

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

TOM FORESE, Chairman
BOB BURNS
ANDY TOBIN
BOYD DUNN
JUSTIN OLSON

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-17-0257

**REBUTTAL TESTIMONY
OF
JON P. BOIZELLE
ON BEHALF OF
EPCOR WATER ARIZONA INC.
APRIL 9, 2018**

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1 **EXECUTIVE SUMMARY**

2 Jon P. Boizelle testifies that:

3 The Arizona Corporation Commission Staff (“Commission Staff”) and the Residential
4 Utility Consumers Office (“RUCO”) have objected to certain pro-forma adjustments
5 included in the Company’s rate application. With some exceptions, EPCOR Water
6 Arizona Inc. (“EWAZ” or “Company”) disagrees with the assessments of Commission
7 Staff and RUCO discussed in Mr. Boizelle’s testimony. Mr. Boizelle’s testimony
8 addresses the reasons these adjustments are prudent and in-line with approved ratemaking
9 principles.

10 **Sponsored Rebuttal Adjustments:**

11 Mr. Boizelle sponsors the following pro-forma rate base and expense rebuttal adjustments
12 in this case:

13 **Rate Base**

- 14 • JPB-RB 5 REB Post Test Year Plant and Accumulated Depreciation
- 15 • JPB-RB 6 REB Retirements on Post Test Year Plant

16 **Income Statement**

- 17 • JPB-IS 1 REB Property Tax Expense Adjustment
- 18 • JPB-IS 6 REB Adjust Depreciation Expense – Post Test Year Plant 2017
- 19 • JPB-IS 7 REB Adjust Depreciation Expense – Retirements
- 20 • JPB-IS 9 REB CPI Adjustment
- 21 • JPB-IS 10 REB CUS Adjustment
- 22 • JPB-IS 12 REB Postage Costs
- 23 • JPB-IS 15 REB Purchased Power and Fuel Costs
- 24 • JPB-IS 16 REB Purchased Water Costs

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Jon P. Boizelle. My business address is 2355 W. Pinnacle Peak Road,
4 Suite 300, Phoenix, Arizona 85027. My business phone number is (623) 780-3780.

5 **Q. ARE YOU THE SAME JON P. BOIZELLE WHO PROVIDED DIRECT**
6 **TESTIMONY IN THIS MATTER?**

7 A. Yes.

8 **II. PURPOSE OF TESTIMONY**

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

10 A. I will address updates to rate base and expenses in the Company's rebuttal filing
11 and respond to the testimony of the Arizona Corporation Commission Staff
12 ("Commission Staff") and the Residential Utility Consumer Office ("RUCO")
13 concerning certain adjustments to the Company's proposed rate base, operating
14 expenses, and adjustment mechanisms.

15 **Q. HAS THE COMPANY REVIEWED COMMISSION STAFF'S AND**
16 **RUCO'S RECOMMENDED ADJUSTMENTS TO OPERATING**
17 **EXPENSES?**

18 A. Yes. Company witnesses Sheryl L. Hubbard, Sandra L. Skoubis, and I are
19 responsible for responding to adjustments as proposed by Commission Staff and
20 RUCO to the Company's requested rate base, operating expenses, and adjustor
21 mechanisms. I will address the recommendations made by the Commission Staff
22 and RUCO to the following items:

- 23
- Post-Test Year Plant Additions

- 1 • Accumulated Depreciation for Post-Test Year Plant
- 2 • Retirements on Post-Test Year Plant
- 3 • Accumulated Depreciation for Retirements
- 4 • Weather Normalization
- 5 • Purchased Water Costs
- 6 • Purchased Power and Fuel Costs
- 7 • CPI Adjustment
- 8 • Property Tax
- 9 • Tank Maintenance

10 **III. RATE BASE REBUTTAL ADJUSTMENTS**

11 **A AJD JPB-RB 5 REB 2017 POST-TEST YEAR PLANT ADDITIONS**

12 **Q. DOES THE COMPANY HAVE ANY UPDATES TO ITS DIRECT**
13 **TESTIMONY WITH REGARD TO POST TEST YEAR PLANT (“PTYP”)?**

14 **A.** Yes, the Company has updated its projected 2017 capital expenditures to reflect the
15 actual projects and amounts for the period from January 1, 2017 to December 31,
16 2017. The Company provided these updates to Commission Staff and RUCO in its
17 response to Commission Staff data request number FMS 15.1. The Company also
18 further adjusted PTYP to reflect those projects that were in service and used and
19 useful as of December 31, 2017. A full list of all PTYP included in the Company’s
20 rebuttal filing is included as Exhibit JPB-1 REB. Table 1 below summarizes the
21 Company’s total PTYP additions for 2017.

1

Table 1. Post-Test Year Plant Additions

EPCOR Water USA	\$	2,056,730
EPCOR Water AZ	\$	735,352
Agua Fria Water	\$	29,830,751
Anthem Water	\$	2,852,425
Chaparral City Water	\$	5,197,864
Havasu Water	\$	935,460
Mohave Water	\$	3,668,694
North Mohave Water	\$	996,558
Paradise Valley Water	\$	2,692,815
Sun City Water	\$	8,905,036
Sun City West Water	\$	1,829,742
Tubac Water	\$	247,940
Willow Valley Water	\$	465,112
Total PTYP	\$	60,414,480

2

Q. ARE YOU THE COMPANY WITNESS PROVIDING SUPPORT AS TO THE NECESSITY AND NATURE OF SPECIFIC PROJECTS OR PROJECT-SPECIFIC COSTS INCLUDED IN PTYP?

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4

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A. No. My testimony will only address the accounting and ratemaking aspects of PTYP. Mr. Frank Metzler and Mr. Jeffrey W. Stuck, in their rebuttal testimonies, address the necessity, nature, and costs of the projects included in PTYP in the Central and Eastern Divisions, respectively.

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The projects included in PTYP are each revenue-neutral. Accordingly, the Company has also adjusted plant balances to reflect retirements through December 31, 2017.

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12

Q. WHAT IS YOUR UNDERSTANDING OF THE POSITION OF THE COMMISSION STAFF REGARDING PTYP IN ITS DIRECT TESTIMONY?

13

14

1 A. My understanding is that Commission Staff has recommended inclusion of twelve
2 months of PTYP, but did not include all of the PTYP summarized in the Company's
3 response to Commission Staff's data request number FMS 15.1. Commission Staff
4 in its Direct Testimony also states that its PTYP includes the actual costs of critical
5 spare parts identified during site inspections.

