

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

TOM FORESE, Chairman
BOB BURNS
DOUG LITTLE
ANDY TOBIN
BOYD W. DUNN

IN THE MATTER OF THE APPLICATION
OF EPCOR WATER ARIZONA INC. FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR
INCREASES/DECREASES IN ITS RATES
AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS AGUA FRIA,
ANTHEM, CHAPARRAL, HAVASU,
MOHAVE, NORTH MOHAVE, PARADISE
VALLEY, SUN CITY, SUN CITY WEST,
TUBAC, AND WILLOW VALLEY WATER
DISTRICTS AND FOR CONSIDERATION
OF CONSOLIDATION PROPOSALS

DOCKET NO: WS-01303A-17-_____

**DIRECT TESTIMONY
OF
SHERYL L. HUBBARD
ON BEHALF OF
EPCOR WATER ARIZONA INC.**

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1 **EXECUTIVE SUMMARY**

2 Sheryl L. Hubbard provides a summary of the Company's requested relief as well as a
3 brief summary of the rate case filing, which includes: 1) stand-alone results for each
4 district; and 2) fully consolidated results for all eleven water districts. Ms. Hubbard is
5 sponsoring the following schedules:

- 6
- 7 • Schedule A-1 –Computation of Increase In Gross Revenue Requirements
 - 8 • Schedule A-2 – Summary of Operations
 - 9 • Schedule A-3 – Summary of Capital Structure
 - 10 • Schedule A-4 – Construction Expenditures and Gross Utility Plant in Service
 - 11 • Schedule A-5 – Summary of Cash Flows
 - 12 • Schedule D-1 – Summary of Cost of Capital
 - 13 • Schedule D-2 – Cost of Long-Term Debt
 - 14 • Schedule D-3 – Cost of Preferred Stock
 - 15 • Schedule D-4 – Cost of Common Equity
 - 16 • Schedule E-4 – Statement of Changes in Stockholder's Equity
- 17

18 Ms. Hubbard also provides an overview and support for certain key requests by the
19 Company, including the following:

- 20 (1) a determination of its fair value rate base and fair value rate of return based
21 on its Reconstructed Cost New Less Depreciation study;
- 22 (2) approval of its rate case expenses;
- 23 (3) approval of a power cost adjustor mechanism (recognizing that a power
24 cost adjustment mechanism was previously authorized for Mohave,
25 Paradise Valley, Sun City, and Tubac, in Decision No. 75268 (September 8,
26 2015));
- 27 (4) approval of a purchased water adjustor mechanism (recognizing that
28 purchased water adjustment mechanisms were previously authorized for the

- 1 Chaparral City Water Company (“Chaparral”), Paradise Valley, Sun City,
2 and Sun City West, in Decision Nos. 74568, 61831, and 62293);
- 3 (5) approval of a property tax adjustor mechanism for the water districts;
- 4 (6) inclusion of revenue-neutral post-test year plant additions through
5 December 31, 2017 that will provide service to test year customers;
- 6 (7) request for approval of the System Improvement Benefits (“SIB”)
7 mechanisms in nine of the eleven water districts;
- 8 (8) approval of updated depreciation rates;
- 9 (9) approval of an accounting order to defer costs associated with the new,
10 proposed Deployed Service Member Credit Program and the Disabled
11 Military Veteran Credit Program;
- 12 (10) approval of modifications to the Company’s miscellaneous service charges
13 and general service tariffs;
- 14 (11) removal of the non-firm treatment services from the Agua Fria rates;
- 15 (12) approval of low income programs for all water districts (recognizing that
16 low income programs were previously authorized for Mohave, Paradise
17 Valley, Sun City, and Tubac in Decision No. 75268 and for Willow Valley
18 in Decision No. 71878);
- 19 (13) approval of its proposed rate design including an interruptible wholesale
20 rate and a rate for water treatment services from the White Tanks plant;
- 21 (14) recognition by the Commission of the contract between the Paradise
22 Valley Country Club and EWAZ when designing rates;
- 23 (15) approval of recovery of acquisition premiums for the purchases of the
24 assets of North Mohave Valley Corporation and the Willow Valley Water
25 Company;

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- 1 (16) a determination of its fair value rate base and fair value rate of return based
2 on its Reconstructed Cost New Less Depreciation study; and
3 (17) approval of request for deferral of future-tank maintenance expenditures in
4 Anthem and Willow Valley.

5
6 Finally, Ms. Hubbard summarizes the testimony provided by other Company witnesses in
7 this proceeding.

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TELEPHONE**
3 **NUMBER.**

4 A. My name is Sheryl L. Hubbard. My business address is 2355 West Pinnacle Peak
5 Road, Suite 300, Phoenix, Arizona 85027, and my business phone is 623-445-
6 2419.

7
8 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

9 A. I am employed by EPCOR Water USA Inc. (“EUSA”) as Director, Regulatory and
10 Rates.

11
12 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES WITH EUSA.**

13 A. My primary responsibilities with EUSA are to direct the preparation of rate
14 applications and other regulatory filings consistent with the applicable regulatory
15 agency’s filing requirements in Arizona and New Mexico. I am also the
16 regulatory liaison between EUSA and the regulators of EPCOR Water Arizona
17 Inc. (“EWAZ” or “Company”) and EPCOR Water New Mexico Inc. (“EWNM”)
18 and any public outreach.

19
20 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND**
21 **EDUCATION.**

22 A. I have been employed by EUSA since February 1, 2012. Prior to EUSA’s
23 acquisition of the American Water operations in Arizona and New Mexico, I had
24 worked for Arizona-American Water since March 2007.

1 I have more than 30 years of experience in public utility accounting and regulation
2 – including 20 years of service with utility regulatory agencies in Michigan and
3 Arizona, and over 10 years with water and gas utilities in Arizona and Colorado.
4 During my employment with the regulatory agencies in Michigan and Arizona, my
5 responsibilities included managing and preparing revenue requirement
6 calculations for water, steam and electric utilities. My subsequent employment
7 was with Citizens Communications Company, Arizona Water Company, AZAM,
8 and now EUSA.

9
10 My responsibilities have primarily been in the rates and regulatory areas of all of
11 the utilities, but I also managed the financial planning and analysis function as
12 well as the financial reporting side of the business. I have a Master of Business
13 Administration from the University of Phoenix and a Bachelor of Arts degree with
14 a major in Accounting from Michigan State University. I am a licensed, certified
15 public accountant in Arizona. I am a member of the Arizona Society of Certified
16 Public Accountants and the American Institute of Certified Public Accountants.

17
18 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

19 **A.** Yes, I have. I have also testified before other regulatory commissions in various
20 jurisdictions.

21
22 **II. PURPOSE OF TESTIMONY**

23 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

24 **A.** My testimony provides a broad overview of the Company's requested relief and a
25 brief summary of the testimony of other Company witnesses in this case. My

1 testimony summarizes the Company's rate relief request and discusses specific
2 requests in its Application.

3
4 I am sponsoring the Company's summary information and the cost of capital
5 information reflected in the "A" Schedules and "D" Schedules, respectively. I am
6 also sponsoring Schedule E-4, Statement of Changes in Stockholder's Equity. My
7 testimony also discusses the reasons that the Company has included Chaparral in
8 this Application.

9
10 **Q. DOES YOUR TESTIMONY INCORPORATE RECOMMENDATIONS OF**
11 **OTHER COMPANY WITNESSES?**

12 A. Yes, I have incorporated Ms. Pauline Ahern's cost of equity recommendation in
13 preparing the "D" Schedules that I am sponsoring. Much of my testimony is a
14 roadmap of the Company's Application – highlighting which Company witnesses
15 will provide the detail supporting the Company's specific requests for approvals in
16 this Application.

17
18 **Q. WHAT DISTRICTS ARE INCLUDED IN THIS APPLICATION?**

19 A. This Application includes all ten of the water districts currently part of EWAZ
20 (Agua Fria, Anthem, Havasu, Mohave, North Mohave, Paradise Valley, Sun City,
21 Sun City West, Tubac, and Willow Valley) and Chaparral. For purposes of this
22 Application, and given the Company's application to merge Chaparral into
23 EWAZ,¹ Chaparral is being treated as the "11th district."

¹ Docket Nos. WS-01303A-17-0141 and W-02113A-17-0141 filed May 12, 2017.

1 **III. ORGANIZATION OF TESTIMONY**

2 **Q. PLEASE EXPLAIN HOW YOUR TESTIMONY IS ORGANIZED?**

3 A. Sections I through III are self-explanatory. Section IV of my testimony discusses
4 the inclusion of Chaparral in this filing with EWAZ.

5
6 Section V provides a summary of the Company's rate case filing which seeks full
7 rate consolidation of all water districts. The stand-alone results for each district
8 are also set forth in this section.

9
10 Section VI of my testimony lists the Company's witnesses and summarizes the
11 subject matter that each witness will address in their respective direct testimonies.

12
13 Section VII summarizes the schedules required by the Commission's standard
14 filing requirement (A.A.C. R14-2-103) that I am sponsoring in this proceeding and
15 a discussion of each of those schedules.

16
17 Section VIII highlights some of the major revenue-requirement-related requests
18 the Company is seeking approval for in this Application.

19
20 Section IX discusses rates and tariffs and highlights some of the modifications that
21 the Company is proposing in this Application.

22
23 Section X includes a discussion of Consolidation and the timing of this
24 Application.

25

1 Section XI highlights key issues in the Company's Application and summarizes
2 the additional requests for which EWAZ is seeking specific approval from the
3 Commission. In particular, I discuss rate case expense, low-income programs,
4 miscellaneous service charges and compliance items. The Company's rationales
5 and justifications are set forth on these key issues and additional requests in this
6 section.

7
8 **IV. INCLUSION OF CHAPARRAL CITY WATER COMPANY**

9 **Q. PLEASE PROVIDE SOME HISTORICAL PERSPECTIVE ON THE**
10 **OPERATIONS OF CHAPARRAL AND EWAZ.**

11 A. EUSA's entry into the U.S. began with its acquisition of Chaparral in June 2011
12 from American States Water Company. The acquisition of Arizona American
13 Water Company (now EWAZ) and New Mexico American Water Company (now
14 EWNM) from American Water followed in February 2012. The purchases were
15 separate stock purchases, which remained separate legal entities structured as
16 sister affiliates under EUSA as the parent holding company. At that time,
17 Chaparral and EWAZ had different management teams; and Chaparral was more
18 dependent on support services from the EPCOR Utilities Inc.'s Corporate Services
19 Department than EWAZ.

20
21 **Q. DID THE COMMISSION EVER EXPRESS A CONCERN OVER**
22 **CHAPARRAL'S CAPITAL STRUCTURE?**

23 A. Yes. In the last rate case application of Chaparral,² many questions arose about
24 the capital structure of Chaparral. In that case, Chaparral's capital structure

² Docket No. W-02113A-13-0118 filed April 26, 2013.

1 consisted of 14.45 percent debt and 85.55 percent equity. In the Commission's
2 decision in that case, Decision No. 74568 (June 20, 2014), the Commission stated:
3 "[on] a going forward basis, however, CCWC should consider making plans to
4 rectify the imbalance in its capital structure relative to the capital structures of its
5 parent companies."

6
7 **Q. HAS THE EQUITY PORTION OF THE CAPITAL STRUCTURE OF**
8 **CHAPARRAL DECLINED SINCE THE COMMISSION'S DECISION?**

9 A. No. The debt that Chaparral has is mortgage-type debt that requires the payment
10 of some principal along with the interest charges. Absent the acquisition of
11 additional debt, the debt balance has declined as anticipated. As a result, the
12 equity balance as a percentage of total capital has increased.

13
14 **Q. WHAT IS BEING DONE NOW TO ADDRESS THE PERCEIVED**
15 **IMBALANCE ISSUE IN CHAPARRAL'S CAPITAL STRUCTURE?**

16 A. On May 12, 2017, EWAZ and Chaparral filed a joint application with the
17 Commission in Docket Nos. WS-01303A-17-0141 and W-02113A-17-0141,
18 requesting authority to reorganize into a single entity with EWAZ being the
19 surviving entity. Essentially, Chaparral would become the "11th water district" of
20 EWAZ.

21
22 **Q. WOULD MERGING CHAPARRAL INTO EWAZ ADDRESS THE**
23 **CAPITAL STRUCTURE ISSUE?**

24 A. Yes. A merger of two sister affiliates merely combines the outstanding debt and
25 outstanding equity of the two entities into a new capital structure. Because of the

1 size of EWAZ, the impact of the proposed merger with Chaparral is negligible.
2 The capital structure of EWAZ before and after the proposed merger as submitted
3 with the merger application as Exhibit C is summarized in Table 1 below.

4 **Table 1 – Capital Structures (Pre- and Post-Merger)**

	EWAZ (pre-merger)	Chaparral	EWAZ (post-merger)
Short- & Long-Term Debt	55.14%	9.86%	51.94%
Stockholder's Equity	44.86%	90.14%	48.06%
Total Capital	100.00%	100.00%	100.00%

5
6 **Q. ARE THERE OTHER REASONS WHY THE COMPANY HAS INCLUDED**
7 **CHAPARRAL IN THIS APPLICATION?**

8 A. Yes. In Decision No. 75268 (September 8, 2015), the Company was directed by
9 the Commission to file a proposal to consolidate its water districts. Since
10 Chaparral is essentially one of the Company's water districts, it has been included
11 in this Application. It is the Company's position that full consolidation is the best
12 option for all customers in the long term; therefore, it is appropriate to include the
13 Chaparral operations as well.

14
15 **V. SUMMARY OF RATE CASE (ALL DISTRICTS)**

16 **Q. PLEASE PROVIDE A SUMMARY OF THE DISTRICTS AND THE TEST**
17 **YEAR THAT IS USED IN THE DETERMINATION OF THE REQUESTED**
18 **REVENUE INCREASE IN THIS CASE.**

19 A. The Application in this case includes the Agua Fria, Anthem, Chaparral, Havasu,
20 Mohave, North Mohave, Paradise Valley, Sun City, Sun City West, Tubac, and

1 Willow Valley Water Districts. The test year is the twelve months ended
2 December 31, 2016.

3
4 **Q. PLEASE SUMMARIZE THE REQUESTED INCREASE BY DISTRICT IN**
5 **THIS APPLICATION.**

6 A. EWAZ's requested revenue increase, rate base and operating income for the
7 consolidated proposal is summarized in Exhibit SLH-1 Summary of Schedule A-
8 1s, B-1s and C-1s. This seven-page exhibit shows the stand-alone districts'
9 individual contributions to the consolidated water district total that is the
10 Company's proposal in this case. As can be seen by looking at page 7 of this
11 Exhibit, Schedule C-1, Adjusted Test Year Income Statement does not include any
12 purchased water expenses or fuel and power expenses (the "fuel and power
13 expenses" collectively referred to throughout this testimony as "power costs").
14 The Company is requesting to recover its purchased water costs and power costs
15 through adjustor mechanisms, which will be discussed below.

