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Arizona Corporation Commission

DOCKETED

JAN 27 2016

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BEFORE THE ARIZONA CORPORATION COMMISSION

11 IN THE MATTER OF THE APPLICATION  
12 OF LIBERTY UTILITIES (BLACK  
13 MOUNTAIN SEWER) CORP., AN  
14 ARIZONA CORPORATION, FOR  
15 AUTHORITY TO ISSUE EVIDENCE OF  
16 INDEBTEDNESS IN AN AMOUNT NOT  
17 TO EXCEED \$3,400,000.

DOCKET NO: SW-02361A-15-0206

16 IN THE MATTER OF THE APPLICATION  
17 OF LIBERTY UTILITIES (BLACK  
18 MOUNTAIN SEWER) CORP., AN  
19 ARIZONA CORPORATION, FOR A  
20 DETERMINATION OF THE FAIR VALUE  
21 OF ITS UTILITY PLANTS AND  
22 PROPERTY AND FOR INCREASES IN ITS  
23 WASTEWATER RATES AND CHARGES  
24 FOR UTILITY SERVICE BASED  
25 THEREON.

DOCKET NO: SW-02361A-15-0207

**NOTICE OF FILING TESTIMONY  
IN SUPPORT OF COMPREHENSIVE  
SETTLEMENT AGREEMENT**

22 Liberty Utilities (Black Mountain Sewer) Corp. hereby submits the Testimony of  
23 Matthew Garlick in Support of the Comprehensive Settlement Agreement.

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RESPECTFULLY SUBMITTED this 27th day of January, 2016.

SHAPIRO LAW FIRM, P.C.

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of the foregoing were delivered**  
this 27th day of January, 2016, to:

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1200 W. Washington Street  
Phoenix, AZ 85007

**COPY of the foregoing hand-delivered**  
this 27th day of January, 2016, to:

Sasha Paternoster, ALJ  
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1 **COPY of the foregoing emailed**  
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9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10  
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12 OF LIBERTY UTILITIES (BLACK  
13 MOUNTAIN SEWER) CORP., AN  
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AUTHORITY TO ISSUE EVIDENCE OF  
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EXCEED \$3,400,000.

DOCKET NO: SW-02361A-15-0206

15  
16 IN THE MATTER OF THE APPLICATION  
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19 ARIZONA CORPORATION, FOR A  
20 DETERMINATION OF THE FAIR VALUE  
OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN ITS  
WASTEWATER RATES AND CHARGES  
FOR UTILITY SERVICE BASED  
THEREON.

DOCKET NO: SW-02361A-15-0207

21  
22 **TESTIMONY OF MATTHEW GARLICK**  
23 **IN SUPPORT OF**  
24 **COMPREHENSIVE SETTLEMENT AGREEMENT**

25 **January 27, 2016**  
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1 **I. INTRODUCTION.**

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

3 A. My name is Matthew Garlick. My business address is 12725 W. Indian School  
4 Road, Suite D-101, Avondale, Arizona 85392.

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

6 A. I am providing this testimony on behalf of applicant Liberty Utilities (Black  
7 Mountain Sewer) Corp. (hereafter "Liberty Black Mountain" or "Company").

8 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

9 A. I am employed by Liberty Utilities as President of AZ/TX.

10 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF**  
11 **LIBERTY BLACK MOUNTAIN IN THIS CASE?**

12 A. Yes. My direct testimony was filed on June 22, 2015 in support of the Company's  
13 application. My rebuttal testimony was filed on January 6, 2016, addressing, in  
14 part, the Proposed Settlement Agreement between Liberty Black Mountain, CP  
15 Boulders, LLC dba Boulders Resort (the "Resort"), Wind P1 Mortgage Borrower,  
16 L.L.C., and the Boulders Homeowners Association, filed on November 16, 2015  
17 ("Town/Resort Settlement").

