

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 TOM FORESE
Chairman

3 BOB BURNS
4 Commissioner

5 DOUG LITTLE
Commissioner

6 ANDY TOBIN
7 Commissioner

8 BOYD W. DUNN
9 Commissioner

10 IN THE MATTER OF THE
11 APPLICATION OF EPCOR WATER
12 ARIZONA INC. FOR A
13 DETERMINATION OF THE CURRENT
14 FAIR VALUE OF ITS UTILITY PLANT
15 AND PROPERTY AND FOR
16 INCREASES/DECREASES IN ITS
17 RATES AND CHARGES BASED
18 THEREON FOR UTILITY SERVICE BY
19 ITS AGUA FRIA, ANTHEM,
20 CHAPARRAL, HAVASU, MOHAVE,
21 NORTH MOHAVE, PARADISE
22 VALLEY, SUN CITY, SUN CITY
23 WEST, TUBAC, AND WILLOW
24 VALLEY WATER DISTRICTS AND
25 FOR CONSIDERATION OF
26 CONSOLIDATION PROPOSALS

Docket No. WS-01303A-17-_____

APPLICATION

20 EPCOR Water Arizona Inc. (“EWAZ” or “Company”), pursuant to A.R.S. §§ 40-
21 250 and 40-251 and A.A.C. R14-2-103, submits this Application for new rates to be
22 effective no later than **September 18, 2018**. As proposed, the new rates are intended to
23 result in an increase in revenues of approximately \$21.5 million, or approximately 19.7%
24 over adjusted test year revenues of \$109,293,646. The majority of the proposed increase
25 in revenues is to recover increased operating expenses, including purchased power and
26 water. The Application utilizes a test year ending December 31, 2016.

1 In Decision No. 75268 (September 8, 2015), the Arizona Corporation Commission
2 (“Commission”) directed the Company to file a proposal to consolidate its water districts
3 in a rate case filing prior to July 1, 2018. Through this filing and in compliance with
4 Decision No. 75268, the Company is filing the 11 individual districts’ revenue
5 requirements with cost-of-service studies for each district on a fully consolidated basis and
6 on a stand-alone basis.

7 At the time of this filing, Chaparral City Water Company (“Chaparral”) is a
8 separate entity from EWAZ. However, on May 12, 2017, EWAZ and Chaparral filed a
9 Notice of Intent to Reorganize under A.A.C. R14-2-803 in Docket Nos. W-02113A-17-
10 0141; WS-01303A-17-0141 to merge Chaparral into EWAZ. On August 16, 2017, the
11 Commission voted to authorize this reorganization. The Company supports full
12 consolidation of all of its districts, including Chaparral, and for that reason, the Company
13 has included Chaparral as a water district in this Application. The Company is filing all
14 testimony, schedules, and other supporting information pertaining to Chaparral and the
15 other EWAZ districts in this Application.

16 EWAZ plans to conduct a robust public outreach process to inform its customers
17 and stakeholder about this Application and its consolidation proposal. This will include
18 holding 28 community open houses across all 11 of the affected districts, plus additional
19 presentations to various local organizations, chambers of commerce, homeowner’s
20 associations and similar organizations across the districts. The Company will also provide
21 additional presentations to smaller customer and stakeholder groups to explain the
22 Company’s consolidation proposal. Copies of this Application will be available at its
23 customer care locations in Sun City, Fountain Hills and Bullhead City; and the Company
24 will also arrange to have the Application available at a public location in each water
25 district. The Application will also be available online through a dedicated website that will
26 discuss the Application and the benefits consolidation provides to all customers. In

1 addition, the Company will establish an email address specifically dedicated to addressing
2 rate case inquiries – which will be in addition to having its 24/7 toll-free customer service
3 telephone line and its general customer care email. All of these activities will be
4 independent of the notice requirements set forth per the procedural order that is issued
5 once the application is deemed sufficient. In short, the Company’s outreach effort will be a
6 comprehensive and continuous process for engaging customers and other stakeholders.