6 **Q. DOES THE COMPANY AGREE WITH THE PROJECTS AND COSTS**
7 **INCLUDED IN STAFF'S RECOMMENDED TREATMENT OF PTYP?**

8 A. Partially, but we believe that Commission Staff's recommendation does not include
9 all of the projects that were completed – and where final, actual, accurate costs are
10 now known. The Company is aware that Commission Staff had a very tight timeline
11 to file testimony given that the Company was only able to provide final actual PTYP
12 projects and costs at the beginning of February – specifically in response to Staff's
13 data request FMS 15.1. Under these circumstances, we understand why
14 Commission Staff used the original project estimates from the original rate
15 application. However, now that a final list of completed projects with actual 2017
16 costs is available and has been provided, those projects' costs are appropriate to
17 include as PTYP in the Company's rate base.

18 In some instances, the Company agrees with Commission Staff's treatment of
19 PTYP, because the estimated project costs from the original rate application were
20 the actual final costs for the project. However, many of the original estimates were
21 placeholders or "blanket" projects, which have not been replaced by specific
22 projects involving the replacement of or major repair of plant serving customers as
23 of December 31, 2016. Additionally, in many instances final project costs differed
24 from the original estimates as expected.

1 **Q. WHAT IS THE IMPACT TO THE COMPANY OF EXCLUDING PTYP**
2 **THAT WAS PLACED IN SERVICE AS OF DECEMBER 31, 2017?**

3 A. Exclusion or omission of actual project costs which are both used and useful at the
4 end of 2017 impacts the Company in four significant ways. First, the Company is
5 denied the opportunity to recover the costs of necessary replacements and major
6 repairs until the conclusion of a future rate case several years from now. Second,
7 the Company is denied the opportunity to earn a fair and reasonable return on
8 investment required to maintain safe and reliable service to test-year customers (*i.e.*,
9 customers the Company was providing water service to as of the end of the test year
10 – December 31, 2016). Third, the most current cost of service for test-year
11 customers is not reflected in any rates approved by the Commission, increasing the
12 probability of rate shock in the Company's next rate case. Fourth, the exclusion of
13 investment serving customers accelerates the need to begin another rate case.

14 **Q. DURING SITE INSPECTIONS, DID STAFF DISAGREE WITH ANY**
15 **PROJECTS INCLUDED IN POST TEST YEAR PLANT?**

16 A. Yes. Mr. Frank Smaila had the opportunity to do an in-depth inspection of our water
17 infrastructure for all of our water systems during January and February of 2018.
18 During these inspections, he identified a limited number of projects which he found
19 to be either not used or useful or sized in anticipation of growth. The Company
20 agrees with Mr. Smaila on some of these projects and has adjusted PTYP for these
21 to exclude or partially exclude those projects when this was the case.

1 During his inspections, EWAZ provided Mr. Smaila with a list of PTYP projects
2 completed by December 31, 2017 along with their actual costs. With few
3 exceptions, he was able to observe that the specific PTYP projects that replaced
4 placeholder or “blanket” projects were used and useful for test-year customers.

5 **Q. DID COMMISSION STAFF’S PTYP RECOMMENDATION INCLUDE**
6 **ENGINEERING STUDIES TYPICALLY UNDERTAKEN TO DETERMINE**
7 **PLANT REHABILITATION OR REPLACEMENT?**

8 A. No. Mr. Smaila further identified and disallowed projects in multiple districts that
9 were engineering studies, apparently because a specific correlation between a
10 physical asset added in PTYP and the study could not be established to his
11 satisfaction. As explained in the Rebuttal Testimony of Mr. Metzler and Mr. Stuck,
12 these studies are performed to determine what infrastructure needs to be replaced
13 and to provide a system-wide perspective for replacement to ensure the correct
14 infrastructure is installed or replaced. In any case, the costs incurred are a necessary
15 part of any project and correctly capitalized as an addition to plant.

16 **Q. ASIDE FROM PROJECTS THAT WERE SPECIFICALLY REMOVED**
17 **FROM PTYP BY COMMISSION STAFF, DOES THE COMPANY**
18 **DISAGREE WITH THE PROJECT COSTS INCLUDED IN COMMISSION**
19 **STAFF’S PTYP FIGURES?**

20 A. Yes. As noted above, the Company has included PTYP at actual cost. The
21 Company’s position on individual project costs will be discussed by Mr. Frank
22 Metzler and Mr. Jeffrey W. Stuck.

23 **Q. SHOULD COMMISSION STAFF HAVE INCLUDED PROJECTS 1003083**
24 **AND 1003740 IN PTYP?**

1 A. Yes. Project 1003083 for \$12,723 was for cubicles in the Phoenix office used to
2 seat employees at December 31, 2016. Mr. Stuck also discusses this project in his
3 Rebuttal Testimony. Project 1003740 for \$687,445 should be included to capture
4 the costs to update old servers with lives past their respective warranty period,
5 network switches, and other associated Information Technology (“IT”)
6 infrastructure necessary to ensure the reliability of the IT system for daily
7 operations. These projects are for corporate plant in the Phoenix office and the
8 relevant portion of these projects has been allocated to the Company’s water
9 districts.

10 **Q. DOES THE COMPANY AGREE WITH COMMISSION STAFF’S**
11 **POSITION ON THE TREATMENT OF PROJECT NUMBER 1001283 IN**
12 **SUN CITY?**

13 A. Commission Staff did not include the reduction to rate base of \$25,556 for project
14 number 1001283. Costs from this project were capitalized in 2016, when used and
15 useful. Subsequent review of the project identified that the project had been
16 capitalized for more than the actual cost after additional invoices in 2017, reducing
17 the true cost of the asset by \$25,556. The Company has included this adjustment to
18 Plant in Service to ensure the Company does not recover more than true cost of
19 plant.

20 **Q. WHAT IS RUCO’S POSITION ON POST TEST YEAR PLANT?**

21 A. RUCO has recommended the inclusion of only six months of PTYP.

22 **Q. DOES THE COMPANY AGREE WITH THIS POSITION?**

23 A. No. This position is inconsistent with recent Commission decisions, including the
24 decision for the Company’s last rate case for its wastewater districts (Decision No.

1 76162). The Company believes that twelve months of PTYP is appropriate to
2 reduce regulatory lag, avoid potential future rate shock, and lengthen time between
3 rate cases.

4 RUCO states that PTYP included in excess of six months “distorts the meaning of
5 a test year, and alters the regulatory matching of revenues, expenses, and rate base.”
6 Although RUCO relies on the matching principle, it provides no reason why six
7 months of PTYP is more or less appropriate than twelve months of PTYP.

8 **Q. WHAT IS THE MATCHING PRINCIPLE?**

9 A. The Matching Principle is the fundamental accounting principle that provides
10 guidance as to how a company should recognize the expenses associated with the
11 revenues it collects on its accounting ledgers for any given period. Specifically,
12 companies are required to record revenue(s) and expense(s) in the same period when
13 directly related to each other. For example, the Company will begin charging new
14 rates to customers and collect revenues associated with this rate case in 2017. The
15 expenses associated with those rates include the maintenance of and return of plant
16 investments (depreciation expense) necessary to continue to provide safe and
17 reliable service to test-year customers through the date those rates go into effect.
18 Pro forma adjustments to rate cases are sought by regulated utilities, and routinely
19 recognized as appropriate by the Commission, to adjust the test year for known and
20 measureable changes in customers and expenses to provide utilities an opportunity
21 to earn an authorized return.

