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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- DOUG LITTLE, Chairman
- BOB STUMP
- BOB BURNS
- TOM FORESE
- ANDY TOBIN

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AZ CORP COMMISSION  
DOCKET CONTROL

2016 MAY 11 PM 1 14

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 WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-15-0277

**NOTICE OF FILING  
SETTLEMENT TESTIMONY**

Applicant, Arizona Water Company, hereby files the Settlement Testimony of Joel M. Reiker in the above-captioned docket.

RESPECTFULLY SUBMITTED this 11th day of May, 2016.

ARIZONA WATER COMPANY

By: 

E. Robert Spear (No. 025772)  
General Counsel  
Arizona Water Company  
3805 North Black Canyon Highway  
Phoenix, AZ 85015

Arizona Corporation Commission

DOCKETED

MAY 11 2016

DOCKETED BY 

Steven A. Hirsch  
Coree E. Neumeyer  
Quarles & Brady LLP  
Two North Central Avenue  
Phoenix, AZ 85004  
*Attorneys for Applicant*

1 ORIGINAL and thirteen (13) copies of the foregoing filed this 11th day of May, 2016, with:

2 Docket Control Division  
Arizona Corporation Commission  
3 1200 West Washington Street  
Phoenix, Arizona 85007

4  
5 I hereby certify that I have this day served the foregoing documents on all parties of record in this proceeding by delivering a copy thereof in person to:

6 Honorable Dwight D. Nodes  
Chief Administrative Law Judge  
7 Hearing Division  
Arizona Corporation Commission  
8 1200 West Washington Street  
Phoenix, Arizona 85007

9  
10 Janice Alward, Director  
Legal Division  
Arizona Corporation Commission  
11 1200 West Washington Street  
Phoenix, Arizona 85007

12  
13 Thomas M. Broderick, Director  
Utilities Division  
Arizona Corporation Commission  
14 1200 West Washington Street  
Phoenix, Arizona 85007

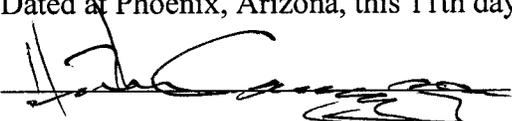
15  
16 I hereby certify that I have this day served the foregoing documents on all parties of record in this proceeding by mailing a copy thereof, properly addressed with first class postage prepaid to:

17 Daniel W. Pozefsky, Chief Counsel  
Residential Utility Consumer Office  
18 1110 West Washington Street, Suite 220  
Phoenix, Arizona 85007

19  
20 Michele Van Quathem  
Law Offices of Michele Van Quathem  
7600 N. 15<sup>th</sup> St., Suite 150-30  
21 Phoenix, AZ 85020

22 Greg Patterson  
916 W. Adams, Suite 3  
23 Phoenix, AZ 85007

24 Dated at Phoenix, Arizona, this 11th day of May, 2016.

25 

**ARIZONA WATER COMPANY**



**Arizona Corporation Commission**

**Docket No. W-01445A-15-0277**

**2015**

**WESTERN GROUP**

**RATE HEARING**

**Settlement Testimony**

**of**

**Joel M. Reiker**

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1 **ARIZONA WATER COMPANY**

2  
3 **Settlement Testimony of**

4 **Joel M. Reiker**

5 **I. Introduction**

6 **Q. PLEASE STATE YOUR NAME, EMPLOYER AND TITLE.**

7 A. My name is Joel M. Reiker. I am employed by Arizona Water Company (the  
8 "Company") as Vice President – Rates and Revenues.

9 **Q. ARE YOU THE SAME JOEL M. REIKER THAT PREVIOUSLY PROVIDED**  
10 **DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING?**

11 A. Yes.

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. The purpose of my testimony is to support as being in the public interest the  
14 proposed Settlement Agreement between Arizona Water Company ("AWC" or  
15 "Company"), the Arizona Corporation Commission Utilities Division ("Staff"), the  
16 Residential Utility Consumer Office ("RUCO"), Abbott Laboratories ("Abbott"),  
17 and the Western Infrastructure Sustainability Effort ("WISE") filed on May 6,  
18 2016. In supporting the proposed Settlement Agreement, I will discuss the  
19 settlement process, the settlement terms and the settlement schedules.

20  
21 **II. Settlement Process**

22 **Q. PLEASE PROVIDE A SUMMARY OF THIS PROCEEDING LEADING TO THE**  
23 **SETTLEMENT AGREEMENT.**

24 A. On July 31, 2015, AWC filed in this docket a notice of intent to file a general rate  
25 case and a request for an accounting order ("Notice") for its Western Group,  
26 which includes the Pinal Valley, White Tank, and Ajo service areas. In its Notice,  
27 AWC stated that "[t]his general rate case will focus on the Company's plan to put  
28 its Central Arizona Project ("CAP") water allocations in the Western Group to full

1 beneficial use through groundwater recharge and recovery.”<sup>1</sup> AWC requested an  
2 accounting order, pursuant to A.R.S. § 40-221, to authorize the Company to  
3 defer the cost, net of grants and other credits, of delivering CAP water to its  
4 customers in 2015.

