

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  
SHERYL L. HUBBARD  
ON BEHALF OF  
EPCOR WATER ARIZONA INC.  
APRIL 9, 2018**

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1           **EXECUTIVE SUMMARY**

2 Sheryl L. Hubbard's Rebuttal Testimony address the following issues:

- 3           • Section IV of her testimony provides a summary of the Company's rebuttal  
4           filing, which continues to seeks full rate consolidation of all water districts.  
5           The stand-alone results inclusive of the Company's rebuttal adjustments for  
6           each district are also set forth in this section.
- 7           • Section V of her testimony lists the Company's rebuttal witnesses and  
8           summarizes the subject matter that each witness will address in their  
9           respective rebuttal testimonies.
- 10          • Section VI (Rate Base Adjustments) of her testimony summarizes the  
11          Company's response to adjustments proposed by Commission Staff and  
12          RUCO to its proposed Rate Base. This includes responses on the issues of  
13          ADIT, AIAC, the proposed acquisition premiums, and working capital.
- 14          • Section VII (Income Statement Adjustments) of her testimony summarizes  
15          the Company's response to adjustments proposed by Commission Staff and  
16          RUCO to its proposed Operating Income. This includes responses on the  
17          issues of rate case expense, outside services, incentive compensation and  
18          depreciation rates.
- 19          • Section VIII of her testimony highlights key issues in the Company's  
20          rebuttal filing that Commission Staff did not address in its direct filing, and  
21          for which EWAZ is seeking specific approval from the Commission. In  
22          particular, her testimony discusses requests for deferral authorizations and  
23          continuing compliance requirements. Section VIII also includes the

1                   Company's response to recommendations to add true-up provisions to tank  
2                   maintenance programs, and Commission Staff's recommended depreciation  
3                   rates for transportation equipment.

4                   • Section IX (Tariffs) of Ms. Hubbard's testimony includes the Company's  
5                   response to recommendations specifically by DMB regarding rates for  
6                   effluent sales and applicability of adjustor mechanisms to proposed tariffs.

7                   • Section X of her testimony provides the Company's response to the Tax  
8                   Cuts and Jobs Act.

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 **Q. ARE YOU THE SAME SHERYL L. HUBBARD WHO PROVIDED**  
8 **DIRECT TESTIMONY IN THIS MATTER?**

9 A. Yes.

10 **II. PURPOSE OF TESTIMONY**

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

12 A. The purpose of my Rebuttal Testimony is to present EPCOR Water Arizona Inc.'s  
13 ("EWAZ" or "Company") **revised** requested annual revenue increase of  
14 \$14,088,370, or a 12.9% increase in base rates. I summarize the Company's  
15 adjusted rate relief request and respond to recommendations of Arizona  
16 Corporation Commission Utilities Division Staff ("Commission Staff"), the  
17 Residential Utility Consumer Office ("RUCO") and intervenors. I also clarify  
18 those specific requests in the Company's Application that Commission Staff and  
19 intervenors have noted in their Direct Testimony.

20 My Rebuttal Testimony will also provide a brief summary of the Rebuttal  
21 Testimony of other Company witnesses in this case.

1 In addition, my Rebuttal Testimony will provide the Company's response to  
2 recommendations by Commission Staff's and RUCO's witnesses pertaining to the  
3 Company's proposed Fair Value Rate Base of \$456,066,316.

4 Much of my testimony is a roadmap of the Company's rebuttal filing – identifying  
5 which Company witnesses will respond to recommendations from Commission  
6 Staff, RUCO or other intervenors – and either accepting or rejecting those  
7 positions.

8 **Q. ARE YOU SPONSORING ANY OF THE COMPANY'S REBUTTAL**  
9 **SCHEDULES?**

10 A. Yes. I am sponsoring the "A" Schedules, the "B" Schedules, and the "D"  
11 Schedules.

12 **Q. DOES YOUR TESTIMONY INCORPORATE RECOMMENDATIONS OF**  
13 **OTHER COMPANY WITNESSES?**

14 A. Yes, I have incorporated adjustments to rate base sponsored by Mr. Jon P. Boizelle  
15 for post test year plant and the associated accumulated depreciation adjustments to  
16 rate base. I have also incorporated Ms. Pauline Ahern's cost of equity  
17 recommendation in preparing the rebuttal "D" Schedules that I am sponsoring. As  
18 noted in her Rebuttal Testimony, although Ms. Ahern's analysis continues to  
19 support a higher return on equity, the Company has reduced its request as part of  
20 its rebuttal position to 10.1%.

21 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

22 A. Yes. I am sponsoring the following exhibits:

- 1 • Exhibit SLH-1REB – Summary of Schedules A-1, B-1 and C-1 (consolidated and  
2 stand-alone).
- 3 • Exhibit SLH-2REB – Tax Expense Adjustor Mechanism POA.

4 **III. ORGANIZATION OF TESTIMONY**

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

6 A. Sections I and II are self-explanatory. This is Section III.

7 Section IV provides a summary of the Company's rebuttal filing, which continues  
8 to seeks full rate consolidation of all water districts. The stand-alone results  
9 inclusive of the Company's rebuttal adjustments for each district are also set forth  
10 in this section.

11 Section V of my testimony lists the Company's rebuttal witnesses and summarizes  
12 the subject matter that each witness will address in their respective rebuttal  
13 testimonies.

14 Section VI – Rate Base Adjustments – summarizes the Company's response to  
15 adjustments proposed by Commission Staff and RUCO to its proposed Rate Base.

16 Section VII – Income Statement Adjustments – summarizes the Company's  
17 response to adjustments proposed by Commission Staff and RUCO to its proposed  
18 Operating Income.

19 Section VIII highlights key issues in the Company's rebuttal filing that  
20 Commission Staff did not address in its direct filing, and for which EWAZ is  
21 seeking specific approval from the Commission. In particular, my testimony

1 discusses requests for deferral authorizations and continuing compliance  
2 requirements. Section VIII also includes the Company's response to the  
3 Commission Staff's recommended depreciation rates for transportation equipment.

4 Section IX – Tariffs – is the Company's response to recommendations specifically  
5 by DMB White Tank, LLC, DMB Verrado Golf I LLC and Verrado ARC LLC  
6 (collectively, "DMB") regarding rates for effluent sales and applicability of  
7 adjustor mechanisms to proposed tariffs.

8 Section X provides the Company's response to the Tax Cuts and Jobs Act.

9 **IV. SUMMARY OF REBUTTAL FILING (ALL DISTRICTS)**

10 **Q. PLEASE SUMMARIZE THE REQUESTED INCREASE BY DISTRICT IN**  
11 **THIS REBUTTAL FILING.**

12 A. EWAZ's requested revenue increase, rate base and operating income for the  
13 consolidated proposal in this rebuttal filing is summarized in Exhibit SLH-1REB  
14 Summary of Schedule A-1s, B-1s and C-1s. This seven-page exhibit shows the  
15 stand-alone districts' individual contributions to the consolidated water district  
16 total that is the Company's proposal in this rebuttal filing. As can be seen by  
17 looking at page 7 of this Exhibit, Schedule C-1, Adjusted Test Year Income  
18 Statement has been revised from the Company's original Application to include all  
19 purchased water expenses as well as fuel and power expenses (hereinafter referred  
20 to as "power costs").

21 In its original Application, the Company was requesting to recover its purchased  
22 water costs and power costs in their entirety through adjustor mechanisms. The



1 Company has accepted the recommendations of Commission Staff and RUCO to  
2 limit the adjustor mechanisms to incremental changes in purchased water costs  
3 and power costs. The Company does, however, disagree with the amount of base  
4 purchased water costs and power costs proposed by Commission Staff and RUCO  
5 to be included in Operating Expenses, which I will discuss in greater detail below.

6 Q. WITH THE INCLUSION OF PURCHASED WATER COSTS AND POWER  
7 COSTS, WHAT IS THE COMPANY'S REVISED REQUEST IN ITS  
8 REBUTTAL FILING?

9 A. The total revised requested annual base-rate revenue increase inclusive of adjusted  
10 test year purchased water costs and power costs is \$14,088,370, which represents a  
11 combined or consolidated increase for the 11 districts of approximately 12.9%.  
12 Table 1 below summarizes the revenue increase request by district.

13 **Table 1. Summary of Revenue Increase**  
14

Water District	Revenue Increase	Percentage Increase
Agua Fria	\$ (1,787,244)	-4.0%
Anthem	\$ 2,961,907	27.6%
Chaparral City	\$ 2,505,359	22.9%
Havasu	\$ 171,423	9.5%
Mohave	\$ 2,215,489	28.7%
North Mohave	\$ 542,038	50.9%
Paradise Valley	\$ 1,030,739	10.2%
Sun City	\$ 5,007,600	42.5%
Sun City West	\$ 1,417,664	16.4%
Tubac	\$ (141,823)	-17.0%
Willow Valley	\$ 165,220	17.5%
Total EPCOR Arizona	\$ 14,088,370	12.9%

15 In addition to the annual base-rate revenue increase of \$14,088,370, the Company  
16 maintains its request for both a purchased water adjustor mechanism ("PWAM")

1 and a power cost adjustor mechanism (“PCAM”), consistent with the  
 2 recommendations of Commission Staff, which will adjust customers’ rates for  
 3 future increases or decreases in the rates charged for test year volumes of  
 4 purchased water and power through surcharges associated with their respective  
 5 adjustor mechanisms. The proposed base-rate revenue increases, which now  
 6 includes power costs and purchased water costs, and associated percentage  
 7 increases are summarized in Table 2 below.

