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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 3 34

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
STAFF DIRECT TESTIMONY
IN SUPPORT OF SETTLEMENT
AGREEMENT**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files Direct Testimony of Elijah O. Abinah, in support of the settlement agreement, in the above-referenced docket.

RESPECTFULLY SUBMITTED this 11th day of May, 2016.

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

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

Arizona Corporation Commission

DOCKETED

MAY 11 2016

DOCKETED BY

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BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE
Chairman
BOB STUMP
Commissioner
BOB BURNS
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TOM FORESE
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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01445A-15-0277
ARIZONA WATER COMPANY, AN ARIZONA)
CORPORATION, FOR A DETERMINATION OF)
THE FAIR VALUE OF ITS UTILITY PLANT AND)
PROPERTY, AND CHARGES FOR UTILITY)
SERVICE FURNISHED BY ITS WESTERN)
GROUP AND FOR CERTAIN RELATED)
APPROVALS.)

DIRECT
TESTIMONY
OF
ELIJAH O. ABINAH
ASSISTANT DIRECTOR
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION
MAY 11, 2016

**EXECUTIVE SUMMARY
ARIZONA WATER COMPANY.
DOCKET NO. W-01445A-15-0277**

Mr. Abinah's testimony supports the adoption of the Settlement Agreement ("Agreement") as proposed by the Signatories in this case. This testimony describes the settlement process as open, candid, transparent and inclusive of all Signatories to this case. Mr. Abinah explains why Staff believes this Agreement is in the public interest.

Mr. Abinah's testimony recommends that the Commission adopt the Agreement as proposed.

1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Elijah O. Abinah. My business address is 1200 West Washington Street, Phoenix,
4 Arizona 85007.

5
6 **Q. Where are you employed and in what capacity?**

7 A. I am employed by the Arizona Corporation Commission (“ACC” or “Commission”) of the
8 Utilities Division (“Staff”) as Assistant Director.

9
10 **Q. How long have you been employed with the Utilities Division?**

11 A. I have been employed with the Utilities Division since January 2003.

12
13 **Q. Please describe your educational background and professional experience.**

14 A. I received a Bachelor of Science degree in Accounting from the University of Central
15 Oklahoma in Edmond, Oklahoma. I also received a Master of Management degree from
16 Southern Nazarene University in Bethany, Oklahoma. Prior to my employment with the ACC,
17 I was employed by the Oklahoma Corporation Commission for approximately eight and a half
18 years in various capacities in the Telecommunications Division.

19
20 **Q. What are your current responsibilities?**

21 A. As an Assistant Director, I review submissions that are filed with the Commission and make
22 policy recommendations to the Director regarding those filings.

23
24 **Q. Have you previously submitted testimony before the Commission?**

25 A. Yes.

26

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to support the Proposed Settlement Agreement
3 ("Agreement"). I will also provide testimony which addresses the settlement process, public
4 interest benefits and general policy considerations.
5

6 **Q. Did you participate in the negotiations that led to the execution of the Agreement?**

7 A. Yes, I did.
8

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

10 A. My testimony is organized into four sections. Section I is this introduction, Section II provides
11 a brief background, Section III provides discussion of the settlement process, Section IV
12 discusses the various parts of the Agreement and discusses the reasons why the Agreement is
13 in the public interest.
14

15 **SECTION II - BACKGROUND**

16 **Q. Please provide a brief background of this proceeding.**

17 A. Docket No. W-01445A-15-0277 was commenced by the filing of a notice of intent to file a
18 general rate application by Arizona Water Company ("AWC") on July 31, 2015. AWC
19 subsequently filed its general rate application on August 21, 2015. AWC's general rate
20 application ("Application") requested a total proposed revenue increase of \$6,010,408, or
21 approximately 28.33%, and a Fair Value Rate Base ("FVRB") of \$67,417,785.

