

WASTEWATER CONSOLIDATION – INVESTING IN OUR FUTURE

RECYCLING MILLIONS OF GALLONS OF WASTEWATER EVERY DAY TAKES WORK – BUT THE REAL MAGIC TAKES PLACE BEHIND THE SCENES.

Wastewater systems are a complex network of pipes, manholes, lift stations and treatment facilities. But just like cars and homes – they need regular care and attention. As they get older and wear out, they need to be fixed and replaced before they fail, protecting against interruptions to customer service, higher costs and potential environmental concerns.

AGING INFRASTRUCTURE

The American Society of Civil Engineers gives Arizona’s water and wastewater infrastructure a D grade, requiring almost \$10 billion in repairs and replacements over the next 20 years. EPCOR also needs to invest in its water and wastewater systems – more than \$500 million over the next decade, including more than \$163 million just for wastewater.

EPCOR operates more than 712 miles of wastewater pipeline – more than 250 miles are approximately half a century old. But whether you’re in a new district or one that started in the 1950s, your infrastructure needs care, repairs and replacements.

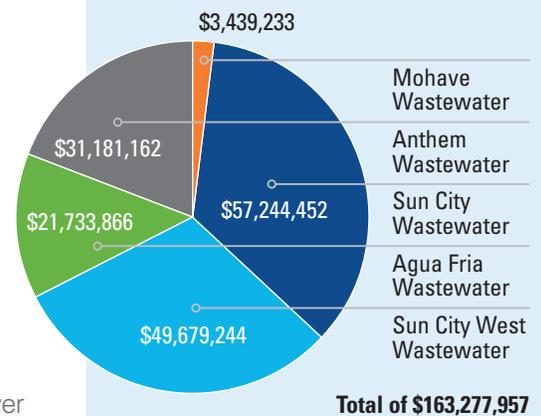
Sun City and Sun City West are the oldest districts and face the greatest need for infrastructure replacement. In Sun City there are 274 miles of wastewater pipes, dating as far back as 1959. We’ll need to spend nearly \$107 million to keep Sun City and Sun City West’s wastewater systems running safely and reliably. That’s two-thirds of EPCOR’s wastewater infrastructure capital investment plan.

UNDERSTANDING RATES

Rates are based on what it cost to provide your wastewater service at a certain point in time, and what repairs and replacements had to be made to keep the system running safely and reliably. Rates are lower than the cost of running and maintaining the system, usually by a couple of years or more.

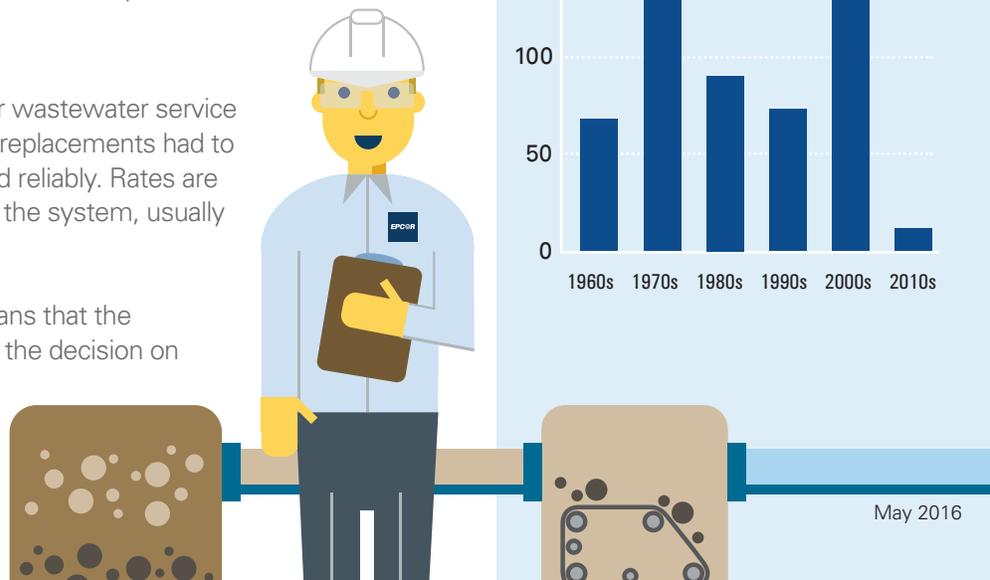
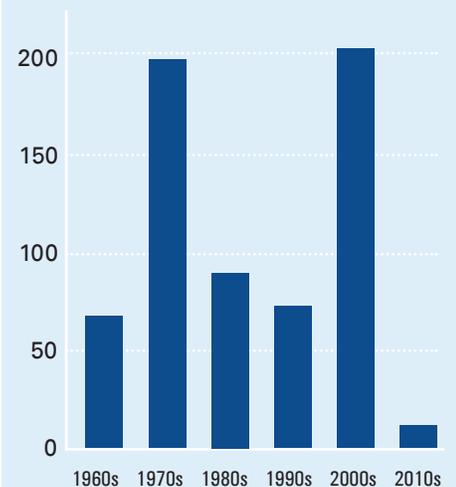
EPCOR is a private, regulated utility, which means that the Arizona Corporation Commission (ACC) makes the decision on what rates should be after a long and careful review of the information and costs in a rate case. It can take a year or more before the ACC makes a decision.