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

19 A. To express Liberty Black Mountain's support for the Proposed Comprehensive  
20 Settlement Agreement ("Comprehensive Settlement") between Liberty Black  
21 Mountain, the Arizona Corporation Commission Utilities Division Staff ("Staff"),  
22 the Residential Utility Consumer Office ("RUCO"), the Town, and the Resort  
23 (collectively, the "Parties"), executed and filed on January 22, 2016.

24 **II. THE COMPREHENSIVE SETTLEMENT AGREEMENT.**

25 **Q. WHAT IS THE PURPOSE OF THE COMPREHENSIVE SETTLEMENT?**

26 A. To settle all issues that remain in dispute in our pending rate case, Commission

1 Docket No. SW-02361A-15-0207, and in our pending financing application,  
2 Docket No. SW-02361A-15-0206. These two dockets have been consolidated.

3 **Q. SO THERE ARE NO ISSUES LEFT IN DISPUTE IN EITHER OF THESE**  
4 **TWO DOCKETS?**

5 A. That's correct. The Parties have agreed to resolve everything in dispute.  
6 As Liberty Black Mountain has explained in all of its testimony filed in this case,  
7 the rate case was driven by the need for a new commercial rate design, and issues  
8 related to the Company's ongoing efforts to close the East Boulders Wastewater  
9 Treatment Plant ("Boulders WWTP") as the Company was ordered to do by the  
10 Commission. The Parties have fashioned recommendations that address both of  
11 those matters, as well as the ratemaking necessary for new rates.

12 **Q. CAN YOU PLEASE SUMMARIZE THE GENERAL RATEMAKING**  
13 **TERMS?**

14 A. Yes. The Parties have agreed to a Fair Value Rate Base of \$4,195,730, which  
15 includes \$825,081 of costs the Company incurred in connection with the closure of  
16 the Boulders WWTP.<sup>1</sup> I will discuss the plant closure costs further a little later in  
17 this testimony. The Parties have agreed to a total revenue requirement of  
18 \$2,415,080, including total operating expenses equal to \$2,021,692, which revenue  
19 requirement results in an increase in revenues of \$175,232 or 7.82 percent over the  
20 2014 test year.<sup>2</sup> This revenue requirement is based on the Parties' agreement to a  
21 rate of return of 7.71 percent on fair value rate base, which return was determined  
22 using a 70 percent equity-30 percent debt capital structure, a cost of equity equal to  
23 9.5 percent and a cost of debt equal to 3.53 percent.<sup>3</sup>

24 <sup>1</sup> Comprehensive Settlement Agreement at 5, ¶¶ 2.2 and 2.2.1, and Settlement Schedule  
25 B-2, p. 2.

<sup>2</sup> Comprehensive Settlement Agreement at 5, ¶ 2.1.

26 <sup>3</sup> Comprehensive Settlement Agreement at 7-8, ¶ 2.4.

1 I won't attempt to speak to every single issue that was resolved to reach the  
2 agreed-upon fair value rate base and revenue requirement, as some were small and  
3 others are beyond my ratemaking experience. Several of the more critical issues  
4 that were resolved are specifically discussed in the Comprehensive Settlement,  
5 including the reclassification of AIAC to CIAC, depreciation expense, and rate  
6 case expense.<sup>4</sup> Additionally, the Parties have also agreed that certain costs for  
7 corporate plant and expenses arising out of corporate governance, including the  
8 investor's access to capital on the Toronto Stock Exchange, are necessary and  
9 reasonable costs of service.<sup>5</sup>

10 **Q. WHAT ABOUT THE RATE DESIGN?**

11 A. The rates in the Comprehensive Settlement reflect the Parties' agreement on the  
12 rate design, including the new commercial rate design.<sup>6</sup> The settlement rates utilize  
13 the existing flat rates for residential customers, and the commercial rates are now  
14 based on water usage, as the Town, Commission, and a number of our customers  
15 wanted. In resolving any issues over the commercial rate design we have  
16 addressed the concerns that the local business owners, particularly the restaurants  
17 and the Town, expressed over the present rate design. As Mr. Bourassa further  
18 explained in his prefiled rebuttal testimony, the Company has continued to  
19 integrate the water providers' data into our system, and we now feel we have a  
20 pretty good handle on the identity and number of commercial accounts on the  
21 system.

