARIZONA.)
_____)

TESTIMONY

REGARDING THE SETTLEMENT AGREEMENT

FILED ON NOVEMBER 4, 2013

OF

DARRON W. CARLSON

PUBLIC UTILITIES ANALYST MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 12, 2014

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EXECUTIVE SUMMARY
JOHNSON UTILITIES, LLC, DBA JOHNSON UTILITIES COMPANY
DOCKET NO. WS-02987A-08-0180

Johnson Utilities, LLC dba Johnson Utilities Company (“Johnson” or “Company”) is a Class “A” Arizona public service corporation engaged in providing water utility services to approximately 17,550 customers and providing wastewater utility services to approximately 21,525 customers. Most of the water customers are also wastewater customers. The Company serves areas in various portions of Pinal County. Johnson’s current rates were approved in Decision No. 73992, dated July 16, 2013.

On July 16, 2013, the Arizona Corporation Commission (“Commission”) issued Decision No. 73992, increasing the Company’s rates to include an imputed income tax expense. The Company filed a motion pursuant to Arizona Revised Statutes (“ARS”) § 40-252 requesting the Commission re-hear the issue of the follow-up rate case requirement in this docket. The Residential Utility Consumers Office (“RUCO”) filed a motion pursuant to ARS §40-253 requesting the Commission re-hear the issue of income tax expense in this docket. Johnson and RUCO entered into discussions, the Company and RUCO agreed to a settlement related to this income tax recovery issue. The Settlement Agreement, filed on November 4, 2013, provides an alternate timeline for the Company’s next rate filing as well as providing for a reduction in the rate increase authorized in Decision No. 73992.

Staff did not participate in the negotiations nor did it sign the Settlement Agreement. Staff recommends approval of the income tax recovery level decrease noted in the Settlement. However, Staff recommends denial of the alternate filing requirement of a rate case noted in the Settlement. If either of the participants refuses to bifurcate these two issues, Staff recommends denial of the Settlement Agreement.

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. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to explain Staff's opinion regarding the Settlement
9 Agreement between the Johnson Utilities, LLC dba Johnson Utilities Company
10 ("Johnson" or "Company") and the Residential Utility Consumer Office ("RUCO").
11

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

13 A. My testimony is organized into four sections. Section I is the introduction, Section II
14 discusses Staff's position regarding the Settlement Agreement, Section III discusses the
15 rationale of why a portion of the Agreement may be in the public interest, and Section IV
16 is the conclusion.
17

18 **STAFF'S POSITION ON THE SETTLEMENT AGREEMENT**

19 **Q. Did Staff participate in the settlement discussions?**

20 A. No, Staff did not participate in the settlement discussions.
21

22 **Q. Who participated in the settlement discussions?**

23 A. Representatives from the Company and from RUCO participated in the settlement
24 discussions.

1 **Q. Why did Staff not participate along with the other parties?**

2 A. Staff had supported the Commission's original Decision No. 73992, issued on July 16,
3 2013. The Company filed a motion pursuant to Arizona Revised Statutes ("ARS") §40-
4 252 requesting the Commission re-hear the issue of the follow-up rate case requirement in
5 this docket. RUCO filed a motion pursuant to ARS §40-253 requesting reconsideration of
6 the income tax expense allowed in Decision No. 73992. Because Staff supported the
7 original Decision, it saw no reason to discuss settlement of issues already determined by
8 the Commission.

9

10 **Q. Has Staff reviewed the Settlement Agreement?**

11 A. Yes, Staff reviewed the Settlement Agreement.

12

13 **Q. What is Staff's opinion of the Settlement Agreement?**

14 A. Staff believes there are two main issues involved in the Settlement Agreement. The first
15 being the actual income tax rate adjustment agreed to by the parties that would reduce the
16 rate increase that had been previously authorized in Decision No. 73992. Staff believes
17 that this settlement provision is acceptable and recommends this item be authorized.