16
17 The total requested annual base-rate revenue increase is \$5,269,620, which
18 represents a combined or consolidated increase for the 11 districts of
19 approximately 4.9%. Excluding the purchased water costs and power costs, the
20 increases and decreases by district are summarized in Table 2 below.

Table 2 Summary of Base-Rate Revenue Increase

Water District	Revenue Increase	Percentage Increase
Agua Fria	\$ (4,921,836)	(11.2)%
Anthem	\$ 2,484,452	24.6%
Chaparral	\$ 811,131	7.6%
Havasu	\$ 122,733	6.9%
Mohave	\$ 2,088,702	28.1%
North Mohave	\$ 410,077	38.9%
Paradise Valley	\$ (175,956)	(1.7)%
Sun City	\$ 3,506,906	30.7%
Sun City West	\$ 900,565	10.6%
Tubac	\$ (140,959)	(17.7)%
Willow Valley	\$ 183,809	19.9%
Total EPCOR Arizona	\$ 5,269,620	4.9%

The base-rate revenue increases in Table 2 do not include any purchased water or power costs; the Company is requesting that those expenses be entirely recovered through its proposed adjustor mechanisms. In other words, the Company is essentially proposing to “zero out” the purchased water and power costs from the calculation of base rates and recover them entirely through two proposed adjustor mechanisms. These expenses are essentially a pass-through of third party invoices for the Company and including them in an adjustor mechanism enables that treatment.

In addition to the annual base-rate revenue increase of \$5,269,620, the Company is requesting a purchased water adjustor mechanism (“PWAM”) and a power cost adjustor mechanism (“PCAM”) intended to recover all purchased water costs and power costs through surcharges associated with their respective adjustor mechanisms. The proposed base-rate revenue increases, power costs, purchased water costs, and associated percentage increases are summarized in Table 3 below.

Table 3 – Proposed Revenue Increase by District

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%

VI. WITNESSES AND SUBJECT MATTER

Q. PLEASE IDENTIFY THE COMPANY’S WITNESSES WHO ARE PROVIDING DIRECT TESTIMONY IN SUPPORT OF EWAZ’S RATE APPLICATION IN THIS PROCEEDING?

A. The following witnesses are providing Direct Testimony on the following subject matters in support of the Application:

Witness

Shawn Bradford

Subject Matter

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 proposed 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, Havasu, Mohave, North Mohave, Paradise Valley, Tubac, Willow Valley, and Chaparral), 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, and 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	Supports the Company’s request for a Purchased Water adjustor, 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.
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 Adjustor Mechanism Plan of Administration, power cost and property tax adjustors and associated Plans of Administration, deployed service member discount 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.

VII. SPONSORED SCHEDULES

Q. PLEASE IDENTIFY THE SCHEDULES YOU ARE SPONSORING.

A. I am sponsoring the following schedules for the Company:

- Schedule A-1 –Computation of Increase In Gross Revenue Requirements
- Schedule A-2 – Summary of Operations
- Schedule A-3 – Summary of Capital Structure
- Schedule A-4 – Construction Expenditures and Gross Utility Plant in Service
- Schedule A-5 – Summary of Cash Flows
- Schedule D-1 – Summary of Cost of Capital
- Schedule D-2 – Cost of Long-Term Debt
- Schedule D-3 – Cost of Preferred Stock
- Schedule D-4 – Cost of Common Equity
- Schedule E-4 – Statement of Changes in Stockholder’s Equity

Q. WERE THESE SCHEDULES PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes.

1
2 **1. “A” SCHEDULES – SUMMARY SCHEDULES (ALL DISTRICTS)**

3 **Q. PLEASE EXPLAIN SCHEDULE A-1.**

4 A. Schedule A-1 titled “Computation of Increase In Gross Revenue Requirements”
5 shows the calculation of the increase in gross revenue and summarizes the change
6 in gross revenues that the Company has determined is necessary to continue to
7 provide safe and reliable wastewater services to its customers while providing the
8 Company an opportunity to earn a reasonable rate of return on its investments
9 dedicated to utility service in these 11 districts (including Chaparral). For
10 purposes of this proceeding, the increase in the gross revenue requirement for the
11 districts included in this Application is based on a test year ending December 31,
12 2016, and totals \$5,269,620 as summarized in Table 4 below.

13 **Table 4 – Gross Revenue Increase Requested (Excluding Purchased Water and**
14 **Power Adjustors)**

15

Water District	Revenue Increase
Agua Fria	\$ (4,921,836)
Anthem	\$ 2,484,452
Chaparral	\$ 811,131
Havasu	\$ 122,733
Mohave	\$ 2,088,702
North Mohave	\$ 410,077
Paradise Valley	\$ (175,956)
Sun City	\$ 3,506,906
Sun City West	\$ 900,565
Tubac	\$ (140,959)
Willow Valley	\$ 183,809
Total EPCOR Arizona	\$ 5,269,620

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1 **Q. PLEASE EXPLAIN SCHEDULE A-2.**

2 A. Schedule A-2 titled “Summary Results of Operations” contains operating history
3 for the unadjusted and adjusted test year ended December 31, 2016, calendar years
4 2015 and 2014, as well as projected year 2017 for each district. The test year 2016
5 figures on this exhibit are presented unadjusted as recorded in the accounting
6 records of the Company, and also adjusted for the *pro forma* changes identified in
7 the Company’s Application.
8

9 **Q. PLEASE EXPLAIN SCHEDULE A-3.**

10 A. Schedule A-3 titled “Summary of Capital Structure” summarizes the debt and
11 equity of the Company allocated to the individual districts for test year ending
12 December 31, 2016, and the calendar years 2015 and 2014, as well as projected
13 year 2017 for each district. The test year 2016 figures are presented unadjusted as
14 well as adjusted for *pro forma* changes recommended in the Company’s
15 Application.
16

17 **Q. PLEASE EXPLAIN SCHEDULE A-4.**

18 A. Schedule A-4 is titled “Construction Expenditures and Gross Utility Plant in
19 Service”. This schedule presents the historical construction expenditures for the
20 test year ending December 31, 2016, and calendar years 2015 and 2014, as well as
21 three years of projected construction expenditures for the district. This schedule
22 also contains annual cost data for net plant placed in service and balances of gross
23 utility plant in service for the same time periods provided for construction
24 expenditures. Company witness Mr. Andrew Brown will address capital
25 expenditures in this proceeding.

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Q. PLEASE EXPLAIN SCHEDULE A-5.

A. For each district, Schedule A-5 titled “Summary Statements of Cash Flows” is a statement of cash flows detailing the changes in the cash accounts for test year ending December 31, 2016, and calendar years 2015 and 2014 as well as for the projected year 2017 based on a present rate analysis and a proposed rate analysis.

2. “D” SCHEDULES – COST OF CAPITAL (ALL DISTRICTS)

Q. WHAT IS THE REQUESTED COST OF CAPITAL IN THIS PROCEEDING?

A. EWAZ’s proposed weighted average cost of capital (“WACC”) based on its requested capital structure for the test year is 7.33%, which is calculated on the D Schedules that I am sponsoring. EWAZ’s requested test-year capital structure is 51.88% long-term debt and 48.12% equity.

EWAZ’s cost of long-term debt is 4.30% and the required cost of equity is 10.60%. The Company’s WACC, based on these cost rates and the test year capital structure, is 7.33%.

EWAZ is proposing a fair value rate of return (“FVROR”) of 6.17% for its fully consolidated district, including Chaparral, based on the methodology adopted by the Commission in several recent rate cases.

1 **Q. IN DECISION NO. 76162, THE COMMISSION INCLUDED SHORT-**
2 **TERM DEBT OF \$8,560,000 IN THE CALCULATION OF THE CAPITAL**
3 **STRUCTURE. HAS THE COMPANY INCLUDED THAT AMOUNT IN**
4 **THE CALCULATION OF THE CAPITAL STRUCTURE IN THIS CASE?**

5 A. Yes, however, the Company will be filing a financing application to convert the
6 \$8,560,000 to long-term debt. Accordingly, the \$8,560,000 has been included in
7 the requested capital structure as long-term debt at the composite interest rate of
8 all currently outstanding long-term debt of 4.30 percent.

9 **Q. WILL THE COMPANY BE ABLE TO FINANCE THE \$8,560,000 AT AN**
10 **INTEREST RATE OF 4.30 PERCENT?**

11 A. The interest rate that will ultimately be available to the Company to finance this
12 level of debt is unknown at this time, however, the financing application is
13 expected to be completed prior to the rebuttal phase of this Application and the
14 interest rate will be adjusted at that time if necessary.

15 **Q. WHY IS IT PRUDENT TO CONVERT THAT AMOUNT TO LONG-TERM**
16 **DEBT AT THIS TIME?**

17 A. Short-term interest rates are on the rise as demonstrated recently by the Federal
18 Reserve's increase in the interest rate and market expectations that more increases
19 in the future will occur. When short-term rates are increasing, that signals the
20 perfect time to evaluate locking in fixed interest rates for longer durations.
21 Support for the conversion will be discussed in further detail in the financing
22 application.

23 **Q. PLEASE IDENTIFY THE "D" SCHEDULES THAT YOU ARE**
24 **SPONSORING.**

1 A. In this proceeding, I am sponsoring Schedules D-1 through D-4 that provide the
2 overall cost of capital and its component details – summary of cost of capital
3 (Schedule D-1), cost of debt (Schedule D-2), cost of preferred stock (Schedule D-
4 3), and cost of equity (Schedule D-4) for the EWAZ total Company as well as for
5 each individual district.

6
7 **Q. PLEASE DISCUSS SCHEDULE D-2 AND THE COMPANY'S**
8 **CALCULATED COST OF DEBT?**

9 A. The cost of Short-Term Debt and Long-Term Debt is set forth on Schedule D-2.
10 At the end of the test year, EWAZ had an outstanding short-term debt outstanding
11 of \$8,560,000 and \$231,637,306 of long-term debt comprised of a 10-year note
12 outstanding of \$133,000,000, a 30-year note outstanding for \$98,000,000 and a
13 Water Infrastructure Finance Authority of Arizona (WIFA) note outstanding of
14 \$637,306. Decision No. 72668 (November 17, 2011) authorized EWAZ to
15 refinance all of the then existing long-term debt as part of the purchase by EUSA.
16 The refinancing was completed in 2012 with a weighted cost of debt adjusted for
17 debt-issuance costs of 4.29%.

18
19 Decision No. 74388 (March 19, 2014) authorized Chaparral to refinance its
20 Industrial Development Authority (IDA) bond outstanding at that time with long-
21 term debt with a cost rate of 5.152% including debt issuance costs. Both the
22 original debt to be refinanced and the replacement debt are mortgage-type
23 financing that include principal payments as well as semi-annual interest
24 payments, which translates into a declining outstanding balance. At December 31,
25 2016, the 8-year note held by Chaparral had an outstanding balance of \$3,260,000.

1
2 Schedule D-2 displays an average cost of long-term debt of 4.30%, which is the
3 combined weighted cost of long-term debt of EWAZ and Chaparral as of the end
4 of the test year (December 31, 2016).

5
6 **Q. WHAT IS THE ESTIMATED COST OF EQUITY?**

7 A. The estimated cost of equity is 10.60% and is shown both on Schedule D-4 titled
8 “Cost of Common Equity” and also on Schedule D-1 titled “Summary of Cost of
9 Capital”. Ms. Pauline M. Ahern’s Direct Testimony on behalf of the Company
10 supports this cost of equity as fair and reasonable.

11
12 **Q. DOES EWAZ HAVE ANY PREFERRED STOCK OUTSTANDING?**

13 A. No. Schedule D-3 titled “Cost of Preferred Stock” states that the schedule is not
14 applicable because there is no preferred stock outstanding.

15
16 **VIII. SPECIFIC REQUESTS FOR COMMISSION APPROVAL**

17 **Q. PLEASE PROVIDE A SUMMARY OF THE SPECIFIC REQUESTS FOR**
18 **WHICH THE COMPANY IS SEEKING COMMISSION APPROVAL IN**
19 **THIS PROCEEDING.**

20 A. There are several areas for which the Company is seeking specific Commission
21 approval. The Company’s requests can be broken down into seven major
22 categories:

- 23 1) Approval of requested revenue increase including the proposed fair value rate
24 base and operating income;
25 2) Approval of proposed depreciation rates;

- 1 3) Approval of four proposed adjustor mechanisms;
- 2 4) Approval of three requests for deferral accounting;
- 3 5) Approval of proposed rate design including several modified tariffs, some new
- 4 proposed tariffs, and elimination of tariffs for best management practices
- 5 ("BMPs");
- 6 6) Approval to eliminate compliance items that are no longer necessary; and
- 7 7) Approval of full rate consolidation for all of its water districts.

