

ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-10-0448

**TESTIMONY IN SUPPORT
OF SETTLEMENT AGREEMENT**

OF

JODI A. JERICH

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

DECEMBER 15, 2011

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1 **Q. Please state your name, occupation and business address for the**
2 **record.**

3 A. My name is Jodi Jerich. I am the Director of the Arizona Residential Utility
4 Consumer Office (RUCO). My business address is 1110 W. Washington
5 Street, Suite 220, Phoenix, Arizona 85007. A Statement of Qualifications is
6 attached as Exhibit A.

7

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

9 A. The purpose of my testimony is to explain the reasons why RUCO supports
10 the proposed Settlement Agreement.

11

12 **SETTLEMENT PROCESS**

13 **Q. Have you, in your role as RUCO Director, participated in other**
14 **settlement negotiations?**

15 A. Yes. As Director, I have participated in settlement negotiations in other
16 matters that have come before the Corporation Commission.¹ The majority
17 of these negotiations have resulted in RUCO reaching an accord with the
18 other settling parties and signing a settlement agreement. On the other
19 hand, I have walked away from settlement talks when negotiations
20 produced a result that RUCO found was not in the best interest of
21 residential ratepayers. RUCO does not enter into settlements lightly.

¹ 2008 APS Rate Case, Docket No. E-01345A-08-0172 (Decision No. 71444); 2010 Qwest/
CenturyLink Merger, Docket No. T-04190A-10-0194 (Decision No. 72232), 2010 SW Gas Rate
Case, Docket No. G-01551A-10-0458 (Pending). Goodman Water Rate Case, Docket No. W-
02500A-10-0382 (pending).

1 RUCO will not agree to settle simply as a means of avoiding litigation.
2 However, in this matter, negotiations did produce reasonable and fair terms
3 that RUCO can and does support.

4

5 **Q. Was the negotiation process that resulted in the Settlement Agreement**
6 **a proper and fair process?**

7 A. Yes. All participants had an opportunity to meaningfully participate
8 throughout the negotiations. The participants were able to express their
9 positions fully.

10

11 These talks produced a well-balanced and fair result that illustrates a
12 willingness of the parties to find common ground, and to reach a
13 compromise position that provides benefits for both the ratepayers,
14 Arizona-American and EPCOR.

15

16 **Q. Please explain further.**

17 A. On November 21, 2011, RUCO invited all parties in the docket to come to
18 a meeting to determine whether there was any willingness to go into
19 settlement negotiations. A copy of this communication is attached as
20 Exhibit B. RUCO staff emailed the communication to all parties who
21 provided email addresses and mailed the correspondence to all others.

22

1 **Q. Why is a negotiated compromise an appropriate way to resolve this**
2 **rate case?**

3 A. The Settlement Agreement brings clarity and regulatory certainty without the
4 risk of protracted litigation and appeals. Furthermore, the Settlement
5 Agreement finds middle ground that the parties can support.

6
7 This proposed Settlement Agreement may have the added benefit of
8 providing an opportunity to resolve the heated emotions that the Company's
9 rate case filing has generated in the Agua Fria community. In the absence
10 of a settlement that finds middle ground and is supported by the intervenors,
11 it is likely that such hard feelings would persist.

12
13 Of course, the proposed Settlement Agreement in no way eliminates the
14 Commission's constitutional right and duty to review this matter and to make
15 its own determination whether the Settlement is truly balanced and the rates
16 are just and reasonable.

17

18 **SETTLEMENT PROVISIONS**

19 **Q. Please summarize the main provisions of the Settlement Agreement.**

20 A. The proposed Settlement Agreement settles all issues in the pending rate
21 case for all three (3) Arizona-American water systems. In summary, the
22 Settlement Agreement provides as follows:

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Provisions Affecting All Three (3) Systems

1. Rates become effective no earlier than July 1, 2012.
2. The approved ROE is 10.6% with an authorized rate of return of 7.1%.
3. The proposed Settlement Agreement adopts Staff’s depreciation rates.

