

**EPCOR Arizona Water**

Test Year Ended December 31, 2016  
 Summary of Cost of Capital  
 Total Company - EPCOR Water Arizona

Exhibit  
 Schedule D-1 Rebuttal  
 Page 1  
 Witness: Hubbard

| Line No. | Description          | End of Test Year            |                               |                         |                                     | End of Adjusted Year    |                               |                         |                                     |
|----------|----------------------|-----------------------------|-------------------------------|-------------------------|-------------------------------------|-------------------------|-------------------------------|-------------------------|-------------------------------------|
|          |                      | [A]<br>Dollar<br>Amount (a) | [B]<br>Percent<br>of<br>Total | [C]<br>Cost<br>Rate (a) | [D] = [B] * [C]<br>Weighted<br>Cost | [E]<br>Dollar<br>Amount | [F]<br>Percent<br>of<br>Total | [G]<br>Cost<br>Rate (a) | [H] = [F] * [G]<br>Weighted<br>Cost |
| 1        | Long-Term Debt       | \$ 234,260,000              | 50.91%                        | 4.30%                   | 2.19%                               | \$ 242,820,000          | 51.81%                        | 4.30%                   | 2.23%                               |
| 2        | WIFA Loan *          | \$ 637,306                  | 0.14%                         | 3.94%                   | 0.01%                               | \$ 637,306              | 0.14%                         | 3.94%                   | 0.01%                               |
| 3        | Short-Term Debt      | \$ -                        | 0.00%                         | 0.00%                   | 0.00%                               | \$ -                    | 0.00%                         | 0.00%                   | 0.00%                               |
| 4        | Stockholder's Equity | \$ 225,225,834              | 48.95%                        | 10.10%                  | 4.94%                               | \$ 225,225,834          | 48.06%                        | 10.60%                  | 5.09%                               |
| 5        | Totals               | <u>\$ 460,123,140</u>       | <u>100.00%</u>                |                         | <u>7.14%</u>                        | <u>\$ 468,683,140</u>   | <u>100.00%</u>                |                         | <u>7.33%</u>                        |
| 6        |                      | Sum Line [1-4]              |                               |                         |                                     |                         |                               |                         |                                     |

\* The WIFA Loan was obtained for the sole purpose of constructing an Arsenic Treatment Plant for the District of TUBAC. It is applicable only in that District's capital structure.

Supporting Schedules:  
 D-2 Rebuttal  
 2016 Annual Report  
 \2016 EPCOR Arizona Water Rebuttal.xlsm

Recap Schedules:  
 A-1 Rebuttal

|      |                      | End of Test Year      |                |          |                 |
|------|----------------------|-----------------------|----------------|----------|-----------------|
|      |                      | [A]                   | [B]            | [C]      | [D] = [B] * [C] |
| Line |                      | Dollar                | Percent        | Cost     | Weighted        |
| No.  | Description          | Amount                | Total          | Rate (a) | Cost            |
| 1    | Long-Term Debt       | \$ 192,592,721        | 51.79%         | 4.30%    | 2.23%           |
| 2    | WIFA Loan            | \$ 637,306            | 0.17%          | 3.94%    | 0.01%           |
| 3    | Short-Term Debt      | \$ -                  | 0.00%          | 0.00%    | 0.00%           |
| 4    | Stockholder's Equity | \$ 178,637,906        | 48.04%         | 10.10%   | 4.85%           |
| 5    | Totals               | <u>\$ 371,867,933</u> | <u>100.00%</u> |          | <u>7.09%</u>    |
| 6    |                      | Sum Line [1-4]        |                |          |                 |

| Capital Structure for FVRB |                              | [I]     | [J]            | [K] = [I] * [J]             | [L]         | [M]     | [N] = [L] * [M] |
|----------------------------|------------------------------|---------|----------------|-----------------------------|-------------|---------|-----------------|
|                            | Description                  | OCRB    | OCRB           | Amt Financing               | FVRB        | Cost    | Fair Value      |
|                            |                              | Weight  | Cost           | OCRB                        | Weight      |         | WACC            |
| 11                         | Long-Term Debt               | 51.79%  | \$ 371,867,933 | 192,592,721                 | [K11]/[K18] | 42.23%  | 1.82%           |
| 12                         | WIFA Loan                    | 0.17%   | \$ 371,867,933 | 637,306                     | [K12]/[K18] | 0.14%   | 0.01%           |
| 13                         | Short-Term Debt              | 0.00%   | \$ 371,867,933 | -                           | [K13]/[K18] | 0.00%   | 0.00%           |
| 14                         | Stockholder's Equity         | 48.04%  | \$ 371,867,933 | 178,637,906                 | [K14]/[K18] | 39.17%  | 3.96%           |
| 15                         |                              | 100.00% |                | 371,867,933                 |             |         |                 |
| 17                         | Fair Value Increment         |         |                | 84,198,380                  | [K17]/[K18] | 18.46%  | 0.20%           |
| 18                         | Fair Value Rate base         |         |                | 456,066,314                 |             | 100.00% | 5.99%           |
| 21                         | Fair Value Rate Base         |         |                | Sch A1 Rebuttal 456,066,314 |             |         |                 |
| 22                         | Less Original Cost Rate Base |         |                | Sch A1 Rebuttal 371,867,933 |             |         |                 |
| 23                         | Difference                   |         |                | Line [21]-[22] 84,198,380   |             |         |                 |

