

NEW APPLICATION

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- LEA MÁRQUEZ PETERSON – Chairman
- SANDRA D. KENNEDY
- JUSTIN OLSON
- ANNA TOVAR
- JIM O’CONNOR

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. WS-01303A-21-
 EPCOR WATER ARIZONA INC. FOR)
 AUTHORITY TO REFINANCE UP TO \$133.0) APPLICATION
 MILLION IN EXISTING LONG-TERM DEBT)
 PURSUANT TO A.R.S. §§ 40-301 AND 40-302.) (EXPEDITED APPROVAL
) REQUESTED)

EPCOR Water Arizona Inc. (“EWAZ” or “Company”) hereby submits its Application for authority to refinance \$133.0 million of long-term indebtedness from its parent company, EPCOR USA Inc. (“EPCOR USA”) which will mature on December 15, 2021. In support of its Application, EWAZ provides the following information:

1. EWAZ is an Arizona corporation engaged in providing water and wastewater service in several Arizona counties. EWAZ is a wholly-owned subsidiary of EPCOR USA and was purchased from American Water Works Company, Inc. (“American Water”) on February 1, 2012. See Decision No. 72668 (November 17, 2011). EWAZ is the largest private water and wastewater utility in Arizona – now providing water and wastewater services to over 285,000 water and wastewater customers throughout the state – the majority of whom are residential customers.

2. EWAZ’s main office is located in Phoenix, Arizona and its mailing address is: 2355 West Pinnacle Peak Road, Suite 300, Phoenix, Arizona 85027, and its telephone number is (623) 445-2455. EWAZ’s Director of Regulatory is Leticia Washington. The person authorized to receive notices and communications regarding this application is:

Leticia Washington
 Director of Regulatory
 EPCOR Water Arizona Inc.
 2355 West Pinnacle Peak Road, Suite 300
 Phoenix, AZ 85027
 Phone: (623) 587-5222
 email: lwashington@epcor.com

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

EWAZ's attorney is:

Jason D. Gellman
Associate General Counsel
EPCOR Water Arizona Inc.
2355 West Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027
Phone: (623) 445-2442
email: jgellman@epcor.com

All data requests and discovery should be directed to Ms. Washington, with a copy to Mr. Gellman.

3. EWAZ is currently authorized to charge rates for wastewater service per Decision No. 76162 (June 28, 2017) for its Arizona Wastewater District. The Company filed a rate case for all of its water districts (except for the San Tan Water District) on June 15, 2020, in Docket No. WS-01303A-20-0177. Interim rates were last approved for those water districts in Decision No. 77147 (April 16, 2019). Permanent rates were last approved for each of the water districts as follows:

Rate Decision Per District		
Water District	Date of Decision	Decision No.
Agua Fria	May 1, 2012	73145
Anthem	January 6, 2011	72047
Chaparral	June 20, 2014	74568
Havasu	May 1, 2012	73145
Mohave	September 8, 2015	75268
North Mohave	April 17, 1997	60168
Paradise Valley	September 8, 2015	75268
Sun City	September 8, 2015	75268
Sun City West	December 8, 2009	71410
Tubac	September 8, 2015	75268
Willow Valley	February 26, 2014	74364

1 4. In Decision No. 72668, EWAZ received authority to replace then-existing debt from
2 American Water with debt extended by EPCOR USA under comparable terms. EWAZ submitted
3 a compliance filing on March 22, 2012, indicating the terms of the replacement debt as follows:

- 4 • \$98 million note maturing December 15, 2041, at a 5% interest rate; and
- 5 • \$133 million note maturing December 15, 2021, at a 3.74% interest rate.¹

6 In Decision No. 76162 (the last permanent rate case approved for EWAZ for its Arizona
7 Wastewater District) the Company's capital structure used to establish its weighted average cost of
8 capital included \$231.0 million of long-term debt and \$8.56 million of short-term debt. As of
9 December 31, 2020, the Company's capital structure is approximately \$266,315 million of long-
10 term debt (not including the WIFA loan for the Tubac Water District totaling \$473,268).

11 5. The amount and purpose for EWAZ's requested authorization in this Application is
12 to refinance \$133.0 million in existing long-term debt that will mature on December 15, 2021. The
13 long-term debt was originally approved for EWAZ in Decision No. 72668. The purpose for the
14 \$133.0 million of long-term debt remains the same today as it was back when the Commission issued
15 Decision No. 72668 – maintaining a balanced capital structure. EWAZ will continue to use a
16 balanced capital structure to finance capital investments, as it has done in the past and anticipates no
17 material changes to EWAZ's current capital structure.