**Table 2. 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	\$(1,787,244)	-4.0%	\$ -	\$ -	\$1,457,839	\$1,457,839	3.26%	\$ (329,405)	-0.74%
Anthem	\$ 2,961,907	27.6%	-	-	-	-	0.00%	2,961,907	27.60%
Chaparral City	\$ 2,505,359	22.9%	-	-	(95,972)	(95,972)	-0.88%	2,409,388	22.06%
Havasu	\$ 171,423	9.5%	-	-	-	-	0.00%	171,423	9.51%
Mohave	\$2,215,489	28.7%	-	-	(319,935)	(319,935)	-4.15%	1,895,553	24.57%
North Mohave	\$ 542,038	50.9%	-	-	(44,772)	(44,772)	-4.21%	497,266	46.70%
Paradise Valley	\$1,030,739	10.2%	-	-	(640,365)	(640,365)	-6.33%	390,374	3.86%
Sun City	\$5,007,600	42.5%	-	-	(400,123)	(400,123)	-3.39%	4,607,477	39.07%
Sun City West	\$1,417,664	16.4%	-	-	(733,819)	(733,819)	-8.47%	683,844	7.89%
Tubac	\$(141,823)	-17.0%	-	-	(34,631)	(34,631)	-4.14%	(176,453)	-21.10%
Willow Valley	\$ 165,220	17.5%	-	-	(497)	(497)	-0.05%	164,723	17.48%
EPCOR Arizona	\$14,088,370	12.9%	\$ -	\$ -	\$(812,275)	\$(812,275)	-0.74%	\$13,276,096	12.15%

1 **V. WITNESSES AND SUBJECT MATTER**

2 **Q. PLEASE IDENTIFY THE COMPANY'S WITNESSES WHO ARE**  
3 **PROVIDING TESTIMONY IN SUPPORT OF EWAZ'S REBUTTAL**  
4 **FILING IN THIS PROCEEDING?**

5 **A.** The following witnesses are providing Rebuttal Testimony on the following  
6 subject matters in support of the Application:

<b>Witness</b>	<b>Subject Matter</b>
Shawn Bradford	Company's recommendation for consolidation, cost reductions/efficiencies with consolidation and benefits of consolidation, customer outreach through community meetings, SIB modifications and justifications.
Sheryl L. Hubbard	Rebuttal case overview, impacts of 2017 Tax Cuts and Jobs Act, rate case expense, Company's response to proposed adjustments to Rate Base, RCN, acquisition premiums for North Mohave and Willow Valley. Responds to recommendations for new sources of effluent tariff, proposed changes to the low-income surcharge, and responds to Commission Staff's recommendation for depreciation rates for transportation equipment.
Andrew Brown	SIB request, Hook-up Fees, and response to Commission Staff's proposed Service Line Installation Fees.
Jeffrey W. Stuck	Actual Post Test Year Plant (12 months) – Eastern Division Districts, responds to Commission Staff's recommendations regarding Lake Cimarron system, Tubac, and the Laughlin Ranch / Desert Foothills interconnection.
Frank Metzler	Actual Post Test Year Plant (12 months) – Central Division Districts.

1	Sandra L. Skoubis	Assigned Rebuttal “C” schedules, changes to proposed rebuttal tariffs including BMP tariffs, and recommendations regarding continuation of compliance requirements from prior decisions.
2		
3	Jon P. Boizelle	Changes to the Company’s proposed Power and Purchased Water Adjustor mechanisms and associated Plans of Administration, response to recommendations to add true-up provision to tank maintenance programs and associated Plan of Administration, and the valuation of Post Test Year Plant. Assigned Rebuttal “C” and “H” schedules (billing determinants).
4		
5		
6	Pauline Ahern (Scott Madden)	Reduction in Company requested Cost of Equity and response to Staff and RUCO recommendations.
7	Constance E. Heppenstall (Gannett Fleming)	“G” Schedules - Cost of Service Study (COSS). “H” Schedules - Rate Design.

8 **VI. RATE RATE BASE ADJUSTMENTS**

9 **A. ACCUMULATED DEFERRED INCOME TAXES (“ADIT”)**

10 **Q. DID THE COMPANY MAKE A PRO FORMA ADJUSTMENT TO ITS**  
11 **ADIT BALANCE TO REFLECT TAX EFFECTS OF BONUS**  
12 **DEPRECIATION?**

13 A. Yes. Adjustment SLH-RB2 REB decreases the 2016 Accumulated Deferred  
14 Income Tax (“ADIT”) balance by \$24,478 on a consolidated basis to reflect the  
15 bonus depreciation claimed on the Company’s 2016 tax return filed in October  
16 2017.

17 **Q. DOES THE COMPANY AGREE WITH STAFF’S RECOMMENDATION**  
18 **TO UPDATE THE ADIT BALANCE TO INCLUDE THE 2017 BALANCE?**

1 A. No. It has historically been the Company's position that the election to take bonus  
2 depreciation is made when the tax return is prepared in the fall of the year  
3 following the test year. At that time the Company is in a position to determine the  
4 magnitude of the net operating losses ("NOLs") that electing to utilize bonus  
5 depreciation may generate and to assess the ability of the Company to maximize  
6 the usage of those NOLs within the timeframe allowed by the tax laws in effect at  
7 the time of the filing of the tax return. Keep in mind that accelerated depreciation  
8 is used to reduce taxable income; however, if you generate significant net  
9 operating losses, a company may not be able to utilize them and by taking bonus  
10 depreciation, the depreciation expense deduction is used over a shorter period of  
11 time such that it may be used up in a future period when it could otherwise have  
12 been available if the election to use bonus depreciation was not taken. In my  
13 opinion, the decision whether or not to take bonus depreciation should be in the  
14 hands of the tax planning department and recognized for ratemaking when and if  
15 the election is made.

16 Also, when recognizing the impact of deferred income taxes generated by bonus  
17 depreciation, the normalization rules require the regulator to also recognize the  
18 impact of deferred income taxes from NOLs generated by taking the bonus  
19 depreciation deduction. Absent the inclusion of both components of accumulated  
20 deferred income taxes for ratemaking purposes, the U.S. Internal Revenue  
21 Service's ("IRS") normalization rules are violated and the utility will be prohibited  
22 from using any future benefits of accelerated depreciation.

23 **Q. HAS THE COMPANY MADE AN ADJUSTMENT TO RECOGNIZE 2016**  
24 **BONUS DEPRECIATION AND THE ASSOCIATED NET OPERATING**

1           **LOSSES GENERATED BY THE BONUS DEPRECIATION DEDUCTION**  
2           **IN ITS REBUTTAL FILING?**

3 A.       Yes. Consistent with adjustments proposed in the 2016 Wastewater Consolidation  
4 rate case, the Company has adjusted its 2016 ADIT balance to include the effects  
5 of the 2016 tax return filed in the fall of 2017 as a known and measureable pro  
6 forma adjustment in Rate Base Adjustment SLH-RB2 REB.

7 **Q.       WHEN WILL THE ELECTION TO TAKE BONUS DEPRECIATION FOR**  
8 **INVESTMENTS MADE IN 2017 BE MADE BY THE COMPANY?**

9 A.       At the time that the 2017 tax return is finalized in the fall of 2018, the Company  
10 will determine whether it will elect to take the bonus depreciation adjustment.

11 **Q.       RUCO RECOMMENDS INCREASING ADIT RELATED TO POST-TEST**  
12 **YEAR PLANT, DOES THE COMPANY AGREE WITH THIS**  
13 **RECOMMENDATION?**

14 A.       No. The Company opposes including an adjustment that is not known and  
15 measureable, and will not be certain until the fall of 2018 when the Company files  
16 its 2017 tax return. The IRS's normalization rules prohibit regulators from  
17 recognizing a deferred tax liability in ratemaking without also including the  
18 deferred tax asset that may result from the creation of an NOL as a result of the  
19 accelerated depreciation deduction. Such a violation could result in the Company  
20 losing the ability to used accelerated depreciation methods in the future. The  
21 Company's position recognizes the additional tax effects of bonus depreciation  
22 through the fall of 2017 that are known and measureable.

1 **Q. DID THE COMPANY MAKE A PRO FORMA ADJUSTMENT TO ADIT**  
2 **TO INCLUDE UPDATES RELATED TO THE TAX CUTS AND JOB ACT**  
3 **OF 2017 (“TCJA”)?**

4 A. Yes. Adjustment SLH-RB3 REB reduces the ADIT balance by \$10,284,747 to  
5 reflect the excess accumulated deferred income taxes created by the lowering of  
6 the federal corporate tax rate from 35% to 21%, and creates a regulatory liability  
7 in the same amount which establishes the excess ADIT to be amortized over the  
8 average remaining life of the assets that gave rise to the deferred tax balance. The  
9 Company proposes amortizing the liability at a rate of \$311,056, which is  
10 determined by using a composite depreciation rate by district as shown in  
11 Adjustment SLH-RB4 REB.

12 **B. AIAC REFUNDS**

13 **Q. AT PAGE 24 OF THE DIRECT TESTIMONY OF JEFFREY M. MICHLIK,**  
14 **RUCO RECOMMENDS REMOVING PROJECTED REFUNDS OF**  
15 **ADVANCES IN AID OF CONSTRUCTION (“AIAC”) FOR ALL**  
16 **DISTRICTS, EXCEPT WILLOW VALLEY AND NORTH MOHAVE.**  
17 **DOES THE COMPANY ACCEPT RUCO’S RECOMMENDATION?**

18 A. The Company accepts RUCO’s recommendation in part. When the Company  
19 computed the original pro forma adjustment, estimated 2017 and 2018 AIAC  
20 refunds were included in the adjustment. The Company’s adjustment did not  
21 include adjustments for Willow Valley or Chaparral City, and totaled \$2,426,274  
22 versus the \$4,340,324 that Mr. Michlik has quantified for all districts except  
23 Willow Valley and North Mohave.

The Company’s proposed rebuttal adjustment removes the original pro forma adjustment related to the estimated AIAC refunds for 2017 and 2018 as proposed in Rate Base Adjustment SMC-RB6. Rate Base Adjustment SLH-RB7 REB replaces the estimates with the actual 2017 AIAC refunds as shown in Table 3 below.

