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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BELLA VISTA WATER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. W-02465A-15-0367

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (RIO RICO WATER & SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. WS-02676A-15-0368

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BELLA VISTA WATER) CORP., AN ARIZONA CORPORATION, FOR AUTHORITY TO ISSUE EVIDENCE OF INDEBTEDNESS IN THE AMOUNT NOT TO EXCEED \$4,700,000.

DOCKET NO. W-02465A-15-0370

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (RIO RICO WATER AND SEWER) CORP., AN ARIZONA CORPORATION, FOR AUTHORITY TO ISSUE EVIDENCE OF INDEBTEDNESS IN THE AMOUNT NOT TO EXCEED \$8,900,000.

DOCKET NO. WS-02676A-15-0371

STAFF'S TESTIMONY IN SUPPORT OF THE PROPOSED SETTLEMENT AGREEMENT

Arizona Corporation Commission

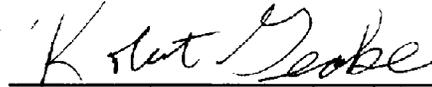
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AUG 02 2016

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1 The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission")
2 hereby submits its Testimony of Staff witness James R. Armstrong, regarding the above-captioned
3 dockets.

4 RESPECTFULLY SUBMITTED this 2nd day of August, 2016.

5
6 

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13 On this 2nd day of August, 2016, the foregoing document was filed with Docket Control as a
14 Utilities Division Pre-Filed Testimony and copies of the foregoing were mailed on behalf of the
15 Utilities Division to the following who have not consented to email service. On this date or as soon
16 as possible thereafter, the Commission's eDocket program will automatically email a link to the
17 foregoing to the following who have consented to email service.

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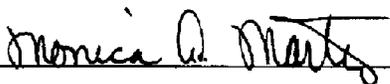
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BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

TOM FORESE

Commissioner

ANDY TOBIN

Commissioner

IN THE MATTER OF THE APPLICATION OF)
LIBERTY UTILITIES (BELLA VISTA WATER)
CORP., AN ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE OF)
ITS UTILITY PLANTS AND PROPERTY AND)
FOR INCREASES IN ITS WATER RATES AND)
CHARGES FOR UTILITY SERVICE BASED)
THEREON.)
_____)

DOCKET NO. W-02465A-15-0367

IN THE MATTER OF THE APPLICATION OF)
LIBERTY UTILITIES (BELLA VISTA WATER)
CORP., AN ARIZONA CORPORATION, FOR)
AUTHORITY TO ISSUE EVIDENCE OF)
INDEBTEDNESS IN AN AMOUNT NOT TO)
EXCEED \$4,700,000.)
_____)

DOCKET NO. W-02465A-15-0370

IN THE MATTER OF THE APPLICATION OF)
LIBERTY UTILITIES (RIO RICO WATER &)
SEWER) CORP., AN ARIZONA CORPORATION,))
FOR A DETERMINATION OF THE FAIR)
VALUE OF ITS UTILITY PLANTS AND)
PROPERTY FOR INCREASES IN ITS WATER)
CHARGES FOR UTILITY SERVICE BASED)
RATES AND THEREON.)
_____)

DOCKET NO. WS-02676A-15-0368

IN THE MATTER OF THE APPLICATION OF)
LIBERTY UTILITIES (RIO RICO WATER &)
SEWER) CORP., AN ARIZONA CORPORATION,))
FOR AUTHORITY TO ISSUE EVIDENCE OF)
INDEBTEDNESS IN AN AMOUNT NOT TO)
EXCEED \$8,900,000.)
_____)

DOCKET NO. WS-02676A -15-0371

DIRECT TESTIMONY
IN SUPPORT OF
THE SETTLEMENT AGREEMENT
OF
JAMES R. ARMSTRONG
REVENUES REQUIREMENTS AND AUDIT SECTION
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

AUGUST 2, 2016

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EXECUTIVE SUMMARY
LIBERTY UTILITIES (BELLA VISTA WATER) CORP., AND
LIBERTY UTILITIES (RIO RICO WATER & SEWER CORP.
DOCKETS W-02465A-15-0367, WS-02676A-15-0368,
W-02465A-15-0370 AND WS-0267A-15-0371

Mr. Armstrong'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 the Agreement. Mr. Armstrong explains why Staff believes the Agreement is in the public interest.

