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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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AZ CORP COMMISSION
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2016 JUN 13 PM 3 37

IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY FOR AN
INCREASE OF AREA TO BE SERVED AT
CENTRAL HEIGHTS, ARIZONA.

DOCKET NO. W-01445A-14-0305

**NOTICE OF FILING
SETTLEMENT TESTIMONY**

Attached is William M. Garfield's Settlement Testimony in support of the proposed
Settlement Agreement between Arizona Water and the City of Globe filed on April 20, 2016.

RESPECTFULLY SUBMITTED this 13th day of June, 2016.

ARIZONA WATER COMPANY

Arizona Corporation Commission

DOCKETED

JUN 13 2016

DOCKETED BY	<i>ME</i>
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By: _____

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

2 Docket Control Division
3 Arizona Corporation Commission
4 1200 West Washington Street
5 Phoenix, Arizona 85007

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

8 Honorable Dwight D. Nodes, Chief Administrative Law Judge
9 Hearing Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Janice Alward, Director
14 Legal Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007

18 Thomas M. Broderick, Director
19 Utilities Division
20 Arizona Corporation Commission
21 1200 West Washington Street
22 Phoenix, Arizona 85007

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

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35 *Attorneys for City of Globe*

36 Dated this 13th day of June 2016.

37 
38 _____

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1 **ARIZONA WATER COMPANY**

2
3 **Settlement Testimony of**

4 **William M. Garfield**

5 **I. Introduction**

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

7 A. My name is William M. Garfield. I am employed by Arizona Water Company
8 ("Arizona Water" or "Company") as its President and Chief Operating Officer
9 ("COO"). As such, I am responsible for the management and operations of the
10 Company. Each of Arizona Water's officers reports directly to me, and I report
11 directly to Arizona Water's Chief Executive Officer.

12 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE, EDUCATIONAL**
13 **BACKGROUND AND PROFESSIONAL AFFILIATIONS.**

14 A. Since joining Arizona Water in 1984, I have held the positions of Engineer,
15 Senior Engineer, Operations Manager, and Vice President of Operations. I
16 currently hold the position of President and COO, which I have held since July
17 18, 2003.

18 I completed my undergraduate studies at Southern Illinois University at
19 Carbondale, receiving a Bachelor of Science degree with honors in Thermal and
20 Environmental Engineering. I have taken post-graduate coursework at Arizona
21 State University in Civil Engineering, including courses in hydrology, water and
22 wastewater treatment, and statistics. I am a member of Tau Beta Pi, a national
23 honorary engineering society.

24 I am a member of the Arizona Water Association, the American Water
25 Works Association ("AWWA"), and I serve on AWWA's Water Meter Standards
26 Committee. I have been active in numerous water industry stakeholder groups
27 including the Arizona Department of Environmental Quality ("ADEQ"), the
28 Arizona Department of Water Resources ("ADWR"), and the Central Arizona

1 Groundwater Replenishment District. I am an ADEQ certified water distribution
2 system and water treatment plant operator. I serve on Arizona Water's Board of
3 Directors, the Board of Directors of the Water Infrastructure Finance Authority of
4 Arizona, the Board of Directors of the Water Utilities Association of Arizona, the
5 Water Resources Research Center's External Advisory Board, and the Board of
6 Directors of the East Valley Partnership. In the past I have served as Chairman
7 of the Water Management Subcommittee of the Pinal Active Management Area
8 Groundwater User Advisory Council. In addition, I have been a member of the
9 Statewide Water Advisory Group, I have served on the Arizona Water Institute's
10 External Advisory Board, and I was a member of the Economic Working Group of
11 the Blue Ribbon Panel on Sustainability, a panel formed to address water
12 sustainability which was jointly chaired by the Arizona Corporation Commission
13 ("Commission"), ADWR and ADEQ.

14 **Q. ARE YOU THE SAME WILLIAM M. GARFIELD THAT PREVIOUSLY PROVIDED**
15 **DIRECT TESTIMONY IN THIS PROCEEDING?**

16 A. Yes.

17 **Q. HAVE YOU PREVIOUSLY TESTIFIED ON BEHALF OF ARIZONA WATER IN**
18 **ANY PROCEEDINGS BEFORE THE COMMISSION?**

19 A. Yes. In addition to testifying on Certificate of Convenience and Necessity cases,
20 I have testified in Arizona Water's last seven general rate case proceedings.¹

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

22 A. The purpose of my testimony is to show that the proposed Settlement Agreement
23 between Arizona Water and the City of Globe ("City") filed on April 20, 2016 is in
24 the public interest. In supporting the proposed Settlement Agreement, I will
25
26

27 ¹See Docket Nos. W-01445A-00-0962, W-01445A-02-0619, W-01445A-04-0650, W-01445A-08-0440,
28 W-01445A-10-0517, W-01445A-11-0310 and W-01445A-12-0348.

