

WHAT IS THE PROPOSED SIB SURCHARGE?

At the end of each year of the SIB program, a monthly surcharge to recover a portion of the costs becomes effective. Customers also receive a monthly efficiency credit.

Meter Size	Monthly SIB Surcharge*	Monthly SIB Efficiency Credit	Monthly SIB Net Surcharge
5/8" x 3/4"	\$0.74	\$(0.04)	\$0.71
3/4"	\$1.11	\$(0.06)	\$1.05
1"	\$1.85	\$(0.09)	\$1.76
1-1/2"	\$3.70	\$(0.19)	\$3.51
2"	\$5.92	\$(0.30)	\$5.62
3"	\$11.84	\$(0.59)	\$11.25
4"	\$18.50	\$(0.93)	\$17.57
6"	\$37.00	\$(1.85)	\$35.15
8"	\$59.20	\$(2.96)	\$56.24
10"	\$85.10	\$(4.26)	\$80.84

QUESTIONS? WE'RE HERE TO HELP.

To learn more about the SIB program for Chaparral and the proposed SIB Surcharge, visit epcor.com. You can also call our Customer Care team at **1.800.383.0834** or email us at mywater@epcor.com. You may also view Chaparral's SIB Surcharge application by visiting the Arizona Corporation Commission's website (www.azcc.gov) and using the e-Docket function.



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CHAPARRAL CITY WATER COMPANY SYSTEM IMPROVEMENT BENEFIT SURCHARGE PROPOSED EFFECTIVE DATE: MARCH 1, 2017

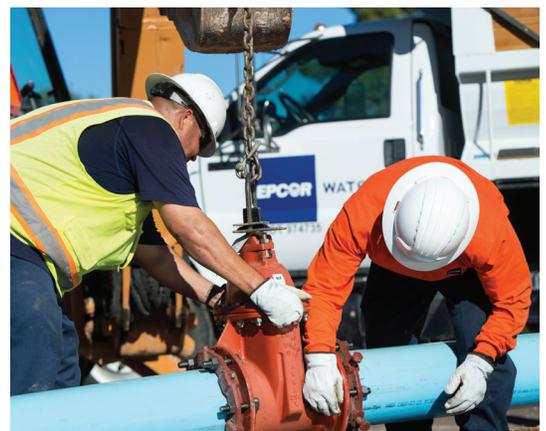
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EPCOR, SIB AND THE CHAPARRAL CITY WATER COMPANY

On June 20, 2014, the Arizona Corporation Commission (ACC) issued Decision No. 74568 in Docket No. W-02113A-13-0118 approving the implementation of a five-year System Improvement Benefits (SIB) program to recover improvement costs for new hydrants, meters, valves and service lines in EPCOR's Chaparral water district.

On August 8, 2016, the Arizona Supreme Court ruled that the SIB program authorized by the ACC meets the state's constitutional requirements for rate making. On October 18, 2016, EPCOR filed an application with the ACC requesting that the SIB program and surcharge be made effective as previously approved.

The first year of the Chaparral water district SIB program ended June 20, 2015 and on December 5, 2016, EPCOR filed its required revised Year 1 Report. Once approved, the Year 1 SIB surcharge would be effective March 1, 2017.



WHAT IS A SYSTEM IMPROVEMENT BENEFITS MECHANISM, OR SIB?

On June 27, 2013, in Decision No. 73938, the ACC approved the SIB mechanism – a tool that helps water utilities accelerate work on critical projects, while keeping costs down and water flowing to customers.

HOW SIB HELPS US HELP OUR CUSTOMERS

SIB makes it possible for us to complete vital infrastructure work in four areas critical to the distribution system – hydrants, meters, valves and service lines – and to maintain our mission of delivering safe, clean and reliable water. It helps us do this faster, reducing financing costs and speeding up construction timelines. SIB also protects customers:

Smaller Rate Changes Over Time – SIB means smaller rate increases gradually spread over time as projects are completed, rather than large one-time increases.

Credit Returned to Customers – Customers receive a SIB efficiency credit – equal to 5% of the gross SIB surcharges on a customer’s bill – whether or not the utility sees the efficiency benefits in its operating costs.

Carefully Regulated by the ACC – SIB is strictly regulated and EPCOR – like all utilities – is required to prove the infrastructure benefits to the community. EPCOR is required to file detailed reports at the six-month mark and at the end of each year. Once a SIB surcharge is in effect, we’re also required to provide an annual earnings test calculation to determine whether the actual rate of return exceeds what the ACC approved. Once the full SIB program is completed, we’ll be required to file a new rate case, including an earnings test.

Limited in Scope – In addition to being limited to five areas critical to the distribution system, companies can recover costs for projects that have been reviewed and approved by the ACC. The SIB surcharge is limited to 5% percent of a utility’s approved annual revenue requirement. The ACC reviews all of the projects before and after the work is completed.

Eligibility Requirements – In addition to being limited in scope and subject to a thorough review by the ACC, all SIB-eligible projects must meet one of the following criteria:

- › Water loss in system exceeds 10%
- › Assets remain in service beyond their useful life
- › Any other engineering, operational or financial justification supporting replacement other than the company’s negligence or improper maintenance

THE CHAPARRAL WATER DISTRICT SIB PROGRAM

In the first year of the SIB program, EPCOR completed \$1,648,735 in improvements to the Chaparral water distribution system, including:

294 service line replacements on Octotillo Drive, Mustang Drive, Spotted Horse Way, Buffalo Drive, Garland Circle, Pinto Drive and El Pueblo Boulevard to replace aging pipes, reducing water leaks and improving water pressure and flow.

TOTAL COST
\$924,991

67 valve replacements on Palomino Boulevard, Mustang Drive, Spotted Horse Way, Buffalo Drive, Garland Circle, Pinto Drive, Ocotillo Drive and El Pueblo Boulevard to decrease malfunctioning valves, reducing disruption to water service and water loss during main breaks.

TOTAL COST
\$366,035

28 fire hydrant replacements on Palomino Boulevard, Mustang Drive, Spotted Horse Way, Buffalo Drive, Sunburst Drive, Burro Drive and Ocotillo Drive to improve fire flow and response times in case of emergencies.

TOTAL COST
\$37,638

1,500 meter replacements to replace meters that are among the oldest in the Chaparral water district and rapidly declining in accuracy.

TOTAL COST
\$320,072

Stretching nearly three miles and on the SIB schedule for 84 service line improvements in 2017 and 33 valve replacements in 2018, El Pueblo Boulevard was on the Town of Fountain Hill’s repaving schedule for 2015. Instead of tearing up the road twice – inconveniencing residents and paying the construction costs twice – the ACC approved our request to adjust our schedule to coordinate with the Town’s.

If this work had been done in 2017 and 2018 – after the Town repaved the road – it could have cost an extra \$250,000, plus as much as \$100,000 to fully repave the road. Instead, it cost just \$6,000 to shift these replacements to 2015 – coordinating with the Town’s schedule and saving money for our customers.