**Table 3. AIAC Refunds Paid Post Test Year**

Water District	Original Request			Rebuttal Update	
	2017 AIAC Forecasted	2018 AIAC Forecasted	SMC-RB6 (Direct Case)	2017 AIAC Actual Refunds	SLH-RB7 REB (Rebuttal Case)
Agua Fria	\$ (958,984)	\$ (958,984)	\$ (1,917,968)	\$ (1,595,949)	\$ 322,020
Anthem	(207,728)	(207,728)	(415,456)	(174,849)	240,608
Chaparral City	-	-	-	-	-
Havasu	(5,693)	(5,693)	(11,385)	(4,791)	6,595
Mohave	(2,802)	(2,802)	(5,605)	(2,535)	3,070
North Mohave	(1,959)	(1,959)	(3,918)	-	3,918
Paradise Valley	(16,192)	(16,192)	(32,383)	(22,800)	9,584
Sun City	(13,512)	(13,512)	(27,023)	(38,296)	(11,273)
Sun City West	(6,167)	(6,167)	(12,335)	(3,810)	8,525
Tubac	(100)	(100)	(200)	-	200
Willow Valley	-	-	-	-	-
<b>EPCOR Arizona</b>	<b>\$ (1,213,137)</b>	<b>\$ (1,213,137)</b>	<b>\$ (2,426,274)</b>	<b>\$ (1,843,028)</b>	<b>\$ 583,246</b>

**Q. RUCO ALSO RECOMMENDS INCLUDING THE 2017 AIAC RECEIPTS IF THE COMMISSION INCLUDES THE 2017 AIAC REFUNDS. DOES THE COMPANY AGREE?**

A. No. AIAC receipts received in 2017 are intended to fund plant for growth after the test year, which is not included in the Company’s test year plant or post-test year plant (“PTYP”). Based on this, it is inappropriate to include the AIAC received after the end of the test year. By contrast, the refunds relate to plant that is included in the requested rate base as such should be reflected in the calculation of rate base.



1 **Q. RUCO RECOMMENDS REVERSING THE COMPANY’S REMOVAL OF**  
2 **CONTRIBUTIONS IN AID OF CONSTRUCTION (“CIAC”) FOR**  
3 **CONTRIBUTED PLANT THAT REMAINED IN CONSTRUCTION**  
4 **WORK IN PROGRESS (“CWIP”). DOES THE COMPANY ACCEPT**  
5 **RUCO’S RECOMMENDATION?**

6 A. No. CWIP is not included in the calculation of rate base unless the Company  
7 specifically seeks inclusion of PTPP additions, as it has in this case. However,  
8 PTPP additions typically approved for inclusion in rate base must be revenue  
9 neutral in that they must be specifically related to plant to serve test year  
10 customers and must not include any growth-related CWIP. RUCO attempts to  
11 confuse the Company’s adjustment with other utilities’ adjustments for hook-up  
12 fees in CIAC.

13 **Q. PLEASE EXPLAIN WHY REMOVING CIAC FOR CONTRIBUTED PLANT**  
14 **REMAINING IN CWIP IS APPROPRIATE.**

15 A. If there are costs in the CWIP account at the end of the test year for developer  
16 projects, as is the case in this Application, those contributed funds have been  
17 “expended”, but they are not yet in Plant in Service or rate base. The Company  
18 removed CIAC associated with projects related to growth for service to new  
19 customers and the associated CWIP because these projects are not included in our  
20 requested rate base. Once these projects are complete and included in our rate  
21 base, the CIAC will be included.

1           **C. ACQUISITION PREMIUMS**

2           **Q. THE COMPANY INCLUDED ACQUISITION PREMIUMS FOR THE**  
3           **PURCHASES OF THE NORTH MOHAVE VALLEY CORPORATION**  
4           **AND THE WILLOW VALLEY WATER COMPANY. DID THE**  
5           **COMMISSION STAFF PROPOSE REGULATORY RECOVERY OF THE**  
6           **PREMIUMS?**

7           A. The Commission Staff did not opine on the Company's request for recovery of the  
8           acquisition premiums but rather included a placeholder to allow them to respond  
9           in their surrebuttal filing.

10          **Q. DID RUCO PROVIDE A RESPONSE TO THE COMPANY'S REQUEST**  
11          **TO RECOVER THE ACQUISITION PREMIUMS?**

12          A. Yes. RUCO has rejected the Company's request for acquisition premiums for  
13          both the North Mohave and Willow Valley acquisitions.

14          **Q. ON WHAT BASIS HAS RUCO REJECTED THE COMPANY'S REQUEST**  
15          **FOR AN ACQUISITION PREMIUM FOR THE TWO ACQUISITIONS?**

16          A. Mr. Michlik recommends rejection of the acquisition premiums for both the North  
17          Mohave and Willow Valley acquisitions for the following three reasons

- 18                1. No substantial benefits to the ratepayers.
- 19                2. Substantially higher cost to ratepayers than the original acquisition costs.
- 20                3. Loss of ADIT (related to how the Company structured the acquisition as a sale  
21                of assets as opposed to a stock transfer).

1 **Q. HOW DOES THE COMPANY RESPOND?**

2 A. As Ms. Sarah M. Clor discussed in her Direct Testimony regarding the Willow  
3 Valley Water District, the Company has provided substantial and quantifiable net  
4 benefits for Willow Valley ratepayers – including a 32 percent reduction in water  
5 loss that customers would otherwise pay for in their rates, a reduction in the cost  
6 of debt upon which rates are determined, operating cost increases that are less than  
7 the rate of inflation, and on a stand-alone basis, only a 3.37 percent increase in  
8 proposed revenue over the past five years inclusive of the acquisition premium.  
9 Ms. Clor provides a more in-depth discussion of the substantial and quantifiable  
10 net benefits to customers in the Willow Valley Water District.

11 Regarding the North Mohave Water District, Ms. Clor also detailed how the  
12 acquisition of the North Mohave water system presented an opportunity to  
13 interconnect three separate water systems to build redundancy and emergency  
14 back-up, and also how the acquisition eliminated the need for investment in  
15 additional storage. Ms. Clor also testified that these facilities for additional  
16 storage would have been built at a substantially higher cost than what EWAZ is  
17 requesting for the North Valley acquisition premium. Put simply, the premiums of  
18 \$1,175,234, which equals the original purchase price premium of \$225,234 plus  
19 the additional premium of \$950,000, are a better reflection of the true value of the  
20 system and what the seller believed to be a fair purchase price.

21 **D. WORKING CAPITAL**

22 **Q. HAS THE COMPANY MADE AN ADJUSTMENT TO WORKING**  
23 **CAPITAL?**

1 A. Yes. The Company has accepted Staff's recommendation for the use of 92.00 lag  
2 days for interest expense instead of 74.50 and has removed its inclusion of all rate  
3 case expense from prepayments in an attempt to reduce disagreements among the  
4 parties to this case. Rate Base Adjustment SLH-RB1 REB reflects these changes  
5 as well as any conforming changes due to other operating expense adjustments in  
6 the Company's rebuttal case presentation.

7 **Q. HAS THE COMPANY MADE CORRESPONDING ADJUSTMENTS TO**  
8 **ITS RCND RATE BASE FOR THE ADJUSTMENTS THAT ARE**  
9 **PROPOSED TO ITS ORIGINAL COST RATE BASE?**

10 A. Yes. For each of the proposed rate base adjustments discussed above, the  
11 Company has computed a corresponding RCND rate base adjustment which are  
12 summarized on Schedule B-3.

13 **VII. INCOME STATEMENT ADJUSTMENTS**

14 **A. RATE CASE EXPENSE**

15 **Q. IS THE COMPANY PROPOSING TO MAKE AN ADJUSTMENT TO**  
16 **RATE CASE EXPENSE?**

17 A. Yes. Commission Staff is recommending that rate case expenses be removed from  
18 inclusion in base water rates and recommends authorizing a surcharge to recover  
19 rate case expenses instead. The Company partially accepts Commission Staff's  
20 recommendation and has removed rate case expenses out of the Regulatory  
21 expense account through Income Statement Adjustment ADJ SLH-IS13 REB.  
22 The Company's original request for rate case expense was for a total of \$799,680  
23 over a three-year recovery period, or \$266,560 per year. The Commission Staff's

1 recommendation is for \$529,190 of rate case expense over a five-year period  
2 based on the amount of regulatory expense, as shown on the income statement.  
3 This amount was comprised of \$262,630 plus an annual amortization of rate case  
4 expenses of \$266,560. The \$262,630 were prior rate case expense amortizations  
5 that the Company inadvertently failed to remove in its direct case presentation.  
6 While we have removed all regulatory expense from the rebuttal filing, the  
7 Company's rebuttal request for rate case expense for this case remains at \$799,680  
8 with a three-year amortization via a surcharge over a three-year period, or  
9 \$266,560 per year.

10 **B. OUTSIDE SERVICES**

11 **Q. WHAT ADJUSTMENTS DID THE COMPANY MAKE TO GENERAL**  
12 **OFFICE EXPENSE IN ITS REBUTTAL FILING?**

13 A. The Company is partially accepting Staff's adjustment on this item. The  
14 Company accepts Commission Staff's recommendation to remove certain  
15 identified costs related to entertainment and gifts and reclassify the costs of the  
16 economic and demographic study performed by Arizona State University ("ASU")  
17 to rate case expense. However, the Company does not agree to remove tuition-  
18 related costs. Tuition reimbursement is part of an employee's total compensation  
19 package, and is used to attract, develop, and retain talented employees that provide  
20 safe and reliable water service to our customers. The Company strongly believes  
21 that tuition reimbursement directly relates to employee development and these  
22 costs, as with training and other employee development programs, should be  
23 included.