Provisions Unique to the Agua Fria System

4. A \$14,034,551 overall revenue increase phased-in over three (3) years. This results in a 58% overall revenue increase at the end of the phase-in period.
5. Arizona-American agrees to waive all interest and foregone revenue associated with the phase in of the rate increase.
6. The 58% overall revenue increase shall be phased-in as follows:
 - Year 1 (July 1, 2012 to June 30, 2013) 39.0%
 - Year 2 (July 1, 2013 to June 30, 2014) 9.5%
 - Year 3 (July 1, 2014, June 30, 2015) 9.5%
7. FVRB set at \$137,424,547.
8. The White Tanks plant and related deferrals is placed into rate base in the amount of \$78.9 million.
9. The Company shall not file a new rate case application until it has had acquired at least six (6) months of data during the final phase-in of rates.
10. Until the next rate case, the Company shall credit back to customers the revenue requirement equivalent of hook-up fees actually collected under the Company’s White Tanks HUF Tariff. This credit shall be calculated on an annual basis. It is anticipated that the credit shall appear as a dedicated line item on the customers’ bills.

- 1 11. Until the next rate case, the Company shall credit to customers
2 any sales of non-firm treatment services provided at the White
3 Tanks s plant. It is anticipated that this credit shall appear as a
4 dedicated line item on the customer's bills in combination with the
5 HUF-related credit.
6
7

8 **Provisions Unique to the Mohave System**

- 9 1. The FVRB is set at \$11,418,252.
10
11 2. Overall revenue increase of \$1,812,486.
12
13 3. The Company shall develop and submit to the Commission a five
14 (5) year plan to reduce water loss. The plan shall be based on
15 lead survey and system analysis to identify the most cost effective
16 approach to reducing water loss.
17
18

19 **Provisions Unique to the Havasu System**

- 20 1. The OCRB is set at \$3,578,982.
21
22 2. Overall revenue increase of \$609,838.
23
24 3. The Company shall develop and submit to the Commission a five (5)
25 year plan to reduce water loss. The plan shall be based on lead
26 survey and system analysis to identify the most cost effective
27 approach to reducing water loss.
28
29

30 **Q. Why is the Settlement Agreement in the public interest?**

31 A. The letters to the docket, the public comment meetings and the opening
32 statements presented at hearing for this rate case reveal the high level of
33 frustration over the Company's proposed rate increase from the Agua Fria
34 communities. As the case proceeded to hearing, it became clear that the
35 dispute produced a large divide of opinion between the Company and the
36 intervenors. The Settlement resulted in a middle ground compromise with
37 each party receiving some benefits and conceding on others. Given the

1 level of discord, any settlement reached between the parties that can
2 possibly ameliorate such hard feelings, is worthy of serious consideration.

3 The proposed Settlement resolves the divisive issues in a manner that is
4 both fair and reasonable to the Company and to its ratepayers. For this
5 reason, it is in the public interest.

6 **Comparison of Parties' Litigated Positions and Settlement**
7 **Revenue Requirement**

8
9 **Agua Fria**

10
11 **Company:** White Tanks plant is used and useful and should be included
12 in rate base resulting in an overall revenue increase of \$17.2
13 million (**75%**).

14
15 **Staff:** White Tanks plant is used and useful and should be included
16 in rate base resulting in an overall revenue increase of \$12.5
17 million (**52%**).

18
19 **RUCO:** A portion of the White Tanks plant is used and useful and
20 only that portion should be included in revenue base
21 resulting in an overall rate increase of \$9.8 million (**41%**).

22
23 **City of Surprise:** The Company's decision to build the White Tanks plant
24 when it did was not prudent and the entire plant should be
25 excluded from rate base.

26
27 **Sun City Grand:** The Company's decision to build the White Tanks plant
28 when it did was not prudent and the entire plant should be
29 excluded from rate base.

30
31 **Class of HOAs:** The Company's decision to build the White Tanks plant
32 when it did was not prudent and the entire plant should be
33 excluded from rate base.

34
35 **Settlement:** All of White Tanks plant and related deferrals shall be
36 included in rate base in the amount of \$78.9 million and sets
37 an OCRB of \$137,422,983 for the Agua Fria Water District.
38 An overall revenue increase of \$14,034,551 (**58%**) phased-in
39 over three (3) years, with the Company agreeing to forego
40 lost revenues and carrying costs.
41

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Mohave

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Company: Recommended an overall revenue increase of \$2.1 million
(44.1%).

5

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Staff: Recommended an overall revenue increase of \$1.7 million
(35.6%).

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RUCO: Recommended an overall revenue increase of \$1.9 million
(38.7%).

10

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Settlement: Recommended an overall revenue increase of \$1.8 million
(36.9%)

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Havasu

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Company: Recommended an overall revenue increase of \$699,327
(55.2%).

18

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Staff: Recommended an overall revenue increase of \$593,878
(46.9%).

21

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RUCO: Recommended an overall revenue increase of \$600,918
(47.1%).

24

25

26

Settlement: Recommended an overall revenue increase of \$609,838
(47.9%).