1 discuss the settlement process and how the settlement terms benefit the City,
2 Arizona Water, and the customers.

3 **II. Settlement Process**

4 **Q. PLEASE PROVIDE A SUMMARY OF THIS PROCEEDING LEADING TO THE**
5 **SETTLEMENT AGREEMENT.**

6 A. On August 18, 2014, the City filed in this docket a petition requesting that the
7 Commission, pursuant to A.R.S. § 40-252, reopen and amend Decision 33424 to
8 delete a portion of Arizona Water's certificate of convenience and necessity
9 ("CCN"). The City alleged it had provided water service prior to the date of
10 Decision 33424, dated September 20, 1961. Prior to the City filing its petition
11 with the Commission, Arizona Water provided two notices of claim to the City, in
12 which Arizona Water alleged the City damaged it by providing water service
13 within Arizona Water's CCN in violation of A.R.S. § 9-514 through 9-516. Arizona
14 Water sought monetary damages in excess of \$7 million and restoration of its
15 right to provide public utility water service in areas in and around the City's limits,
16 described as the Northern Disputed Area and the Southern Disputed Area.

17 After conducting extensive discovery, the City and Arizona Water filed
18 direct testimony in this docket concerning the timing and extent of water service
19 by the City in Arizona Water's CCN.

20 Administrative Law Judge Paternoster and Staff Attorney Robin Mitchell
21 urged Arizona Water and the City to meet and confer to see if the parties could
22 settle the matter in a way that would: (i) protect the public interest; (ii) avoid
23 extensive costs, time, and resources; and (iii) resolve the matter expeditiously.

24 Accordingly, on October 9, 2015, Staff filed a Request for Suspension of
25 Procedural Schedule stating that Arizona Water and the City were engaged in
26 settlement discussions. To facilitate the settlement process and to avoid
27 unnecessary expense, Staff requested that the City's filing of Surrebuttal
28 Testimony be suspended, the October 19, 2015 pre-hearing conference be

1 vacated, and the October 26, 2015 hearing be convened for public comment
2 only, all to allow the parties to use the remaining time to continue settlement
3 discussions. Staff further requested that the parties come to the October 26,
4 2015 settlement discussions with representatives who have the authority to
5 negotiate a settlement and provide a proposed procedural schedule to be
6 followed if the parties achieved settlement.

7 **Q. DID ARIZONA WATER SUPPORT STAFF'S MOTION?**

8 A. Yes. On October 13, 2015, Arizona Water filed its Response to Staff's Motion for
9 Suspension of Procedural Schedule to support Staff's request to suspend the
10 procedural schedule.

11 **Q. WHEN DID THE PARTIES MEET TO DISCUSS SETTLEMENT?**

12 A. Arizona Water, the City, and Commission Staff met on October 26, 2015 at the
13 Commission to discuss possible settlement terms. Then on December 3, 2015,
14 Arizona Water and the City met at the office of the City's outside counsel, Garry
15 Hays, and reached agreement in principle on the basic terms of settlement.
16 Also, the City documented these terms in a letter of intent to settle which Brent
17 Billingsley, Globe City Manager, and I signed on December 23, 2015.

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

19 A. Arizona Water, the City, and Commission Staff (collectively referred to as the
20 "Parties") all actively participated in the settlement conference held at the
21 Commission on October 26, 2015. Arizona Water and City representatives and
22 their legal counsel met on two subsequent occasions to finalize the terms of
23 settlement.

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

25 A. All Parties had the opportunity to participate throughout the negotiations and to
26 fully express their respective positions. There was genuine desire and
27 commitment on the part of all Parties to find common ground on the issues. This
28 commitment and the compromises that are inherently part of any settlement

1 effort produced results that are just and reasonable and provide benefits for the
2 Parties and the affected customers, as described in more detail below. An
3 underlying theme of the settlement was the Parties' desire to resolve all issues to
4 allow the hearing division to issue a Recommended Opinion and Order and the
5 Commission to enter a final Decision and Order that resolves this matter with
6 finality. The Parties recognized that doing so will save considerable time,
7 expense, and Commission resources.