7 **I. OVERVIEW OF APPLICATION**

8 **A. Fair Value Rate Base.** EWAZ’s total revenue requirement increase is based
9 on an Original Cost Rate Base (“OCRB”) of \$371,782,161 and a Replacement Cost New
10 Less Depreciation (“RCND”) rate base of \$541,733,985, resulting in a Fair Value Rate
11 Base (“FVRB”) of \$456,758,073 using an equal (50/50) weighting of OCRB and RCND.

12 **B. Capital Structure.** The Company proposes to use a pro forma capital
13 structure in determining the weighted average cost of capital (“WACC”). EWAZ’s actual
14 test year capital structure upon completion of the merger of EWAZ and Chaparral will be
15 48.06% equity and 51.94% debt.¹ Outstanding debt at the end of the test year is 50.12%
16 long-term debt and 1.83% short-term debt. The Company intends to file an application to
17 refinance \$8,560,000 with long-term debt. Accordingly, this amount (\$8,560,000) has
18 been included in the requested capital structure as long-term debt at the composite interest
19 rate of all currently outstanding long-term debt of 4.30 percent. Upon completion of the
20 planned financing application to convert \$8,560,000 to long-term debt, the Company’s
21 capital structure will be comprised of 48.06% equity and 51.94% debt.²

22 **C. Cost of Capital.** The Company’s cost of long-term debt is 4.30% and
23 required cost of common equity is 10.60%. The Company’s WACC, based on these cost
24 rates and the pro forma capital structure discussed above, is 7.33%.

25 _____
26 ¹ Includes the effect of the Water Infrastructure Financing Authority of Arizona (“WIFA”) debt outstanding at
December 31, 2016 of \$637,306 for the Tubac Arsenic Treatment Plant. This debt is only included in the Tubac
District’s capital structure for purposes of computing the stand-alone revenue requirements.

²Including WIFA debt for the Tubac Arsenic Treatment Plant.

D. Fair Value Rate of Return. EWAZ is further proposing a fair value rate of return (“FVROR”) of 6.17%. This FVROR is based on the methodology adopted by the Commission in recent rate cases.

E. Revenue Increase (Stand-Alone and Consolidated Basis). The Company seeks the following revenue increases for the districts in this case (provided on a stand-alone and consolidated basis) as follows:

Water District	Base Rates		Power and Water Adjustor Mechanisms					Total Increase Including Surcharges	% Increase
	Revenue Increase	% Increase	Power Cost Adjustor	Purchased Water Adjustor	End of Existing Pass Through Items	Total Adjustors	% Increase		
Agua Fria	\$(4,921,836)	-11.01%	\$2,864,716	\$2,899,881	\$1,457,839	\$ 7,222,436	16.16%	\$ 2,300,600	5.15%
Anthem	2,484,452	23.15%	785,361	795,864	-	1,581,225	14.74%	4,065,677	37.89%
Chaparral	811,131	7.43%	845,357	1,576,200	(95,972)	2,325,585	21.29%	3,136,716	28.72%
Havasu	122,733	6.81%	170,573	182	-	170,755	9.48%	293,488	16.29%
Mohave	2,088,702	27.08%	471,012	343,408	(319,935)	494,485	6.41%	2,583,187	33.49%
North Mohave	410,077	38.52%	165,296	44,999	(44,772)	165,523	15.55%	575,600	54.06%
Paradise Valley	(175,956)	-1.74%	1,402,317	599,455	(640,365)	1,361,407	13.46%	1,185,451	11.72%
Sun City	3,506,906	29.73%	2,004,848	758,880	(400,123)	2,363,605	20.04%	5,870,511	49.77%
Sun City West	900,565	10.39%	830,699	456,260	(733,819)	553,140	6.38%	1,453,705	16.78%
Tubac	(140,959)	-16.85%	32,951	727	(34,631)	(953)	-0.11%	(141,912)	-16.97%
Willow Valley	183,809	19.50%	17,425	497	(497)	17,425	1.85%	201,234	21.35%
EPCOR Arizona	\$5,269,624	4.82%	\$9,590,555	\$7,476,353	\$(812,275)	\$16,254,633	14.87%	\$21,524,257	19.69%

As demonstrated in the table above, the Company proposes to remove purchased water and power costs from base rates and to recover those expenses entirely through two adjustor mechanisms. These expenses make up a large percentage of the Company’s total operating expenses. As they are a pass through of third party invoices, it is appropriate to address these expenses through adjustor mechanisms which allows for greater transparency on the cost to provide safe and reliable water to our customers.

