

CONSOLIDATION, DECONSOLIDATION AND YOUR WASTEWATER

July 10, 2014

Dear Customer,

EPCOR places a great deal of importance on the water and wastewater services we provide and we want you to be aware of changes or potential changes before they happen, to the best extent possible.

As an EPCOR customer, your rates are approved by the Arizona Corporation Commission (ACC) based on the reasonable costs and capital investments to provide safe, reliable and high-quality water and wastewater services.

On July 8, 2014, ACC staff issued a recommendation that the commission order EPCOR to bring forward consolidation and deconsolidation options for consideration related to EPCOR's wastewater service areas. We are pleased to support the commission as it reviews this issue, and we will work quickly to respond to the three possibilities the commission identified – full consolidation, full deconsolidation and a third option of bringing wastewater services for Anthem and Agua Fria back together. While we will explore each option, EPCOR favors full consolidation.

In recent years, the issue of whether to consolidate rates for service across multiple districts is one that has been broadly examined by many people, including our customers, the ACC, Residential Utility Consumer Office (RUCO) and EPCOR. We have also seen the negative consequences that deconsolidating, as ordered in ACC Decision 73837, has had on smaller communities where significant capital investments have been necessary.

We understand that there are different viewpoints on the subject. EPCOR is a private utility company with a municipal ownership and heritage. We operate in many markets and understand the benefits of both models and the importance of providing safe, reliable service at a fair and reasonable cost to our customers.

As with all rate designs, in the short term, some customers will benefit from consolidation while others will not. We believe that over the long term that everyone could benefit from predictable, uniform rate structures, reduced regulatory expenses and increased efficiencies. Moving to a consolidated district with a single rate structure mirrors what consumers experience in most municipal districts. In other words, rates are the same regardless of where you live within a municipal area. Electric and natural gas utilities also work this way.

We'll be communicating with you throughout this process, beginning with this letter. You'll be receiving more information from us in the coming months, including where to find more information, what's next in the ACC review process and when we'll be holding informational community meetings.

At EPCOR, we take seriously our obligation to deliver safe and reliable water and wastewater services that you and your families can trust and count on, every day. Thank you for being our customer.

Best regards,



Jim McKee
Vice President, Corporate Services