1           **C. PERFORMANCE-BASED COMPENSATION**

2           **Q. PLEASE DISCUSS RUCO'S OPERATING INCOME ADJUSTMENT NO. 2**  
3           **– SHARING OF INCENTIVE PAY.**

4           A. RUCO is proposing to remove 50% of performance based compensation as it has  
5           attempted to do in at least the Company's last two rate cases. RUCO states as it  
6           has in both prior cases that most incentive programs also have a positive effect for  
7           shareholders and believes that a 50/50 sharing of incentive-based compensation  
8           between shareholder and ratepayers is fair.

9           **Q. DOES THE COMPANY AGREE WITH RUCO'S RECOMMENDATION?**

10          A. No.

11          **Q. RUCO CONTENDS THAT THE COMPANY IS ASKING RATEPAYERS**  
12          **TO FUND 100% OF ITS INCENTIVE COMPENSATION. IS THIS TRUE?**

13          A. No. EWAZ's Performance Based Compensation program contains metrics  
14          designed to incent employees to: (1) work safely by requiring achievement of an  
15          annual OSHA Recordable Incident Rate; (2) provide excellent customer service by  
16          setting goals for customer satisfaction, billing accuracy targets, and timely billing  
17          requirements; and (3) achieve a target for capital investments to be completed on  
18          time, and at or under budget. Each of these three targets is weighted at 30% –  
19          with the remaining 10% based upon achieving a financial target focused on  
20          earning the authorized rate of return. Historically, the Company has removed the  
21          financial component of the performance-based compensation plans and the  
22          Commission has approved the remaining costs. In short, we are requesting that

1           90% of the program consistent with what the Commission has approved in past  
2           cases for EWAZ.

3 **Q.    DID THE COMPANY REMOVE A PORTION OF THE PERFORMANCE-**  
4 **BASED COMPENSATION IN THIS CASE?**

5 A.    Yes, the Company removed 10% of Performance Based Compensation, which is  
6       related to the financial component of the plan from labor expense and the  
7       Corporate Allocation. The Company made these adjustments (ADJ SLM-IS10  
8       and ADJ SLM-22) in its direct filing. Those pro forma adjustments are similar to  
9       what the Company made in its recently-concluded wastewater rate case (Docket  
10      No. WS-01303A-16-0145) which was adopted by the Commission on pages 90-91  
11      of Decision No. 76162 – and its prior rate case Docket No. WS-01303A-14-0010,  
12      which was adopted by the Commission on page 31 of Decision No. 75268.

13 **Q.    DO YOU HAVE ANY ADDITIONAL INFORMATION YOU WOULD**  
14 **LIKE TO SHARE ABOUT THE COMPANY’S PERFORMANCE BASED**  
15 **COMPENSATION PROGRAM?**

16 A.    Yes. The performance-based compensation program is an incentive plan that is  
17       part of EPCOR employees’ total compensation package. The program’s  
18       performance measures align EPCOR’s vision statement of people, operational  
19       excellence, environment, and growth to the job performance of every employee.  
20       By focusing on these measures, our employees are able to provide our customers  
21       with safe and reliable water and wastewater services in the most efficient and cost-  
22       effective manner.

1           **D. DEPRECIATION EXPENSE**

2   **Q.    IS STAFF RECOMMENDING ADOPTION OF THE COMPANY'S**  
3   **PROPOSED DEPRECIATION RATES IN THIS PROCEEDING?**

4   A.    Generally, yes. The only asset category for which Commission Staff's witness,  
5   Mr. Frank Smaila, has recommended different rates is Transportation Equipment.  
6   Please see the table below for a summary of the Company's requested rates and  
7   the Commission Staff's recommendation.

8   **Table 4. Depreciation Rates**

<b>EPCOR Account Numbers</b>	<b>Depreciable Plant</b>	<b>Districts Current Range of Rates (%)</b>	<b>Consolidated Proposed Rates (%)</b>	<b>Staff Proposed Rates (%)</b>
	<b>Transportation Equipment</b>			
341100	Transportation Equipment – Light Duty Trucks	10.00 – 20.00	14.29	20.00
341200	Transportation Equipment – Heavy Duty Trucks	10.00 - 20.00	14.29	14.29
341300	Transportation Equipment – Autos	0.00 – 20.00	14.29	20.00
341400	Transportation Equipment – Other	10.00 – 20.00	14.29	16.67

9   **Q.    WHY DID THE COMPANY PROPOSE A DEPRECIATION RATE FOR**  
10   **TRANSPORTATION EQUIPMENT THAT DIFFERS FROM MR.**  
11   **SMAILA'S RECOMMENDATION?**

12   A.    As the Company's witness, Mr. John F. Guastella, testified in his Direct  
13   Testimony, the reason that he proposed a seven-year useful life or an annual  
14   depreciation rate of 14.29% because that life is consistent with the Company's  
15   replacement plans for all light- and heavy- duty vehicles at 85,000 miles or seven  
16   years. He also stated that based on discussions with the Company, maintenance  
17   costs and safety risks experience significant increases year over year for these  
18   vehicles and equipment, when retained longer than seven years.



1 **Q. AREN'T THE LIVES PROPOSED BY MR. SMAILA FOR THESE**  
2 **TRANSPORTATION VEHICLES AND EQUIPMENT SHORTER THAN**  
3 **THE LIVES THAT MR. GUASTELLA PROPOSED?**

4 A. Yes, but shorter lives will contribute to over-depreciation when the transportation  
5 vehicles and equipment are on a replacement cycle that is longer than the  
6 depreciable lives.

7 **Q. IS THE COMPANY ASKING MR. SMAILA TO RECONSIDER HIS**  
8 **RECOMMENDATION FOR THE TRANSPORTATION VEHICLES AND**  
9 **EQUIPMENT ACCOUNTS?**

10 A. Yes. The longer lives that the Company proposed are consistent with the intended  
11 replacement cycle for the assets and result in lower annual depreciation expense  
12 which is favorable to the Company's customers.

13 **VIII. ADDITIONAL REQUESTS**

14 **Q. PLEASE IDENTIFY THE ADDITIONAL REQUESTS THAT THE**  
15 **COMPANY INCLUDED IN ITS ORIGINAL APPLICATION TO WHICH**  
16 **NO RESPONSE WAS PROVIDED.**

17 A. In the Company's direct case presentation, the Company requested deferral  
18 authorization for tank maintenance in the Anthem and Willow Valley Water  
19 Districts. Mr. Jeffrey W. Stuck, in his Direct Testimony, included a request to  
20 continue this deferral treatment of tank maintenance expenses, as previously  
21 authorized by the Commission, for the Anthem Water district. The Company is  
22 not seeking recovery of any deferred tank maintenance costs at this time in that

1 district because the tanks have just reached the point in their lifecycle where  
2 maintenance is required.

3 For Willow Valley, Mr. Stuck indicated that it only has two tanks to be  
4 maintained; and one of those tanks recently had rehabilitation and maintenance  
5 performed in 2017. Since there is only one more tank to maintain, the Company is  
6 requesting authorization by the Commission to defer tank maintenance costs at the  
7 time the second tank is maintained. Deferral accounting will enable the Company  
8 to spread the costs of that future maintenance over more than one period for  
9 recovery from customers.

10 **Q. RUCO MAKES A RECOMMENDATION THAT A PLAN OF**  
11 **ADMINISTRATION SHOULD BE AUTHORIZED BY THE**  
12 **COMMISSION FOR FUTURE TANK MAINTENANCE PROGRAMS**  
13 **WITH A TRUE-UP PROVISION. HOW DOES THE COMPANY**  
14 **RESPOND?**

15 A. The Company is not opposed to managing its tank maintenance programs through  
16 a Plan of Administration (“POA”) as discussed in the Rebuttal Testimony of Jon  
17 P. Boizelle. However, it should not be necessary to deposit the tank maintenance  
18 money collected from customers in an interest-bearing account. The Company has  
19 never needed the kind of oversight that Mr. Michlik recommends on pages 77-78  
20 of his Direct Testimony, and the Company believes the reporting requirement is  
21 onerous.

22 **Q. WHAT TYPE OF INFORMATION DOES THE COMPANY BELIEVE**  
23 **SHOULD BE REQUIRED?**

1 A. The Company has provided the reporting requirements in the proposed POA  
2 sponsored by Mr. Jon P. Boizelle and attached to his testimony as Exhibit JPB-2  
3 REB.

4 **IX. TARIFF REQUESTS**

5 **Q. IN ITS ORIGINAL APPLICATION, THE COMPANY WAS SEEKING TO**  
6 **ELIMINATE THE REQUIREMENT TO HAVE BEST MANAGEMENT**  
7 **PRACTICES (“BMPs”). IS THE COMPANY STILL REQUESTING**  
8 **THEIR ELIMINATION?**

9 A. No. The Company has reconsidered this position and is no longer requesting  
10 elimination of the BMP tariffs as discussed in the testimony of Ms. Sandy  
11 Skoubis. The Company remains fully committed to continuing and improving its  
12 water conservation programs, with the BMP tariffs being a component to those  
13 programs.

14 **Q. ARE THERE OTHER TARIFF-RELATED ISSUES THAT OTHER**  
15 **PARTIES BROUGHT TO THE COMPANY’S ATTENTION THROUGH**  
16 **THEIR DIRECT CASE PRESENTATIONS?**

17 A. Yes, there are a couple of issues needing clarification. These relate to the  
18 proposed future effluent tariff that the Company is requesting in the event that new  
19 sources of effluent become available and another issue relates to applicability of  
20 the proposed power cost adjustment mechanism (“PCAM”) and the proposed  
21 purchased water adjustment mechanism (“PWAM”).