8

9 In this section, I will describe some of the proposals in the first four categories. I

10 detail some of the Company's new and modified tariff proposals in Section IX, as

11 well as eliminating the compliance item related to the White Tanks Water

12 Treatment Plant. I describe the history of rate consolidation and why rate

13 consolidation results in just and reasonable rates and is in the public interest for

14 EWAZ in Section X.

15

16 **1. REQUESTED REVENUE INCREASE**

17 **Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED REVENUE**

18 **INCREASE.**

1 A. The Company's requested base revenue increase of \$5,269,620 is based on its
2 calculation of its Fair Value Rate Base ("FVRB") of \$456,758,071, an Adjusted
3 Operating Income of \$24,988,111 and a weighted average cost of capital of 7.33
4 percent with a fair value adjustment on a consolidated basis of (1.16) percent
5 based on a rate of return on the fair value increment of 1.10 percent. Within each
6 of these elements, the Company requires Commission approval of the individual
7 components that comprise these amounts. Table 5 summarizes the proposal by
8 district (stand-alone):

9 **Table 5 – Summary of Base Revenue Request by District**

Water District	Fair Value Rate Base	Operating Income	Revenue Increase	Percentage Increase
Agua Fria	\$ 150,263,417	\$ 12,515,247	\$ (4,921,836)	(11.2)%
Anthem	\$ 69,388,982	\$ 2,609,038	\$ 2,484,452	24.6%
Chaparral	\$ 44,559,091	\$ 2,143,306	\$ 811,131	7.6%
Havasú	\$ 6,651,436	\$ 338,671	\$ 122,733	6.9%
Mohave	\$ 34,147,834	\$ 848,667	\$ 2,088,702	28.1%
North Mohave	\$ 4,554,711	\$ 57,545	\$ 410,077	38.9%
Paradise Valley	\$ 49,003,590	\$ 3,111,211	\$ (175,956)	(1.7)%
Sun City	\$ 51,025,212	\$ 1,150,421	\$ 3,506,906	30.7%
Sun City West	\$ 42,856,130	\$ 1,996,529	\$ 900,565	10.6%
Tubac	\$ 1,407,999	\$ 149,965	\$ (140,959)	(17.7)%
Willow Valley	\$ 2,899,671	\$ 67,511	\$ 183,809	19.9%
Total EPCOR Arizona	\$ 456,758,071	\$ 24,988,111	\$ 5,269,620	4.9%

10 **Q. WHICH COMPANY WITNESS IS SPONSORING THE FVRB OF**
11 **\$456,758,071?**

12 A. Ms. Sarah M. Clor is the Company's witness that is sponsoring the FVRB as well
13 as the Original Cost Rate Base ("OCRB") and the Reconstructed Cost New
14 Depreciated ("RCND") Rate Base.

1 **Q. WHAT IS THE COMPANY REQUESTING REGARDING FVRB?**

2 A. The Company requests the following determinations regarding FVRB:

3 (1) a determination of its FVRB and fair value rate of return based on its

4 RCND study (including an adjustment to include vehicles that are capital

5 leases in the calculation of plant in service and recognition of regulatory

6 assets previously-authorized);

7 (2) a determination on inclusion of the requested revenue-neutral post-test year

8 plant additions through December 31, 2017 that are used and useful and

9 providing service to test-year customers;

10 (3) a determination on the recovery of acquisition premiums for the purchases

11 of the assets of North Mohave Valley Corporation and the Willow Valley

12 Water Company.

13

14 **A. Capital Leases – Vehicles.**

15 **Q. PLEASE EXPLAIN WHY A PRO FORMA ADJUSTMENT TO ADD**

16 **CAPITAL LEASES OF VEHICLES IS NECESSARY.**

17 A. During the preparation of this rate application, it was determined that the vehicles

18 EWAZ leases satisfy the criteria for capital leases and should be reflected in the

19 Company's plant in service. A pro forma adjustment has been reflected in the

20 OCRB, RCND, and FVRB to reflect the gross plant and accumulated depreciation

21 associated with these leased vehicles as discussed in greater detail in the testimony

22 of Ms. Clor.

23

1 **Q. HAS THE COMPANY PROPOSED PRO FORMA ADJUSTMENTS TO**
2 **RATE BASE TO RECOGNIZE REGULATORY ASSETS PREVIOUSLY**
3 **AUTHORIZED BY THE COMMISSION IN PREVIOUS DECISIONS?**

4 A. Yes. Ms. Clor discusses the individual Commission decisions and the resulting
5 pro forma adjustments to reflect the unamortized balances of previously-
6 authorized regulatory assets and regulatory liabilities that have been included in
7 the calculation of the Company's OCRB and RCND in developing the requested
8 FVRB.

9 **B. Post-Test Year Plant Additions.**

10 **Q. PLEASE EXPLAIN WHY THE COMPANY IS REQUESTING TO**
11 **INCLUDE POST-TEST YEAR PLANT ADDITIONS THAT WILL BE IN**
12 **SERVICE BY DECEMBER 31, 2017 – TWELVE MONTHS AFTER THE**
13 **END OF THE TEST YEAR.**

14 A. EWAZ has increased its capital investment plans in response to significant
15 infrastructure deterioration in its water districts. Without this needed investment,
16 the Company's ability to continue to provide safe and reliable service would be at
17 risk. As Mr. Andrew P. Brown details in his Direct Testimony, the projects
18 identified are necessary to continue providing safe and reliable service to existing
19 customers. Requesting inclusion of plant completed by December 31, 2017 and
20 serving test-year customers still enables verification by the Commission Utilities
21 Division Staff ("Staff") that the plant is in service, and used and useful, before
22 hearings would be conducted in this case. Inclusion of post-test year plant up to
23 twelve months after the end of a test year is consistent with prior Commission
24 decisions and based on the overall need is appropriate in this case.

25 **Q. PLEASE EXPLAIN HOW THIS BENEFITS CUSTOMERS.**

1 A. Customers receive an immediate benefit when post-test year plant is placed into
2 service. Continuous investment in capital is necessary, especially given the age of
3 some of the infrastructure and will benefit customers through improved service
4 and less disruption to their daily lives. As an example, replacing aging
5 transmission and distribution mains in Sun City will result in less main breaks that
6 wreak havoc on city streets, as well as the disruption to everyday tasks of our
7 customers. In addition, service quality is improved when water infrastructure is
8 well maintained.

9 **Q. HOW IS INCLUDING POST-TEST YEAR PLANT IN RATE BASE FOR**
10 **PERIODS BEYOND THE TEST YEAR BENEFICIAL TO THE**
11 **COMPANY?**

12 A. Providing recovery of the investment in plant and the depreciation on that plant
13 close to the time that the plant goes into service provides additional cash flow to
14 continue investing in infrastructure replacements. It also reduces the deterioration
15 on operating income due to the depreciation expense and any additional operations
16 and maintenance costs that the new plant creates contributing to improved
17 financial health of the Company. It provides a more reasonable opportunity for a
18 Company to earn its authorized return, which enables the Company to file rate
19 case applications less frequently. A financially healthy company allows for the
20 financing of plant on more reasonable terms, which ultimately benefits customers.

21
22 **Q. DOES THE INCLUSION OF POST-TEST YEAR PLANT ALLEVIATE**
23 **REGULATORY LAG IN A SIMILAR MANNER AS THE SIB**
24 **MECHANISM?**

1 A. Yes, it can have that effect. As with the SIB, including post-test year plant in rate
2 base allows a Company to earn a return on plant placed in service and benefitting
3 existing customers in a more timely fashion. Any mechanism that reduces
4 regulatory lag ultimately benefits both the Company and its customers.

5
6 **C. Acquisition Premiums.**

7 **Q. PLEASE DISCUSS THE ADJUSTMENTS TO INCLUDE TWO**
8 **ACQUISITION PREMIUMS THAT THE COMPANY IS SEEKING TO**
9 **RECOVER IN THIS PROCEEDING.**

10 A. In 2014, EWAZ acquired the assets of the North Mohave Valley Corporation. In
11 this case, as Ms. Clor discusses in her Direct Testimony, the Company is
12 requesting recovery of the 10 percent premium paid for the North Mohave system,
13 as well as approval to pay and recover an additional \$950,000 premium
14 attributable to the Mohave district's use of these facilities that are within the North
15 Mohave system.

16
17 Additionally, in 2016, EWAZ acquired the assets of the Willow Valley Water
18 Company and paid a premium above the book value for the purchase. In the
19 application for approval to purchase the assets and transfer the Certificate of
20 Convenience and Necessity, EWAZ proposed an Acquisition Adjustment
21 Mechanism ("AAM") that would allow the recovery of the premium paid in
22 conjunction with new investments to reduce water loss. In Decision No. 75484
23 (March 10, 2016), the Commission stated that "we believe it is reasonable and
24 appropriate to defer consideration of recovery of the Acquisition Premium through
25 the proposed AAM until Willow Valley's next rate case. As discussed in greater

1 detail in the Direct Testimony of Ms. Clor, the Company is requesting recovery of
2 the acquisition premium paid by including the premium in rate base with an
3 associated amortization to expense. Ms. Clor also provides an alternative scenario
4 for recovery of the premium through an AAM originally proposed by the
5 Company during the application to transfer the Certificate of Convenience and
6 Necessity (“CC&N”) that was approved in Decision No. 75484.

7 **2. PROPOSED DEPRECIATION RATES**

8 **Q. HAS THE COMPANY CONDUCTED AN INDEPENDENT**
9 **DEPRECIATION STUDY IN ACCORDANCE WITH THE**
10 **COMMISSION’S ORDER IN DECISION NO. 75268?**

11 A. Yes. The Company engaged the assistance of Mr. John F. Guastella of Guastella
12 Associates, LLC to review the Company’s depreciation rates and practices for all
13 of the 11 water districts in connection with this rate case filing. Mr. Guastella
14 details the results in his Direct Testimony.

15
16 **Q. IS EWAZ REQUESTING APPROVAL BY THE COMMISSION OF**
17 **REVISED DEPRECIATION RATES IN THIS APPLICATION?**

18 A. Yes. In the process of evaluating the Company’s depreciation rates for the
19 districts subject to Decision No. 75268, Mr. Guastella determined that
20 modifications to depreciation rates were prudent at this time. Exhibit JFG-1,
21 attached to the Direct Testimony of Mr. John F. Guastella, sets forth the rates that
22 the Company is asking the Commission to approve.
23

1 In summary, the rates that Mr. Guastella is recommending adopt the depreciation
2 rates previously recommended by Commission Staff for water utilities except for
3 the following National Association of Regulated Utility Commissioner's
4 ("NARUC") accounts:

- 5 • Pumping Equipment (Account 311),
- 6 • Water Treatment Equipment-Non-Media (Accounts 320100 and 320101),
- 7 • Ground Storage – Above and Below Ground (Accounts 330200, 330300,
8 and 330400),
- 9 • Meter Installations (Account 334200), Meter Vaults (Account 334300),
10 and
- 11 • Transportation Equipment (Accounts 341100, 341101, 341200, 341300,
12 and 341400).

13
14 **3. PROPOSED ADJUSTOR MECHANISMS**

15 **Q. IS THE COMPANY REQUESTING APPROVAL OF ANY ADJUSTOR**
16 **MECHANISMS FOR THE DISTRICTS IN THIS APPLICATION?**

17 **A.** Yes. The Company is requesting approval of adjustor mechanisms for purchased
18 water, power costs, and property taxes in this proceeding as Mr. Jon P. Boizelle
19 discusses in his Direct Testimony. In addition, the Company is requesting a SIB
20 mechanism in all of its districts, except for Anthem and Tubac, to recover the
21 return on and of investments, net of retirements, in Mains, Service Lines, Valves,
22 Hydrants, and Meters between rate cases. Mr. Brown discusses the program costs
23 and Ms. Clor sponsors the Plan of Administration for the SIB mechanism.
24

1 **Q. HAS THE COMMISSION AUTHORIZED ANY OF THESE**
2 **MECHANISMS FOR EWAZ OR CHAPARRAL IN PRIOR COMMISSION**
3 **DECISIONS?**

4 A. Yes. In Decision No. 74568, the Commission authorized a purchased water
5 adjustment mechanism and a SIB mechanism for Chaparral. In Decision No.
6 75268, the Commission authorized a Power Cost Adjustment Mechanism
7 (“PCAM”) for Mohave, Paradise Valley, Sun City and Tubac. Also in that
8 Decision, the Commission authorized SIB mechanisms for Sun City, Mohave, and
9 Paradise Valley. A SIB mechanism was also approved in Decision No. 74364
10 (February 26, 2014) for Willow Valley Water Company (now the Willow Valley
11 Water District).

12
13 Also noteworthy as it applies to EWAZ, in Decision No. 76162 in the Company’s
14 wastewater consolidation rate case (Docket No. WS-01303A-16-0145), the parties
15 to the Settlement Agreement agreed to and the Commission approved the
16 Company’s request for adjustor mechanisms for purchased water, power costs, and
17 property taxes.

18
19 **4. DEFERRAL ACCOUNTING AUTHORIZATION**

20 **Q. PLEASE DISCUSS THE COMPANY’S REQUESTS FOR DEFERRAL**
21 **ACCOUNTING AUTHORIZATION.**

1 A. The Company is requesting Commission approval to defer two types of expenses
2 for recovery in a future rate case application. The first type of expense is related
3 to the customer credits for the Deployed Service Member Program and the
4 Disabled Military Veterans Credit Program and the second type of expense is
5 related to tank maintenance expense, both of which are discussed in detail in the
6 Direct Testimony of Mr. Jon P. Boizelle.

7
8 **Q. WHY IS EWAZ SEEKING AN ACCOUNTING ORDER FOR DEFERRAL**
9 **ACCOUNTING FOR COSTS ASSOCIATED WITH THE DEPLOYED**
10 **SERVICE MEMBER PROGRAM AND DISABLED MILITARY**
11 **VETERANS CREDIT PROGRAM?**

12 A. The Deployed Service Member Program and the Disabled Military Veterans
13 Credit Programs are brand new programs that the Company is seeking to
14 implement. The Company is requesting authorization to defer the water service
15 charges that will be waived for deployed service members and the \$10.00 bill
16 reduction credit for qualified disabled military veterans pursuant to these tariffs, if
17 granted, because the potential costs of such a program are difficult to quantify at
18 this time. The deferred charges would be included as an expense in the
19 Company's next rate case. The Company would propose any modifications to the
20 tariff it feels are necessary or appropriate once we have that actual experience with
21 the program.

22 **Q. ISN'T IT TRUE THAT EWAZ HAS PRIOR AUTHORIZATION FOR**
23 **TANK MAINTENANCE PROGRAMS IN SOME OF ITS DISTRICTS**
24 **THAT ARE TREATED AS NORMALIZED EXPENSES?**

25 A. Yes.

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Q. WHY THEN IS EWAZ REQUESTING AUTHORIZATION FOR DEFERRAL ACCOUNTING FOR TANK MAINTENANCE EXPENSES?