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<sup>4</sup> Comprehensive Settlement Agreement at 5-7, ¶¶ 2.2 and 2.3.

25 <sup>5</sup> Comprehensive Settlement Agreement at 5, ¶ 2.2.2 and at 6, ¶ 2.3.2.

26 <sup>6</sup> Comprehensive Settlement Agreement at 8, ¶ 2.6.

1 **Q. THANK YOU, MR. GARLICK. COULD YOU ALSO PLEASE**  
2 **SUMMARIZE THE SETTLEMENT TERMS RELATED TO CLOSURE OF**  
3 **THE BOULDERS WWTP?**

4 A. Yes, gladly. The resolutions that the Parties have reached regarding the timing of  
5 plant closure and the recovery of plant closure costs, if approved by the  
6 Commission, will finally provide the Company and its customers with a clear path  
7 to closure of the Boulders WWTP. Specifically, there are four primary  
8 components of the Parties' agreement to resolve the plant closure issues.

9 First, as set forth in the Town/Resort Settlement, all Parties now agree to a  
10 closure date of November 30, 2018.<sup>7</sup> Until then, the Company will continue to  
11 operate the Boulders WWTP and deliver the effluent to the Resort. This will give  
12 the Resort additional time to upgrade its irrigation systems so it can operate in the  
13 future without effluent from Liberty Black Mountain.

14 **Q. ARE THERE ANY CONCERNS WITH CONTINUING TO OPERATE THE**  
15 **BOULDERS WWTP FOR ANOTHER 2-3 YEARS, MR. GARLICK?**

16 A. Nothing that should preclude the Commission from approving the  
17 recommendations of the Comprehensive Settlement, including the November 2018  
18 closure date. While the Boulders WWTP is over 40 years old, it continues to  
19 operate in full compliance with all rules and regulations, and the improvements we  
20 made continue to keep odors at minimal levels. The Boulders WWTP is still in the  
21 middle of the community, which is why it is being closed, but now we have a  
22 closure plan that will leave the Resort time to adapt to the loss of effluent, and  
23 that's worth waiting a little longer to close the facility.

24  
25 \_\_\_\_\_  
26 <sup>7</sup> Comprehensive Settlement Agreement at 8, ¶ 3.1; Town/Resort Proposed Settlement Agreement at 7, ¶ 2.4.2.

1 **Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE**  
2 **COMPONENTS OF THE PARTIES' AGREEMENT RELATED TO THE**  
3 **CLOSURE OF THE BOULDERS WWTP.**

4 A. Second, we have agreed to include the actual plant closure costs we have already  
5 incurred so far in rate base.<sup>8</sup> As of September 30, 2015, the Company had incurred  
6 \$1,133,080 related to closure of the Boulders WWTP. However, in the  
7 Town/Resort agreement, Liberty Black Mountain agreed to reduce the amount to  
8 be recovered through rates for wastewater utility service to \$825,080.<sup>9</sup> The Parties  
9 to the Comprehensive Settlement have agreed to adopt this number for the actual  
10 closure costs, and to include this amount in rate base.

11 **Q. EXCUSE ME FOR INTERRUPTING, BUT WHAT ABOUT THE PLANT**  
12 **CLOSURE SURCHARGE THE COMPANY SOUGHT IN ITS**  
13 **APPLICATION AND SOME OF THE PARTIES AGREED TO IN THE**  
14 **TOWN/RESORT SETTLEMENT?**

15 A. Under the terms of the Comprehensive Settlement, we have eliminated all of the  
16 proposed plant closure cost surcharges. As a result, we have \$825,081 of actual  
17 costs that the Parties jointly agree to treat like any other reasonable and prudent  
18 capital investment in plant used and useful in serving customers. We think this is  
19 entirely fair and appropriate.