1 **Q. THERE SEEMS TO BE SOME CONFUSION ABOUT WHICH RATE**  
2 **SCHEDULES WILL BE SUBJECT TO THE PCAM AND THE PWAM.**  
3 **CAN YOU PROVIDE SOME CLARITY ON THAT SUBJECT?**

4 **A. Yes. When the Company removed the power and purchased water costs**  
5 **from the calculation of base rates in its direct case presentation, we stated**  
6 **that the surcharge would be applicable to all usage. However, there are**  
7 **several rate schedules to which these surcharges should not be applicable**  
8 **based on the design of the rates.**

9 The Company has revised its approach to the PCAM and PWAM such that only  
10 incremental changes in the associated costs will be recoverable through the  
11 adjustors. There are still some rate schedules that should not be subject to the  
12 PCAM and PWAM, and those include the effluent tariffs and the wheeling tariff.  
13 The POAs sponsored by Company witness, Jon P. Boizelle, now specify these  
14 exclusions and should clear up this confusion.

15 **Q. THE WITNESS FOR DMB, MR. NILSON, ASKS THE COMMISSION TO**  
16 **SET THE SAME RATE FOR ALL EFFLUENT SALES, RATHER THAN**  
17 **ADOPTING EPCOR'S PROPOSAL TO ALLOW MARKET-RATE SALES**  
18 **FOR FUTURE EFFLUENT CUSTOMERS. HOW DOES THE COMPANY**  
19 **RESPOND?**

20 **A.** As discussed in the Direct Testimony of John (Jake) Lenderking, the Company has  
21 tariffs in place for the sale of its available effluent. However, in the event that  
22 additional effluent becomes available, a market-based rate would provide an  
23 incentive for customers to use any future effluent. The Company is not seeking to

1 change its current effluent tariff or the rates it charges its current effluent  
2 customers, but is seeking to establish a tariff that would allow a market-based rate  
3 at the time any additional effluent becomes available.

4 **Q. ARE THERE ANY OTHER TARIFF RELATED MATTERS THAT YOU**  
5 **WISH TO DISCUSS?**

6 A. Yes. The Company has proposed a low-income program that would provide a \$10  
7 monthly credit to eligible customers' bills. In doing so, the number of participants  
8 were proposed and a cost of the program determined based upon the proposed  
9 participant levels in each district. The Company proposed that the number of  
10 participants eligible for low-income discounts to be set as follows:

<u>District</u>	<u>Participants</u>
Agua Fria	1,000
Anthem	100
Chaparral City	250
Havasu	100
Mohave	475
North Mohave	100
Paradise Valley	50
Sun City	750
Sun City West	100
Tubac	40
Willow Valley	<u>100</u>
EPCOR Arizona	3,065

24 **Q. IS THE COMPANY REVISING ITS PROPOSED LOW INCOME**  
25 **PROGRAM IN THIS FILING?**

26 A. Yes. Since the Company has not been fully subscribed in the districts that are  
27 currently authorized low-income programs, we would propose to recover a lower  
28 program cost in the early years of the program.

1 **Q. DOES THE PROPOSED LOW-INCOME PROGRAM INCLUDE AN**  
2 **ANNUAL TRUE-UP MECHANISM TO ADDRESS ANY OVER- OR**  
3 **UNDER-COLLECTIONS IN A TIMELY FASHION?**

4 A. Yes, it does, however, the Company does not want to over-collect in the first year  
5 simply because the low-income program is not fully subscribed.

6 **Q. HOW DOES THE COMPANY PROPOSE TO RECTIFY THAT**  
7 **POTENTIAL OVER-COLLECTION?**

8 A. The Company would propose to use the following participant levels which are  
9 either consistent with the current subscription rate in the districts that have low-  
10 income programs or one-half of the maximum participant level in the districts that  
11 do not currently have a low-income program to determine the initial surcharge.  
12 The proposed participant level for determining the initial surcharge should be  
13 based on the following participant count:

<u>District</u>	<u>Participants</u>
Agua Fria	184
Anthem	10
Chaparral City	67
Havasu	28
Mohave	152
North Mohave	10
Paradise Valley	2
Sun City	612
Sun City West	10
Tubac	2
Willow Valley	<u>10</u>
EPCOR Arizona	1,087

27 **Q. PLEASE SUMMARIZE THE REVISED SURCHARGE THAT THE**  
28 **COMPANY IS PROPOSING.**

- 1 A. The revised surcharges are summarized below and included on the “H” Schedules  
2 on a stand-alone and consolidated basis.

3 **Proposed**

4	<u>District</u>	<u>Surcharge</u>
5	Agua Fria	(\$0.0669)
6	Anthem	0.0033
7	Chaparral City	( 0.0259)
8	Havasu	(0.1468)
9	Mohave	0.0331
10	North Mohave	0.0074
11	Paradise Valley	(0.0026)
12	Sun City	0.0558
13	Sun City West	0.0036
14	Tubac	(0.0888)
15	Willow Valley	0.0883
16	EPCOR Arizona	(0.0116)

17 **X. 2017 TAX CUTS AND JOBS ACT**

18 **Q. HAS THE COMPANY QUANTIFIED THE IMPACT OF THE 2017 TAX**  
19 **CUTS AND JOBS ACT (“TCJA”) THAT REDUCED THE FEDERAL**  
20 **INCOME TAX RATE FROM 35 PERCENT TO 21 PERCENT?**

21 A. Keeping in mind that all of the impacts of the TCJA are not currently known, the  
22 Company has quantified the impact on its tax expense and the impact of the  
23 reduced tax rate on its ADIT.

24 **Q. PLEASE EXPLAIN THE PROCESS THE COMPANY USED TO**  
25 **QUANTIFY THE IMPACT OF THE TCJA ON ITS PENDING RATE**  
26 **CASE APPLICATION.**

27 A. Since the Company had a rate case application pending that was nearing the  
28 rebuttal phase deadline, the original filing was modified to reflect the 21 percent

1 tax rate on the calculation of the income tax expense, the gross revenue conversion  
2 factor and the ADIT.

3 **Q. WHAT ARE THE IMPACTS OF THE REDUCED TAX RATE ON THE**  
4 **INCOME TAX EXPENSE, THE GROSS REVENUE CONVERSION**  
5 **FACTOR AND ADIT?**

6 A. The Company quantified the excess ADIT that results from the change in the  
7 federal income tax rate for the balance on the Company's books at the end of the  
8 test year for this case, adjusted for the pro forma adjustment for bonus  
9 depreciation. The "excess" ADIT was reclassified to a regulatory liability  
10 account, and the Company computed an annual amortization using the composite  
11 depreciation rate for each of its districts. The annual amortization was used to  
12 reduce the regulatory liability and amortization expense accordingly. The result of  
13 this exercise is a tax impact from the Company's direct case presentation of  
14 approximately \$6.2 million.

15 **Q. DID THE COMPANY USE THE SAME TAX RATE AND GROSS**  
16 **REVENUE CONVERSION FACTOR FOR PURPOSES OF ITS**  
17 **REBUTTAL SCHEDULES AS WELL?**

18 A. Yes. In order to isolate the direct impact of the tax rate reduction in the TCJA, the  
19 Company made the calculations to its direct case presentation to quantify the  
20 reduction in its overall revenue requirement for this case. After the impact was  
21 quantified, the Company proceeded to make its rebuttal pro forma adjustments.  
22 The result is that the rebuttal presentation also incorporates the tax rate changes  
23 resulting from the TCJA.



1 **Q. YOU STATED THAT ALL OF THE IMPACTS OF THE TCJA ARE NOT**  
2 **CURRENTLY KNOWN. HOW IS THE COMPANY PROPOSING TO**  
3 **REFLECT ANY FUTURE IMPACTS OF THE TCJA?**

4 A. The Company is requesting approval from the Commission of a Tax Expense  
5 Adjustor Mechanism (“TEAM”) to enable the refund or recovery of changes to tax  
6 laws that are not presently known or quantifiable.

7 **Q. HAS THE COMPANY PREPARED A PLAN OF ADMINISTRATION FOR**  
8 **THE ADJUSTOR MECHANISM?**

9 A. Yes. The POA for the TEAM is attached to my testimony as Exhibit SLH-2REB.

10 **Q. DOES THE POA ALSO HAVE SCHEDULES DETAILING HOW THE**  
11 **ADJUSTOR MECHANISM WILL BE CALCULATED?**

12 A. Yes, it does.

13 **Q. IN ADDITION, WILL THE COMPANY TRACK THE IMPACTS OF THE**  
14 **TCJA FROM JANUARY 1, 2018?**

15 A. Yes. The Company understands that Decision No. 76595 is the accounting order  
16 that will allow it to set up regulatory asset and liability accounts to respond to the  
17 impacts of the TCJA from January 1, 2018 through the effective date of the order  
18 in this case.

19 **Q. IS THE COMPANY PROPOSING A ONE-TIME CREDIT FOR ITS**  
20 **CUSTOMERS TO FLOW THROUGH THE BENEFITS OF THE TCJA**

1           **FROM JANUARY 1, 2018 THROUGH THE EFFECTIVE DATE OF THE**  
2           **ORDER?**

3   A.    The Company has not completed the calculation of the tax reduction in its current  
4        rates as of the time of the filing of this Rebuttal Testimony. The Company,  
5        however, will refund the difference between the amount of tax expense collected  
6        at the current 35% federal corporate income tax rate and the 21% rate from  
7        January 1, 2018 through the effective date of a decision in this case. The  
8        Company intends to do so by applying a one-time fixed bill credit (by meter size)  
9        to customer bills once the calculation has been completed.