A. EWAZ is only requesting deferral accounting for tank maintenance expenditures in its Anthem and Willow Valley Water Districts. In Decision No. 72047 (January 6, 2011), the Commission authorized deferral accounting for tank maintenance expenditures in Anthem; however, the Company has not incurred any tank maintenance expenses since that time. Anthem has reached an age where tank maintenance will be necessary in the near future as discussed in more detail in the Direct Testimony of Mr. Jeffrey W. Stuck.

For Willow Valley, the Company completed tank maintenance on one of its two storage tanks in 2017 and has not scheduled the maintenance on the second tank at the time of preparing this testimony. Instead of trying to normalize the cost to maintain the second tank, the Company is requesting authorization from the Commission to defer the costs it will incur for this maintenance for future recovery from its customers. Mr. Stuck also discusses the Willow Valley tank maintenance issue in his Direct Testimony.

IX. RATES AND TARIFFS

Q. HOW DOES THE COMPANY PROPOSE TO IMPLEMENT FULL CONSOLIDATION IF APPROVED BY THE COMMISSION?

A. The details of the Company's proposal are outlined in Ms. Heppenstall's Direct Testimony. Generally, the Company is recommending that a consolidated rate

1 design be phased-in over five years for residential customers and for the
2 commercial class.

3
4 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S PROPOSED**
5 **RATE DESIGN FOR THE PHASE IN OF RESIDENTIAL RATES.**

6 A. As described in Ms. Heppenstall's Direct Testimony, the proposed rates for
7 residential class customers are set forth in below in Table 6.

8

Table 6 - EWAZ's Proposed Residential Rate Design/Phase-in (Includes Surcharges) At 7,000 Gallons Usage						
Water District	Stand-Alone Proposed Rates	Bills at Consolidated 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

9 **Q. IS EWAZ REQUESTING CHANGES TO ANY OF ITS RATES AND**
10 **TARIFFS OTHER THAN THE CHANGES DISCUSSED BY MS.**
11 **HEPPENSTALL IN HER DIRECT TESTIMONY?**

1 A. Yes. The Company is proposing: (1) to adjust existing wholesale tariffs (sales for
2 resale) in other districts to incorporate the results of the cost of service study; (2)
3 recognition by the Commission of the contractual rate with the Paradise Valley
4 Country Club (“PVCC”) tied to the turf rate which has been adjusted based on the
5 cost of service study; (3) continuation of a rate for the Perryville State Prison
6 which is similar to an Other Public Authority rate which would also be applicable
7 to sales to Luke Air Force Base (“Luke AFB”); (4) an Effluent tariff that will be
8 applicable to future effluent supplies that are not currently available, but that may
9 become available; (5) a surface water treatment tariff applicable to services that
10 may be provided at the White Tanks Water Treatment Plant; and (6) changes to
11 the White Tanks Hook-up Fee in the Agua Fria district, presently known as the
12 Agua Fria Hook-up Fee Part B.

13
14 **A. Wholesale Tariffs (Sales for Resale).**

15 **Q. PLEASE EXPLAIN THE REQUESTED WHOLESAL TARIFF.**

16 A. EWAZ is seeking approval of interruptible rates applicable to municipalities
17 and/or other water utilities that might need to buy water from EWAZ to resell to
18 their customers on an emergency basis, in the event that their own water supplies
19 prove to be unreliable. Even though there were not any sales pursuant to these
20 particular tariffs during the test year, the Company believes it is prudent to
21 continue to have rates in place if the need arises. The rates will be specific to each
22 district on a stand-alone basis to allow the cost to provide emergency water to be
23 fully recoverable. Under consolidation, the wholesale rate should be uniform for
24 all wholesale customers. Additionally, the proposed rates would be applicable for
25 any meter size used.

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Q. ARE THERE EXISTING CONTRACTS FOR SUCH SERVICES IN ANY OF THE DISTRICTS IN THIS CASE?

A. Yes, the Agua Fria, Anthem, and Sun City districts have existing Wholesale Public Interruptible Tariffs. All of the wholesale tariffs are interruptible which recognizes a priority for EWAZ's customers if necessary.

Q. PLEASE SUMMARIZE THE PROPOSED WHOLESALE TARIFFS THE COMPANY IS REQUESTING.

A. The rates the Company is proposing for Wholesale Public Interruptible Rates are summarized in Table 7 below.

Table 7 Wholesale Public Interruptible Rates – Applicable to All Meter Sizes

All Meter Sizes	Proposed Stand-Alone			Proposed Consolidation		
	Monthly Usage Charge	Commodity Rate (per 1,000 gallons)	Upper Limit	Monthly Usage Charge	Commodity Rate (per 1,000 gallons)	Upper Limit
Anthem (Phoenix)	\$ 0.00	\$ 5.9831	Infinite	\$ 0.00	\$2.2900	Infinite
Sun City (Peoria)	\$15.07	\$2.2900	Infinite	\$ 0.00	\$2.2900	Infinite
Agua Fria (Surprise)	\$ 0.00	\$2.2900	Infinite	\$0.00	\$2.2900	Infinite

Q. PLEASE DISCUSS THE WHOLESALE TARIFF PROPOSED FOR THE ANTHEM WATER DISTRICT?

A. Anthem has an approved Public Interruptible rate schedule to sell emergency water to the City of Phoenix. These rates are available only to the City of Phoenix as a back-up supply as may be required by the municipality in an emergency situation.

1 **Q. PLEASE DISCUSS THE WHOLESALE TARIFF PROPOSED FOR THE**
2 **SUN CITY WATER DISTRICT?**

3 A. Sun City currently has an approved Public Interruptible Water Service Rate and a
4 Private Hydrant Stand-by Water Service Rate applicable to the City of Peoria.
5 These rates are available only to the City of Peoria as a supplemental supply as
6 may be required by the municipality to augment its primary sources of supply.
7

8 **Q. PLEASE DISCUSS THE WHOLESALE TARIFF PROPOSED FOR THE**
9 **AGUA FRIA WATER DISTRICT?**

10 A. Agua Fria currently has an approved Public Interruptible Water Service Rate
11 applicable to the City of Surprise. These rates are available only to the City of
12 Surprise as an emergency or temporary supply as may be required by the
13 municipality to augment its primary sources of supply.
14

15 **Q. DOES EWAZ HAVE ANY OTHER WHOLESALE TARIFFS IN ITS**
16 **WATER DISTRICTS?**

17 A. Yes. EWAZ currently has an approved wholesale tariff to sell emergency water to
18 Arizona Water at a rate of \$2.9772 per kgal for delivery of up to 8,000 gallons,
19 and \$4.4527 per kgal for water delivered in excess of 8,000 gallons in a month.
20

21 **Q. DID THE COMPANY SELL ANY WATER TO ARIZONA WATER**
22 **COMPANY DURING THE TEST YEAR PURSUANT TO THIS TARIFF?**

1 A. No, while EWAZ did not sell any water to Arizona Water during the test year, a
2 rate should be included in the tariff in the event that Arizona Water needs a back-
3 up water supply at some point in the future. The proposed rate for this tariff is
4 \$2.29 per kgal for all gallons delivered plus all approved surcharges both on a
5 stand-alone district basis and a consolidated basis.

6
7 **Q. IS EWAZ REQUESTING APPROVAL FOR ANY OTHER TARIFFS IN**
8 **THIS PROCEEDING?**

9 A. Yes. EWAZ is requesting approval of a tariff to provide treatment services in
10 emergency situations that would allow the Company to treat surface water
11 provided by other entities at the White Tanks Water Treatment Plant (“White Tank
12 WTP”). Currently, the White Tanks WTP is used at its full capacity. Treatment
13 services would only be available to third parties when sales volumes for the
14 Company were down and these third party treatment services could be used to
15 offset those sales variances. Based on a cost of service analysis, as discussed in
16 greater detail in the Direct Testimony of Ms. Constance E. Heppenstall, the
17 proposed White Tanks WTP rate to treat surface water is \$1.90 per thousand
18 gallons.

19
20 **B. Paradise Valley Country Club Agreement.**

21 **Q. PLEASE EXPLAIN THE AGREEMENT WITH THE PARADISE VALLEY**
22 **COUNTRY CLUB.**

23 A. EWAZ currently delivers water to the golf course for use by the Paradise Valley
24 Country Club (“PVCC”) for the irrigation and maintenance of turf, trees, shrubs,
25 and other exterior landscaping at the golf course and for filling and refilling a

1 storage tank at the golf course (“Turf Irrigation”). Decision No. 68858 (July 28,
2 2006) approved the current agreement between the Company and PVCC for Turf
3 Irrigation. That Agreement, which was entered into on December 15, 2005,
4 replaced a previous agreement between the parties that was approved in Decision
5 No. 59079 (May 5, 1995).³ The December 15, 2005 Agreement is essentially an
6 interruptible agreement to provide Turf Irrigation at a 15-percent discount to the
7 Company’s standard rates and charges for all water delivered to PVCC for Turf
8 Irrigation. Standard rates and charges include all Commission-authorized
9 surcharges – without limitation. This Agreement does not include water service
10 to PVCC for “clubhouse uses” as described in the Agreement.

11
12 **Q. HOW LONG IS THE AGREEMENT IN EFFECT?**

13 A. The Agreement is in effect through July 27, 2021 – or 15 years from the date that
14 the Commission approved the Agreement.

15
16 **Q. HAS THE AGREEMENT BEEN MUTUALLY BENEFICIAL TO BOTH
17 EWAZ AND PVCC?**

18 A. Yes. The Agreement attached as Exhibit SLH-2 recognizes that the Company’s
19 supply is the only developed supply of water available for Turf Irrigation. The
20 Agreement is interruptible for off-peak delivery (2:00 p.m. to 4:00 a.m.)⁴ and
21 recognizes PVCC’s construction of the storage reservoir and associated facilities
22 to allow it to store water for future use.

23

³ The Agreement was made between AZAM and PVCC.

⁴ The provision in the Agreement (Section 2.b.) does provide PVCC an ability to take delivery of water outside of off-peak for Turf Irrigation if it can show a need.

1 **Q. HOW DOES EWAZ’S PROPOSED RATE DESIGN HANDLE TURF**
2 **IRRIGATION FOR PVCC IN THIS CASE IN LIGHT OF THE**
3 **AGREEMENT?**

4 A. EWAZ’s rate design in this proceeding includes separate rate schedules for PVCC
5 reflecting this 15 percent discount to the basic service charge for the turf customer
6 class, the volumetric charges for the turf customer class, and applicable surcharges
7 for purchased water and power for the commercial class applied to turf customers.
8 Any surcharges applicable to commercial class customers subsequently approved
9 for property taxes or SIB-eligible investment would also be subject to the 15
10 percent discount.

11
12 **C. Perryville State Prison And Luke Air Force Base Tariff.**

13 **Q. WHAT IS THE COMPANY PROPOSING FOR THE PERRYVILLE**
14 **STATE PRISON ACCOUNT AND THE NEWLY-ESTABLISHED LUKE**
15 **AIR FORCE BASE ACCOUNT?**

16 A. Historically, both the Perryville State Prison and the Luke Air Force Base (“Luke
17 AFB”) accounts would have been included in the Other Public Authority customer
18 classification when designing rates to recognize the public benefit in the cost of
19 service. The Company used this classification sparingly and does not intend to
20 create an Other Public Authority classification at this time. However, EWAZ
21 proposes to retain the special rate schedule for the use of billing the Perryville
22 State Prison and proposes to extend that same rate schedule to the recently-added
23 Luke AFB account.

1 **Q. WHAT IS THE PROPOSED RATE THE COMPANY IS**
2 **RECOMMENDING FOR THE PERRYVILLE STATE PRISON AND**
3 **LUKE AFB ACCOUNTS?**

4 A. The present and proposed rates for this special rate schedule are summarized in the
5 Table 8 below.

6 **Table 8 – Present and Proposed Rates for Perryville & Luke AFB**

	Present	Proposed
<u>Stand-alone District (Agua Fria):</u>		
Basic Service Charge	\$ 363.06	\$ 325.12
Commodity Charge (per kgal)	\$3.6562	\$3.2000

7

<u>Consolidated District:</u>	Year 1 Phase-in	Year 2 Phase-in	Year 3 Phase-in	Year 4 Phase-in	Year 5 Phase-in
Basic Service Charge ⁵	\$349.31	\$347.29	\$345.74	\$331.85	\$310.08
Commodity Charge (per kgal)	\$3.2000	\$3.2000	\$3.2000	\$3.2000	\$3.2000

8 **D. Effluent Tariff For Future Availability.**

9 **Q. WHAT IS THE COMPANY PROPOSING WITH REGARD TO**
10 **EFFLUENT NOT YET AVAILABLE FOR SALE?**

11 A. EWAZ is proposing that in the event new sources of effluent become available for
12 sale in any of the districts in this proceeding, EWAZ be permitted to charge the
13 prevailing market price. This topic is discussed in greater detail in the Direct
14 Testimony of Jake Lenderking. Ms. Heppenstall also provides testimony
15 regarding the current Agua Fria and Anthem effluent tariffs and the proposed tariff
16 to charge future customers of any future sources of effluent a market rate at the
17 time that any new sources of effluent become available.

⁵ Consolidated rate declines over 5-year phase-in period.

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Q. IS THE COMPANY PROPOSING ANY CHANGES TO ITS CURRENT EFFLUENT RATES IN THIS PROCEEDING?

A. No. At this time, the Company has contractual arrangements with current customers for the sale of all of its available effluent. The existing contracts are based on tariff rates in each of the districts that have effluent for reuse. The Company is proposing that the effluent rates remain at the current rate of \$0.77 per kgal in Agua Fria and Anthem.

Q. WHY ARE THE EFFLUENT RATES NOT CHANGING?

A. The current cost of service does not support an increase the effluent rates at this time. In addition, effluent rates must be designed to provide the necessary incentive to customers to use effluent instead of potable water. If effluent rates are set too high and customers elect to purchase potable water instead, it places the Company at risk of having a viable place to reuse its effluent. The Company is proposing that the effluent rate remain at the current rate of \$0.77 per kgal for those customers who obtain effluent from EWAZ at that rate currently.

Q. IS THE COMPANY'S AVAILABLE EFFLUENT FULLY ALLOCATED TO CURRENT CUSTOMERS?

A. Yes, however, as the Company grows and the need for additional treatment capacity increases, additional effluent could become available.