37 Supporting Schedules: Recap Schedules:  
 38 (a) D-2 Rebuttal A-1 Rebuttal  
 39 (b) B-1 Rebuttal  
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| Line No. |                                  | End of Test Year      |                      |                 | End of Adjusted Year  |                      |                 |
|----------|----------------------------------|-----------------------|----------------------|-----------------|-----------------------|----------------------|-----------------|
|          |                                  | [A]                   | [B]                  | [C] = [B] / [A] | [D]                   | [E]                  | [F] = [D] / [E] |
|          |                                  | Amount                | Annual               | Interest        | Amount                | Annual               | Interest        |
| 1        | <u>Long-Term Debt</u>            |                       |                      |                 |                       |                      |                 |
| 2        | 10 Yr. EPCOR Water USA Note      | (b) \$ 133,000,000    | \$ 5,004,790         | 3.74%           | (b) \$ 133,000,000    | \$ 5,004,790         | 3.74%           |
| 3        | 30 Yr. EPCOR Water USA Note      | (b) \$ 98,000,000     | \$ 4,922,540         | 5.00%           | (b) \$ 98,000,000     | \$ 4,922,540         | 5.00%           |
| 4        | 8 Yr. EPCOR Water USA Note       | (b) \$ 3,260,000      | \$ 152,681           | 4.57%           | (b) \$ 3,260,000      | \$ 152,681           | 4.57%           |
| 5        | 10 Yr. EPCOR Water USA Note      | (b) \$ -              | \$ -                 |                 | \$ 8,560,000          | \$ 368,330           | 4.30%           |
| 6        | Totals                           | <u>\$ 234,260,000</u> | <u>\$ 10,080,011</u> | <u>4.30%</u>    | <u>\$ 242,820,000</u> | <u>\$ 10,448,341</u> | <u>4.30%</u>    |
| 7        |                                  |                       |                      |                 |                       |                      |                 |
| 8        | WIFA Tubac note (at 12/31/16)    | (b) \$ 637,306        | \$ 25,097            | 3.94%           | (b) \$ 637,306        | \$ 25,097            | 3.94%           |
| 9        |                                  |                       |                      |                 |                       |                      |                 |
| 10       | <u>Common Equity</u>             |                       |                      |                 |                       |                      |                 |
| 11       | Common Stock                     | (a) \$ 5,126,020      |                      |                 | (a) \$ 5,126,020      |                      |                 |
| 12       | Paid in Capital                  | (a) 203,889,486       |                      |                 | (a) 203,889,486       |                      |                 |
| 13       | Retained Earnings                | (a) 16,210,327        |                      |                 | (a) 16,210,327        |                      |                 |
| 14       | Total Common Equity Excl OCI     | <u>\$ 225,225,834</u> |                      | 10.10%          | <u>\$ 225,225,834</u> |                      | 10.10%          |
| 15       |                                  |                       |                      |                 |                       |                      |                 |
| 16       | Other Comprehensive Income (OCI) | (a) (1,530,620)       |                      |                 | -                     |                      |                 |
| 17       | Total Common Equity              | <u>223,695,213</u>    |                      |                 | <u>225,225,834</u>    |                      |                 |
| 18       |                                  |                       |                      |                 |                       |                      |                 |
| 19       |                                  |                       |                      |                 |                       |                      |                 |
| 20       | <u>Other</u>                     |                       |                      |                 |                       |                      |                 |
| 21       | Short Term Debt                  | (b) \$ 8,560,000      | \$ 54,050            | 0.63%           | (b) \$ -              | \$ -                 | 0.00%           |
| 22       |                                  |                       |                      |                 |                       |                      |                 |
| 23       |                                  |                       |                      |                 |                       |                      |                 |
| 24       | Totals                           | <u>\$ 467,152,520</u> |                      |                 | <u>\$ 468,683,140</u> |                      |                 |

46 Supporting Schedules:  
 47 (a) E-1 Rebuttal  
 48 (b) D-2 Rebuttal  
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Recap Schedules:  
 D-1 Rebuttal