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

9 A. Yes. The Parties reached a conceptual settlement of all issues on December 3,
10 2015 which led to the signed letter of intent between Arizona Water and the City.
11 Arizona Water and the City continued to meet and on March 29, 2016, signed the
12 Settlement Agreement. The Parties filed the Settlement Agreement in this docket
13 on April 20, 2016.

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

15 A. Yes. I sponsor the Settlement Agreement on behalf of Arizona Water.

16 **III. Settlement Agreement Terms**

17 **Q. WHAT ARE THE MAJOR TERMS OR PROVISIONS OF THE SETTLEMENT**
18 **AGREEMENT?**

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

- 20 • Arizona Water retains all of its CCN area.
- 21 • The City transfers 51 customers in the Southern Disputed Area to Arizona
22 Water.
- 23 • Arizona Water grants a license to the City to continue to serve the City's
24 12 existing customers along US Highway 60, the City's wastewater
25 treatment plant, and Rivera Ranch, all within the City's limits.
- 26 • The City sells and transfers its water infrastructure along US Highway 60
27 in the Northern Disputed Area and in the Southern Disputed Area to
28 Arizona Water.

- 1 • Arizona Water takes over ownership, operation, and maintenance of the
2 City's water infrastructure along US Highway 60 in the Northern Disputed
3 Area and in the Southern Disputed Area upon signing the Settlement
4 Agreement.
- 5 • The City delivers water to Arizona Water in the Southern Disputed Area
6 and the Company accounts for and returns the same quantity of water to
7 the City's water distribution system until Arizona Water has connected a
8 new booster pump station and new water mains to the Southern Disputed
9 Area.
- 10 • Arizona Water delivers water to the City in the Northern Disputed Area for
11 the City's 12 customers along US Highway 60 and the City accounts for
12 and returns the same quantity of water to the Company's water distribution
13 system.
- 14 • Arizona Water installs a new 8-inch water distribution main along US
15 Highway 60 from the eastern edge of its CCN in the Northern Disputed
16 Area up to the point of the existing interconnect, approximately 900 feet
17 inside the CCN area. Arizona Water also installs an upgraded vault and
18 automatic flow control valve at the new point of emergency
19 interconnection. This work will be performed by a contractor performing
20 water main work for the City in this area. Arizona Water has established
21 an escrow account to reimburse the City for these installation costs.
- 22 • Arizona Water will design and install additional utility plant infrastructure
23 (estimated cost, \$250,000) to improve flows to customers in the US
24 Highway 60 area within the Company's CCN in and near the Northern
25 Disputed Area.
- 26 • Arizona Water will compensate the City for the full fair value of the water
27 infrastructure facilities in the Northern Disputed Area and Southern
28 Disputed Area through the payment of \$105,000 in cash and a non-cash

1 amount equal to the difference between that cash payment and the value
2 of the water infrastructure facilities sold and transferred by the City to
3 Arizona Water.

- 4 • Arizona Water and the City will coordinate transferring customers from the
5 City to Arizona Water in the Southern Disputed Area.
- 6 • Arizona Water and the City resolve fully their claims against each other.
- 7 • Each party bears their own attorneys fees, costs, and expenses.
- 8 • All Parties will take reasonable steps to expedite consideration of the
9 Settlement Agreement and entry of a Final Commission decision
10 approving the Settlement Agreement.

11 **Q. WHY IS IT APPROPRIATE FOR THE CITY TO RETAIN ITS TWELVE EXISTING**
12 **CUSTOMERS ALONG US 60 HIGHWAY, RIVERA RANCH, AND THE CITY'S**
13 **WASTEWATER TREATMENT PLANT NEAR THE BORDER OF ARIZONA**
14 **WATER'S CCN AREA IN THE NORTHERN DISPUTED AREA?**

15 **A.** There are several reasons why it is appropriate for the City to retain these
16 existing customers in Arizona Water's CCN area:

- 17 • The City has historically served these existing customers for at least two
18 decades.
- 19 • The City's existing customers are all located within the City's limits.
- 20 • The customers in the Northern Disputed Area have received notice that
21 the City will continue to provide such service and no customer has
22 objected.