Q. IF MORE EFFLUENT BECOMES AVAILABLE, HOW WILL THE COMPANY REUSE THE ADDITIONAL EFFLUENT?

1 A. The Company would be in a position to offer the additional effluent to new
2 customers, but the price of the effluent would need to be competitively priced or it
3 will be difficult to attract new customers.

4
5 **Q. WHAT IS THE COMPANY REQUESTING FROM THE COMMISSION**
6 **TO ENSURE THAT THE PRICE OF FUTURE ADDITIONAL EFFLUENT**
7 **IS COMPETITIVELY PRICED?**

8 A. The Company is asking for a tariff that would require a contractual arrangement
9 with the Company to purchase any new or additional sources of effluent at a
10 market-based price as discussed in greater detail in the Direct Testimony of Mr.
11 Jake Lenderking.

12
13 **E. White Tanks Hook-Up Fee (Part B) Tariff – Elimination of**
14 **Compliance Filing Requirement.**

15 **Q. PLEASE EXPLAIN THE AGUA FRIA WHITE TANKS HOOK-UP FEE**
16 **(PART B) TARIFF.**

17 A. The White Tanks hook-up fee (Part B) tariff provides a reduction to the revenue
18 requirement in Agua Fria on an annual basis as hook-up fees are collected from
19 developers in that district. As part of the settlement agreement in Agua Fria's last
20 rate case adopted in Decision No. 73145 (May 1, 2012), a hook-up fee was
21 instituted to enable a contribution to the cost of the White Tank's WTP from new
22 development that would occur after the decision in that case. In its current form,
23 Agua Fria's customers are eligible to receive surcredits on their monthly bills in
24 recognition of developer contributions (hook-up fees) received to fund the White
25 Tanks WTP. The first surcredits were effective July 1, 2013, and are calculated on
26 an annual basis, and applied as a monthly surcredit on customer bills.

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Q. WHAT IS EWAZ’S PROPOSAL REGARDING THE AGUA FRIA HOOK-UP FEE (PART B)?

A. EWAZ is proposing to eliminate the secondary (Part B) hook-up fee tariff in Agua Fria, as Ms. Sandra L. Murrey discusses in her Direct Testimony. The White Tanks WTP is now fully utilized by customers. The Company has reflected the test-year balance of Part B hook-up fees in its calculation of rate base; and the corresponding reduction to the calculated revenue requirement is reflected in Schedule A-1. No further collection of these hook-up fees is necessary upon issuance of a decision in this proceeding. EWAZ is also requesting approval to discontinue the compliance requirements related to White Tanks hook-up fees ordered in Decision No. 73145 because they are no longer necessary due to the full utilization of the White Tanks WTP. Ms. Murrey also discusses this request in her Direct Testimony. The compliance items the Company proposes to eliminate are included on Exhibit SLM-1 attached to Ms. Murrey’s testimony.

Q. BECAUSE OF THE FULL UTILIZATION OF THE WHITE TANKS WTP, IS EWAZ ALSO REQUESTING THAT THE COMMISSION ELIMINATE THE REPORTING REQUIREMENT IN DECISION NO. 73145 REGARDING NON-FIRM TREATMENT SERVICES FROM THE WHITE TANKS WTP?

A. Yes.

1 **X. CONSOLIDATION AND TIMING OF RATE APPLICATION**

2 **1. A BRIEF HISTORY OF RATE CONSOLIDATION**

3 **Q. WHEN DID FULL RATE CONSOLIDATION FIRST BECOME AN ISSUE**
4 **IN EWAZ’S RATE CASES?**

5 A. The Commission first examined full rate consolidation in Docket No. W-01303A-
6 08-0227 et al. for EWAZ’s predecessor, Arizona American Water. Parties in that
7 case were asked by the Commission to provide analyses and testimony addressing
8 partial and full consolidation, including costs and benefits pertaining to rates and
9 operations, among other issues. In Decision No. 71410 (December 8, 2009), the
10 Commission stated that the issue of rate consolidation was “of critical
11 importance,” that the Company should commence a dialogue with customers, and
12 kept the docket open in order to further discuss the issue of consolidation.⁶

13
14 **Q. HAS THE CONSOLIDATION DISCUSSION CONTINUED SINCE THAT**
15 **TIME?**

16 A. Yes, it has. The Company’s 2008 rate case and the associated decision (Decision
17 No. 71410) only addressed certain of the Company’s water and wastewater
18 districts (Agua Fria, Havasu, Mohave, Paradise Valley, Sun City West and Tubac
19 Water Districts and the Mohave Wastewater District). On July 2, 2009, the
20 Company filed a rate application for its Anthem and Sun City Water Districts – as
21 well as for its Anthem/Agua Fria, Sun City, and Sun City West Wastewater
22 Districts (Docket No. W-01303A-09-0343 et al.) Ultimately, this rate case was
23 bifurcated to allow for Commission consideration of rate consolidation issues in a
24 second phase. In that second phase, the Company proposed its preferred

⁶ Decision No. 71410 at 51.

1 consolidation scenario for all of its water districts and for all of its wastewater
2 districts – proposing to implement consolidation through five revenue-neutral
3 steps.

4
5 **Q. WHAT WAS THE ULTIMATE OUTCOME REGARDING RATE**
6 **CONSOLIDATION IN THAT DOCKET?**

7 A. The Commission declined to order consolidation in Decision No. 72047. Rather,
8 the Commission found that the topic of rate consolidation should be considered in
9 a future case with all of the Company's districts and ordered the Company to
10 develop multiple consolidation proposals in a future application.⁷

11
12 **Q. HAS RATE CONSOLIDATION BEEN ORDERED FOR ANY OF THE**
13 **COMPANY'S DISTRICTS PRIOR TO 2017?**

14 A. No. In fact, in Decision No. 73227 (June 5, 2012), the Commission
15 deconsolidated the Anthem/Agua Fria Wastewater District. Following Decision
16 No. 73227, the Commission received a significant number of customer complaints
17 from Agua Fria customers. Ultimately, the Commission initiated a proceeding to
18 address the customer complaints. In that proceeding, the parties reached a
19 settlement, which the Commission approved in Decision No. 74881 (December
20 23, 2014). In that Decision, the Commission ordered the Company to file a
21 wastewater rate case with consolidation, deconsolidation and stand-alone
22 proposals. As required, the Company made that filing in April 2016, in Docket
23 No. WS-01303A-16-0145.

24

⁷ *Id.* at 84-85.

1 **Q. WHAT DID THE COMMISSION DECIDE REGARDING**
2 **CONSOLIDATION IN THE COMPANY'S RECENT WASTEWATER**
3 **RATE CASE?**

4 A. In Decision No. 76162 (June 28, 2017), the Commission approved full
5 consolidation with consolidated rates being phased in over 5-years. The
6 Commission's detailed analysis found full consolidation to be just and reasonable
7 and in the public interest.

8
9 **Q. MS. HUBBARD, IN DECISION NO. 75268, DID THE COMMISSION**
10 **REQUIRE THAT THE COMPANY FILE A WATER RATE CASE**
11 **ADDRESSING CONSOLIDATION?**

12 A. Yes, in Decision No. 75268, the Commission directed EWAZ to file a rate case for
13 all of its water systems that included rate consolidation options, as an alternative to
14 treating all of the systems as independent.⁸ The Company's proposal for full rate
15 consolidation in this Application is responsive to the Commission's directive in
16 Decision No. 75268.

17
18 **Q. IS THE COMPANY ADVOCATING FOR FULL RATE CONSOLIDATION**
19 **OF ALL OF ITS ELEVEN WATER DISTRICTS?**

20 A. Yes. EWAZ believes full rate consolidation ultimately provides benefits for
21 customers and operational efficiencies that the Company cannot obtain otherwise.
22 Mr. Bradford discusses the Company's support for full consolidation in his Direct
23 Testimony.

24

⁸ See Decision No. 75268 at 50.

1 **Q. DOES THE COMPANY SUPPORT A PHASE-IN OF CONSOLIDATED**
2 **RATES?**

3 A. Yes, the Company is proposing a five-year phase-in of the consolidated rates
4 requested in this proceeding.

5
6 **Q. DOES THE COMPANY SUPPORT ANY KIND OF PARTIAL**
7 **CONSOLIDATION OF ITS WATER DISTRICTS?**

8 A. No, and the reason is simple. Partial rate consolidation does not nearly achieve the
9 efficiencies and economies of scale for both the Company and its customers that
10 full rate consolidation does. Costs of capital improvements could not be spread
11 across the customer base in a way that mitigates the rate impacts nearly as much
12 under a partial-consolidation scenario. While partial consolidation may provide
13 for some efficiencies, the benefits do not really manifest until full rate
14 consolidation is achieved.

15
16 **Q. IN SHORT, IS FULL RATE CONSOLIDATION THE COMPANY'S**
17 **PREFERRED OUTCOME TAKING INTO ACCOUNT THE TEST YEAR**
18 **AND COST OF SERVICE STUDIES?**

19 A. Yes. Mr. Bradford is the Company's primary witness on rate consolidation and
20 details why the Company supports full rate consolidation in his Direct Testimony.

21
22 **Q. PLEASE EXPLAIN WHY EWAZ IS MAKING THIS FILING AT THIS**
23 **TIME FOR THE DISTRICTS INCLUDED IN THIS RATE**
24 **APPLICATION?**

25 A. In Decision No. 75268, the Commission stated as follows:

1
2 The issue of rate consolidation is not before us in this proceeding and we do not
3 believe it would be appropriate to address consolidation in this case. However, we
4 will direct EPCOR to file a rate case for all of its systems by no later than July 1,
5 2018, using a 2017 test year, and include in the application rate consolidation
6 options as an alternative to treating all of the systems as independent. A similar
7 directive is currently in place for all of EPCOR's wastewater districts.
8

9 This filing is made in compliance with that Decision.
10

11 **Q. WHY HAS THE COMPANY MADE THIS FILING NOW RATHER THAN**
12 **IN 2018?**

13 A. The timing of rate case applications is a function of increases in costs as well as
14 increases in rate base driven by capital expenditures. From the time of the test
15 year in each district's last rate case through the end of 2016, the Company has
16 invested over \$173 million in plant and has seen increases in operating expenses
17 of over \$17 million. Coupled with the continued infrastructure replacement needs
18 of our operating districts, the Company could not wait any longer to file a rate
19 application to seek an increase in rates to reflect the current cost to serve its
20 customers. Decision 75268 ordered a filing *no later than* July 1, 2018, using a
21 2017 test year. This Application complies with that requirement, and because the
22 case is being filed in 2017, the Company has utilized a 2016 test year.
23

24 **XI. KEY ISSUES AND ADDITIONAL REQUESTS.**

25 **Q. ARE THERE ANY ADDITIONAL REQUESTS THAT THE COMPANY**
26 **HAS IDENTIFIED IN THIS APPLICATION THAT REQUIRE**
27 **COMMISSION APPROVAL?**

1 A. Yes. There are several additional requests for which the Company is seeking
2 Commission approval. The areas at issue are rate case expenses, low-income
3 programs, miscellaneous service charges, and removal of compliance items.

4 **1. RATE CASE EXPENSES (ALL DISTRICTS).**

5 **Q. WHAT IS EWAZ'S PROPOSED RATE CASE EXPENSE FOR THIS**
6 **PROCEEDING?**

7 A. Ms. Murrey sponsors income statement adjustment SLM-IS13 on Schedule C-2
8 for each district, which relies on a 4-factor allocation of the proposed rate case
9 expense of approximately \$799,680. The Company is proposing to amortize rate
10 case expenses over a three-year period.

11
12 **Q. HOW DID THE COMPANY CALCULATE THIS AMOUNT?**

13 A. The rate case expenses were estimated based on the Company's experience
14 litigating rate cases before the Commission, the number of districts included in
15 this Application, and the anticipated length and complexity of the proceedings. If
16 the processing of this Application turns out to be more complicated than
17 anticipated, the Company will modify its request to account for any additional-
18 incurred expenses. Conversely, if rate case expense is lower than estimated, an
19 appropriate adjustment downward during the briefing stage of the case will be
20 offered.

21
22 **2. LOW-INCOME PROGRAMS.**

23 **Q. IS EWAZ PROPOSING TO ADD LOW-INCOME PROGRAMS TO**
24 **TARIFFS IN ANY OF THE DISTRICTS IN THIS PROCEEDING?**

25 A. Yes. The Company is proposing to begin low-income programs in each of its

1 water districts where there are no currently-authorized low-income programs – and
2 revise the existing Plans of Administration to include an annual true-up procedure
3 to reconcile the discounts given and revenue collected. Currently, the Company
4 has low-income programs in its Agua Fria, Chaparral, Havasu, Mohave, Paradise
5 Valley, Sun City, Tubac, and Willow Valley Water Districts.⁹ The Company is
6 requesting to commence low-income programs in the Anthem, North Mohave, and
7 Sun City West Water Districts. The Company is proposing to reduce the monthly
8 water rate by \$10.00 per month for customers that are eligible.
9

10 **Q. WHAT ELIGIBILITY CRITERIA WILL CUSTOMERS BE REQUIRED**
11 **TO SATISFY?**

12 A. Customers must demonstrate that they are Arizona residents and that their income
13 is less than 150% of the annual federal poverty guidelines. In addition, customers
14 are required to re-apply annually to verify that they are still eligible.
15

16 **Q. HOW WILL THE LOW-INCOME PROGRAM BE STRUCTURED IN**
17 **EACH OF THE DISTRICTS?**

18 A. The Company proposes to structure its low-income programs the same throughout
19 all of its water districts – whether consolidated or not. The number of participants
20 eligible for low-income discounts will be set as follows:

<u>District</u>	<u>Participants</u>
Agua Fria	1,000
Anthem	100
Chaparral	250
Havasu	100
Mohave	475
North Mohave	100

⁹ Low-income programs were previously authorized for Agua Fria and Havasu in Decision No. 73145; for Mohave, Paradise Valley, Sun City, and Tubac in Decision No. 75268 (September 8, 2015); and for Willow Valley Water in Decision No. 71878 (September 15, 2010).