1 **Q. DOES INCLUDING 12 MONTHS OF PTYP (PTYP THAT IS USED TO**
2 **SERVE TEST-YEAR CUSTOMERS) VIOLATE THE MATCHING**
3 **PRINCIPLE?**

4 A. No. The Company's Application was prepared with this core principle in mind.
5 The Application matches the revenues the Company will generate from test year
6 customers adjusted for known and measureable changes in customer levels, with
7 recovery of test year expenses adjusted for known and measureable changes
8 including depreciation (return of) and a return on revenue-neutral PTYP. The
9 Company's request to include 12 months of PTYP is for plant to serve test-year
10 customers (and not for additional customers due to growth). Keep in mind the
11 Company continues to complete post-test year projects in 2018 that are to serve test-
12 year customers but will not be part of rate base. In short, the Company's proposal
13 is consistent with the matching principle.

14 **Q. HAS THE COMPANY UPDATED ACCUMULATED DEPRECIATION TO**
15 **ACCOUNT FOR PTYP ADJUSTMENTS TO DEPRECIATION EXPENSE?**

16 A. Yes. Accumulated depreciation has been updated for all 2017 PTYP additions.

17 **Q. WHAT ARE COMMISSION STAFF'S AND RUCO'S POSITIONS ON THE**
18 **ADJUSTMENT TO ACCUMULATED DEPRECIATION FOR PTYP?**

19 A. Commission Staff and RUCO have each made a corresponding adjustment to
20 accumulated depreciation for the amount of PTYP included in their Direct
21 Testimony, which does not reflect all of the actual projects completed in 2017.

1 **B ADJ JPB-RB 6 REB ADJUST RETIREMENT ON POST-TEST YEAR**
2 **PLANT**

3 **Q. HAS THE COMPANY UPDATED PLANT BALANCES TO ACCOUNT FOR**
4 **RETIREMENTS MADE IN 2017?**

5 A. Yes. The Company has updated plant balances to reflect retirements associated with
6 the PTYP additions in 2017 along with a corresponding adjustment to accumulated
7 depreciation.

8 **IV. INCOME STATEMENT ADJUSTMENTS**

9 **A ADJ JPB-IS 1 ADJUST PROPERTY TAXES TO REFLECT ADJUSTED**
10 **TEST YEAR REVENUES**

11 **Q. PLEASE DESCRIBE ADJ JPB-IS 1 REB REGARDING PROPERTY**
12 **TAXES.**

13 A. This adjustment is a conforming adjustment to reflect the property tax impact of
14 proposed changes to revenues. Such an adjustment is appropriate as property taxes
15 are based on revenues for corporations and any increase to revenue causes increased
16 property taxes as shown in Schedule C-2 for each district.

17 **Q. HOW DOES THE PROPERTY TAX ADJUSTOR MECHANISM (“PTAM”)**
18 **RELATE TO THE CONFORMING ADJUSTMENT DESCRIBED?**

19 A. The PTAM is designed to recover/refund changes in property taxes that are a result
20 of changes in property tax rates outside the Company’s control that have not been
21 included in base rates. No property tax expense has been excluded from base rates,
22 as the PTAM is only designed to recover or refund changes that are either over or
23 under the base level of property tax expense as filed.

1 **B ADJ JPB IS-6 REB ADJUST DEPRECIATION EXPENSE – 2017 POST**
2 **TEST YEAR PLANT**

3 **Q. HAS THE COMPANY UPDATED DEPRECIATION EXPENSE FOR PTYP?**

4 A. Yes. The Company has updated depreciation expense for six months of depreciation
5 on all PTYP added in 2017 based on a half-year convention. Depreciation expense,
6 shown as Adj JPB IS-6 REB on Schedule C-2 for each district, is based on the list
7 of projects included in the Company's rebuttal adjustments.

8 **Q. DOES THE COMPANY'S AMOUNT DIFFER FROM COMMISSION**
9 **STAFF'S AND RUCO'S ADJUSTMENTS TO DEPRECIATION EXPENSE?**

10 A. Yes. As noted above, Staff and RUCO differ from each other and the Company on
11 the appropriate amount of PTYP to include in Plant in Service. The updated
12 depreciation expense reflects all projects used and useful at December 31, 2017. In
13 its depreciation expense calculations, Commission Staff also applies the Company-
14 proposed depreciation rates instead of the rates proposed by Mr. Smaila in his
15 engineering report (as discussed below).

16 **Q. DOES THE COMPANY AGREE WITH COMMISSION STAFF'S**
17 **CHANGES TO DEPRECIATION RATES AS PROPOSED BY THE**
18 **COMPANY?**

19 A. No. The Company proposed the adoption of Commission Staff's standard
20 depreciation rates except for the rates for transportation vehicles and equipment, as
21 detailed in the Direct Testimony of Mr. John F. Guastella. In the engineering report
22 attached to his Direct Testimony, Mr. Smaila accepted the Company's proposal
23 except for three changes relating to transportation equipment. In her Rebuttal

1 Testimony, Ms. Hubbard addresses why the Company believes its position on
2 depreciation rates for transportation vehicles and equipment is appropriate.

3 **C ADJ JPB-IS 6 REB ADJUST DEPRECIATION EXPENSE FOR**
4 **RETIREMENTS.**

5 **Q. DOES THE COMPANY ADJUST DEPRECIATION EXPENSE FOR POST**
6 **TEST YEAR PLANT FOR RETIREMENTS?**

7 A. Yes. The Company has adjusted depreciation expense to account for the removal
8 of plant retired in 2017. The Company's amount differs from Staff's and RUCO's
9 because actual retirements through the end of 2017 are the basis for the Company's
10 adjustment.

11 **D ADJ JPB-IS 9 REB ADJUST CPI**

12 **Q. HAS THE COMPANY ADJUSTED THE CONSUMER PRICE INDEX**
13 **("CPI") ADJUSTMENT AMOUNT ORIGINALLY PROPOSED IN ITS**
14 **DIRECT CASE?**

15 A. Yes. The Company has updated the CPI adjustment to include CPI updates from
16 the U.S. Department of Labor – Bureau of Labor Statistics ("BLS") for the Phoenix
17 area for 2017. The adjustment includes known and measurable changes for 2017 as
18 shown in Schedule C-2 for each district.