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F. Impact of Requested Increase on Residential Customers (Stand-Alone and Consolidated Basis). The Company seeks the following revenue increases, inclusive of all requested surcharges, proposed and current monthly bills at 7,000 gallons of water usage for the districts in this case as follows:

Water District	Requested Increase (Including Surcharges)	Proposed Residential Rate at 7,000 Gallons	Current Residential Rate at 7,000 Gallons
Agua Fria	\$ 2,300,600	\$ 50.25	\$ 45.93
Anthem	\$ 4,065,677	\$ 77.55	\$ 50.91
Chaparral City	\$ 3,136,716	\$ 54.05	\$ 43.35
Havasu	\$ 293,488	\$ 70.38	\$ 55.71
Mohave	\$ 2,583,187	\$ 41.19	\$ 28.25
North Mohave	\$ 575,600	\$ 46.85	\$ 24.20
Paradise Valley	\$ 1,185,451	\$ 58.93	\$ 34.96
Sun City	\$ 5,870,511	\$ 30.14	\$ 20.85
Sun City West	\$ 1,453,705	\$ 42.00	\$ 34.97
Tubac	\$ (141,912)	\$ 66.84	\$ 64.40
Willow Valley	\$ 201,234	\$ 102.43	\$ 69.86
EPCOR Arizona (Consolidated)	\$ 21,524,257	\$ 44.95	

G. Proposed Phase-In of Consolidated Rate Design. The Company is proposing to phase in a fully consolidated rate design over a five-year period. The following table shows each year of the phase in for each current water district under the Company’s proposed consolidated rate design, as well as under a proposed stand-alone rate design for each district, at 7,000 gallons of usage.

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EWAZ's Proposed Residential Rate Design/Phase-in (Includes Surcharges)						
At 7,000 Gallons Usage						
Water District	Bills at Consolidated Rates					
	Stand-Alone Proposed Rates	Year 1 Phase-in	Year 2 Phase-in	Year 3 Phase-in	Year 4 Phase-in	Year 5 Phase-in
Agua Fria	\$50.25	\$49.94	\$49.68	\$49.48	\$47.72	\$44.95
Anthem	\$77.55	\$72.46	\$69.03	\$66.85	\$51.26	\$44.95
Chaparral	\$54.05	\$54.41	\$53.09	\$51.26	\$46.44	\$44.95
Havasu	\$70.38	\$67.52	\$65.99	\$63.52	\$51.27	\$44.95
Mohave	\$41.19	\$44.95	\$44.95	\$44.95	\$44.95	\$44.95
North Mohave	\$46.85	\$39.54	\$40.90	\$42.60	\$44.17	\$44.95
Paradise Valley	\$58.93	\$41.57	\$42.20	\$43.26	\$43.77	\$44.95
Sun City	\$30.14	\$26.62	\$28.21	\$29.19	\$39.01	\$44.95
Sun City West	\$42.00	\$39.83	\$40.23	\$41.01	\$42.98	\$44.95
Tubac	\$66.84	\$67.51	\$65.99	\$63.52	\$51.27	\$44.95
Willow Valley	\$102.43	\$67.52	\$65.99	\$63.52	\$51.27	\$44.95

II. ADDITIONAL KEY ISSUES

A. Consolidation: As outlined in the testimony of Mr. Shawn Bradford, the Company supports the full consolidation of the 11 water districts which are part of this case. Full consolidation of these districts is the most equitable approach to establish reasonable rates to recover the reasonable expenses and capital expenditures that will ultimately impact every district in the future. Under full consolidation, all water customers will benefit from predictable, uniform rate structures (which reduce rate shock and customer confusion), reduced regulatory expenses, and increased operating efficiencies. Under full consolidation, the Company is proposing to phase in rates for residential and commercial customers over five steps.