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

1 **SECTION I - INTRODUCTION**

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

3 A. My name is James R. Armstrong. I am employed as the Chief Accountant of the Revenue
4 Requirements and Audits Section of the Utilities Division ("Staff") of the Arizona
5 Corporation Commission ("ACC" or "Commission"). My business address is 1200 West
6 Washington Street, Phoenix, Arizona 85007.

7
8 **Q. Please provide an overview of your education and work experience.**

9 A. I hold a Master Degree with a concentration in Accounting and a Bachelors Degree with a
10 concentration in Finance, both received from Kansas State University. I have earned the
11 distinction of being a Certified Public Accountant ("CPA"), though I do not practice as a
12 CPA. I have worked in the area of utility regulation for over 30 years. Approximately 11
13 years of this time was spent as the Rate Manager and/or as the Manager of Financial Planning
14 for Oklahoma Natural Gas Company. I have also served in various capacities for the Kansas
15 Corporation Commission, the Oklahoma Corporation Commission, and the Residential
16 Utility Consumer Office ("RUCO") in Arizona. I began my current employment with the
17 ACC in September of 2012.

18
19 **Q. Are you the same James R. Armstrong who filed direct and surrebuttal testimony in**
20 **these dockets?**

21 A. Yes.

22
23 **Q. What is the purpose of the testimony you are now filing?**

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

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

2 A. Yes.

3
4 **Q. How is your testimony being presented?**

5 A. My testimony is organized into three sections. Section I is this introduction, Section II
6 provides a brief background, Section III provides discussion of the settlement process, and
7 Section IV discusses the various parts of the Agreement and discusses the reasons why the
8 Agreement is in the public interest.

9
10 **SECTION II - BACKGROUND**

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

12 A. On October 28, 2015 Liberty Utilities (Bella Vista Water) Corp. ("Bella Vista" or
13 "Company") filed an application for a permanent rate increase in Docket No. W-02465A-15-
14 0367. On November 2, 2015 Bella Vista filed an application in Docket No. W-02465A-15-
15 0370 requesting authority from the Commission to issue evidence of indebtedness in a total
16 amount not to exceed \$4,700,000 ("Financing Docket"). On October 28, 2015 Liberty
17 Utilities (Rio Rico Water & Sewer) Corp. ("Rio Rico" or "Company") filed an application for
18 a permanent rate increase in Docket No. WS-02675A-15-0368. On November 2, 2015, Rio
19 Rico filed an application in Docket No. WS-02676A-15-0371 requesting authority from the
20 Commission to issue evidence of indebtedness in a total amount not to exceed \$8,900,000.
21 On November 3, 2015 Bella Vista and Rio Rico filed motions to consolidate both rate
22 dockets and both finance dockets. On December 3, 2015 a procedural order was entered
23 consolidation all of the rate dockets and finance dockets for further proceedings.

24

1 **Q. Please summarize Bella Vista's filing.**

2 A. Bella Vista proposed total annual operating revenue of \$6,179,053. This represented an
3 increase of \$1,554,323 or, 33.61 percent, over test year revenue of \$4,624,730. The proposed
4 revenue increase would produce an operating income of \$1,209,727 for a 9.16 percent rate of
5 return on adjusted original cost rate base ("OCRB") of \$13,205,189. The Company proposed
6 to use OCRB as its Fair Value Rate Base ("FVRB"). Bella Vista's filing was based on the
7 twelve months ended December 31, 2014 ("test year").

8
9 **Q. Please summarize Rio Rico Water's filing.**

10 A. Rio Rico Water proposed a \$683,856 or 22.55 percent revenue increase from \$3,032,792 to
11 \$3,716,648. The proposed revenue increase would produce an operating income of \$762,189
12 for an 8.60 percent rate of return on its proposed OCRB of \$8,861,632. The Company
13 proposed to use its OCRB as its FVRB. Rio Rico Water's filing is based on the twelve
14 months ended December 31, 2014 ("test year").