19 **Q. WHAT IS RUCO'S POSITION ON THE CPI ADJUSTMENT?**

20 A. RUCO opposes the Company's adjustment on the basis that effects from inflation
21 do not meet its definition of known and measurable, believing them to be estimates.
22 The Company does not accept RUCO's recommendations.

1 **Q. WHY IS THE CPI ADJUSTMENT A KNOWN AND MEASURABLE**
2 **ADJUSTMENT, MR. BOIZELLE?**

3 A. Inflation, or a rise in the average price of goods and services over time, is measured
4 on a regular basis through a series of indices by the BLS. The BLS tracks price
5 inflation in Phoenix and publishes figures on their website twice each year. The
6 BLS released the changes in the CPI index for Phoenix for 2017, indicating an
7 annual change in the index from 130.107 to 133.324 (or a 2.47%). When averaged
8 with the last three years, a very conservative 1.4% increase for inflation in 2018 was
9 calculated and used to adjust otherwise unadjusted expenses through 2018.

10 Further, the BLS has an inflation index for U.S. Cities tracked on a monthly basis.
11 Indices of 247.867 and 248.991 were reported for January and February of 2018,
12 respectively. Changes in the index for the first two months of 2018 alone results in
13 a 0.7% increase in costs, indicating that an annual 1.4% increase for 2018 expenses
14 is conservative at best, and demonstrating that measured costs are known to be
15 increasing.

16 In short, analysis indicates that the CPI adjustment for inflation as proposed by the
17 Company is not only reasonable, but is also both known based on past historical
18 information, and is regularly measured. Failure to include an adjustment for
19 changes in inflation only adds to regulatory lag.

20 **Q. CAN ACTUAL 2017 OR 2018 COSTS BE USED TO UPDATE COST**
21 **INSTEAD OF A CPI?**

22 A. Certain limitations prevent the use of 2017 or 2018 actual costs to accurately modify
23 the Company's 2016 test year costs to account for inflation. Expenses in 2017 and

1 2018 are based on costs with increases to serve new customers that did not exist in
2 the test year as well as inflationary increases.

3 **Q. IF THE CPI IS AN AVERAGE FOR ALL PRICES, IS IT APPROPRIATE**
4 **TO APPLY THE CPI TO DIFFERENT EXPENSE ACCOUNTS THAT**
5 **HAVE NOT OTHERWISE BEEN ADJUSTED?**

6 A. Yes, as an overall average price change indicator, the CPI index is appropriate to
7 apply against a range of different expenses. While some costs may increase and
8 others may decrease, as a group the total increase is designed to match underlying
9 inflation.

10 **Q. HAVE CHEMICAL COSTS INCREASED IN LINE WITH THE 4%**
11 **INCREASE PROJECTED IN THE COMPANY'S DIRECT CASE?**

12 A. Chemical costs have been increasing and in many cases are ahead of a 4% increase.
13 In October of 2017, our largest chemical supplier updated its chemical pricing.
14 While each product cost increased differently, all prices increased – sometimes by
15 as much as 12%. A 4% increase is a conservative figure.

16 **E ADJ JPB-IS 10 REB ADJUST C.U.S. CHARGES.**

17 **Q. PLEASE DESCRIBE HOW THE COMPANY HAS UPDATED CUS**
18 **CHARGES.**

19 A. As noted in my Direct Testimony, the Company pays Customer Care and Billing
20 (“C.U.S”) charges associated with its third-party billing, call centers, and work order
21 management. These costs are adjusted annually based on the CPI for the City of
22 Phoenix. 2017 and 2018 costs have been adjusted to reflect known and measurable
23 changes to C.U.S. costs as shown in Schedule C-2 for each district.

1 **F ADJ JPB-IS 12 REB ADJUST POSTAGE EXPENSE**

2 **Q. PLEASE DESCRIBE HOW THE COMPANY HAS UPDATED POSTAGE**
3 **CHARGES.**

4 A. On January 21, 2018, the U.S. Postal Service updated postage rates. The Company
5 has adjusted postage expense to reflect the known and measurable changes to the
6 cost of postage based on an average automated piece rate as shown in Schedule C-
7 2 for each district.

8 **G ADJ JPB-IS 15 REB ADJUST FUEL & POWER EXPENSE.**

9 **Q. WHAT ARE COMMISSION STAFF'S AND RUCO'S POSITIONS**
10 **REGARDING THE PURCHASED POWER COSTS?**

11 A. Both Commission Staff and RUCO have disagreed with the Company's proposal to
12 include all purchased power costs in a separate adjustor mechanism. Both
13 recommend including test-year purchased power costs in base rates.

14 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO PURCHASED POWER**
15 **COSTS IN THE COMPANY'S REBUTTAL FILING.**

16 A. The Company has partially accepted Commission Staff's and RUCO's position and
17 has included test year purchased power expenses in base rates. The Company has
18 also included an adjustment to include known and measurable changes to power
19 expenses for 2017 and 2018 for costs previously included in the Company's Power
20 Cost Adjustor Mechanism ("PCAM") calculation in its direct case. The known and
21 measurable changes are designed to reflect changes from the rates the Company
22 paid for power during the test year and are based on test year usage volumes.

23 **Q. PLEASE DESCRIBE WHAT IS INCLUDED IN THE ADJUSTMENTS YOU**
24 **HAVE MADE TO TEST-YEAR POWER EXPENSES.**

1 A. The Company has included the adjustments to the power costs as filed in its original
2 application, which were based on historical trends and in line with general
3 information communicated by electrical providers. No update can be provided at
4 this time to reflect changes to rates for test year usage levels. The Company is in
5 the complex process of determining the impact of rate increases from recent power
6 supplier rate cases, including the effects of the tax decrease due to the 2017 Tax
7 Cuts and Jobs Act on our power costs and intends to update these costs in rejoinder.
8 With the exception of Arizona Public Service Company (“APS”), our electrical
9 providers’ proposals to account for tax changes are unknown but should be factored
10 into any adjustment to power costs.

11 **Q. PLEASE DESCRIBE HOW THE COMPANY INTENDS TO END**
12 **COLLECTION OF POWER COSTS PRESENTLY RECOVERED**
13 **THROUGH ADJUSTOR MECHANISMS CURRENTLY IN EFFECT FOR**
14 **SOME OF EWAZ’S WATER DISTRICTS.**

15 A. The Company currently recovers the costs of purchased power directly attributable
16 to changes in electric rates outside the Company’s control in the Mohave, Paradise
17 Valley, Sun City, and Tubac districts. If approved by the Commission, the
18 Company proposes that these surcharges and fees would no longer be assessed on
19 customer bills upon approval of new base rates. A one-time “true-up” calculation
20 would be made to account for any fees over-or under recovered through present
21 surcharges and fees. These amounts would be recorded as a regulatory asset or
22 liability and then included with the total collection or refund calculation for
23 customers in the first filing of the PCAM in the year following the rate case.