B. Post-Test Year Additions: The Company's Application includes post-test year additions through December 31, 2017. These additions are providing service to test

1 year customers, are revenue neutral (i.e., not made to address growth) and should be
2 included as part of this proceeding.

3 **C. SIB Mechanism:** The Company is requesting approval of a System
4 Improvement Benefit (“SIB”) mechanism in all of its districts, except for North Mohave
5 and Tubac, to recover the return on and of investments, net of retirements, in Mains,
6 Service Lines, Valves, Hydrants, and Meters between rate cases.

7 **D. Acquisition Premiums:** The Company is requesting approval of acquisition
8 premiums related to its acquisition of the assets of the Willow Valley Water Company and
9 the North Mohave Valley Corporation.

10 **E. Purchased Water Adjustor:** The Company is seeking a purchased water
11 adjustor mechanism (“PWAM”) which is modeled after mechanisms currently in place for
12 some of the Company’s water districts and includes *all* purchased water expenses. In other
13 words, there are no purchased water expenses included in the Company’s proposed base
14 rates, and the Company collects no return on these costs. The consolidated surcharge is
15 calculated to be \$0.3578 per thousand gallons and will be applied to all water sales (except
16 sales of effluent and water wheeled through the Company’s transmission system for
17 others) when new rates are effective at the end of this case. The initial surcharge would be
18 effective at the time the decision on this Application is issued to provide recovery of the
19 expenses removed from base rates. If consolidation is not approved, EWAZ would use the
20 same Plan of Administration (“POA”) individualized for each district with purchased
21 water expenses, and the same type of information (sales) to compute a surcharge amount
22 for each district.

23 **F. Power Cost Adjustor Mechanism:** The Company is seeking a power cost
24 adjustor mechanism (“PCAM”) to allow the Company to pass through all purchased power
25 costs for any electric service provider supplying retail electric service to the Company and
26 purchases of natural gas. The consolidated surcharge is calculated to be \$0.4358 per

1 thousand gallons and will be applied to all water sales (except sales of effluent and water
2 wheeled through the Company's transmission system for others) when new rates are
3 effective at the end of this case. The initial surcharge would be effective at the time the
4 decision on this Application is issued to provide recovery of the expenses removed from
5 base rates. The Company proposes to annually calculate a surcharge per-thousand gallons
6 based on purchased power expenses, total consumption for the preceding 12 months, and
7 any over/under collection from previous periods. This adjustor would recover all
8 purchased power costs, and therefore, the Company would anticipate the effective date of
9 the POA and initial surcharge(s) to be concurrent with the effective date of any new rates
10 approved in this case. There are no purchased power expenses included in the Company's
11 proposed base rates, and the Company collects no return on these costs.

12 **G. Property Tax Adjustor:** The Company is requesting a property tax adjustor
13 mechanism ("PTAM") to address increases and decreases in property taxes.

14 **H. Depreciation Study:** As described in the testimony of Mr. John F.
15 Guastella, the Company is proposing to adopt depreciation rates previously recommended
16 by Commission Staff for water utilities except for the following National Association of
17 Regulated Utility Commissioners ("NARUC") accounts: Pumping Equipment (Account
18 311), Water Treatment Equipment-Non-Media (Accounts 320100 and 320101); Ground
19 Storage – Above and Below Ground (Accounts 330200, 330300, and 330400); Meter
20 Installations (Account 334200); Meter Vaults (Account 334300); and Transportation
21 Equipment (Accounts 341100, 341101, 341200, 341300, and 341400).