5  
6 On August 7, 2015, AWC filed, in advance of its general rate case in this  
7 docket, the 2015 CAP Water Use Plans for the Pinal Valley and White Tank  
8 service areas. The purpose of filing these CAP Water Use Plans in advance of  
9 its general rate case was to aid the parties in their review and analysis of this  
10 issue which is very important for implementing state groundwater policies in the  
11 Pinal Valley and White Tank service areas.

12  
13 On August 21, 2015, AWC filed in this docket an application requesting  
14 adjustments to its rates and charges for utility service provided by its Western  
15 Group of water systems. In its application, the Company requested a total  
16 increase in operating revenues of \$6,010,408, or approximately 28.33 percent,  
17 over test year revenues.<sup>2</sup> As recited in the Settlement Agreement, AWC’s  
18 requested increase in revenues had been adjusted to \$6,007,339 at the time the  
19 settlement discussions commenced.<sup>3</sup> Testimony in this proceeding was filed by  
20 AWC, Staff, RUCO, and Abbott.

21  
22 Prior to filing its rebuttal testimony, AWC contacted the parties to explore  
23 the possibility of settling some or all of the issues in the case. On April 11, 2016,  
24 Staff filed in this docket a formal notice of settlement discussions, stating that a  
25  
26

27 <sup>1</sup> See Notice of Intent to File General Rate Case and Request for Accounting Order, filed in this docket  
28 on July 31, 2015.

<sup>2</sup> See Schedule A-1, page 1 of AWC’s Application.

<sup>3</sup> See Rebuttal Testimony of Jamie R. Moe, Exhibit JRM-RB1, Schedule A-1 Rebuttal, page 1.

1 settlement conference would be held at the offices of the Commission on April  
2 25, 2016.

3 **Q. WHICH PARTIES PARTICIPATED IN THE SETTLEMENT CONFERENCE?**

4 A. Staff, RUCO, Abbott, WISE, and AWC (collectively referred to as the "Parties") all  
5 actively participated in the settlement conference held at the Commission on  
6 April 25, 2016.

7 **Q. PLEASE DESCRIBE THE SETTLEMENT NEGOTIATIONS.**

8 A. All Parties to this proceeding had the opportunity to participate throughout the  
9 negotiations and to fully express their respective positions. There was a genuine  
10 desire and a commitment on the part of all of the Parties to find common ground  
11 on the issues. This commitment and the compromises that are inherently part of  
12 any settlement effort produced results that are just and reasonable and provide  
13 benefits for all Parties, including customers. An underlying theme of the  
14 settlement was the Parties' desire to resolve all issues and execute an all-Party  
15 Settlement Agreement covering all issues, so the hearing division could issue a  
16 Recommended Opinion and Order and the Commission could enter a final  
17 Decision and Order at the earliest practicable time. The Parties recognized that  
18 doing so will save considerable time, expense, and Commission resources.

19 **Q. DID THE PARTIES REACH SETTLEMENT?**

20 A. Yes, the Parties reached a conceptual settlement of all issues on April 25, 2016.  
21 Drafting of the actual Settlement Agreement and finalization of the settlement  
22 schedules followed through May 6, 2016. The proposed Settlement Agreement  
23 was signed by all Parties and filed in this docket on May 6, 2016.

24 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?**

25 A. Yes. I sponsor the Settlement Agreement and accompanying attachments in this  
26 proceeding on behalf of AWC.  
27  
28

1 Q. ARE YOU SPONSORING ANY TESTIMONY OTHER THAN YOUR OWN  
2 TESTIMONY IN THIS PROCEEDING?

3 A. Yes. In addition to my own pre-filed testimony, I sponsor the direct and rebuttal  
4 testimony of Company witnesses William M. Garfield, Joseph D. Harris, Fredrick  
5 K. Schneider, Jamie R. Moe, and Pauline M. Ahern.  
6

7 III. Settlement Agreement Terms

8 Q. WHAT ARE THE MAJOR TERMS OR PROVISIONS OF THE SETTLEMENT  
9 AGREEMENT?

10 A. The major terms of the Settlement Agreement are:

- 11 • AWC's capital structure consists of 46.31% long-term debt and 53.69%  
12 equity.
- 13 • AWC's cost of long-term debt is 6.82%.
- 14 • AWC's cost of common equity is 10.00%
- 15 • AWC's weighted average cost of capital is 8.53%.
- 16 • AWC's annual revenues will increase by \$4,572,937 for an annual  
17 revenue requirement of \$25,789,706.
- 18 • AWC's fair value rate base, which is based on original cost less  
19 depreciation, is \$63,422,861.
- 20 • New rates will become effective on the date specified in the Commission  
21 decision on this matter.
- 22 • All Parties to the Settlement Agreement will take reasonable steps to  
23 expedite consideration of the Settlement Agreement and entry of a Final  
24 Decision adopting the Settlement Agreement and fully support and  
25 defend all of the terms of the Settlement Agreement.
- 26 • AWC will defer the depreciation expense, cost of water treatment media  
27 replacement or regeneration, cost of chemicals, and waste media  
28 disposal for new nitrate treatment plants shown on the schedule