27

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**Q. In summary, what are the benefits to the Company found in the
Settlement Agreement?**

31

32

A. From RUCO's perspective, the benefits to the Company are as follows:

33

- Eliminates risks associated protracted litigation.

- 1 • For Agua Fria, Arizona-American receives a 58.0% rate increase
- 2 phased-in over three years, totaling \$14,034,551.
- 3 • For Agua Fria, the total cost of the White Tanks plant (\$78.9 million)
- 4 is placed into ratebase along with its O&M deferral of \$2.9 million
- 5 amortized over three years.
- 6 • The entire rate increase goes into effect on July 1, 2012 for Mohave
- 7 and Havasu Water System customers.
- 8 • No stay out provision for Mohave and Havasu Water Systems.
- 9 • The Settlement Agreement resolves the question of Staff opposition
- 10 of rates going into effect prior to the Company reducing its water loss
- 11 to below 10% in the Mohave and Havasu systems.

12
13 **Q. What are the benefits to the ratepayers found in the Settlement**
14 **Agreement?**

15 A. From RUCO's perspective, the benefits to the ratepayers and the
16 intervenors are as follows:

- 17 • The overall revenue increase of approximately \$14 million is less
- 18 than the \$17.2 million increase Arizona-American was requesting for
- 19 Agua Fria.
- 20 • The rate increase for Agua Fria is phased in over three (3) years.
- 21 • Arizona-American waives its right to foregone revenues and any
- 22 accumulated interest associated with the phase in period for Agua
- 23 Fria.

- 1 • The earliest that Arizona-American could file another rate case that
- 2 includes the Agua Fria Water System is January 1, 2015.
- 3 • Provides a credit to Agua Fria customers for all hook-up fees
- 4 collected until the next rate case.
- 5 • Provides a credit to Agua Fria customers for revenues received for
- 6 any treatment services Arizona-American may provide to other water
- 7 utilities at the White Tanks plant.
- 8 • Provides a rate increase to Mohave and Havasu customers that is
- 9 below the increase Arizona-American requested.
- 10 • Requires the Company to file a plan to address water loss in the
- 11 Mohave and Havasu Water Systems.
- 12 • Company withdraws its request for an Infrastructure System
- 13 Replacement Surcharge.

14

15 **Q. Why is the credit for the revenue requirement equivalent for the hook**

16 **up fees actually collected under the Company’s White Tanks HUF a**

17 **ratepayer benefit?**

18 A. Normally, any hook up fees collected after the resolution of a rate case

19 would be treated as CIAC and be a deduction from rate base. The

20 ratepayer would not realize the benefit of this reduction from ratebase until

21 the next rate case. Under the terms of the proposed Settlement

22 Agreement, the customers will realize the value of the hook up fees the

23 year after they are actually collected. It is anticipated that this credit would

1 appear as a separate line item on Agua Fria customer bills. As growth
2 returns, the credit will increase. Since Decision No. 69914 anticipated the
3 White Tanks plant to be paid for with HUF revenues, in RUCO's opinion,
4 this credit is a very good and creative way to get rate relief to Agua Fria
5 customers in a timely manner. Furthermore, since many Agua Fria
6 customers expressed much frustration over paying for a plant that, in their
7 minds and in RUCO's, was to serve growth that never materialized, the
8 identified credit on the bill should help Agua Fria customers connect
9 growth in their community to the reduction of their bills.

10
11 **Q. Why is the credit for revenues from sales of non-firm treatment**
12 **services a ratepayer benefit?**

13 A. If this case had gone to hearing, RUCO would have defended its position
14 that the White Tanks plant can treat much more CAP water than Arizona-
15 American's Agua Fria CAP water allocation of 11,093 acre feet per year.
16 RUCO's litigated position was that this extra capacity is not used and
17 useful and should have been excluded from ratebase. Agreeing to put the
18 entire plant into ratebase was a major concession for RUCO. The
19 Company has agreed that if it provides any third party water treatment
20 services at the White Tanks plant, the incremental revenues received for
21 its services would be credited back to customers. Again, like the hook up
22 fees, any incremental revenues from treatment services provided by the
23 Company at the White Tanks plant would not have benefitted Agua Fria

1 customers until the next rate case. This provision of the Settlement
2 Agreement has the same benefit as the crediting of future hood-up fees to
3 customer bills. Like the HUF credit, it will be calculated annually and
4 appear on customers' bills as a line item with the HUF credit.