CAPITAL INVESTMENT 2016-2025



* projections as of December 31, 2015.

WASTEWATER PIPES INSTALLED (MILES)



WASTEWATER RATES AND CONSOLIDATION

WASTEWATER RATES AND CONSOLIDATION

EPCOR was required to file a new rate case for all five of its wastewater districts – Agua Fria, Anthem, Mohave, Sun City and Sun City West – using fresh financial data from 2015 for three different scenarios.

- Keep the five districts the way they are today (status quo)
- Bring them all together as one district (consolidation)
- Create seven smaller districts based on “treatment (deconsolidation) facility”

The case was filed April 29, 2016, giving the ACC the information it needs to make a decision on the policy of wastewater consolidation.

BEST SOLUTION

We continue to believe consolidation is the best solution for our customers. It’s the most efficient and cost-effective way of ensuring safe, reliable and high-quality service. And it will be even more important as the cost of repairing and replacing aging infrastructure continues to go up. The larger the district the more costs can be spread out, now and in the future.

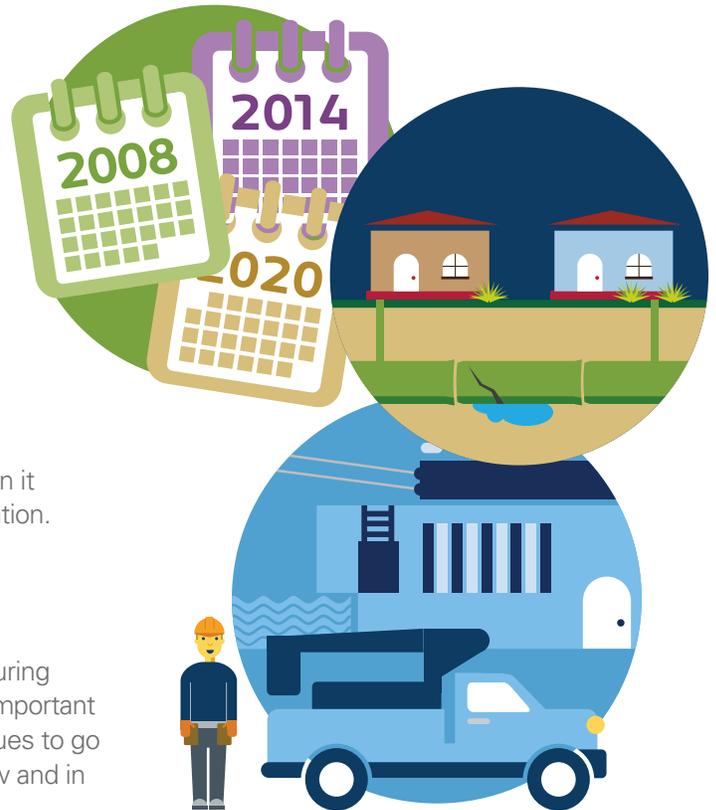
We’re proposing that all of our customers pay the same flat rate, gradually introduced over three years. Phasing it in gradually introduces the change for some customers and provides immediate relief for others. Once fully consolidated, we anticipate future rate changes would be smaller and more gradual.

IT’S COMPARABLE

Arizona State University compared the five wastewater districts with other wastewater providers, municipal and private, in the same areas. The average monthly charge for wastewater was \$49.29 – the \$41.02 we’re proposing is lower.

IT MAKES SENSE

Consolidation is already the norm – it’s what customers expect from their electric, natural gas, telecommunications and municipal utilities.



EPCOR Residential Stand-Alone and Proposed Consolidation (Three-Year Phase-in)

District	Current Rates	Proposed Stand Alone Rate	Consolidation Step 1	Consolidation Step 2	Final Consolidation Step 3
Sun City	\$22.11	\$25.03	\$29.82	\$35.78	\$41.02
Sun City West	\$32.46	\$42.00	\$42.00	\$41.02	\$41.02
Anthem	\$60.33*	\$61.48	\$54.89	\$47.76	\$41.02
Agua Fria	\$71.16	\$76.09	\$65.65	\$53.83	\$41.02
Mohave	\$63.84**	\$89.44	\$68.00	\$51.74	\$41.02

* Anthem is currently the only district with rates based on the amount of water used. All other districts are a flat rate. The rate case proposes a flat rate for all customers in every scenario.

** Mohave wastewater rates increased to \$63.84 on September 1, 2015. The second step in that three-step increase goes into effect September 1, 2016 and will bring the rate to \$71.07.