1 **Q. IS THE COMPANY PROPOSING AN ADJUSTOR MECHANISM FOR**
2 **POWER COSTS?**

3 A. The Company has proposed a PCAM to account for changes in power costs as
4 discussed later in my testimony.

5 **H ADJ JPB-IS 16 REB ADJUST PURCHASED WATER EXPENSE.**

6 **Q. WHAT ARE COMMISSION STAFF'S AND RUCO'S POSITIONS**
7 **REGARDING THE COMPANY'S PROPOSED PURCHASED WATER**
8 **ADJUSTOR MECHANISM?**

9 A. Both Commission Staff and RUCO have disagreed with the Company's proposal to
10 include purchased water costs in a separate adjustor mechanism. Both recommend
11 including test year purchased water costs in base rates.

12 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO PURCHASED WATER**
13 **COSTS IN THE COMPANY'S REBUTTAL FILING.**

14 A. The Company has partially accepted Commission Staff's and RUCO's
15 recommendation and has included test year purchased water expenses in base rates.
16 The Company has also included an adjustment to include known and measurable
17 changes to water expenses for 2017 and 2018 for costs previously included in the
18 proposed Purchased Water Adjustor Mechanism ("PWAM") calculation. The
19 known and measurable changes reflect rates the Company is currently paying for
20 water, and are based on test year water allocations and usage levels. No adjustment
21 is made for increases in the volume of water purchased. These adjustments are
22 included in JPB-IS 16 REB as shown in Schedule C-2.

1 **Q. PLEASE DESCRIBE HOW THE COMPANY INTENDS TO END**
2 **COLLECTION OF WATER COSTS PRESENTLY RECOVERED**
3 **THROUGH ADJUSTOR MECHANISMS CURRENTLY IN EFFECT FOR**
4 **SOME OF ITS WATER DISTRICTS.**

5 A. The Company currently recovers the costs of purchased water from the Central
6 Arizona Project (“CAP”) through a CAP Surcharge in its Chaparral City and
7 Paradise Valley districts, and through a Ground Water Savings (“GWS”) Surcharge
8 in its Sun City and Sun City West districts. The Company also recovers other water-
9 related fees as discussed in my Direct Testimony through other surcharges and fees
10 on customer bills.

11 If approved by the Commission, the Company proposes that these surcharges and
12 fees would no longer be assessed on customers’ bills. A one-time “true-up”
13 calculation would be made to account for any fees over-or under recovered through
14 present surcharges and fees. These amounts would be recorded as a regulatory asset
15 or liability, and then included with the total collection or refund calculation for
16 customers in the first filing of the PWAM in the year following the rate case.

17 **V. OTHER COMMISSION STAFF AND RUCO ADJUSTMENTS**

18 **A WEATHER NORMALIZATION**

19 **Q. WHAT ARE COMMISSION STAFF’S AND RUCO’S POSITIONS ON THE**
20 **COMPANY’S WEATHER NORMALIZATION ADJUSTMENT?**

21 A. Commission Staff had no noted issues, and RUCO opposes the weather
22 normalization adjustment. RUCO takes issue with the method used to compute the
23 Company’s weather normalization adjustment and believes weather in the test year
24 was not unseasonably warm.

1 **Q. WHY DOES THE COMPANY BELIEVE THE WEATHER**
2 **NORMALIZATION CALCULATION TO BE REASONABLE DESPITE**
3 **RUCO’S POSITION ON METHODOLOGY?**

4 A. As discussed in further detail below, the Company believes the weather was
5 abnormally warm in 2016 and generated atypically high water sales. An adjustment
6 to reduce revenues to levels consistent with a typical year is necessary.

7 The Company has created a simple and easy to use tool to normalize revenues for
8 weather. In doing so, the Company recognizes that significant resources and outside
9 statistical expertise could be utilized to develop complicated statistical models.
10 However, the Company believes that the methodology utilized is adequate to
11 produce an accurate and reasonable weather adjustment to revenues.

12 **Q. WHAT METHOD DOES RUCO BELIEVE NECESSARY TO USE TO**
13 **MAKE THIS ADJUSTMENT?**

14 A. RUCO has asserted that additional testing using multiple regression analysis is
15 warranted using more than just temperature and water tier sales. RUCO has
16 suggested a host of other variables in the regression analysis such as “family size,
17 disconnects, seasonal variation, rain, and changes in customer rates, customers
18 putting in artificial grass, or changing to Zero-landscape.”

19 **Q. DOES EWAZ BELIEVE IT PRACTICAL OR NECESSARY TO INCLUDE**
20 **THESE VARIABLES AS RUCO SUGGESTS?**

21 A. No. The Company cannot include information such as landscaping changes or
22 family size because it has no reasonable way to collect this information from
23 customers. Disconnects make up less than a half a percent of customers monthly
24 and are deemed immaterial. The Company does not include rainfall specifically in

1 the analysis under the assumption that rain lowers temperatures and is inherently
2 captured through temperature data.

3 Based on available data and experience tracking both temperature and water sales,
4 the Company believes that the methodology and variables included in the analysis
5 provide sufficient basis to adjust revenues. RUCO does not demonstrate in its
6 testimony that the calculation is inaccurate or insufficient, only that other variables
7 *may* possibly impact causation without evidence that any of the variables have a
8 significant or measurable impact on water sales.

9 **Q. WHY DOES THE COMPANY DISAGREE WITH RUCO'S POSITION ON**
10 **2016 TEMPERATURES NOT BEING ABNORMALLY WARM?**

11 A. As noted in the Direct Testimony of Ms. Sarah M. Clor, average temperatures in the
12 test year were above historical average temperatures. Further, Mr. Michlik's
13 assertion in his Direct Testimony regarding temperature trends addresses only
14 general trends and does not address variability from year to year. The graph in
15 Attachment H to his Direct Testimony showing Arizona mean temperatures is an
16 excellent example of why a weather adjustment is prudent.

17 **Q. PLEASE EXPLAIN WHY ATTACHMENT H TO MR. MICHLIK'S**
18 **TESTIMONY IS AN EXCELLENT EXAMPLE OF WHY A WEATHER**
19 **ADJUSTMENT IS PRUDENT.**

20 A. That attachment shows that the overall temperature trend on the graph is increasing,
21 but mean temperatures used to create the trend oscillate wildly from year to year –
22 contradicting the idea that annual average temperatures will continue to increase
23 year after year. Since the temperatures in 2016 are above the average, this only

1 makes it more likely that future temperatures will regress toward the mean and water
2 sales volumes will be lower than the test year.

3 In addition, the range of the confidence interval (the range where there is a 95%
4 probability that average temperature will fall within the interval) on the graph is
5 becoming wider as time goes on, indicating that a larger interval is necessary to
6 ensure 95% probability. Another way to state this is that increased average
7 temperate variation from year to year is becoming more statistically probable.