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7 **RATE INCREASE/RATE STABILITY**

8 **Q. Is the stay out provision important?**

9 A. Yes. The proposed Settlement Agreement precludes the utility from
10 coming in to ask for another rate increase until it has completed half of its
11 third and final phase-in of rates. According to the terms of the proposed
12 Settlement Agreement, the very earliest the Company may file a new rate
13 case application would be after the Company has received six (6) months of
14 actual experience with the final phase of rates – or in other words, on
15 January 1, 2015 at the earliest. And for many practical reasons, it is unlikely
16 that the Company would be able to file that soon. Even assuming a January
17 1, 2015 rate case filing it is unlikely that new rates would go into effect
18 before 2016.

19
20 If the terms of the proposed Settlement Agreement are accepted by the
21 Commission, the residents, HOAs and businesses within the Agua Fria
22 community will have rate stability for a significant period of time.
23 Prospective businesses looking to locate in the area will be able to calculate

1 their water bills with certainty. Families will be able to make and keep to
2 their water bill budget. HOAs will be able to calculate their dues without fear
3 of an surprise rate increase.

4

5 **Q. Does the Settlement Agreement bind EPCOR?**

6 A. Yes. EPCOR is a signatory to the proposed Settlement Agreement. If
7 EPCOR acquires Arizona-American, it shall be bound by all of its terms.

8

9 **RATE IMPACT**

10 **Q. What is the impact on the average and median residential bill for the**
11 **three years of the phase-in of the rate increase for Agua Fria?**

12 A. Here is a comparison of the percentage of rate increase for the average
13 residential 5/8 x 3/4 inch customer under the three-year phase in.

14

15

<u>5/8 x 3/4</u>	<u>Current</u>	<u>Company</u>	<u>RUCO</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3²</u>
Avg. 7,362 gal.	\$30.32	\$55.44	\$45.95	\$43.50	\$46.61	\$49.72

16

17

<u>5/8 x 3/4</u>	<u>Current</u>	<u>Company</u>	<u>RUCO</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Median 9,000 gal.	\$34.79	\$63.61	\$52.72	\$49.91	\$53.47	\$57.04

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² For all of the bill impact calculations included in this testimony: settlement calculations are based on the Company's settlement schedules for Agua Fria and on Staff's schedules for Havasu and Mohave. All other calculations are based on the parties' most recently filed rate schedules.

1 **Q. Why does RUCO support a revenue increases for Agua Fria beyond**
2 **the rate increase it recommended in litigation?**

3 A. RUCO recognizes that it supports a proposed settlement that increases
4 rates higher than what RUCO originally recommended in testimony. But,
5 negotiations are a series of give and take. In exchange for the rate
6 increase in the Settlement Agreement, the Settlement Agreement also
7 adopts a three-year phase in with the possibility of revenues from hook up
8 fees and treatment services being credited back to customers.

9

10 **Q. Why does RUCO support a \$14 million revenue increase for Agua**
11 **Fria beyond the \$12.7 million revenue increase recommended by**
12 **Staff?**

13 A. Staff recommended an overall revenue increase of \$12.7 million and the
14 Settlement Agreement provides an overall revenue increase of \$14 million
15 phased-in over three years without foregone revenues and carrying costs.
16 There are three reasons why RUCO finds the overall revenue increase of
17 \$14 million to be in the public interest. First, if the Commission adopted
18 Staff's position without any changes, the entire \$12.7 million would have
19 been collected from Agua Fria customers beginning in year 1. Under the
20 Settlement Agreement, the Company collects only \$9 million in year 1 and
21 \$11.7 million in year 2. Phasing in the \$14 million revenue increase over
22 three years without the Company collecting foregone revenues and
23 carrying costs is a significant benefit to the ratepayer. If the Company had

1 not agreed to waive these additional costs, ratepayers would pay an
2 additional \$10 million to phase-in rates. Second, in RUCO's opinion,
3 Staff's \$12.7 million overall revenue increase recommendation was
4 unlikely to be adopted by the Commission because RUCO was concerned
5 that the Commission would not agree with Staff's depreciation rates. If the
6 Commission did not adopt Staff's depreciation schedules, Staff's \$12.7
7 million figure would go up. Under the terms of the Settlement Agreement,
8 the Company adopts Staff's depreciation schedules which provide a
9 benefit to ratepayers. Third, there was the possibility that the Commission
10 would adopt the Company's \$17 million overall revenue increase
11 recommendation.