23 **Q. ARE THERE OTHER CASES WHERE ONE PUBLIC SERVICE CORPORATION**
24 **HAS ENTERED INTO WHAT IS COMMONLY REFERRED TO AS**
25 **BORDERLINE AGREEMENT AND HOW WERE RATES HANDLED IN THOSE**
26 **CASES?**

27 **A.** There have been a number of borderline agreements between utilities submitted
28 to the Commission for approval. In these cases, the utility serving in another

1 utility's service area charges its lawfully established rates and not the service
2 area utility's rates. That is wholly consistent with the approach in this case where
3 the City charges its in-city rates to its 12 existing and longstanding customers
4 who are within the City's limits under what is effectively a border agreement
5 between the City and Arizona Water. The City's average residential customer's
6 water bill is nearly the same (about \$1.00 higher) as Arizona Water's average
7 residential customer's water bill.

8 **Q. IS IT APPROPRIATE FOR THE CITY TO CHARGE ITS RATES TO ITS**
9 **EXISTING 12 CUSTOMERS ALONG US HIGHWAY 60 IN ARIZONA WATER'S**
10 **CCN?**

11 A. Yes. The City established water rates to its existing customers along US
12 Highway 60 in accordance with local regulations and Arizona Revised Statutes §
13 9-511.01 by City Ordinance Article 9-4, which was adopted by the Globe City
14 Council by Resolution No. 1699 on April 28, 2014.

15 **Q. IS THE PURCHASE PRICE REASONABLE FOR THE INFRASTRUCTURE**
16 **TRANSFERRED TO ARIZONA WATER?**

17 A. Yes. The purchase price, which consists of a cash payment and a non-cash
18 payment, is equal to the value of the water infrastructure facilities sold and
19 transferred by the City to Arizona Water.

20 **Q. HOW WAS THE VALUE OF THE WATER INFRASTRUCTURE FACILITIES**
21 **DETERMINED?**

22 A. The value of water infrastructure facilities is normally determined by historical
23 cost records. In this case, the City did not have any historical cost records.
24 Therefore, in compliance with the National Association of Regulatory Utility
25 Commissioners ("NARUC") Uniform System of Accounts, Arizona Water records
26 plant on the basis of cost, estimated if not known, of plant acquired as an
27 operating unit or system. The Settlement Agreement provides that the
28 determination of value be based upon an evaluation and appraisal by a qualified

1 Civil Engineer. A qualified Civil Engineer has not yet completed this evaluation
2 and appraisal but the evaluation and appraisal should be completed in the near
3 future.

4 **IV. Public Interest**

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

9 A. Arizona Water's rates, charges, and conditions of service for its Superstition
10 Division (which includes the Company's Miami and Globe areas) have been
11 previously reviewed, deemed just and reasonable, and approved by the
12 Commission.² In addition, Arizona Water's Terms and Conditions for Service,
13 Tariff TC-243, was approved by the Commission in Decision Number 71845 and
14 is also just and reasonable.

15 The City must set its rates, charges, and conditions of service in
16 accordance with Arizona law. The City's rates, charges, and conditions of
17 service are similar to Arizona Water's rates, charges, and conditions of service.

18 The proposed Settlement Agreement represents a compromise of the
19 Parties' competing positions and the end result is a just and reasonable solution
20 of the disputes over service territory and resolution of all claims. Additionally, the
21 proposed Settlement Agreement provides the following benefits:

- 22 • Avoids protracted and costly litigation.
- 23 • Results in a rate decrease for 51 customers transferred to Arizona Water
24 and no rate increase for the 12 customers retained by the City along US
25 Highway 60.
- 26 • Provides certainty for customers.

27
28

² See Conclusion of Law Number 4, ACC Decision 73736, Page 111, Line 28 to Page 112, Line 1.

- Saves the Commission, Arizona Water Company, and the City resources and time.
- Resolves conflicts between two qualified public utility service providers.

Q. WHAT IS THE EFFECT ON CUSTOMER WATER BILLS IN THE SOUTHERN DISPUTED AREA?

A. All of those customers who are transferred to Arizona Water will have lower water bills. As shown on Exhibit 1 of the Notice of Joint Filing made by Arizona Water and the City, the 49 customers transferred to Arizona Water in the Southern Disputed Area who are outside the City limits will save about \$22 per month based on the average monthly water use of 5,692 gallons. The two customers transferred to Arizona Water who live inside the City limits will save about \$1 per month based on the monthly average water use.

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

A. Yes.