22 **I. Capital Leases for Vehicles:** During the preparation of this Application, it
23 was determined that the vehicles EWAZ leases satisfy the criteria for capital leases and
24 should be reflected in the Company's plant in service. A pro forma adjustment has been
25 reflected in the OCRB, RCND, and FVRB to reflect the gross plant and accumulated
26 depreciation associated with these leased vehicles.

1 **J. Low Income Program:** The Company is proposing to begin low-income
2 programs in each of its water districts where there are no currently-authorized low-income
3 programs – and revise the existing POAs to include an annual true-up procedure to
4 reconcile the discounts given and revenue collected. The Company is proposing to reduce
5 the monthly water rate by \$10.00 per month for eligible customers (a total of 3,065
6 customers).

7 **K. Deployed Service Member Program:** EWAZ is requesting approval to
8 provide credits for deployed service members satisfying certain qualifying criteria. The
9 credit would be equal to the basic service charge plus the volumetric/commodity charges
10 plus any taxes on the monthly water bill. The Company requests accounting authorization
11 to defer any credits provided to deployed service members and would propose recovery in
12 the next general rate case, once the cost of the program can be determined. At this time,
13 the Company is proposing a maximum number of participants of 50 per water district, or
14 550 on a consolidated basis.

15 **L. Disabled Military Veterans Credit Program:** The Company is also
16 proposing a Disabled Military Veteran Credit Program that would aid these individuals by
17 providing a \$10 monthly credit. In order to qualify for the program, an individual must
18 present discharge paperwork from the armed forces indicating any level of disability. The
19 program will be administered on a first-come, first-served basis for up to 2,000
20 participants. The Company is requesting authority to defer the costs of the program
21 (\$240,000 per year if fully subscribed) and propose recovery of all deferred costs in a
22 future rate case application.

23 **M. Other Changes to Rates and Tariffs:** The Company is proposing: (1) to
24 adjust existing wholesale tariffs (sales for resale) to incorporate the results of the cost of
25 service study; (2) recognition by the Commission of the contractual rate with the Paradise
26 Valley Country Club (“PVCC”) tied to the turf rate which has been adjusted based on the

1 cost of service study; (3) continuation of a rate for the Perryville State Prison which is
2 similar to an Other Public Authority rate, which would also be applicable to sales to Luke
3 Air Force Base (“Luke AFB”); (4) an Effluent tariff that will be applicable to future
4 effluent supplies that are not currently available, but that may become available; (5) a
5 surface water treatment tariff applicable to services that may be provided at the White
6 Tanks Water Treatment Plant; and (6) changes to the White Tanks Hook-up Fee in the
7 Agua Fria district, presently known as the Agua Fria Hook-up Fee Part B.

8 **III. ADDITIONAL FILING REQUIREMENTS**

9 **A.** The Company is a public service corporation and in good standing under the
10 laws of the State of Arizona. The Company’s business office is located at 2355 W.
11 Pinnacle Peak Road, Suite 300, Phoenix, Arizona 85027.

12 **B.** All communications and correspondence pertaining to this Application, as
13 well as discovery, data requests, and pleadings, should be served upon:

14 Thomas Campbell (tcampbell@lrrc.com)
15 Michael T. Hallam (mhallam@lrrc.com)
16 Lewis Roca Rothgerber Christie LLP
201 E. Washington Street
Phoenix, AZ 85004

17 and also:

18 Sheryl L. Hubbard (shubbard@epcor.com)
19 Sandra L. Murrey (smurrey@epcor.com)
20 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

21 Ms. Hubbard is the person responsible for overseeing and directing the conduct of this rate
22 application. Her telephone number is (623) 445-2455.