10 **Q.    DOES YOUR SILENCE ON ANY ISSUE RAISED BY ANY PARTY IN**  
11 **DIRECT TESTIMONY INDICATE YOUR ACCEPTANCE OF THEIR**  
12 **POSITION?**

13   A.    No.

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

15   A.    Yes.

# **EXHIBIT SLH-1 REB**

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	Fair Value Rate Base	\$ 456,066,316	\$ 151,107,433	\$ 69,122,771	\$ 45,482,080	\$ 6,486,820	\$ 33,875,612	\$ 4,707,999	\$ 49,199,595	\$ 49,211,273	\$ 42,475,250	\$ 1,307,126	\$ 3,090,357
2													
3	Adjusted Operating Income	\$ 16,898,724	\$10,596,996	\$1,810,511	\$763,946	\$263,811	\$396,726	(\$85,475)	\$2,163,865	(\$630,960)	\$1,392,206	\$161,926	\$65,173
4													
5	Current Rate of Return	3.71%	7.01%	2.62%	1.68%	4.07%	1.17%	-1.82%	4.40%	-1.28%	3.28%	12.39%	2.11%
6													
7	Required Operating Income	\$ 27,279,953	\$9,277,996	\$3,988,384	\$2,619,768	\$389,858	\$2,025,762	\$313,082	\$2,927,376	\$3,051,099	\$2,442,327	\$57,644	\$186,658
8													
9	Weighted Average Cost of Capital	7.09%	7.09%	7.09%	7.09%	7.09%	7.09%	7.09%	7.09%	7.09%	7.09%	5.19%	7.09%
10	Fair Value Adjustment	-1.10%	-0.95%	-1.32%	-1.33%	-1.08%	-1.11%	-0.44%	-1.14%	-0.89%	-1.34%	-0.78%	-1.05%
11	Required Rate of Return	5.99%	6.14%	5.77%	5.76%	6.01%	5.98%	6.65%	5.95%	6.20%	5.75%	4.41%	6.04%
12													
13	Operating Income Deficiency	\$ 10,381,229	(\$1,318,999)	\$2,177,873	\$1,855,822	\$126,047	\$1,629,036	\$398,557	\$763,510	\$3,682,059	\$1,050,121	(\$104,281)	\$121,485
14													
15	Gross Revenue Conversion Factor	1.3571	1.3550	1.3600	1.3500	1.3600	1.3600	1.3600	1.3500	1.3600	1.3500	1.3600	1.3600
16													
17	Increase in Gross Revenue Requirement	<b>\$ 14,088,370</b>	<b>\$ (1,787,244)</b>	<b>\$ 2,961,907</b>	<b>\$ 2,505,359</b>	<b>\$ 171,423</b>	<b>\$ 2,215,489</b>	<b>\$ 542,038</b>	<b>\$ 1,030,739</b>	<b>\$ 5,007,600</b>	<b>\$ 1,417,664</b>	<b>\$ (141,823)</b>	<b>\$ 165,220</b>
18													
19													
20	Test Year Adjusted Present 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
21													
22	Total Water Revenue with Increase	\$ 123,382,016	\$ 42,917,877	\$ 13,692,106	\$ 13,427,903	\$ 1,973,176	\$ 9,929,764	\$ 1,606,756	\$ 11,147,711	\$ 16,801,768	\$ 10,082,736	\$ 694,495	\$ 1,107,724
23													
24	Percent Rate Increase	12.9%	-4.0%	27.6%	22.9%	9.5%	28.7%	50.9%	10.2%	42.5%	16.4%	-17.0%	17.5%





**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)**

**EXHIBIT SLH-1REB**  
**Page 4 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	\$ 1,219,060,618	\$ 478,691,386	\$ 129,255,439	\$ 119,414,882	\$ 15,396,715	\$ 75,508,812	\$ 16,418,148	\$ 116,204,604	\$ 160,944,691	\$ 90,206,949	\$ 9,631,894	\$ 7,387,096
2													
3	Construction Work in Progress	(0)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0)	\$ -	\$ -
4													
5	<u>Less:</u>												
6	Accumulated Depreciation	428,974,309	117,945,444	43,015,927	52,112,395	4,280,569	27,622,393	7,319,526	54,071,448	73,231,088	41,412,083	4,324,017	3,639,420
7													
8	Net Utility Plant in Service	\$790,086,309	\$ 360,745,942	\$ 86,239,512	\$ 67,302,487	\$ 11,116,146	\$ 47,886,420	\$ 9,098,622	\$ 62,133,157	\$ 87,713,604	\$ 48,794,866	\$ 5,307,877	\$ 3,747,676
9													
10	<u>Less:</u>												
11	Advances in Aid of												
12	Construction	\$164,834,077	\$125,424,725	\$8,271,518	\$3,545,302	\$839,268	\$6,543,868	\$3,705,512	\$1,935,471	\$11,424,683	\$2,216,276	\$848,956	\$78,498
13	Contribution in Aid of Construction -												
14	Net of Amortization	160,698,710	90,008,464	10,968,734	15,465,747	3,438,153	3,663,798	1,533,768	10,295,190	21,114,598	794,996	2,939,724	475,538
15													
16	Customer Meter Deposits	118,287	49,867	8,341	15,879	976	5,660	1,513	18,902	16,118	1,032	-	-
17	Deferred Income Taxes & Credits	17,961,910	5,761,857	1,270,549	1,952,479	237,710	2,184,921	241,127	671,349	3,166,839	2,190,472	83,437	201,171
18	Investment Tax Credits	-	-	-	-	-	-	-	-	-	-	-	-
19	Regulatory Liabilities	17,136,182	3,918,974	861,399	1,605,458	161,882	2,318,729	163,655	1,632,270	4,708,190	1,482,795	147,508	135,323
20													
21	<u>Plus:</u>												
22	Deferred Debits	23,265,213	15,083,063	4,282,475	84,757	60,139	375,291	(0)	1,594,854	1,394,587	382,215	7,832	(0)
23	Working Capital Allowance	1,959,143	442,315	(18,675)	679,699	(11,476)	330,877	(14,814)	24,765	533,511	(16,261)	11,041	(1,839)
24	Cash Working Capital	(1,422,390)	(628,408)	(214,823)	58,447	(27,880)	(80,889)	(23,060)	(136,536)	(131,218)	(166,666)	(5,165)	(7,746)
25	Required Bank Balances	-	-	-	-	-	-	-	-	-	-	-	-
26	Material and Supplies Inventories	1,246,955	27,603	157,757	276,927	562	345,084	581	138,115	569,363	7,696	(18)	211
27	Prepayments	1,454,879	1,043,119	38,391	344,326	15,841	66,682	7,664	23,186	95,366	142,708	16,224	5,696
28	Utility Plant Acquisition Adjustment	1,504,817	(0)	(0)	0	(0)	0	1,269,767	0	0	0	0	235,049
29													
30	Total Fair Value Rate Base	\$456,066,314	\$ 151,107,433	\$ 69,122,771	\$ 45,482,080	\$ 6,486,820	\$ 33,875,612	\$ 4,707,999	\$ 49,199,595	\$ 49,211,273	\$ 42,475,250	\$ 1,307,126	\$ 3,090,357

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)

EXHIBIT SLH-1REE

Page 5 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	\$ 917,820,717	\$ 393,535,005	\$ 96,296,052	\$ 84,168,766	\$ 12,207,398	\$ 57,136,939	\$ 12,733,346	\$ 81,413,808	\$ 106,521,872	\$ 61,049,114	\$ 6,851,455	\$ 5,906,961
2													
3	Construction Work in Progress	(0)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0)	\$ -	\$ -
4	Less:												
5	Accumulated Depreciation	268,750,526	90,315,129	29,092,305	32,035,111	3,092,934	18,219,659	4,312,111	31,120,706	31,965,779	23,213,509	2,566,239	2,817,042
6													
7	Net Utility Plant in Service	\$649,070,191	\$ 303,219,876	\$ 67,203,748	\$ 52,133,654	\$ 9,114,463	\$ 38,917,280	\$ 8,421,236	\$ 50,293,102	\$ 74,556,093	\$ 37,835,605	\$ 4,285,216	\$ 3,089,919
8													
9	Less:												
10	Advances in Aid of												
11	Construction	\$137,798,118	\$105,423,970	\$6,445,735	\$2,746,251	\$688,141	\$5,318,199	\$3,429,639	\$1,566,649	\$9,710,920	\$1,718,503	\$685,389	\$64,721
12	Contribution in Aid of Construction -												
13	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
14													
15	Customer Meter Deposits	97,315	41,915	6,500	12,300	800	4,600	1,400	15,300	13,700	800	0	0
16	Deferred Income Taxes & Credits	14,706,267	4,843,047	990,099	1,512,424	194,906	1,775,684	223,175	543,417	2,691,796	1,698,495	67,361	165,863
17	Investment Tax Credits	-	0	0	0	0	0	0	0	0	0	0	0
18	Regulatory Liabilities	14,081,130	3,294,038	671,261	1,243,615	132,732	1,884,431	151,471	1,321,225	4,001,936	1,149,761	119,088	111,572
19													
20	Plus:												
21	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)
22	Working Capital Allowance	1,959,143	442,315	(18,675)	679,699	(11,476)	330,877	(14,814)	24,765	533,511	(16,261)	11,041	(1,839)
23	Cash Working Capital	(1,422,390)	(628,408)	(214,823)	58,447	(27,880)	(80,889)	(23,060)	(136,536)	(131,218)	(166,666)	(5,165)	(7,746)
24	Required Bank Balances	-	0	0	0	0	0	0	0	0	0	0	0
25	Material and Supplies Inventories	1,246,955	27,603	157,757	276,927	562	345,084	581	138,115	569,363	7,696	(18)	211
26	Prepayments	1,454,879	1,043,119	38,391	344,326	15,841	66,682	7,664	23,186	95,366	142,708	16,224	5,696
27	Utility Plant Acquisition Adjustment	1,369,030	(0)	(0)	0	(0)	0	1,175,233	0	0	0	0	193,796
28													
29													
30	Total Original Cost Rate Base	\$ 371,867,933	\$ 127,081,740	\$ 53,861,086	\$ 35,384,387	\$ 5,316,673	\$ 27,592,674	\$ 4,356,389	\$ 39,828,870	\$ 41,909,348	\$ 32,931,714	\$ 1,057,411	\$ 2,547,644