1	Paradise Valley	50
2	Sun City	750
3	Sun City West	100
4	Tubac	40
5	Willow Valley	<u>100</u>
6	Total	3,065

7 **Q. HOW WILL THE LOW-INCOME DISCOUNT BE RECOVERED BY THE**
8 **COMPANY?**

9 A. The Company is requesting that the annual cost of providing a \$10.00 discount for
10 each potential participant be recovered via a surcharge on the high-usage block
11 and the new program to be applied to all water districts will include an annual
12 true-up mechanism to address any over- or under-collections of costs on a timely
13 basis.

14
15 **3. MISCELLANEOUS SERVICE CHARGES**

16 **Q. IS THE COMPANY REQUESTING APPROVAL OF MODIFICATIONS**
17 **TO ITS MISCELLANEOUS SERVICE CHARGES IN THIS**
18 **PROCEEDING?**

19 A. Yes. Ms. Sandra L. Murrey is sponsoring the modifications to miscellaneous
20 service charges that the Company is requesting approval of from the Commission
21 in this proceeding.

22
23 **Q. WHY IS EWAZ SEEKING TO REVISE ITS MISCELLANEOUS SERVICE**
24 **CHARGES IN THIS PROCEEDING?**

25 A. The 11 water districts currently have varying levels of service charges. The
26 Company's average-employee wages and benefits do not vary from district to
27 district and the time to complete the services is consistent. As such, it is
28 appropriate to standardize these miscellaneous service charges in each district.

1 Table 16 below summarizes the proposed miscellaneous service charges for each
2 district that are discussed in more detail in the Direct Testimony of Ms. Sandra L.
3 Murrey.

4
5
6 **Table 16 – Proposed Miscellaneous Service Charges**

<u>Miscellaneous Service Charges:</u>	<u>Charge</u>
• Establishment or Re-establishment of Service	\$35.00
• Re-establishment of Water Utility Service within 12 Months:	
1. Monthly Minimum Times Number of Months	
Disconnected from Water System	
• Reconnection of Service (Delinquent)	\$35.00
• Meter Test (If Correct)	\$35.00
• Meter Re-read (If Correct)	\$25.00
• NSF Check	\$25.00
• Automated Meter Opt-Out:	
Establishment Fee	\$35.00
Monthly Manual Read Fee	\$25.00
• Late Payment Fee (per month)	1.5%
• Deferred Payment (per month)	1.5%
• Deposit Requirements (Residential)	(a)
• Deposit Requirements (Non-Residential)	(a)
• Deposit Interest	(a)
• After Hour Service Charge (b)	\$35.00

25
26 (a) Per Commission rule R-14-2-403(B).

27 (b) After Hours Service: After regular working hours, on Saturday, Sunday or holidays if at the
28 customer's request.

29
30 **Q. HAS THE COMMISSION APPROVED SIMILAR MISCELLANEOUS**
31 **SERVICE CHARGES FOR THE COMPANY?**

32 A. Yes. The Company's request in this case mirrors service charges approved in
33 Decision No. 75268 in Docket No. WS-01303A-14-0010 for all the water districts,
34 whether consolidated or not, except for the Automated Meter Opt-Out fees.

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Q. IS THE COMPANY ALSO UPDATING ITS SERVICE LINE AND METER INSTALLATION TARIFF?

A. Yes. The Company is requesting changes to its service line and meter installation charges to reflect more current cost information as discussed in more detail in Ms. Murrey's testimony.

Q. ARE THE PROPOSED CHANGES TO THE MISCELLANEOUS SERVICE CHARGES REFLECTED ON SCHEDULE H-6?

A. Yes. Ms. Murrey is sponsoring proposed tariffs for Miscellaneous Service Charges including service line and meter installation charges for each of the existing, stand-alone water districts as well as a proposed overall consolidated water district.

4. REMOVAL OF COMPLIANCE ITEMS

Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST AS IT PERTAINS TO COMPLIANCE ITEMS.

A. The Commission historically includes reporting requirements, also referred to as compliance items, in its decisions. Over time, some of the compliance items are no longer needed, but if there is no expiration date noted in the Commission's decision, remain a continuing reporting obligation for the Company.

Q. HAS THE COMPANY REVIEWED THE OUTSTANDING COMPLIANCE ITEMS AS OF SOME POINT IN TIME?

A. Yes. Ms. Murrey monitors the Company's compliance obligations outstanding as of April 1, 2017 and has recommendations regarding how the items should be

1 addressed on a going forward basis. Ms. Murrey is recommending elimination of
2 some, revisions to some, and retention of some compliance items in her Direct
3 Testimony.

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 **A. Yes.**

EXHIBIT SLH-1

Line No.	Summary of Schedule A-1s	Total Water Districts	7F Agua Fria Water	7K Anthem Water	6P Chaparral City Water	7U Havasu Water	7M Mohave Water	7Q North Mohave Water	7P Paradise Valley Water	7B Sun City Water	7D Sun City West Water	7T Tubac Water	7R Willow Valley Water
1	Original Cost Rate Base	\$ 371,782,161	\$126,217,928	\$53,799,497	\$34,461,499	\$5,456,456	\$27,811,940	\$4,107,288	\$39,599,747	\$43,560,607	\$33,264,889	\$1,142,316	\$2,359,994
3	Adjusted Operating Income	\$ 24,988,108	\$12,515,247	\$2,609,038	\$2,143,306	\$338,670	\$848,667	\$57,545	\$3,111,210	\$1,150,421	\$1,996,529	\$149,964	\$67,510
5	Current Rate of Return	6.72%	9.92%	4.85%	6.22%	6.21%	3.05%	1.40%	7.86%	2.64%	6.00%	13.13%	2.86%
7	Required Operating Income	\$ 28,174,771	\$9,526,701	\$4,114,767	\$2,635,731	\$417,328	\$2,106,921	\$314,139	\$3,028,722	\$3,275,819	\$2,545,654	\$65,050	\$180,500
9	Required Rate of Return	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%	5.45%	7.33%
10	Fair Value Rate of Return	0.25%	0.22%	0.32%	0.32%	0.24%	0.25%	0.12%	0.26%	0.19%	0.32%	0.24%	0.25%
11	Overall Rate of Return	7.58%	7.55%	7.65%	7.65%	7.65%	7.58%	7.65%	7.65%	7.52%	7.65%	5.69%	7.65%
13	Operating Income Deficiency	\$3,186,663	(\$2,988,546)	\$1,505,728	\$492,425	\$78,658	\$1,258,255	\$256,594	(\$82,488)	\$2,125,398	\$549,125	(\$84,915)	\$112,990
15	Gross Revenue Conversion Factor	1.6537	1.6469	1.6500	1.6400	1.6500	1.6600	1.6500	1.6400	1.6500	1.6400	1.6600	1.6500
17	Increase in Gross Revenue Requirement	<u>\$ 5,269,620</u>	<u>\$ (4,921,836)</u>	<u>\$ 2,484,452</u>	<u>\$ 811,131</u>	<u>\$ 122,733</u>	<u>\$ 2,088,702</u>	<u>\$ 410,077</u>	<u>\$ (175,956)</u>	<u>\$ 3,506,906</u>	<u>\$ 900,565</u>	<u>\$ (140,959)</u>	<u>\$ 183,809</u>
22	Test Year Adjusted Water Revenue (Excludes Other Revenue)	\$ 109,293,646	\$44,705,121	\$10,730,199	\$10,922,544	\$1,801,753	\$7,714,275	\$1,064,718	\$10,116,972	\$11,794,169	\$8,665,072	\$836,318	\$942,505
24	Total Water Revenue with Increase	\$ 114,563,270	\$ 39,783,284	\$ 13,214,651	\$ 11,733,675	\$ 1,924,486	\$ 9,802,977	\$ 1,474,796	\$ 9,941,016	\$ 15,301,075	\$ 9,565,637	\$ 695,359	\$ 1,126,314
26	Percent Rate Increase	4.82%	-11.01%	23.15%	7.43%	6.81%	27.08%	38.52%	-1.74%	29.73%	10.39%	-16.85%	19.50%

Line No.	Summary of Schedule A-1s	Total Water Districts	7F Agua Fria Water	7K Anthem Water	6P Chaparral City Water	7U Havasu Water	7M Mohave Water	7Q North Mohave Water	7P Paradise Valley Water	7B Sun City Water	7D Sun City West Water	7T Tubac Water	7R Willow Valley Water
1	RCND Cost Rate Base	\$ 541,733,985	\$ 174,308,906	\$ 84,978,466	\$ 54,656,683	\$ 7,846,417	\$ 40,483,727	\$ 5,002,133	\$ 58,407,432	\$ 58,489,818	\$ 52,447,371	\$ 1,673,682	\$ 3,439,349
3	Adjusted Operating Income	\$ 24,988,108	\$12,515,247	\$2,609,038	\$2,143,306	\$338,670	\$848,667	\$57,545	\$3,111,210	\$1,150,421	\$1,996,529	\$149,964	\$67,510
5	Current Rate of Return	4.61%	7.18%	3.07%	3.92%	4.32%	2.10%	1.15%	5.33%	1.97%	3.81%	8.96%	1.96%
7	Required Operating Income	\$ 28,174,772	\$9,526,700	\$4,114,767	\$2,646,547	\$379,934	\$2,106,921	\$242,210	\$2,828,163	\$3,275,819	\$2,545,654	\$65,050	\$166,538
9	Required Rate of Return	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%	5.45%	7.33%
10	Fair Value Rate of Return	-2.13%	-1.86%	-2.49%	-2.50%	-2.07%	-2.13%	-1.21%	-2.19%	-1.73%	-2.48%	-1.56%	-2.13%
11	Overall Rate of Return	5.20%	5.47%	4.84%	4.84%	4.84%	5.20%	4.84%	4.84%	5.60%	4.85%	3.89%	4.84%
13	Operating Income Deficiency	\$3,186,664	(\$2,988,547)	\$1,505,729	\$503,241	\$41,263	\$1,258,255	\$184,665	(\$283,047)	\$2,125,398	\$549,125	(\$84,915)	\$99,027
15	Gross Revenue Conversion Factor	1.6537	1.6469	1.6500	1.6400	1.6500	1.6600	1.6500	1.6400	1.6500	1.6400	1.6600	1.6500
17	Increase in Gross Revenue Requirement	<u>\$ 5,269,621</u>	<u>\$ (4,921,838)</u>	<u>\$ 2,484,453</u>	<u>\$ 811,131</u>	<u>\$ 122,733</u>	<u>\$ 2,088,702</u>	<u>\$ 410,077</u>	<u>\$ (175,956)</u>	<u>\$ 3,506,906</u>	<u>\$ 900,565</u>	<u>\$ (140,959)</u>	<u>\$ 183,809</u>
22	Test Year Adjusted Water Revenue (Excludes Other Revenue)	\$ 109,293,646	\$44,705,121	\$10,730,199	\$10,922,544	\$1,801,753	\$7,714,275	\$1,064,718	\$10,116,972	\$11,794,169	\$8,665,072	\$836,318	\$942,505
24	Total Water Revenue with Increase	\$ 114,563,269	\$ 39,783,283	\$ 13,214,652	\$ 11,733,675	\$ 1,924,486	\$ 9,802,977	\$ 1,474,796	\$ 9,941,016	\$ 15,301,075	\$ 9,565,638	\$ 695,359	\$ 1,126,314
26	Percent Rate Increase	4.82%	-11.01%	23.15%	7.43%	6.81%	27.08%	38.52%	-1.74%	29.73%	10.39%	-16.85%	19.50%

EPCOR Water Arizona
Water Consolidation - Agua Fria, Anthem, Chaparral, Havasu, Mohave, North Mohave, Paradise Valley, Sun City, Sun City West, Tubac, & Willow Valley
Test Year Ended December 31, 2016
Summary of Fair Value Rate Base (FVRB)

Line No.	Summary of Schedule B-1s	Total Water Districts	7F Agua Fria Water	7K Anthem Water	6P Chaparral City Water	7U Havasu Water	7M Mohave Water	7Q North Mohave Water	7P Paradise Valley Water	7B Sun City Water	7D Sun City West Water	7T Tubac Water	7R Willow Valley Water
1	Gross Utility Plant in Service	\$ 1,224,583,600	\$ 478,614,736	\$ 130,126,981	\$ 119,295,335	\$ 15,628,518	\$ 76,401,942	\$ 16,686,184	\$ 116,271,468	\$ 163,689,318	\$ 90,871,160	\$ 9,731,315	\$ 7,266,642
2													
3	Construction Work in Progress	(0)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0)	\$ -	\$ -
4													
5	<u>Less:</u>												
6	Accumulated Depreciation	433,258,718	118,574,889	43,776,930	52,623,474	4,360,625	28,192,327	7,626,876	54,295,643	74,128,708	41,647,385	4,333,262	3,698,598
7													
8	Net Utility Plant in Service	\$791,324,882	\$ 360,039,847	\$ 86,350,051	\$ 66,671,861	\$ 11,267,893	\$ 48,209,615	\$ 9,059,309	\$ 61,975,825	\$ 89,560,609	\$ 49,223,775	\$ 5,398,053	\$ 3,568,044
9													
10													
11	<u>Less:</u>												
12	Advances in Aid of Construction	\$164,360,040	\$125,163,876	\$8,001,137	\$3,563,908	\$830,671	\$6,540,099	\$3,797,660	\$1,926,922	\$11,407,527	\$2,202,566	\$846,145	\$79,531
13	Contribution in Aid of Construction - Net of Amortization	160,916,260	90,096,473	11,021,601	15,546,913	3,435,863	3,663,802	1,573,707	10,312,800	21,058,445	794,017	2,930,845	481,792
14													
15	Customer Meter Deposits	118,486	49,916	8,381	15,962	975	5,660	1,552	18,934	16,075	1,030	-	-
16	Deferred Income Taxes & Credits	30,588,325	9,810,553	2,171,631	3,338,615	404,078	3,716,574	420,840	1,143,923	5,372,496	3,721,424	141,498	346,694
17	Investment Tax Credits	-	-	-	-	-	-	-	-	-	-	-	-
18	Regulatory Liabilities	4,950,440	-	-	279,446	-	831,492	-	1,177,569	2,571,256	-	90,677	-
19													
20													
21	<u>Plus:</u>												
22	Deferred Debits	23,299,532	15,097,811	4,303,116	85,202	60,099	375,291	(0)	1,597,582	1,390,878	381,744	7,808	(0)
23	Working Capital Allowance	1,526,237	246,576	(61,434)	546,872	(4,969)	320,554	(13,670)	10,331	499,524	(30,352)	11,303	1,503
24	Utility Plant Acquisition Adjustment	1,540,973	(0)	(0)	0	(0)	0	1,302,831	0	0	0	0	238,141
25													
26													
27													
28													
29													
30	Total Fair Value Rate Base	\$456,758,073	\$ 150,263,417	\$ 69,388,982	\$ 44,559,091	\$ 6,651,436	\$ 34,147,834	\$ 4,554,711	\$ 49,003,590	\$ 51,025,213	\$ 42,856,130	\$ 1,407,999	\$ 2,899,672