8 Although the general trend indicates temperatures are increasing, RUCO has
9 presented no evidence that 2016 average temperatures were not abnormal. Instead,
10 RUCO has presented evidence that average temperature will continue to oscillate
11 year to year amid a warming trend, and that a weather normalization adjustment is
12 all the more important to adjust revenues for test years where the average
13 temperature is higher than historical averages.

14 **B TANK MAINTENANCE**

15 **Q. DOES THE COMPANY AGREE WITH RUCO'S POSITION ON TANK**
16 **MAINTENANCE EXPENSE?**

17 **A.** No. RUCO disagrees with both currently authorized tank maintenance programs
18 and the Company's proposed tank maintenance programs, asserting they are not for
19 known and measurable costs. As noted in my Direct Testimony, tank maintenance
20 expenses are large and do not occur each year. A normalization for these expenses
21 is appropriate both to recover reasonable expenses the Company incurs and to avoid
22 rate shock from expensive repairs.

23 As noted in Ms. Hubbard's Rebuttal Testimony, the Company is not opposed to an
24 annual filing as outlined in RUCO's testimony, or a true-up at the end of the tank

1 maintenance program to ensure customers are not overcharged. However, it should
2 not be necessary to deposit the tank maintenance money collected from customers
3 in an interest-bearing account. The Company has never needed the kind of oversight
4 that Mr. Michlik recommends on pages 77-78 of his Direct Testimony, and the
5 Company believes the reporting requirement is onerous.

6 **Q. WHAT TYPE OF INFORMATION DOES THE COMPANY BELIEVE**
7 **SHOULD BE REQUIRED?**

8 A. The Company has provided the reporting requirements in the proposed POA as
9 Exhibit JPB-4 REB.

10 **VI. ADJUSTOR MECHANISMS**

11 **A POWER COST ADJUSTOR MECHANISM (“PCAM”)**

12 **Q. HOW DOES THE COMPANY PROPOSE TO CHANGE THE PCAM NOW**
13 **THAT POWER COSTS ARE INCLUDED IN BASE RATES?**

14 A. The Company has included the test year fuel and power costs, along with known
15 and measurable adjustments, in the revenue requirement. Base rates now are
16 designed to recover these costs. The Company proposes a revised PCAM that
17 collects or refunds changes to power expense from what is included in base rates.

18 **Q. DOES THE COMPANY AGREE WITH COMMISSION STAFF’S AND**
19 **RUCO’S PROPOSAL TO ONLY INCLUDE CHANGES IN THE POWER**
20 **COSTS THAT ARE OUTSIDE OF THE COMPANY’S CONTROL?**

21 A. No. The Company believes that it is in the best interest of customers to pass through
22 all power expense increases and decreases to customers. Doing so reduces
23 regulatory lag and helps avoid potential rate shock by capturing all costs, not just
24 any rate changes outside the Company’s control. By providing an adjustment

1 mechanism that includes all changes in the cost of power, customers are also insured
2 of receiving all benefits of reductions such as from the recent 2017 Tax Cuts and
3 Jobs Act.

4 Measuring impacts to power costs outside the Company's control requires
5 recalculating bills at the test year level of usage. This analysis is complicated to
6 prepare and burdensome for Commission Staff to review. A more efficient solution
7 is to include all power costs over or under test-year costs.

8 **Q. DO YOU AGREE WITH RUCO THAT RECOVERING ALL POWER**
9 **COSTS THROUGH THE PCAM WILL REDUCE THE INCENTIVE TO**
10 **REDUCE POWER COSTS?**

11 A. No. RUCO ignores the year-long delay between the time the Company has to pay
12 the bill and the time those expenses would be recovered.

13 Further, as infrastructure is replaced, newer, more energy-efficient plant is put in
14 place which will reduce power costs and those savings can be passed on to
15 customers. Consistent with the matching principle, including all power costs over
16 or under the base rates in the adjustor mechanism further helps the Company match
17 expenses and the resulting revenues.

18 In addition, including all power costs increases transparency to customers by
19 showing the all actual power costs incurred for providing water service. As the
20 Company has met with our customers, a regular question asked is why rates
21 increase. Being able to see that increase directly passed through to customers
22 becomes less confusing, not the other way around.

1 **Q. HAS A REVISED PLAN OF ADMINISTRATION BEEN CREATED TO**
2 **ADDRESS THE PROPOSED CHANGES?**

3 A. Yes. Exhibit JPB-2 REB provides a sample POA.

4 **B PURCHASED WATER ADJUSTOR MECHANISM (“PWAM”)**

5 **Q. HOW DOES THE COMPANY PROPOSE TO CHANGE THE PWAM NOW**
6 **THAT WATER COSTS ARE INCLUDED IN BASE RATES?**

7 A. The Company has included the test year purchased water costs along with known
8 and measurable adjustments in the revenue requirement. Base rates now are
9 designed to recover these costs. The Company proposes a revised PWAM that
10 collects or refunds changes to water expense as compared to the amount included in
11 base rates.

12 **Q. DOES THE COMPANY AGREE WITH COMMISSION STAFF’S AND**
13 **RUCO’S PROPOSAL TO ONLY INCLUDE CHANGES IN THE WATER**
14 **COSTS THAT ARE OUTSIDE OF THE COMPANY’S CONTROL?**

15 A. No. While allocations from CAP and other sources are not expected to change in
16 the near future, if additional resources became available these would be in the
17 customers’ best interests and should be passed on to customers in a timely manner.

18 **Q. HAS A REVISED PLAN OF ADMINISTRATION BEEN CREATED TO**
19 **ADDRESS THE PROPOSED CHANGES?**

20 A. Yes. Exhibit JPB-3 REB provides a sample POA.

1 **C PROPERTY TAX ADJUSTOR MECHANISM (“PTAM”)**

2 **Q. HOW DOES THE COMPANY RESPOND TO RUCO’S ASSERTIONS**
3 **THAT PROPERTY TAX EXPENSE IS A SMALL ITEM AND THAT THE**
4 **COMPANY ALREADY INCLUDE FORWARD-LOOKING**
5 **ADJUSTMENTS TO PROPERTY TAX IN SCHEDULE C-2?**

6 **A.** First, property tax expense is not a “small item.” As I stated in my Direct Testimony
7 – property taxes made up 5 percent of the existing consolidated districts’ operating
8 expenses and from between 2 percent and 6 percent of operating expenses on a
9 stand-alone basis during the test year.

10 Second, the adjustment in Schedule C-2 is different than what the PTAM would
11 track. The property tax adjustment in Schedule C-2 is a conforming adjustment to
12 adjust for changes in property taxes the company will pay due to changes in
13 revenues from this rate case and does not address any future changes in tax rates.
14 By contrast, the PTAM would essentially track the difference between current and
15 prior composite rates to the 2016 assessed parcel value going forward. In short,
16 property tax rates fluctuate from year to year, up and down, and the Company is
17 requesting to pass these future costs or savings on to customers. The changes the
18 PTAM would track are narrowly-defined and outside of the Company’s control, and
19 justifies approval of the PTAM.