22 Following a sufficiency finding by Staff on September 14, 2015, Residential Utility Consumer
23 Office ("RUCO") filed an Application to Intervene on September 15, 2015. Abbott filed an
24 Application to Intervene on September 30, 2015. The Western Infrastructure Sustainability
25 Effort ("WISE") filed an Application to Intervene on December 16, 2015.
26
27

1 **Q. What is the revenue increase and cost of equity requested by the Company?**

2 A. The Company in its rebuttal testimony requested a revenue increase in the amount of
3 \$6,007,339 which represents a 29.16 percent increase, and a cost of equity rate of 10.45 percent.
4

5 **Q. What is the revenue increase recommended by Staff and RUCO in its direct testimony?**

6 A. Staff recommended a revenue increase of \$3,788,915 which represents a 17.85 percent increase
7 while RUCO recommended a \$3,189,426 increase in revenues which represents a 14.94 percent
8 increase.
9

10 **Q. What is the revenue increase recommended by the Parties in the settlement agreement?**

11 A. The parties recommend a \$4,572,937 increase in revenues which represents a 21.55 percent
12 increase
13

14 **Q. What is the cost of equity recommended by the Parties?**

15 A. The parties recommend a cost of equity of 10.0 percent and a cost of debt of 6.82 percent,
16 which results in an overall weighted average cost of capital of 8.53 percent.
17

18 SECTION III – SETTLEMENT PROCESS

19 **Q. Please discuss the settlement process.**

20 A. The settlement process was open, transparent and inclusive. All parties received notice of the
21 settlement meeting and were accorded an opportunity to raise, discuss, and propose resolution
22 to any issue that they desired.
23

24 **Q. Who participated in those meetings?**

25 A. The following parties were participants in the meetings: Abbott; WISE; RUCO; and Staff
26 (collectively referred to as Parties).

1 **Q. Was there an opportunity for all issues to be discussed and considered?**

2 A. Yes, each party had the opportunity to raise and have its issues considered.

3
4 **Q. Were the Parties able to resolve all issues?**

5 A. Yes, the Parties were able to resolve and reach agreement on all issues.

6
7 **Q. How would you describe the negotiations?**

8 A. I believe that all participants advocated and represented their interests. I would characterize
9 the discussions as candid but professional.

10

11 **Q. Would you describe the process as requiring give and take?**

12 A. Yes, I would. As a result of the varied interests represented in the settlement process, a
13 willingness to compromise was necessary. As evidenced in the Agreement, the Parties
14 compromised on what could be described as vastly different litigation positions.

15

16 **Q. Because of such compromising, do you believe the public interest was compromised?**

17 A. No. As I will discuss later in this testimony, I believe that the compromises made by the Parties
18 further the public interest.

19

20 **IV. THE SETTLEMENT AGREEMENT**

21 **Q. What are the significant sections in the Settlement Agreement?**

22 A. The Settlement Agreement discusses the revenue requirement, rate base and income
23 statement (including adjustments), the nitrate deferral issue, tank maintenance, Arsenic Cost
24 Recovery Mechanism, several Central Arizona Project ("CAP") issues, the Company's use
25 of an outdated Uniform System of Accounts, accumulated depreciation reserve, and off-site
26 facilities fees.

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

2 **A.** Yes. There are several reasons why the Settlement Agreement is in the public interest.

3 The terms of the Settlement Agreement produce a revenue requirement that will result in rates
4 that are just and reasonable. By agreeing to a settlement of all contested issues will save time
5 and the expense of a contested hearing. Further the Settlement Agreement:

6

7 • Allows the Company the opportunity to earn an overall return of 8.53 percent and a 10.0
8 percent return on equity, which provides the Company sufficient revenue to provide reliable
9 service.

10 • Requires the Company to use an updated Uniform System of Accounts beginning with the first
11 rate case that is filed using a 2017 test year.

12 • Requires the Company to conduct a depreciation study to find the most proper method to
13 allocate the existing accumulated depreciation reserve to the appropriate individual utility plant
14 accounts.

15 • Requires the Company on a going forward basis to use its best good faith effort to reduce its
16 cost of debt.

17

18 **Q. Does this conclude your Direct Testimony?**

19 **A.** Yes, it does.