**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**  
 Adjusted Test Year Income Statement

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	<b>Revenues</b>												
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	<b>Total Revenues</b>	\$ 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	<b>Operating Expenses</b>												
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	7,476,352	2,899,881	795,864	1,576,200	182	343,408	44,999	599,455	758,880	456,260	727	497
10	Fuel & Power	9,590,556	2,864,716	785,361	845,357	170,573	471,012	165,296	1,402,317	2,004,848	830,699	32,951	17,425
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	61,988	31,732	3,817	4,473	90	7,363	63	5,168	1,436	5,365	1,519	960
13	Intercompany Support Services	-	-	-	-	-	-	-	-	-	-	-	-
14	Corporate Allocation	3,409,428	1,171,967	302,879	434,779	61,174	321,033	42,787	233,555	517,120	250,767	25,962	47,406
15	Outside Services	1,959,707	637,503	188,519	270,663	33,046	172,168	21,186	160,637	277,705	123,957	26,715	47,606
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	-	-	-	-	-	-	-	-	-	-	-	-
19	Insurance Other Than Group	888,737	329,024	84,746	95,552	17,945	69,243	13,649	79,307	113,817	65,044	10,022	10,386
20	Customer Accounting	4,441,296	1,472,488	311,363	469,369	63,515	556,673	60,299	188,252	778,559	477,335	24,102	39,340
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	1,551,548	420,529	129,093	226,449	58,810	245,335	18,083	114,692	192,449	98,719	23,960	23,429
23	Miscellaneous	292,875	102,222	(84,347)	69,880	5,755	62,771	(1,969)	43,761	40,239	26,311	2,201	26,050
24	Maintenance Expense	3,881,552	964,564	175,621	524,276	125,323	529,817	135,108	339,726	664,651	332,733	23,503	66,229
25	Depreciation & Amortization	30,637,202	12,440,749	3,404,013	2,602,584	393,067	2,086,583	440,379	2,429,216	3,759,933	2,629,980	178,533	272,165
26	General Taxes-Property	4,293,452	1,795,208	490,524	321,797	79,798	335,090	42,924	313,613	490,261	342,994	42,677	38,565
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	2,853,678	2,569,918	201,741	(8,318)	48,084	(72,363)	(60,456)	422,307	(518,262)	217,770	50,489	2,768
29													
30	<b>Total Operating Expenses</b>	\$ 92,394,921	\$ 34,108,125	\$ 8,919,688	\$ 10,158,598	\$ 1,537,941	\$ 7,317,549	\$ 1,150,193	\$ 7,953,106	\$ 12,425,128	\$ 7,272,867	\$ 674,392	\$ 877,332
31	<b>Utility Operating Income</b>	\$ 16,898,724	\$ 10,596,996	\$ 1,810,511	\$ 763,946	\$ 263,811	\$ 396,726	\$ (85,475)	\$ 2,163,865	\$ (630,960)	\$ 1,392,206	\$ 161,926	\$ 65,173
32	<b>Other Income &amp; Deductions</b>												
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	8,278,486	2,833,923	1,201,102	789,072	118,562	615,317	97,147	888,184	934,578	734,377	9,411	56,812
35	Other Expense	-	-	-	-	-	-	-	-	-	-	-	-
36	Gain/Loss Sale of Fixed Assets	150	-	-	-	-	150	-	-	-	-	-	-
37	<b>Total Other Income &amp; Deductions</b>	\$ 7,575,633	\$ 2,404,419	\$ 1,188,972	\$ 686,588	\$ 115,962	\$ 588,912	\$ 97,037	\$ 990,465	\$ 755,745	\$ 681,456	\$ 9,344	\$ 56,732
38	<b>Net Profit (Loss)</b>	\$ 8,620,389	\$ 8,192,577	\$ 621,539	\$ 77,358	\$ 147,850	\$ (192,186)	\$ (182,512)	\$ 1,173,401	\$ (1,386,705)	\$ 710,749	\$ 152,582	\$ 8,441

# **EXHIBIT SLH-2 REB**

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

EPCOR Water Arizona Inc.  
Tax Expense Adjustor Mechanism Plan of Administration

**EPCOR Water Arizona Inc.  
Income Tax Adjustor Mechanism  
Plan of Administration**

**Table of Contents**

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III. Calculation of TEAM .....	3
IV. Team Balancing Account.....	3
V. Filing and Procedural Deadlines.....	4
VI. Compliance Deadlines .....	4

**I. General Description**

This document describes how EPCOR Water Arizona Inc.’s (“EWAZ” or the “Company”) plans to administer the Federal Income Tax Expense Adjustor Mechanism (“TEAM”) for its proposed [Insert District Name] Water District in Decision No. XXXXX. As a result of the Tax Cuts and Jobs Act (the “Act”) signed into law on December 22, 2017, (and any subsequent federal tax legislation that may further reform Federal income tax that is enacted and effective before the conclusion of EWAZ’s next general rate case) and to the extent that the Act or subsequent legislation impacts the Company’s annual revenue requirements, the TEAM enables the pass-through of these income tax impacts to customers. The TEAM will be calculated upon the effective date of the order, and annually on a prospective basis, and will terminate upon conclusion of the Company’s next water rate case.

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

EPCOR Water Arizona Inc.  
Tax Expense Adjustor Mechanism Plan of Administration

## II. Definitions

1. *Annual Tax Expense Adjustment* – The Annual Tax Expense Adjustment represents the amount to be passed through to customers in the [water district] subsequent twelve-month period, and is applied to customer bills via a dollar-per 1,000-gallons adjustment.
2. *Base Revenue Requirements Change* – The change in the Company's Base Revenue Requirements, as a result of the Act, will be measured as the change in:
  - a. The Federal Income Tax Rate-Test Year as compared to the Federal Income Tax Rate-Revised as applied to the Company's Adjusted 2016 Test Year;
  - b. Annual amortization of any resulting excess deferred income tax regulatory account compared to the Company's Adjusted 2016 Test Year; and
  - c. Permanent income tax adjustments (such as interest expense and/or property tax expense deductibility) compared to those taken in the Company's Adjusted 2016 Test Year.
3. *Federal Income Tax Rate-Revised* – The resulting federal income tax rate revised as a result of the Act and any subsequent federal income tax reform legislation enacted and effective between Decision No. XXXXX in this case and before the conclusion of EWAZ's next general water rate case.
4. *Federal Income Tax Rate-Test Year* – The Federal income tax rate of 35% in effect and utilized in EWAZ's test year in this case (test year ending December 31, 2016) approved by the Commission in Decision No. XXXXX.
5. *Forecasted Commodity Sales* – The forecasted calendar year commodity (per 1,000-gallon) sales served under the Company's water rate schedules. A true-up reconciliation of the forecasted data will be completed in the following year through the Balancing Account.

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

EPCOR Water Arizona Inc.  
Tax Expense Adjustor Mechanism Plan of Administration

### **3. Calculation of TEAM**

The *Annual Tax Expense Adjustment* is calculated annually and represents the amount to be passed through to customers. The adjustment is calculated based on the Company's *Base Revenue Requirements Change* resulting from the Act and any Federal income tax reform legislation enacted and effective between that used to set rates as approved in Decision No. XXXXXX, and before the conclusion of EWAZ's next general rate case, as defined above.

The *Annual Tax Expense Adjustment* will be applied to customers' total bill through a dollar-per 1,000-gallon adjustment over a 12-month period beginning March 1 of the year following the filing described in Section 5 below. This dollar-per 1,000-gallon adjustment is calculated by dividing the *Annual Tax Expense Adjustment* by the *Forecasted Commodity Sales*, as determined in Schedule 1 of the filing.

### **4. TEAM Balancing Account**

EWAZ will maintain accounting records that accumulate the difference between the calculated *Annual Tax Expense Adjustment* as compared to the actual amounts applied to customers' total bills through the TEAM dollar-per 1,000-gallon adjustment during the pass-through period (March through February). Additionally, as a result of utilizing *Forecasted Commodity Sales*, the balancing account will contain a true-up component in which estimated balances will be replaced with actual balances for the prior year filing.

The difference will be recorded to the TEAM Balancing Account each month and will accrue interest at the Company's applicable cost of short-term debt. In the event that the *Annual Tax Expense Adjustment* is more or less than the amount passed through to customers as of the last billing cycle of February, the over or under collection, plus interest, will be subtracted from or added to the TEAM calculation in the subsequent period.

Arizona Corporation Commission

EPCOR Water Arizona Inc.

Docket No. WS-01303A-17-XXXX

Tax Expense Adjustor Mechanism Plan of Administration

## **5. Filing and Procedural Deadlines**

EWAZ will file the *Annual Tax Expense Adjustment*, including all Compliance Reports, with the Commission for the upcoming year by December 1 (*e.g.*, EWAZ will make its 2019 filing by December 1, 2018). This annual adjustment will terminate at the conclusion of EWAZ's next general rate case.

The Commission Staff and interested parties will have the opportunity to review the TEAM filing and supporting data in the adjustor calculation. Unless the Commission has otherwise acted *or Staff* has filed an objection by March 15, the new TEAM dollar-per 1,000-gallon rate, proposed by EWAZ, will go into effect with the first billing cycle in March (without proration) and will remain in effect for the following 12-month period.