15
16 **Q. Please summarize Rio Rico Sewer's filing.**

17 A. Rio Rico Sewer proposed a \$226,351, or 15.31 percent revenue increase from \$1,478,323 to
18 \$1,704,674. The proposed revenue increase would produce an operating income of \$460,616
19 for an 8.60 percent rate of return on its proposed OCRB of \$5,355,381. The Company
20 proposed to use OCRB as its FVRB. Rio Rico Sewer's rate filing is based on the twelve
21 months ended December 24, 2014 ("test year").

22
23 **Q. What is the revenue increase for Bella Vista Water recommended by the Parties?**

24 A. For Bella Vista, the Parties agreed to a total revenue requirement of \$5,569,296, which results
25 in an increase in revenue equal to \$958,954 over test year revenue, an increase of 20.80
26 percent.

1 **Q. What is the revenue increase for Rio Rico Water recommended by the Parties?**

2 A. For Rio Rico Water, the Parties agreed to a total revenue requirement of \$3,886,431, which
3 results in an increase in revenue equal to \$814,262, over test year revenue, an increase of
4 26.50 percent.

5
6 **Q. What is the revenue increase for Rio Rico Sewer recommended by the Parties?**

7 A. For Rio Rico Sewer, the Parties agreed to a total revenue requirement of \$1,640,590, which
8 results in an increase in revenue equal to \$162,266, over test year revenue, an increase of
9 10.98 percent.

10

11 **Q. What is the overall rate of return recommended by the Parties for the Companies?**

12 A. The Parties agreed to an overall rate of return of 7.72 percent for the Companies, with a 9.70
13 percent cost of equity.

14

15 **SECTION III - SETTLEMENT PROCESS**

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

17 A. The settlement process was open, transparent and inclusive. Staff filed a Notice of
18 Settlement Discussions in these dockets on July 19, 2016. The Notice was emailed and
19 mailed to all of the Parties, assuring that all of the Parties received notice of the time and
20 place of the settlement meeting which took place at the Commission's office in Phoenix on
21 July 25, 2016. All of the parties to these dockets were accorded the opportunity to attend the
22 settlement meeting and, at the meeting, all of the parties that attended were accorded an
23 opportunity to raise, discuss, and propose resolution to any issue that they desired.

24

25 **Q. Who participated in the settlement meeting?**

26 A. The Companies, RUCO, and Staff participated in the meeting.

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

2 A. Yes, each party had the opportunity to raise issues and to 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 of the participants zealously advocated and represented their interests. I
9 would characterize the discussions as candid but professional.

10
11 **Q. Would you describe the process as requiring give and take?**

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

15
16 **Q. Because of such compromises, do you believe that the public interest was
17 compromised?**

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

20
21 **SECTION IV - THE SETTLEMENT AGREEMENT**

22 **Q. What are the significant sections of the Agreement?**

23 A. The Agreement contains a section detailing the revenue requirement and rate increase for
24 each company, a section detailing miscellaneous settlement terms and conditions, a section
25 providing for Commission evaluation of the proposed settlement, a section detailing
26 miscellaneous provisions concerning how the settlement was reached and related matters, and

1 an attachment documenting the numerical details of the proposed settlement. Subsequent to
2 the filing of the Agreement, the parties determined that there was an inconsistency regarding
3 the bonus and incentive pay category of cost allocations between the Agreement and the
4 schedules. That inconsistency, if corrected, would result in a minimal increase to the
5 Company's revenues. As any change would be *de minimis* and would be detrimental to the
6 ratepayers, the Company has requested that no changes be made to the schedules, and Staff
7 and RUCO agree.

8
9 **Q. Is the Settlement Agreement in the public interest?**

10 A. Yes, there are several reasons why the Agreement is in the public interest. The terms of the
11 Agreement produce revenue requirements that will result in rates that are just and reasonable.
12 Settlement of all of the contested issues will save time and the expense of a contested hearing.
13 Further, the Agreement will allow the Companies to earn an overall rate of return of 7.72
14 percent and a 9.70 percent return on equity, which will provide the Companies sufficient
15 revenue to provide safe and reliable water service.

16
17 **Q. Does this conclude Staff's direct testimony?**

18 A. Yes, it does.