EPCOR Water Arizona
 Water Consolidation - Agua Fria, Anthem, Chaparral, Havasu, Mohave, North Mohave, Paradise Valley, Sun City, Sun City West, Tubac, & Willow Valley
 Test Year Ended December 31, 2016
 Summary of Original Cost Rate Base (OCRB)

Line No.	Summary of Schedule B-1s	Total Water Districts	7F Agua Fria Water	7K Anthem Water	6P Chaparral City Water	7U Havasu Water	7M Mohave Water	7Q North Mohave Water	7P Paradise Valley Water	7B Sun City Water	7D Sun City West Water	7T Tubac Water	7R Willow Valley Water
1	Gross Utility Plant in Service	\$ 921,037,824	\$ 393,161,453	\$ 96,840,225	\$ 83,724,479	\$ 12,414,377	\$ 57,677,199	\$ 12,943,210	\$ 81,360,860	\$ 108,604,102	\$ 61,592,603	\$ 6,949,061	\$ 5,770,255
2													
3	Construction Work in Progress	(0)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0)	\$ -	\$ -
4	<u>Less:</u>												
5	Accumulated Depreciation	271,868,211	90,830,689	29,873,107	32,348,944	3,169,335	18,497,308	4,771,161	31,280,771	32,275,072	23,377,357	2,577,840	2,866,628
6													
7													
8	Net Utility Plant in Service	\$649,169,613	\$ 302,330,764	\$ 66,967,118	\$ 51,375,534	\$ 9,245,042	\$ 39,179,891	\$ 8,172,050	\$ 50,080,089	\$ 76,329,031	\$ 38,215,246	\$ 4,371,221	\$ 2,903,627
9													
10	<u>Less:</u>												
11	Advances in Aid of												
12	Construction	\$137,214,873	\$105,101,950	\$6,205,127	\$2,746,251	\$681,546	\$5,315,130	\$3,425,721	\$1,557,065	\$9,722,192	\$1,709,978	\$685,189	\$64,721
13	Contribution in Aid of Construction -												
14	Net of Amortization	133,061,640	75,655,336	8,547,590	11,980,031	2,819,045	2,977,567	1,419,580	8,333,345	17,947,295	616,441	2,373,332	392,076
15													
16	Customer Meter Deposits	97,315	41,915	6,500	12,300	800	4,600	1,400	15,300	13,700	800	0	0
17	Deferred Income Taxes & Credits	25,015,492	8,238,066	1,684,167	2,572,646	331,536	3,020,455	379,623	924,357	4,578,769	2,889,155	114,582	282,135
18	Investment Tax Credits	-	0	0	0	0	0	0	0	0	0	0	0
19	Regulatory Liabilities	4,107,440	0	0	215,333	0	675,752	0	951,545	2,191,382	0	73,428	0
20													
21	<u>Plus:</u>												
22	Deferred Debits	19,214,040	12,677,855	3,337,198	65,654	49,310	304,999	(0)	1,290,940	1,185,391	296,370	6,323	(0)
23	Working Capital Allowance	1,526,237	246,576	(61,434)	546,872	(4,969)	320,554	(13,670)	10,331	499,524	(30,352)	11,303	1,503
24													
25	Utility Plant Acquisition Adjustment	1,369,030	(0)	(0)	0	(0)	0	1,175,233	0	0	0	0	193,796
26													
27													
28													
29													
30	Total Original Cost Rate Base	\$ 371,782,161	\$ 126,217,928	\$ 53,799,497	\$ 34,461,499	\$ 5,456,456	\$ 27,811,940	\$ 4,107,288	\$ 39,599,747	\$ 43,560,607	\$ 33,264,889	\$ 1,142,316	\$ 2,359,994

EPCOR Water Arizona

Water Consolidation - Agua Fria, Anthem, Chaparral, Havasu, Mohave, North Mohave, Paradise Valley, Sun City, Sun City West, Tubac, & Willow Valley

Test Year Ended December 31, 2016

Summary of Reconstructed Cost New Depreciated (RCND) Rate Base

EXHIBIT SLH-1

Page 6 of 7

Line No.	Summary of Schedule B-1s	Total Water Districts	7F Agua Fria Water	7K Anthem Water	6P Chaparral City Water	7U Havasu Water	7M Mohave Water	7Q North Mohave Water	7P Paradise Valley Water	7B Sun City Water	7D Sun City West Water	7T Tubac Water	7R Willow Valley Water
1	Gross Utility Plant in Service	\$ 1,528,129,376	\$ 564,068,020	\$ 163,413,738	\$ 154,866,192	\$ 18,842,658	\$ 95,126,685	\$ 20,429,158	\$ 151,182,076	\$ 218,774,533	\$ 120,149,717	\$ 12,513,570	\$ 8,763,029
2													
3	Construction Work in Progress	-											
5	<u>Less:</u>												
6	Accumulated Depreciation	594,649,224	146,319,090	57,680,754	72,898,004	5,551,915	37,887,346	10,482,591	77,310,515	115,982,345	59,917,414	6,088,685	4,530,567
7													
8	Net Utility Plant in Service	\$933,480,151	\$ 417,748,930	\$ 105,732,984	\$ 81,968,187	\$ 13,290,744	\$ 57,239,339	\$ 9,946,567	\$ 73,871,562	\$ 102,792,188	\$ 60,232,303	\$ 6,424,885	\$ 4,232,462
9													
10	<u>Less:</u>												
11	Advances in Aid of												
12	Construction	\$191,505,208	\$145,225,801	\$9,797,146	\$4,381,565	\$979,796	\$7,765,068	\$4,169,598	\$2,296,778	\$13,092,861	\$2,695,153	\$1,007,101	\$94,341
13	Contribution in Aid of Construction -												
14	Net of Amortization	188,770,880	104,537,610	13,495,612	19,113,795	4,052,681	4,350,037	1,727,834	12,292,255	24,169,595	971,593	3,488,358	571,509
15													
16	Customer Meter Deposits	139,657	57,917	10,263	19,624	1,150	6,720	1,704	22,569	18,450	1,261	0	0
17	Deferred Income Taxes & Credits	36,161,159	11,383,040	2,659,096	4,104,583	476,619	4,412,693	462,056	1,363,490	6,166,222	4,553,693	168,414	411,252
18	Investment Tax Credits	-	0	0	0	0	0	0	0	0	0	0	0
19	Regulatory Liabilities	5,793,439	0	0	343,558	0	987,231	0	1,403,594	2,951,130	0	107,926	0
20													
21	<u>Plus:</u>												
22	Deferred Debits	27,385,024	17,517,768	5,269,033	104,749	70,888	445,584	(0)	1,904,225	1,596,364	467,119	9,293	(0)
23	Working Capital Allowance	1,526,237	246,576	(61,434)	546,872	(4,969)	320,554	(13,670)	10,331	499,524	(30,352)	11,303	1,503
28	Utility Plant Acquisition Adjustment	1,712,916	(0)	(0)	0	(0)	0	1,430,429	0	0	0	0	282,486
29													
30	Total RCND Rate Base	\$ 541,733,985	\$ 174,308,906	\$ 84,978,466	\$ 54,656,683	\$ 7,846,417	\$ 40,483,727	\$ 5,002,133	\$ 58,407,432	\$ 58,489,818	\$ 52,447,371	\$ 1,673,682	\$ 3,439,349

Line No.	Total Water Districts	7F Agua Fria Water	7K Anthem Water	6P Chaparral City Water	7U Havasu Water	7M Mohave Water	7Q North Mohave Water	7P Paradise Valley Water	7B Sun City Water	7D Sun City West Water	7T Tubac Water	7R Willow Valley Water	
1	Revenues												
2	Water Revenues	\$ 106,556,411	\$ 43,814,923	\$ 10,093,156	\$ 10,705,288	\$ 1,786,473	\$ 7,425,589	\$ 1,054,247	\$ 10,058,627	\$ 11,404,627	\$ 8,493,473	\$ 798,508	\$ 921,500
3	Other Revenues	2,737,234	890,198	637,043	217,256	15,280	288,686	10,471	58,345	389,541	171,599	37,810	21,005
4													
5	Total Revenues	\$ 109,293,646	\$ 44,705,121	\$ 10,730,199	\$ 10,922,544	\$ 1,801,753	\$ 7,714,275	\$ 1,064,718	\$ 10,116,972	\$ 11,794,169	\$ 8,665,072	\$ 836,318	\$ 942,505
6													
7	Operating Expenses												
8	Labor	\$ 13,674,370	\$ 3,908,572	\$ 1,440,462	\$ 1,814,327	\$ 303,526	\$ 1,474,248	\$ 151,544	\$ 1,095,552	\$ 2,288,729	\$ 899,936	\$ 122,077	\$ 175,396
9	Purchased Water	-	-	-	-	-	-	-	-	-	-	-	-
10	Fuel & Power	-	-	-	-	-	-	-	-	-	-	-	-
11	Chemicals	1,297,156	795,306	83,675	113,164	32,921	9,350	349	45,731	31,690	126,804	27,815	30,351
12	Waste Disposal	61,013	31,231	3,756	4,403	89	7,247	62	5,087	1,414	5,280	1,495	950
13	Intercompany Support Services	-	-	-	-	-	-	-	-	-	-	-	-
14	Corporate Allocation	3,405,485	1,170,605	302,528	434,274	61,103	320,660	42,737	233,283	516,519	250,475	25,932	47,370
15	Outside Services	2,009,655	655,290	192,740	276,722	33,978	177,080	21,869	163,651	285,610	127,959	26,910	47,845
16	Group Insurance	4,520,388	1,219,718	449,580	606,211	108,597	545,537	58,994	360,755	776,406	280,672	60,816	53,102
17	Pensions	-	-	-	-	-	-	-	-	-	-	-	-
18	Regulatory Expense	529,190	104,402	26,981	146,040	13,257	58,318	6,394	47,728	95,654	22,339	5,294	2,784
19	Insurance Other Than Group	889,542	328,931	84,883	95,440	17,997	69,378	13,701	79,293	114,340	65,181	10,046	10,352
20	Customer Accounting	4,401,200	1,459,158	308,446	465,252	62,955	551,910	59,752	186,522	771,337	472,908	23,880	39,081
21	Rents	420,201	141,937	36,682	52,656	7,409	39,414	5,182	29,568	62,628	30,370	8,677	5,676
22	General Office Expense	1,598,016	438,320	133,428	231,959	59,159	248,250	18,689	117,741	200,197	102,388	24,039	23,846
23	Miscellaneous	289,001	100,786	(82,968)	68,843	5,672	61,931	(1,931)	43,105	39,682	25,934	2,170	25,775
24	Maintenance Expense	3,842,772	954,310	172,287	518,180	124,351	524,851	134,705	335,492	659,337	330,877	23,056	65,324
25	Depreciation & Amortization	30,950,663	12,522,969	3,415,311	2,569,137	382,895	2,144,179	452,326	2,420,364	3,901,006	2,681,429	182,413	278,635
26	General Taxes-Property	4,949,225	2,023,902	562,702	394,187	87,007	371,261	52,056	376,007	604,571	393,762	44,436	39,333
27	General Taxes-Other	1,144,436	342,088	120,094	139,177	28,126	120,866	11,776	89,496	184,039	77,150	11,644	19,981
28	Income Taxes	10,323,224	5,992,348	870,573	849,265	134,042	141,127	(21,032)	1,376,387	110,587	775,079	85,652	9,194
29													
30	Total Operating Expenses	\$ 84,305,537	\$ 32,189,874	\$ 8,121,161	\$ 8,779,238	\$ 1,463,082	\$ 6,865,608	\$ 1,007,173	\$ 7,005,762	\$ 10,643,748	\$ 6,668,543	\$ 686,354	\$ 874,994
31	Utility Operating Income	\$ 24,988,108	\$ 12,515,247	\$ 2,609,038	\$ 2,143,306	\$ 338,670	\$ 848,667	\$ 57,545	\$ 3,111,210	\$ 1,150,421	\$ 1,996,529	\$ 149,964	\$ 67,510
32	Other Income & Deductions												
33	Other Income & Deductions	\$ (703,003)	\$ (429,504)	\$ (12,130)	\$ (102,483)	\$ (2,600)	\$ (26,554)	\$ (110)	\$ 102,281	\$ (178,833)	\$ (52,921)	\$ (67)	\$ (81)
34	Interest Expense	8,276,577	2,814,660	1,199,729	768,491	121,679	620,206	91,593	883,074	971,402	741,807	11,309	52,628
35	Other Expense	-	-	-	-	-	-	-	-	-	-	-	-
36	Gain/Loss Sale of Fixed Assets	150	-	-	-	-	150	-	-	-	-	-	-
37	Total Other Income & Deductions	\$ 7,573,724	\$ 2,385,156	\$ 1,187,599	\$ 666,008	\$ 119,079	\$ 593,802	\$ 91,482	\$ 985,355	\$ 792,568	\$ 688,886	\$ 11,242	\$ 52,547
38	Net Profit (Loss)	\$ 16,711,681	\$ 10,130,091	\$ 1,421,440	\$ 1,477,298	\$ 219,592	\$ 254,865	\$ (33,937)	\$ 2,125,855	\$ 357,853	\$ 1,307,643	\$ 138,723	\$ 14,963

EXHIBIT SLH-2

WATER SERVICE AGREEMENT

THIS WATER SERVICE AGREEMENT is made this 15 day of December, 2005, by and between PARADISE VALLEY COUNTRY CLUB, INC., an Arizona not-for-profit corporation ("PVCC"), and ARIZONA-AMERICAN WATER COMPANY, an Arizona public service corporation ("Water Company"), for the purposes and consideration set forth hereinafter.