18

19 **Q. What is the second issue referred to above?**

20 A. The second issue is the appropriate filing date and test year for the next rate case filing
21 required of the Company. Decision No. 73992 requires the Company to file a full rate
22 case for both water and wastewater divisions no later than June 30, 2015, using a 2014 test
23 year. The Settlement Agreement alters that initial directive to a rate filing requirement of
24 no later than June 30, 2016, using a 2015 test year. Staff believes that this portion of the
25 settlement is not acceptable and Staff recommends denial of this item.

26

1 **Q. Why does Staff object to a one-year extension of this requirement?**

2 A. The test year utilized in this docket was 2007, and it will be seven years between rate
3 cases if a 2014 test year is utilized. Typically, the Commission recommends a three to
4 five year period between rate cases so the seven year requirement is already too long
5 between full rate reviews. If the deadline were extended for filing a rate case, Johnson
6 would have had only two rate cases in almost 20 years. Staff believes that the Commission
7 was correct in requiring the Company to file a rate application by 2015.

8
9 **Q. Did Staff review the recent growth in the Company's service territory?**

10 A. Yes, Staff reviewed the Company's annual reports and notes significant growth in both
11 water and wastewater customer counts. In the five year period between the test year 2007
12 and 2012, the Company added over 4,000 water customers for a 23 percent increase and
13 added over 5,000 wastewater customers for a 24 percent increase. While many of these
14 new customers are receiving both water and wastewater services, the revenue increases to
15 the Company are independent for each service.

16
17 **Q. What does this level of growth indicate to Staff?**

18 A. This level of growth in customer count indicates that revenue and also most likely
19 expenses have changed significantly, but not necessarily proportionately. Therefore, a full
20 rate case analysis is necessary to determine if current rates are still just and reasonable,
21 and if not, how these rates should be adjusted to be just and reasonable.

22
23 **Q. Does the imminent sale of Johnson's utilities to the Town of Florence ("Town")
24 impact Staff's current recommendation?**

25 A. No. Staff notes that this sale transaction was filed under Docket No. WS-02987A-13-
26 0477. If and when that sale occurs the rate case issue would be rendered moot.

1 **Q. Then why bother to object to the extension requested in the Settlement Agreement?**

2 A. Staff believes it should proceed with appropriate recommendations based on current
3 information available. Further, Staff notes that a previously planned sale of “Johnson to
4 Town” delayed the processing of the rate case in this docket five or six years ago, but did
5 not occur. Additionally, Staff notes that it has not yet been determined whether or not a
6 vote of the Town citizens will be required to approve the transaction. In other words, the
7 sale to the Town is not a done deal and possibly may never happen.

8
9 **PUBLIC INTEREST**

10 **Q. Is the Settlement Agreement in the public interest?**

11 A. Staff believes that the income tax expense settlement position as described previously is in
12 the public interest as it will reduce the rate increase authorized in Decision No. 73992, and
13 Staff recommends approval of this item.

14
15 Staff believes that the extension of the rate case filing requirements is not in the public
16 interest and recommends denial of this item.

17
18 **CONCLUSION**

19 **Q. Can the Settlement Agreement be bifurcated to separate the two issues previously
20 described by Staff?**

21 A. It certainly could be, but that is up to the parties of the Settlement Agreement, Johnson
22 and RUCO.

1 **Q. What if Johnson and/or RUCO refuse to permit bifurcation of the Settlement**
2 **Agreement?**

3 A. If either party refuses the bifurcation of the issues, Staff recommends denial of the entire
4 Settlement Agreement.

5
6 **Q. Does the Settlement Agreement alter the fair value rate base ("FVRB") in this**
7 **docket?**

8 A. No, it does not. The FVRB for this docket was determined to be a negative \$2,414,613 for
9 the water division and \$17,279,553 for the wastewater division as noted in Decision No.
10 73992 dated July 16, 2013. That determination remains unchanged and this Settlement
11 Agreement does not alter that determination.

12
13 **Q. Does this conclude your testimony?**

14 A. Yes.