20 **Q. OKAY, THANK YOU. PLEASE CONTINUE?**

21 A. The third component addresses the cost of the 120,000 gallons of treatment  
22 capacity to replace the capacity of the Boulders WWTP.<sup>10</sup> The "Replacement  
23

24 <sup>8</sup> Comprehensive Settlement Agreement at 8-9, ¶ 3.2.

25 <sup>9</sup> Comprehensive Settlement Agreement at 9, ¶¶ 3.2.1 and 3.2.2; Town/Resort Proposed  
Settlement Agreement at 6-7, ¶ 2.2.

26 <sup>10</sup> Comprehensive Settlement Agreement at 9-10, ¶ 3.3.

1 Capacity” will come from the City of Scottsdale, with whom we have negotiated a  
2 new wastewater treatment capacity agreement. The Replacement Capacity will  
3 cost \$1.2 million before January 1, 2018, and the Parties agree this amount is  
4 “known and measurable” and “reasonable and prudent.”<sup>11</sup> In the Comprehensive  
5 Settlement, we have agreed to pay that amount when due and to record the cost on  
6 our books, and the Parties have agreed to recommend to the Commission that this  
7 cost should be subject to the (1) accrual of post in-service AFUDC, and (2) deferral  
8 of depreciation.<sup>12</sup>

9 Mr. Bourassa will be available at the hearing to answer questions about the  
10 specific ratemaking treatment of the plant closure costs adopted in the  
11 Comprehensive Settlement, and I will leave the details of this ratemaking treatment  
12 to him and the analysts from Staff and RUCO. For my part, the simple point of  
13 this treatment is to leave Liberty Black Mountain in the same place as it would  
14 have been under the plant closure cost surcharge approach. We said from the start  
15 of the rate case that we would accept alternatives to the surcharges if they were  
16 functionally equivalent. We have achieved that here, and this allowed us to reach  
17 this global agreement of all Parties.

18 **Q. WHAT IS THE LAST PRIMARY COMPONENT OF THE**  
19 **COMPREHENSIVE SETTLEMENT RELATED TO THE CLOSURE OF**  
20 **THE BOULDERS WWTP?**

21 A. The fourth and final primary component is the agreement regarding treatment of  
22 the remaining costs the Company will incur to close the Boulders WWTP. These  
23 costs are estimated at roughly \$2.7 million and involve the cost to upgrade and  
24 realign the Company’s wastewater collection and transmission system to deliver an

25 <sup>11</sup> Comprehensive Settlement Agreement at 9, ¶ 3.3.2.

26 <sup>12</sup> Comprehensive Settlement Agreement at 9-10, ¶¶ 3.3.2.1 and 3.3.2.2.

1 additional 120,000 gpd of wastewater to Scottsdale.<sup>13</sup> The Parties agree that the  
2 Company's proposed plan is suitable and that the estimated costs are reasonable.  
3 The Parties further agree to treatment similar to the treatment discussed  
4 immediately above regarding the cost of the Replacement Capacity. The Company  
5 will record the remaining costs of plant closure on its books and the costs will be  
6 subject to the deferral of depreciation and accrual of post in-service AFUDC.<sup>14</sup>

7 **Q. HOW LONG WILL THE REPLACEMENT CAPACITY COSTS AND**  
8 **REMAINING CLOSURE COSTS BE SUBJECT TO THE DEFERRAL OF**  
9 **DEPRECIATION AND ACCRUAL OF POST IN-SERVICE AFUDC?**