12
13
14 **Q. What is the impact on the average and median residential bill for the**
15 **three years of the phase-in of the rate increase for Mohave?**

16 Here is a comparison of the bill impact for the average 5/8 x 3/4 inch
17 residential customer.

18
19 **5/8 x 3/4 Current Company RUCO Settlement**

20 Avg.. \$16.87 \$25.36 \$24.61 \$21.41
21 7,225 gal.
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23 **5/8 x 3/4 Current Company RUCO Settlement**

24 Med. \$22.21 \$33.37 \$32.32 \$30.68
25 11,000 gal.
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Q. What is the impact on the average and median residential bill for the three years of the phase-in of the rate increase for Havasu?

Here is a comparison of the bill impact for the average 5/8 x 3/4 inch residential customer.

<u>5/8 x 3/4</u>	<u>Current</u>	<u>Company</u>	<u>Staff</u>	<u>RUCO</u>	<u>Settlement</u>
8,334 gal.	\$45.95	\$69.04	\$59.87	\$68.68	\$61.49

<u>5/8 x 3/4</u>	<u>Current</u>	<u>Company</u>	<u>Staff</u>	<u>RUCO</u>	<u>Settlement</u>
15,000 gal.	\$68.73	\$103.27	\$100.82	\$103.53	\$104.33 ³

Q. Does that conclude your testimony on this subject?

A. Yes.

³ The impact on the median user is higher than the Company requested because the Parties have agreed to use Staff's rate design. Staff's rate design imposes a higher rate for ratepayers using more than 9,000 gallons.

EXHIBIT A

Statement of Qualifications

Jodi A. Jerich
Director
Arizona Residential Utility Consumer Office (“RUCO”)

Governor Brewer appointed me to serve as the Director of RUCO in February 2009. The Arizona State Senate found my qualifications met the statutory requirements found in Arizona Revised Statutes §40-462 and confirmed my appointment. As Director, I oversee and approve all testimony and briefs filed by RUCO. In consultation with my staff, I direct the public policy decisions of the office.

From 2003 through 2005, I was employed at the Arizona Corporation Commission as the Policy Advisor to Corporation Commissioner Mike Gleason. In that role, I advised the Commissioner on matters coming before the Commission. I was actively involved in the utility policy-making decisions of that Commissioner’s office.

Except for the time I was employed by the Commission, from 1997 through 2008, I was employed at the Arizona House of Representatives. I held several positions during my tenure, eventually becoming Chief of Staff and Counsel to the Majority Caucus. Relevant to the question at hand, I advised Legislators on matters involving water, energy, Commission jurisdiction and utility security.

In 2006, when Governor Janet Napolitano appointed Barry Wong to fill the Commission seat vacated by Commissioner Marc Spitzer's appointment to the Federal Energy Regulatory Commission (FERC), I took a leave of absence from the Legislature for a short time in order to assist Commissioner Wong in establishing his office.

I am a Phi Beta Kappa graduate of Indiana University. I also have a law degree from Indiana University and am a member of the Arizona and Tennessee bars.

In my position as RUCO Director, I have filed testimony detailing RUCO's position on numerous matters in several dockets. Most recently, I provided testimony on RUCO's position on decoupling in the pending UNS Gas, Inc. rate case. (Docket No. G-04204A-11-0158)

EXHIBIT B



RESIDENTIAL UTILITY CONSUMER OFFICE

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November 21, 2011

Janice K. Brewer
Governor

Jodi A. Jerich
Director
jjerich@azruco.gov

Dear Parties to the Docket:

Re: Arizona-American Water Company Rate Case
Docket No. W-01303A-10-0448

I write to ask you to consider entering settlement negotiations to find a resolution to the Arizona-American rate case. RUCO offers to host a meeting next week to facilitate such a preliminary discussion among the parties. At this meeting, the parties can talk directly with each other and gauge whether settlement talks would be productive and whether the parties have a sincere desire to compromise. From this meeting, we will know if the parties need to inform the Commission of a plan to enter into formal settlement discussions. If not, we will proceed to hearing which is scheduled to begin December 5.

This case has become particularly contentious. The parties have widely different positions. Each party has invested considerable time and expense in defending its position. The rate case has generated sizeable discord among Arizona-American's ratepayers and perhaps a settlement can start to mend relations.

RUCO offers to hold this preliminary meeting on Wednesday, November 30, at 1:00 p.m. at our offices. For those who wish to participate but cannot attend in person, RUCO will provide a conference call-in number.

Please contact RUCO's counsel, Ms. Michelle Wood, if you plan to participate. Thank you for your consideration of this request.

Sincerely,

Jodi A. Jerich
Director