20 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

21 **A.** Yes.

EXHIBIT JPB-2 REB

Arizona Corporation Commission

EPCOR Water Arizona Inc.

Docket No. WS-01303A-17-0257

Power Cost Adjustor Mechanism Plan of Administration

EPCOR Water Arizona Inc.
Power Cost Adjustor Mechanism
Plan of Administration

This Plan of Administration (“Plan”) relates to the administration of EPCOR Water Arizona Inc.’s (“EWAZ” or the “Company”) Power Cost Adjustor Mechanism (“Mechanism”) for its proposed [Insert District Name] Water District. The purpose of the Plan is to describe how EWAZ will administer the Mechanism as approved by the Arizona Corporation Commission in Docket No. WS-01303A-17-0257. This plan is being filed as required in Decision Number [Insert Decision Number] issued [Insert date of Decision].

Arizona Corporation Commission

EPCOR Water Arizona Inc.

Docket No. WS-01303A-17-0257

Power Cost Adjustor Mechanism Plan of Administration

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Arizona Corporation Commission

EPCOR Water Arizona Inc.

Docket No. WS-01303A-17-0257

Power Cost Adjustor Mechanism Plan of Administration

I. Overview

EPCOR Water Arizona Inc. (“EWAZ” or “Company”) is an Arizona public service corporation engaged in providing water and wastewater utility services 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 Power Cost Adjustment Mechanism (“PCAM”) approved for EWAZ by the Arizona Corporation Commission (“ACC” or “Commission”) in Decision No. [Insert Decision Number] issued [Insert date of Decision]. The PCAM allows the Company to pass through its purchased power costs for any electric service provider supplying retail service to the Company to its customers.

III. PCAM Related Filings

- A. The Company shall file with Docket Control a summary of all electrical costs, total collections from the surcharge, and the updated surcharge amount. The first report will be based on the period [Insert Start Date] through [Insert date 12 months after Start Date] to be consistent with the Test Year approved in the Decision. This report will be filed within 60 days of the end of the reporting period, [Insert date 60 days after end of Reporting Period], and then annually thereafter. The adjustor will be effective 30 days after the annual filing, [Insert date 90 days after the Reporting Period], and then annually thereafter.
- B. EWAZ will provide the ACC with a spreadsheet detailing exactly how the Company calculated the PCAM surcharge for [Insert District Name]. The actual amounts recovered from or refunded to customers will be separately identified by EWAZ and recorded in a balancing account. As part of each annual filing, the Company will perform a reconciliation for the prior reporting period comparing the amounts recovered from / refunded to customers to the amount of increase / decrease in power expenses for that same

Arizona Corporation Commission

EPCOR Water Arizona Inc.

Docket No. WS-01303A-17-0257

Power Cost Adjustor Mechanism Plan of Administration

period resulting in either an under / (over) recovery. This true-up amount will be included in the next annual calculation.

- C. All revised schedules filed with the Commission pursuant to the provisions of this PCAM will be accompanied by documentation prepared by EWAZ in a format approved by the Utilities Division Staff of the Commission and will contain sufficient detail to enable the Commission Staff to verify the accuracy of EWAZ's calculations.
- D. The surcharges will not become effective until approved by the Commission.
- E. The Company will file a report annually with the Commission, detailing its purchased power costs and any conservation or power-shifting measures utilized by the Company.
- F. The Company shall provide notice (in a form acceptable to Utilities Division Staff) of the rate increases or decreases to customers.

IV. Application to Water Customers

- A. The calculated increases or decreases in rates for the [Insert District name] Water District must amount to at least \$.01 per thousand gallons, after rounding the calculation, before an adjustment to customers' bills can be made. If the calculation results in a positive or negative change of less than \$.01 per thousand gallons, the electric power expenses paid will be carried over to the next reporting period. In the event of a carry over, any electric power expenses adjustments billed to customers will be subject to true-up.
- B. See Example attached as Exhibit 1 for a hypothetical calculation consistent with the proposed methodology.

Arizona Corporation Commission

EPCOR Water Arizona Inc.

Docket No. WS-01303A-17-0257

Power Cost Adjustor Mechanism Plan of Administration

EXHIBIT 1

Example (numbers are for illustrative purposes only):

<i>Test Year</i>	
Purchased Power Expense	\$900,000
Increases for 2017 and 2018	<u>\$100,000</u>
Total Power Expenses in Base Rates	\$1,000,000



<i>Current Year</i>	
Purchased Power Expense	\$1,200,000
Purchased Power Expense in Base Rates	<u>(\$1,000,000)</u>
Change in Power Expenses	\$200,000
Any Prior PCAM charges Under/(Over) collected	<u>(\$100,000)</u>
Total Amount to Recover	\$100,000
Total Water Consumption (Present Year)	1,000,000 gals
Surcharge per 1,000 gallons	\$0.100

EXHIBIT JPB-3 REB

Arizona Corporation Commission

EPCOR Water Arizona Inc.

Docket No. WS-01303A-17-XXXX Purchased Water Adjustor Mechanism Plan of Administration

EPCOR Water Arizona Inc.
Purchased Water Adjustor Mechanism
Plan of Administration

This Plan of Administration (“Plan”) relates to the administration of EPCOR Water Arizona Inc.’s (“EWAZ” or the “Company”) Purchased Water Adjustor Mechanism (“PWAM”) for its proposed [Insert District Name] Water District. The purpose of the Plan is to describe how EWAZ will administer the PWAM as approved by the Arizona Corporation Commission in Docket No. WS-01303A-17-0257. This plan is being filed as required in Decision Number [Insert Decision Number] issued [Insert date of Decision].

Arizona Corporation Commission

EPCOR Water Arizona Inc.

Docket No. WS-01303A-17-XXXX Purchased Water Adjustor Mechanism Plan of Administration

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I. Overview

EPCOR Water Arizona Inc. (“EWAZ” or “Company”) is an Arizona public service corporation engaged in providing water and wastewater utility services 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 Purchased Water Adjustment Mechanism (“PWAM”) approved for EWAZ by the Arizona Corporation Commission (“ACC” or “Commission”) in Decision No. [Insert Decision Number] issued [Insert date of Decision]. The PWAM authorizes the Company to pass through purchased water costs incurred by the Company to its customers, Effluent and wheeling customers excluded.