1 attached to the Settlement Agreement once they are placed in service  
2 and operating, and may record a post-in service allowance for funds  
3 used during construction ("AFUDC") for consideration of recovery in  
4 AWC's next Western Group rate case. The total amount of deferred  
5 costs, including depreciation expense, the cost of media replacement or  
6 regeneration, cost of chemicals, waste media disposal, and post-in  
7 service AFUDC, will be subject to a cap as set forth in the Settlement  
8 Agreement.

- 9 • A new CAP surcharge will be adopted to recover the increased cost of  
10 delivering CAP water to customers. AWC will file a plan of  
11 administration for the CAP surcharge within 90 days of a decision in this  
12 proceeding.
- 13 • A new Off-Site Facilities Fee tariff in the form attached to the Settlement  
14 Agreement will be adopted for the White Tank service area.
- 15 • The current Off-site Facilities Fee tariff for the Pinal Valley service area  
16 will be revised to reflect the addition of a ¾-inch meter, and to  
17 specifically include groundwater recharge and recovery facilities in the  
18 definition of off-site facilities.
- 19 • The current CAP M&I Fee tariff schedules for the Pinal Valley (Casa  
20 Grande and Coolidge only) and White Tank service areas will be  
21 continued.
- 22 • The arsenic cost recovery mechanism will be continued.

23  
24 **IV. Settlement Agreement Schedules and Exhibits**

25 **Q. WHAT SCHEDULES ARE ATTACHED TO THE AGREEMENT?**

26 A. The Settlement Schedules consist of the following standard rate case filing  
27 schedules required by the Commission for Class A utilities pursuant to Arizona  
28 Administrative Code R14-2-103.B:

1	A-1	Computation of Increase in Gross Revenue Requirement
2	B-1	Summary of Original Cost Rate Base
3	B-2	Original Cost Rate Base Pro Forma Adjustments
4	B-2 Appendix	Detail of Original Cost Rate Base Pro Forma Adjustments
5	B-5	Computation of Working Capital
6	B-5 Appendix	Computation of Working Cash Requirement
7	C-1	Adjusted Test Year Income Statement
8	C-2	Income Statement Pro Forma Adjustments
9	C-2 Appendix	Detail of Income Statement Pro Forma Adjustments
10	C-3	Computation of Gross Revenue Conversion Factor
11	D-1	Summary Cost of Capital
12	H-1	Summary of Revenues by Customer Classification
13	H-2	Detail Analysis of Revenues by Class
14	H-3	Changes in Representative Rate Schedules
15	H-4	Typical Bill Analysis

16

17           These standard filing schedules reflect the Parties' settlement terms for  
18 the Company's revenue requirement and the specific rates and charges designed  
19 to produce such revenue. Where appropriate, the Schedules provide the  
20 Company's original, "as filed" position, as set forth in its application, and the  
21 specific adjustments applied to arrive at the Parties' settlement terms.

22 **Q. ARE THERE ANY OTHER ATTACHMENTS TO THE SETTLEMENT**  
23 **AGREEMENT?**

24 **A.** Yes. The revised Off-site Facilities Fee tariff for the Pinal Valley service area and  
25 the new Off-site Facilities Fee tariff for the White Tank service area are attached  
26 to the Settlement Agreement. In addition, the Settlement Agreement includes a  
27 schedule showing the cap on total estimated deferred costs related to four new  
28 nitrate treatment plants in the Pinal Valley service area.

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V. Public Interest

Q. PLEASE EXPLAIN WHY THE COMMISSION'S APPROVAL OF THE SETTLEMENT AGREEMENT RESULTS IN RATES, CHARGES, AND CONDITIONS OF SERVICE THAT ARE JUST AND REASONABLE AND IN THE PUBLIC INTEREST.

A. As explained in Section III of my pre-filed direct testimony in this proceeding, in the context of public utility regulation, a just and reasonable rate, in the aggregate, is one that provides the utility an opportunity to recover its prudently incurred cost of providing service to the public. The proposed Settlement Agreement represents a compromise of the Parties' competing positions and the end result is a reasonable estimate of AWC's cost of providing service, which is supported by the evidence. Additionally, the proposed Settlement Agreement provides for the recovery of costs related to delivering renewable CAP water to AWC's customers, and pursuant to the ACRM partial recovery of known and measurable costs associated with arsenic removal facilities. Finally, the proposed Settlement Agreement provides for the implementation of an Off-site Facilities Fee in the White Tank Service area and continuation of the Off-site Facilities Fee, as modified, in the Pinal Valley service area.

Q. DOES THAT CONCLUDE YOUR TESTIMONY IN SUPPORT OF THE SETTLEMENT AGREEMENT?

A. Yes.