23 **C.** Accompanying this Application are the relevant standard filing requirements
24 and rate design schedules described in A.A.C. R14-2-103. Also attached is the Direct
25 Testimony of the following witnesses in support of the Company’s Application:
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Witness	Subject Matter
Shawn Bradford	Company's recommendation for consolidation, cost reductions/efficiencies with consolidation and benefits of consolidation, ASU's Demographics & Economic Study.
Sheryl L. Hubbard	Rate case overview and reasons for application, Assigned "A" and "D" schedules, cost of debt, capital structure (stand alone and consolidated), Schedule E-4 – Statement of Changes in Stockholder's Equity, rate case expense, low income program request and associated Plan of Administration (Sun City West, Anthem, North Mohave programs are new; Willow Valley's low income program should be modified to be consistent with others), and the merger of EWAZ and Chaparral.
Andrew Brown	Major plant additions since last rate case, Post Test Year Plant Additions (12 months), capital expenditures, and SIB projects for all districts.
Jeffrey W. Stuck	Operations – Descriptions of systems (Anthem, Chaparral, Havasu, Mohave, North Mohave, Paradise Valley, Tubac, and Willow Valley), cost savings to customers due to the North Mohave acquisition, improvements in non-revenue water statistics in Mohave, Havasu and Willow Valley and continuation of tank maintenance programs previously approved, a new tank maintenance request for North Mohave, with deferral accounting for tank maintenance for Anthem and Willow Valley.
Frank Metzler	Operations – Descriptions of systems (Agua Fria, Sun City, and Sun City West) and continuation of tank maintenance programs previously approved and a new tank maintenance program request for Sun City West.
Jake Lenderking	Current status of water resources and supports the Company's request for a Purchased Water adjustor mechanism, effluent tariff for future effluent sales and elimination of Best Management Practices ("BMP") tariffs.
Sarah M. Clor	Assigned "B" schedules, and Reconstruction Cost New ("RCN") Study, Schedule E-5 – Detail of Plant in Service, North Mohave and Willow Valley acquisition premiums, and description of SIB mechanism.

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Sandra L. Murrey	Assigned "C" schedules, Schedules E-1 thru E-3 and E-6 thru E-9, Assigned "F" schedules, proposed tariffs, and recommendations regarding continuation of compliance requirements from prior decisions.
Jon P. Boizelle	Assigned "C" and "H" schedules (billing determinants), purchased water and power adjustor mechanisms and Plans of Administration, property tax adjustor mechanism and associated Plan of Administration, deployed service member credit program and associated Plan of Administration and a disabled military veteran credit program and associated Plan of Administration.
Pauline Ahern (Scott Madden)	Cost of Equity.
Constance E. Heppenstall (Gannett Fleming)	"G" Schedules - Cost of Service Study (COSS). "H" Schedules - Rate Design.
John F. Guastella (Guastella & Associates)	Review/recommend new depreciation rates, cost of removal and salvage rates.

IV. REQUESTED RELIEF

The Company requests that the Commission issue an order consistent with the requests set forth in this Application, as more fully set forth in the testimony, exhibits and schedules that accompany this Application. The Company respectfully requests that the Commission process this Application in an expedited manner and that new rates be effective as soon as possible, but no later than September 18, 2018.

RESPECTFULLY SUBMITTED this 18th day of August, 2017.

LEWIS ROCA ROTHGERBER CHRISTIE LLP



Thomas Campbell
Michael T. Hallam
201 E. Washington Street
Phoenix, AZ 85004
(602) 262-5340
Attorneys for EPCOR Water Arizona Inc.

1 ORIGINAL AND thirteen (13) copies
2 of the foregoing hand-delivered this
3 18th day of August, 2017, to:

3 The Arizona Corporation Commission
4 Utilities Division – Docket Control
5 1200 W. Washington Street
6 Phoenix, Arizona 85007

6 Copy of the foregoing hand-delivered
7 this 18th day of August, 2017, to:

8 Elijah Abinah
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 W. Washington Street
12 Phoenix, Arizona 85007

11 Dwight Nodes
12 Chief Administrative Law Judge, Hearing Division
13 1200 W. Washington Street
14 Phoenix, Arizona 85007

13 Andy M. Kvesic
14 Chief Counsel/Division Director, Legal Division
15 Arizona Corporation Commission
16 1200 W. Washington Street
17 Phoenix, Arizona 85007

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