III. PWAM Related Filings

- A. The Company shall file with docket control a summary of all purchased water costs, total collections from the surcharge, and the updated surcharge amount. The first report will be based on the period [Insert Start Date] through [Insert date 12 months after Start Date] to be consistent with the Test Year approved in the Decision. This report will be filed within 60 days of the end of the reporting period, [Insert date 60 days after end of Reporting Period], and then annually thereafter. The adjustor will be effective 30 days after the annual filing, [Insert date 90 days after the Reporting Period], and then annually thereafter.
- B. EWAZ will provide the ACC with a spreadsheet detailing exactly how the Company calculated the PWAM surcharge for [Insert District Name]. The actual amounts recovered from or refunded to customers will be separately identified by EWAZ and recorded in a balancing account. As part of each annual filing, the Company will perform a reconciliation for the prior reporting period comparing the amounts recovered from / refunded to customers to the amount of

increase / decrease in water expenses due for that same period resulting in either an under / (over) recovery. This true-up amount will be included in the next annual calculation.

- C. All revised schedules filed with the Commission pursuant to the provisions of this PWAM will be accompanied by documentation prepared by EWAZ in a format approved by the Utilities Division Staff of the Commission and will contain sufficient detail to enable the Commission to verify the accuracy of EWAZ's calculations.
- D. The surcharges will not become effective until approved by the Commission.
- E. The Company will file a report annually with the Commission, detailing its purchased water costs by the Company.
- F. The Company shall provide notice (in a form acceptable to Utilities Division Staff) of the rate changes to customers.

IV. Application to Water Customers

- A. The calculated increases or decreases in rates for the [Insert District name] Water District must amount to at least \$.01 per thousand gallons, after rounding the calculation, before an adjustment can be made on customers' bills. If the calculation results in a positive or negative change of less than \$.01 per thousand gallons, the purchased water expenses paid will be carried over to the next reporting period. In the event of a carry over, any purchased water expense adjustments billed to customers will be subject to true-up.
- B. See Example attached as Exhibit 1 for a hypothetical calculation consistent with the proposed methodology.

Arizona Corporation Commission

EPCOR Water Arizona Inc.


Docket No. WS-01303A-17-XXXX

Purchased Water Adjustor Mechanism Plan of Administration

EXHIBIT 1

Example (numbers are for illustrative purposes only):

<i>Test Year</i>	
Purchased Water Expense	\$900,000
Increases for 2017 and 2018	<u>\$100,000</u>
Total Water Expenses in Base Rates	\$1,000,000



<i>Current Year</i>	
Purchased Water Expense	\$1,200,000
Purchased Water Expense in Base Rates	<u>(\$1,000,000)</u>
Change in Water Expenses	\$200,000
Any Prior PWAM charges Under/(Over) collected	<u>(\$100,000)</u>
Total Amount to Recover	\$100,000
Total Water Consumption (Present Year)	1,000,000 gals
Surcharge per 1,000 gallons	\$0.100

EXHIBIT JPB-4 REB

Arizona Corporation Commission
Docket No. WS-01303A-17-0257

EPCOR Water Arizona Inc.
Tank Maintenance Program Plan of Administration

EPCOR Water Arizona Inc.
North Mohave Water District
Tank Maintenance Program
Plan of Administration

This Plan of Administration (“Plan”) relates to the administration of EPCOR Water Arizona Inc.’s (“EWAZ” or the “Company”) Tank Maintenance Program (“Program”) for its North Mohave 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-17-0257. This plan is being filed as required in Decision Number [Insert Decision Number] issued [Insert Date Issued].

Arizona Corporation Commission

EPCOR Water Arizona Inc.

Docket No. WS-01303A-17-0257

Tank Maintenance Program Plan of Administration

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Arizona Corporation Commission

EPCOR Water Arizona Inc.

Docket No. WS-01303A-17-0257

Tank Maintenance Program Plan of Administration

I. Overview

EWAZ is an Arizona public service corporation engaged in providing water 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 – Tank Maintenance Program

The purpose of this Plan of Administration is to define the tank maintenance program for North Mohave Water District and to establish the process for administration of the program. The tank maintenance program was developed to ensure maintenance occurs at a frequency that balances the timing necessary to effectively and economically extend the life of these assets through maintenance activities and in a manner that is not overly burdensome to the customer. As part of normal operating procedures, EWAZ routinely inspects the tanks. There is no clear industry standard frequency for tank maintenance, however, AWWA recommends that recoating of the interior and exterior of tanks occur between 10 and 15 years. The program has been developed based on the number of tanks in the district, the size of those tanks, and the material from which they have been constructed. Program timeframes therefore will vary among districts. Based on the factors listed above, the North Mohave Tank Maintenance Program covers a 12-year period which was determined in an effort to balance the cost associated with maintaining the district's tanks, the timing of the proposed maintenance schedule and the associated cost impact to customers.

III. Basis for Program

In 2016, the North Mohave Water District performed an analysis of tank conditions based on age of the tanks, knowledge of the asset condition, and experience maintaining water tanks in other water districts.

Arizona Corporation Commission
Docket No. WS-01303A-17-0257

EPCOR Water Arizona Inc.
Tank Maintenance Program Plan of Administration

IV. Components of Program

The North Mohave Water District has seven tanks included in this program (refer to Exhibit 1). All of the tanks included in this program are constructed of steel and are in need of interior and exterior recoating. Many will require non-capital structural repairs. This plan encompasses a 12-year period. The total cost approved for this program is \$1,375,000 with an associated annual expense of \$114,583.

Tank maintenance expenses will not occur in every month of the fiscal year or at ratable levels on an annual basis. The Company will make every effort to perform tank maintenance at times of the year when the tanks can be taken out of service without causing service level interruptions to customers. This is typically in the low demand times of the year.

V. Accounting

Funds expended for tank maintenance will be separately identified by the Company and recorded in account 5256 – Tank Maintenance which will be rolled up into the Maintenance Expense category on the Company's Income Statement.

VI. Compliance Reports

The Company will track the amounts expended on tank maintenance and make annual filings regarding such costs. The first tracking report will include costs expended in the first year beginning January 1, 2018 through December 31, 2018, along with a download of activity in account 5900 as well as copies of invoices as supporting documentation. The report will also notify parties if there is a change in the anticipated schedule. It will be filed by April 30, 2019 and then annually thereafter throughout the duration of the program.

On or before April 30, 2030, the Company will perform a reconciliation (“final reconciliation”) for the 12-year program period commencing January 1, 2018 through December 31, 2029. A

Arizona Corporation Commission

EPCOR Water Arizona Inc.

Docket No. WS-01303A-17-0257

Tank Maintenance Program Plan of Administration

comparison of the costs expended during the program period to the total costs approved for the program of \$1,375,000 will be performed resulting in either an under/(over) recovery of costs.

Upon completion of the final reconciliation, the Company shall file a report identifying the true-up amount. At that time, depending on the amount of the true-up, the Company will work with Commission Staff to determine the best method in which to refund/collect the true-up amount.