## **6. Compliance Reports**

EWAZ will provide an annual report to Staff and the Residential Utility Consumer Office (“RUCO”) that details all of the calculations related to the TEAM dollar-per 1,000-gallon adjustment. The reports will include the following Schedules 1 through 3 as attached to this document:

Schedule 1:	Current Year <i>Annual Tax Expense Adjustment</i> and TEAM dollar-per 1,000-gallon Credit
Schedule 2:	Current Year TEAM Balancing Account
Schedule 3:	Adjusted 2016 Test Year SFR Schedules (as follows):
Schedule 3-A1 :	Computation of Increase in Gross Revenue Requirements
Schedule 3-B1:	Summary of Original Cost Rate Base and RCND Elements
Schedule 3-B2:	Original Cost Rate Base Pro Forma Adjustments
Schedule 3-B3:	RCND Rate Base Pro Forma Adjustments
Schedule 3-C1:	Adjusted Test Year Income Statement
Schedule 3-C2:	Income Statement Pro Forma Adjustments
Schedule 3-C3:	Computation of Gross Revenue Conversion Factor

**EPCOR Water Arizona Inc.**  
**Tax Expense Adjustor Mechanism**  
**Schedule 1**  
**CURRENT YEAR ENDED 12/31/XXXX**

<u>Line No.</u>	(A) Annual Tax Adjustment and TEAM \$ per XX Credit for [Year]	(B) Reference	(C) Amount (\$)
1	Annual Tax Adjustment	Schedule 3, A-1 Line	
2	Total TEAM Balancing Account	Schedule 2, Line	
3	Total Annual Tax Adjustment	Line 1 + Line 2	
4			
5	Forecasted Sales (gallons)		
6	Annual Team Surcharge (per 1,000 gallon adjustment)		



**EPCOR Water Arizona Inc.**  
**Tax Expense Adjustor Mechanism**  
**Schedule 2**  
**CURRENT YEAR ENDED 12/31/XXXX**

<u>Line No.</u>	(A) Current Year TEAM Balancing Account	(B) Reference	(C) Amount (\$)
1	Prior Period Annual Tax Adjustment	Previous Filing Schedule 1 Ln 3	
2	True-Up from January-December Estimate (a)	Update Previous Filing	
3	Amount Applied to Customer's Bills in Prior Period (b)	Company Records	
4	TEAM Balancing Account	Ln 1 + Ln2 + Ln 3	

- (a) Represents any difference between estimated prior period annual tax adjustment filed December 1, 20XX and actual annual tax adjustment based on final December 31, 20XX.
- (b) Represents the amount applied to customers bills for the twelve (12) calendar months of 20XX. True-up is the result of utilizing forecasted sales for the period January through December since the actual sales were not available at the time of prior period filing.

**EPCOR Water Arizona Inc.**  
**Tax Expense Adjustor Mechanism**  
**Schedule 3 A-1**  
**CURRENT YEAR ENDED 12/31/XXXX**

Line No.	Original Cost Rate Base [A]	RCND [B]	Fair Value Rate Base [C]
1	Original Cost Rate Base		
2			
3	Adjusted Operating Income		
4			
5	Current Rate of Return		
6			
7	Required Operating Income		
8			
9	Weighted Average Cost of Capital		
10	Fair Value Adjustment		
11	Required Rate of Return		
12			
13	Operating Income Deficiency		
14			
15	Gross Revenue Conversion Factor		
16			
17	Increase in Gross Revenue Requirement		
18			
19	Tax Expense Adjustment - Increase/(Decrease) in Base Revenue Requirements		
20			
21			
22			
23			
24			
25			
26	Supporting Schedules	(c) Schedule 3 C-3	
27	(a) Schedule 3 B-1		
28	(b) Schedule 3 C-1		
29			
30			
31			
32			
33			
34			

**EPCOR Water Arizona Inc.**  
**Tax Expense Adjustor Mechanism**  
**Schedule 3 B-1**  
**CURRENT YEAR ENDED 12/31/XXXX**

Line No.	Original Cost <u>Rate Base (a)</u> [A]	RCND <u>Rate Base (b)</u> [B]
1		
2	\$	-
3	-	\$
4	-	-
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28	\$	-
29	-	\$
30	-	-
31		
32	Supporting Schedules	Recap Schedules:
33	Schedule 3 B2	Schedule 3 A-1
34		
35		

**EPCOR Water Arizona Inc.**  
**Tax Expense Adjustor Mechanism**  
**Schedule 3 B-2**  
**CURRENT YEAR ENDED 12/31/XXXX**

Line No.	<u>Actual End of Test Year (c)</u>	<u>Team ADIT &amp; Regulatory Account Impact</u>	<u>Adjusted Settlement at End of Test Year</u>
	[A]	[B]	[C]
1			
2	\$ -	\$ -	\$ -
3			
4	<hr/>		
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21	\$ -	\$ -	\$ -
22	<hr/> <hr/>		
23	Supporting Schedules:	Recap Schedules:	
24	(a) Schedule 3 B-3	Schedule 3 B-1	
25			
26			
27			
28			

**EPCOR Water Arizona Inc.**  
**Tax Expense Adjustor Mechanism**  
**Schedule B-3**  
**CURRENT YEAR ENDED 12/31/XXXX**

Line No.	<u>Actual End of Test Year (c)</u>	<u>Team ADIT &amp; Regulatory Account Impact</u>	<u>Adjusted Settlement at End of Test Year</u>
	[A]	[B]	[C]
1			
2	\$ -	\$ -	\$ -
3			
4	<hr/>		
5			
6	Less: Accumulated Depreciation		
7			
8			
9	Net Utility Plant in Service		
10			
11	Less: Advances in Aid of Construction		
12			
13			
14			
15	Less: Total deductions		
16			
17			
18	Total Additons		
19			
20			
21	Total Rate Base	\$ -	\$ -
22			
23	Supporting Schedules:	Recap Schedules:	
24		Schedule 3 B-1	
25			
26			
27			
28			

**EPCOR Water Arizona Inc.**  
**Tax Expense Adjustor Mechanism**  
**Schedule 3 C-1**  
**CURRENT YEAR ENDED 12/31/XXXX**

Line No.	Test Year Book Results (a) [A]	TEAM Pro Forma Adjustments (a) [B]	Settlement Results after Pro forma Results (a) [C] = [A] + [B]
1	<b>Revenues</b>		
2	\$	-	-
3		-	-
4	<b>Total Revenues</b>		
5			
6	<b>Operating Expenses</b>		
7	Labor		
8	Purchased Water		
9	Fuel & Power		
10	Chemicals		
11	Waste Disposal		
12	Intercompany Support Services		
13	Corporate Allocation		
14	Outside Services		
15	Group Insurance		
16	Pensions		
17	Regulatory Expense		
18	Insurance Other Than Group		
19	Customer Accounting		
20	Rents		
21	General Office Expense		
22	Miscellaneous		
23	Maintenance Expense		
24	Depreciation & Amortization		
25	General Taxes-Property		
26	General Taxes-Other		
27	Income Taxes		
28			
29	\$	-	-
30	\$	-	-
31	<b>Other Income &amp; Deductions</b>		
32	Other Income & Deductions		
33	Interest Expense		
34	Other Expense		
35	Gain/Loss Sale of Fixed Assets		
36	<b>Total Other Income &amp; Deductions</b>		
37	\$	-	-
38			
39			
40			
41			
42			
43	Supporting Schedules:	Recap Schedules:	
44	(a) Schedule 3 C-2	Schedule 3 A-1	
45			

EPCOR Water Arizona Inc.  
Tax Expense Adjustor Mechanism  
Schedule C-2  
CURRENT YEAR ENDED 12/31/XXXX

	[A]	[B]	[C]	[D]	[E]
<u>Line No.</u>	<u>Test Year Book Results</u>	<u>Normalize Income Tax Expense/Interest Synchronization</u>	<u>Interest Expense on Rate Base Impact</u>	<u>Total Income Tax Income Statement Adjustments</u>	<u>Total Adjusted Test Year</u>
1 <b>Revenues</b>					
2 Water	\$ -	\$ -	\$ -	\$ -	\$ -
3 Other Revenues					
4 <b>Total Revenue</b>					
5					
6 <b>Operating Expenses</b>					
7 Labor					
8 Purchased Water					
9 Fuel & Power					
10 Chemicals					
11 Waste Disposal					
12 Intercompany Support Services					
13 Corporate Allocation					
14 Outside Services					
15 Group Insurance					
16 Pensions					
17 Regulatory Expense					
18 Insurance Other Than Group					
19 Customer Accounting					
20 Rents					
21 General Office Expense					
22 Miscellaneous					
23 Maintenance Expense					
24 Depreciation & Amortization					
25 General Taxes-Property					
26 General Taxes-Other					
27 Income Taxes					
28					
29 <b>Total Operating Expenses</b>					
30 <b>Utility Operating Income</b>					
31 <b>Other Income &amp; Deductions</b>					
32 Other Income & Deductions					
33 Interest Expense					
34 Other Expense					
35 Gain/Loss Sale of Fixed Assets					
36 <b>Total Other Income &amp; Deductions</b>					
37 <b>Net Profit / (Loss)</b>	\$ -	\$ -	\$ -	\$ -	\$ -
38					
39					
40					
41					
42					
43					
44 Supporting Schedules:			Recap Schedules:		
45			Schedule 3 C-1		
46					

**EPCOR Water Arizona Inc.  
Tax Expense Adjustor Mechanism  
Schedule 3 C-3  
CURRENT YEAR ENDED 12/31/XXXX**

Line				Percentage of Incremental Gross Revenues
No.	<u>Description</u>	[A]	[B]	[C]
1	Federal Income Taxes			
2				
3	State Income Taxes			
4			Combined	
5				
6	Property Taxes	Effective Rate =	One Minus Combined	0.00% [A] x [B]
7				
8	Bad Debt Expense	Effective Rate =	One Minus Combined	0.00% [A] x [B]
9				
10	Insurance Other Than Group	Effective Rate =	One Minus Combined	0.00% [A] x [B]
11				
12				
13	Total Tax Percentage			0.00% Sum Line [1-10]
14				
15	Operating Income % = 100% - Tax Percentage			1 - [C] Line [13]
16				
17				
18		1 = Gross Revenue Conversion Factor		
19				
20				
21	Operating Income %			1 / [C] Line [15]
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43	Supporting Schedules:		Recap Schedules:	
44	Schedule 3 C-2		Schedule 3 A-1	
45				