10 A. Presumably until the next rate case when all of the costs would be rolled into rate  
11 base.

12 **Q. WHEN WILL THE NEXT RATE CASE BE FILED?**

13 A. Under the Comprehensive Settlement, the Boulders WWTP is scheduled for  
14 closure on November 30, 2018 and a rate case will be filed within seven (7) months  
15 thereafter, or before June 30, 2019.<sup>15</sup> We expect in that rate case to finalize rate  
16 base treatment of all of the costs of closing the Boulders WWTP. We will also try,  
17 if possible, to include the costs of removal and remediation, but that's something  
18 we cannot control because of the associated permitting. To be clear, though,  
19 Boulders WWTP will cease operation as of November 30, 2018, if the Commission  
20 approves the Comprehensive Settlement.

21 **Q. WHAT HAPPENS TO THE TOWN/RESORT SETTLEMENT NOW THAT**  
22 **THE PARTIES HAVE ENTERED INTO THE COMPREHENSIVE**  
23 **SETTLEMENT?**

24 <sup>13</sup> Comprehensive Settlement Agreement at 10-11, ¶¶ 3.4.1 and 3.4.2.

25 <sup>14</sup> Comprehensive Settlement Agreement at 10-11, ¶¶ 3.4.1 and 3.4.2.

26 <sup>15</sup> Comprehensive Settlement Agreement at 12, ¶ 4.5.

1 A. The Parties have agreed to adopt a number of aspects of the Town/Resort  
2 agreement, and to modify others.<sup>16</sup> In the end, the Commission has both settlement  
3 agreements before it, and where inconsistent, the Parties intend the newer,  
4 Comprehensive Settlement to govern.<sup>17</sup> All of the Parties to both agreements have  
5 signed off and approved the Comprehensive Settlement.

6 **Q. DOES THE COMPREHENSIVE SETTLEMENT ADOPT THE TERMS OF**  
7 **THE TOWN/RESORT SETTLEMENT REGARDING THE EFFLUENT**  
8 **RATE?**

9 A. Yes, the Resort will pay an effluent rate estimated to be \$543 per acre-foot.<sup>18</sup> This  
10 rate will allow the Company to recover \$108,000 of its plant closure costs directly  
11 from the Resort before the Boulders WWTP closes on November 30, 2018.

12 **Q. ARE THERE ANY OTHER PROVISIONS OF THE COMPREHENSIVE**  
13 **SETTLEMENT THAT YOU WISH TO DISCUSS?**

14 A. Not that this time.

15 **Q. WHY DO YOU BELIEVE THAT COMMISSION APPROVAL OF THE**  
16 **TERMS OF THE COMPREHENSIVE SETTLEMENT IS IN THE PUBLIC**  
17 **INTEREST?**

18 A. Respectfully, the far-reaching benefits of the Comprehensive Settlement should be  
19 obvious. All parties to the rate case have joined in settling and, collectively, the  
20 Parties represent all of the interested stakeholders – the customers, the local  
21 municipality and local business interests, the regulators and the utility. The parties  
22 have settled all issues, including agreeing to all of the components of new rates for  
23 Liberty Black Mountain and a new commercial rate design. And the Parties have

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24 <sup>16</sup> Comprehensive Settlement Agreement at 4, ¶ 1.2.8 and at 13, ¶ 6.1.5.

25 <sup>17</sup> Comprehensive Settlement Agreement at 13, ¶ 6.1.5.

26 <sup>18</sup> Comprehensive Settlement Agreement at 8, ¶ 2.6.2 and at 9, ¶ 3.2.2.

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resolved the challenging issues that continued to hold up closure of the Boulders WWTP. I understand that the Commission still must exercise its own independent judgment on these issues, but the Commission now has everything it needs to decide Liberty Black Mountain's rate case and financing in a manner that results in just and reasonable rates, as well as other critically necessary relief. On behalf of Liberty, I urge the Commission to accept and approve the Comprehensive Settlement as soon as possible.

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

A. Yes.