EPCOR WATER ARIZONA COMBINED  
At December 31, 2016  
COST OF REPLACEMENT DEBT

Exhibit  
Schedule D-2 Rebuttal  
Page 2 of 2  
Witness: Hubbard

|  | (1)                 | (2)                               | (3)                     | (4)        | (5)           | (6)           | (7)              | (8)           |
|--|---------------------|-----------------------------------|-------------------------|------------|---------------|---------------|------------------|---------------|
| Description  | Principal Amount    | Net Discount, Premium and Expense | Effective Net Principal | Issue Date | Maturity Date | Interest Rate | Annualized Cost  | Weighted Cost |
| 10 Yr. EPCOR Water USA Note                            | \$ 133,000,000      | \$ 305,900                        | \$ 132,694,100          | 2/1/2012   | 12/15/2021    | 3.74%         | \$ 5,004,790     | 3.77%         |
| 30 Yr. EPCOR Water USA Note                            | 98,000,000          | 225,400                           | 97,774,600              | 2/1/2012   | 12/15/2041    | 5.00%         | 4,922,540        | 5.03%         |
| 8 Yr. EPCOR Water USA Note                             | 3,260,000           | 38,616                            | 3,221,384               |            |               | 4.57%         | 152,681          | 4.74%         |
| Short Term Debt from EPCOR Utilities Inc. <sup>1</sup> | \$ 8,560,000        | \$ -                              | \$ 8,560,000            | 12/15/2016 | 1/14/2017     | 0.63%         | \$ 54,050        | 0.63%         |
| <b>Subtotal-Other</b>                                  | <b>\$ 8,560,000</b> | <b>\$ -</b>                       | <b>\$ 8,560,000</b>     |            |               |               | <b>\$ 54,050</b> | <b>0.63%</b>  |
| WIFA Tubac note (at 12/31/16)                          | \$ 637,306          | \$ -                              | \$ 637,306              |            | 11/1/2029     | 3.94%         | \$ 25,097        | 3.94%         |

EPCOR Water Arizona Inc.  
At December 31, 2016

|  | (1)                   | (2)                               | (3)                     | (4)        | (5)           | (6)           | (7)                 | (8)           |
|--|-----------------------|-----------------------------------|-------------------------|------------|---------------|---------------|---------------------|---------------|
| Description  | Principal Amount      | Net Discount, Premium and Expense | Effective Net Principal | Issue Date | Maturity Date | Interest Rate | Annualized Cost     | Weighted Cost |
| 10 Yr. EPCOR Water USA Note                            | \$ 133,000,000        | \$ 152,950                        | \$ 132,847,050          | 2/1/2012   | 12/15/2021    | 3.74%         | \$ 4,989,495        | 3.76%         |
| 30 Yr. EPCOR Water USA Note                            | 98,000,000            | \$ 112,700                        | 97,887,300              | 2/1/2012   | 12/15/2041    | 5.00%         | 4,903,757           | 5.01%         |
| <b>Subtotal Long-Term Debt</b>                         | <b>\$ 231,000,000</b> | <b>\$ 265,650</b>                 | <b>\$ 230,734,350</b>   |            |               |               | <b>\$ 9,893,252</b> | <b>4.29%</b>  |
| Short Term Debt from EPCOR Utilities Inc. <sup>1</sup> | \$ 8,560,000          | \$ -                              | \$ 8,560,000            | 12/15/2015 | 1/15/2016     | 0.63%         | \$ 54,050           | 0.63%         |
| <b>Subtotal-Other</b>                                  | <b>\$ 8,560,000</b>   | <b>\$ -</b>                       | <b>\$ 8,560,000</b>     |            |               |               | <b>\$ 54,050</b>    | <b>0.63%</b>  |
| WIFA Tubac note (at 12/31/16)                          | \$ 637,306            | \$ -                              | \$ 637,306              |            | 11/1/2029     | 3.94%         | \$ 27,326           |               |
| <b>Total Debt</b>                                      | <b>\$240,197,306</b>  |                                   |                         |            |               |               |                     |               |

Source: 7/9/12 Suppl Compliance Filing-in Docket No. W-01303A-11-0101

CHAPARRAL CITY WATER COMPANY  
At December 31, 2016  
COST OF REPLACEMENT DEBT

|                                | (1)                 | (2)                               | (3)                     | (4)        | (5)           | (6)           | (7)               | (8)           |
|--------------------------------|---------------------|-----------------------------------|-------------------------|------------|---------------|---------------|-------------------|---------------|
| Description                    | Principal Amount    | Net Discount, Premium and Expense | Effective Net Principal | Issue Date | Maturity Date | Interest Rate | Annualized Cost   | Weighted Cost |
| 8 Yr. EPCOR Water USA Note     | \$ 3,260,000        | \$ 38,616                         | \$ 3,221,384            | 12/1/2014  | 12/1/2022     | 4.565%        | \$ 150,106        | 4.66%         |
| <b>Subtotal Long-Term Debt</b> | <b>\$ 3,260,000</b> | <b>\$ 38,616</b>                  | <b>\$ 3,221,384</b>     |            |               |               | <b>\$ 150,106</b> | <b>4.66%</b>  |

<sup>1</sup>Long-term Debt Pending ACC Approval.