RECITALS

A. PVCC owns and operates an 18-hole golf course, clubhouse and related facilities known as the Paradise Valley Country Club Golf Course, located at 7101 North Tatum Boulevard, in Paradise Valley, Arizona 85253 ("Golf Course"). The Golf Course includes a 122-acre, 18-hole course, driving range, putting and pitching areas and other facilities directly related to the play and practice of golf.

B. Water Company is a public service corporation and holds a Certificate of Convenience and Necessity authorizing it to furnish water utility service within its certificated service areas in accordance with Arizona law and the rules and regulations of the Arizona Corporation Commission ("ACC"). The Golf Course is located within one of the Water Company's certificated service areas.

C. The Water Company currently delivers water to the Golf Course for use by PVCC for the irrigation and maintenance of the turf, trees, shrubs and other exterior landscaping at the Golf Course and for filling and refilling a storage reservoir at the Golf Course (collectively, "Turf Irrigation") under that certain Agreement Regarding Water Service, dated June 16, 1995 ("1995 Agreement"), which was approved by the ACC in Decision No. 59079 (May 5, 1995). The Water Company delivers water for Turf Irrigation through a meter located just inside the Golf Course property at a location east of the second fairway off Desert Fairway Street

("Delivery Point"). The water received at the Delivery Point is used by PVCC solely for Turf Irrigation.

D. In the Amendment to Agreement Regarding Water Service, dated September 29, 1999, the parties modified the 1995 Agreement to reflect the ACC's approval in Decision No. 61831 (July 20, 1999) of a surcharge to allow the recovery of costs associated with the use of Central Arizona Project water, as more particularly provided therein.

E. PVCC and the Water Company subsequently entered into several amendments to the 1995 Agreement, which extended that agreement's term. Throughout 2005, PVCC and the Water Company have been working diligently and in good faith to negotiate a new water service agreement.

F. The purpose of this Water Service Agreement ("the Agreement") is to establish the terms and conditions under which the Water Company will provide water service to PVCC's Golf Course for Turf Irrigation. The Agreement is intended to supersede and replace the 1995 Agreement.

AGREEMENTS

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows.

1. Service of Water for Turf Irrigation. The Water Company will deliver water for Turf Irrigation at the Golf Course in amounts sufficient, in quantity and quality, to satisfy the Turf Irrigation demand for water at the Golf Course, as that demand may change from time to time, subject, however, to the terms and conditions set forth below. Delivery will be made to the Delivery Point, as described above, or to another meter location reasonably acceptable to the parties.

2. Limitations On Water Service. In addition to the circumstances and conditions under which the Water Company may curtail, restrict or terminate water service under the rules and regulations of the ACC, the Water Company's general tariffs governing water service, or as otherwise permitted by law, water service to the Golf Course for Turf Irrigation is subject to the following conditions and limitations:

a. Temporary Interruption of Service. The Water Company may curtail, restrict or temporarily discontinue water service to the extent necessary to provide a continuous and satisfactory level of service to the Water Company's other customers. Any such curtailment, restriction or discontinuance of service shall continue only so long as reasonably necessary and, in any case, shall not continue for a longer period than two (2) consecutive calendar days without the prior consent of PVCC. The Water Company will immediately notify PVCC of the particular circumstances and the estimated length of time during which service will be curtailed, restricted or temporarily discontinued, and will make reasonable efforts to resume normal service to the Golf Course as quickly as possible.

b. Off-Peak Water Deliveries. PVCC will take delivery of water for Turf Irrigation during off-peak delivery hours, unless PVCC can demonstrate that its then-existing demand for water for Turf Irrigation cannot be satisfied by daily water deliveries during such period. For the purpose of this Agreement, "off-peak delivery hours" means the hours between 2:00 p.m. and 4:00 a.m., unless otherwise agreed by the parties.

3. Payment for Water Service. In consideration of the limitations on water service set forth in section 2 of this Agreement, the amount PVCC shall pay for water delivered by the Water Company for Turf Irrigation at the Golf Course shall be as follows:

a. Rates and Charges for Water Service. PVCC will pay the Water Company on a monthly basis for all water delivered to the Golf Course for Turf Irrigation based on the Water Company's rates and charges applicable to other turf-related facilities in the Water Company's service territory, including (without limitation) all surcharges authorized by the ACC, reduced by fifteen percent (15%). In the event the Water Company's rate classification for customers operating turf-related facilities is discontinued, then the rates and charges applicable to PVCC will be based on the rates and charges applicable to other turf-related facilities within the Water Company's service territory, including (without limitation) all surcharges authorized by the ACC, again reduced by fifteen percent (15%).

b. Other Charges. PVCC will pay all other taxes, assessments and other governmental impositions generally applicable to water service, as authorized from time to time by the ACC and published in the Water Company's schedules of rates and charges for service.

4. Clubhouse Use. The Water Company also delivers water to PVCC for use by PVCC in and around the clubhouse and other recreational facilities at PVCC, including use for domestic purposes, for filling and refilling swimming pools, for maintaining and cleaning landscaping equipment and golf carts, and for maintaining landscaped areas immediately surrounding the clubhouse and other recreational facilities not directly related to the playing of golf ("Clubhouse Use"). The Water Company delivers water to PVCC for Clubhouse Use through meters other than the Delivery Point. The Water Company will continue to provide water service to PVCC for Clubhouse Use in accordance with the rules and regulations of the ACC and at the rates approved by the ACC from time to time for service of water to the commercial customers of the Water Company. Except as stated in this paragraph, this Agreement is not applicable to the service of water to PVCC for Clubhouse Use. Water supplied

under this Agreement is not to be used for Clubhouse Use.

5. ACC Approval; Term of Agreement. This Agreement is subject to and will become effective after (1) approval of this Agreement by the ACC and (2) the effective date of new permanent rates approved in pending rate case docket No. W-01303A-05-0405. This Agreement will remain in effect for a period of fifteen (15) years from the date on which the later of the foregoing conditions has been satisfied, unless earlier terminated as provided under section 7, below. The expiration or termination of this Agreement does not limit, modify or otherwise affect the obligation of the Water Company to serve water for Turf Irrigation at the Golf Course to the extent such service is required by law or by the rules and regulations of the ACC, or is required by the terms of this Agreement and is not prohibited by law or by the rules and regulations of the ACC.

6. Rates at Termination or Expiration. At the time of the termination or expiration of this Agreement, and under the condition that a new water service agreement has not been entered into, PVCC will pay for all water delivered by the Water Company to the Golf Course for Turf Irrigation at the then currently applicable rates and charges approved by the ACC for turf-related irrigation. If such rate classification no longer exists, PVCC will pay for water service based on the rates and changes applicable to other turf-related facilities that use water for landscape irrigation.

7. PVCC's Right to Serve Itself. The parties acknowledge that the Water Company's water supply is the only developed supply of water currently available for Turf Irrigation at the Golf Course. PVCC may elect to develop its own supply of water for Turf Irrigation, in accordance with Arizona law, such as untreated Central Arizona Project water or effluent. In that event and at any time during the term of this Agreement, PVCC may terminate

this Agreement by providing no less than sixty (60) days written notice of termination to the Water Company and paying the Water Company a termination fee of \$1,000.00. Thereafter, the Water Company will continue to deliver water for Turf Irrigation at the Golf Course as an emergency, backup supply and as a supplemental supply of water at the Water Company's rates and charges applicable to other turf-related facilities in the Water Company's service territory.

8. Other Terms and Conditions of Service. Except as otherwise expressly provided herein, PVCC will be subject to and comply with all terms, conditions and requirements relating to water service, as set forth in the Water Company's general tariffs and the ACC's rules and regulations.

9. Miscellaneous.

a. Manner of Giving Notice. Any notice required or permitted to be given hereunder shall be in writing and directed to the address set forth below for the party to whom the notice is given and shall be deemed delivered (i) by personal delivery, on the date of delivery; (ii) by first class United States mail, three (3) business days after being mailed; or (iii) by Federal Express Corporation (or other reputable overnight delivery service), one (1) business day after being deposited into the custody of such service. The address of the Water Company for all notices under this Agreement shall be:

Arizona-American Water Company
19820 North 7th Street, Suite 201
Phoenix, AZ 85024
ATTN: Brian Bieseemeyer

With a copy also provided to:

Arizona-American Water Company
19820 North 7th Street, Suite 201
Phoenix, AZ 85024
ATTN: Craig Marks

///

Norman D. James, Esq.
Fennemore Craig
3003 N. Central Avenue, Suite 2600
Phoenix, Arizona 85012

The address of PVCC for all notices under this Agreement shall be:

Paradise Valley Country Club, Inc.
7101 North Tatum Blvd.
Paradise Valley, AZ 85253
ATTN: Manager

With a copy also provided to:

Philip A. Edlund
7100 N. 46th Place
Paradise Valley, Arizona 85253

Any party may designate another person or address for notices under this Agreement by giving the other party notice at least thirty (30) days prior to the effective date of the new designation.

b. Arbitration. If any dispute arises between the parties with respect to any provision, term, covenant or obligation contained in or arising under this Agreement, and the parties cannot through their good faith efforts resolve that dispute, the parties agree to submit that dispute to arbitration. A party may demand arbitration of a dispute by written notice to the other party. Within fifteen (15) days after notice is given, each party shall appoint their own arbitrator, and the two appointed arbitrators shall, within fifteen (15) days of their appointment, choose a third arbitrator. The dispute shall then be arbitrated under the arbitration rules and procedures of the American Arbitration Association. An arbitration decision acceptable to two of the three arbitrators shall be final and binding. Each party shall bear the costs and expenses of their own arbitrator and shall equally bear the costs and expenses of the third arbitrator.

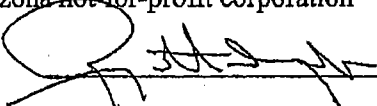
c. Attorneys Fees and Costs. If any action at law or in equity is necessary to

enforce or interpret the terms of this Agreement, including any arbitration award, the prevailing party or parties shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party or parties may be entitled.

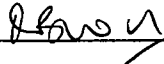
d. Binding Effect. This Agreement is binding upon and inures to the benefit of the parties hereto and their respective successors and assigns. PVCC may assign its rights under this Agreement to any future owner of the Golf Course, without restriction. Upon the assumption in writing by a successor or assignee of PVCC of the obligations of PVCC under this Agreement, PVCC will be released and discharged from all further obligations and liabilities hereunder.

IN WITNESS WHEREOF, the parties have caused this Agreement to made on the day and year first above written.

PARADISE VALLEY COUNTRY CLUB, INC. an
Arizona not-for-profit corporation

By: 
Its: President

ARIZONA-AMERICAN WATER COMPANY, an
Arizona corporation

By: 
Its: VICE PRESIDENT.
(Robert Bloor)

1740137.2

EXHIBIT SLH-3

EPCOR Water Arizona Inc.
EPCOR ARIZONA WATER DISTRICT
Low Income Program
Plan of Administration

This Plan of Administration (“Plan”) relates to the administration of EPCOR Water Arizona Inc.’s (“EPCOR” or the “Company”) Low Income Program (“Program”) for its EPCOR ARIZONA WATER District. The purpose of the Plan is to describe how EPCOR will administer the Program as approved by the Arizona Corporation Commission in Docket No. WS-01303A-17-XXXX. This plan is being filed as required in Decision Number XXXXX issued MM DD, YYYY.

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I. OVERVIEW

EPCOR is an Arizona public service corporation engaged in providing water and wastewater utility service in several different parts of Arizona pursuant to a Certificate of Convenience and Necessity granted by the Arizona Corporation Commission.

II. GENERAL DESCRIPTION

This document is the Plan of Administration (“POA”) for the Low Income Program (“Program”) approved for the EPCOR Water Arizona Inc.’s (“EPCOR” or “Company”) EPCOR ARIZONA WATER District by the Arizona Corporation Commission (“ACC” or “Commission”) in Decision No. XXXXX on Month Day, Year.

III. QUALIFICATIONS

The program is designed as a short-term relief program. The program provides assistance to residential customers in the EPCOR ARIZONA WATER District. Customers must complete the Low Income Application and provide necessary documentation to show they meet the qualifying guidelines.

To qualify applicants must:

- Be a full-time resident and residential customer in the EPCOR ARIZONA WATER District
- Must be the primary account holder or a person residing in housing in a homeowners association, apartment complex or mobile home park.
- Not be claimed as a dependent on another person’s tax return
- Not have annual income that exceeds 150% of the Federal Poverty Guidelines for the current year.

Once an applicant has been approved for EPCOR’s Low Income Program they will be eligible to receive the low income credit the following month.

If an applicant does not meet the low income program qualifications, they will be notified by the Company that they are not eligible for the program and will be told the reason for denial.

There is an annual recertification requirement whereby applicants must reapply each year based on the timeline determined by the Company.

IV. PARTICIPANT LEVEL

Participant levels in the EPCOR Arizona Water district approved for a low income program in Docket No. WS-01303A-17-XXXX will be set according at a level of 3,065 maximum participants. Once the Company has reached full participation any future applicants will be placed on a waiting list.

V. LOW INCOME CREDIT

Those customers that are the primary account holder will receive a monthly credit of \$7.50 on their bill. For those customers who reside in multi-dwelling housing, checks will be written on a bi-annual basis for the number of months that the customer is eligible for the credit during that 6-month period.

IV. FUNDING

The low income discount will be recovered by adding a monthly surcharge to all EPCOR ARIZONA WATER DISTRICT water ratepayers. The total annual program costs will be calculated by multiplying the total planned participation by the \$7.50 discount rate divided by the total customer count multiplied by 12. The total annual program costs will be split between residential and commercial customers by determining the ratio of residential and commercial revenues. The residential portion will be divided by the total number of residential billing units to get a flat monthly surcharge rate. Whereas the commercial portion will be divided by total monthly usage to get a commodity surcharge rate.

Any over- or under- collection will be trued up in the subsequent year's low income program costs.

VII. REPORTING

The Company will file with Docket Control, by March of each year, an annual report detailing the

- Number of water low income participants from the previous calendar year
- Total amount of discounts given
- Direct and indirect costs associated with the program

- Collections made from all water ratepayers used to fund the program, and
- Provide updated gross annual income guidelines as necessary from the federal government.

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