18 6. The terms of proposed financing from EPCOR USA would be comparable with
19 lending agreements with financial institutions. The methodology to determining the pricing of the
20 individual notes payable would be as follows:

- 21 • First, obtaining the underlying spot yield on a U.S. Treasury Bond with a
22 matching duration to the indebtedness, which will be between 10 and 30 years;

23
24
25
26 _____
27 ¹ Decision No. 72688 also indicated \$9.246 million in short-term debt at an initial interest of 0.35%; but the
Commission found that to be an intercompany payable that results from EPCOR USA's sweeping up of all
cash receipts and payment of all bills on behalf of EWAZ in Decision No. 76162.

- Second, adding a credit risk premium based on the credit rating – to reflect the risk above the U.S. Treasury Bond. EWAZ has a credit rating of “A–” based on the rating it received from Standard & Poor’s rating services as of April 26, 2016.
- Third, adding a five (5) basis point allowance for financing costs.

EPCOR USA is providing debt financing to EWAZ on favorable terms while interest rates remain relatively low. Further, EWAZ will benefit from its strong credit rating and excellent business profile. While EWAZ’s rate will be reflective of market rates at the time of issuance of each note, the following table demonstrates an example of what the calculation would be (and is provided here for illustrative purposes):

	10 year	30 year
1. Treasury bond yield ⁽¹⁾	2.69	3.65
2. Credit spread ⁽²⁾	1.00	1.3
3. Financing costs	0.05	0.05
EWAZ Cost of New Long-Term Debt	3.74%	5.00%

- (1) Example of the U.S. Department of the Treasury.
- (2) Credit spread for an A- utility estimated by TD Bank.

Attached as Exhibit 1 is a Term Sheet summarizing the terms and conditions of the \$133.0 million refinancing from EPCOR USA to EWAZ. The debt will be unsecured.

7. EWAZ must refinance the \$133.0 million in long-term debt issued to EWAZ upon the current debt reaching maturity on December 15, 2021. Even so, and as demonstrated above, this remains an opportune time for EWAZ to take advantage of the lower interest rates EPCOR USA is offering to EWAZ. Absent approval, EWAZ will have to pay off the entire \$133.0 million on December 15, 2021, which will result in substantial adverse financial consequences for EWAZ and its customers. Given the timeframe, EWAZ seeks approval of the refinancing on an expedited basis so that any order is effective on or before December 15, 2021.

8. EWAZ submits that its request for approval for financing is in the public interest and in accordance with Arizona law.

1 9. In support of this Application, the Company’s 2020 Balance Sheet & Income
2 Statement is attached as Exhibit 2. The requested refinancing will not impair EWAZ’s ability to
3 provide safe and reliable service.

4 10. Based on year-ending 2020 financials, EWAZ submits its Debt Service Coverage
5 (“DSC”) ratio is approximately 8.17 – and its Time Interest Earned Ratio (“TIER”) is approximately
6 4.87. Including the proposed financing request, EWAZ submits that its DSC and TIER will be
7 approximately the same. The Company submits it will be able to meet all obligations including
8 covering its expected debt payments from operating cash flow. Further, the Company is seeking
9 new permanent water rates for all its water districts (aside from the San Tan Water District) in Docket
10 No. WS-01303A-20-0177.

11 11. The purpose of EWAZ’s request is for lawful purposes (*i.e.*, to refinance its existing
12 long-term). EWAZ further submits that it is within its corporate powers to issue the evidence of
13 indebtedness for which it seeks approval in this Application.² EWAZ will also obtain any other
14 internal approvals it needs to proceed with the debt financing, once the Commission authorizes it.

15 12. The proceeds of this financing will be exclusively used toward the above-described
16 purpose and comply with all applicable regulatory requirements. No portion of the funds will be used
17 for operating expenses. Therefore, EWAZ believes its application is consistent with sound financial
18 practices and will enhance the Company’s ability to ensure safe and reliable service.

19 13. For all of the reasons described in this Application, EWAZ believes its request is in
20 the public interest. Further, EWAZ submits that it is in compliance with all applicable ADEQ and
21 ADWR requirements (including the consent order associated with the San Tan Water and
22 Wastewater Districts).

23 14. EWAZ intends to provide public notice of this Application as shown in Exhibit 3.
24 EWAZ will have this notice published in newspapers of general circulation in its certificated service
25 areas. EWAZ will file proof of publication with the Commission when available.

26
27 _____
² EWAZ will provide the approved resolution in this docket as soon as received.

1 WHEREFORE, based on this Application, EWAZ respectfully requests that the Commission:

- 2 1. authorize EPCOR Water Arizona Inc. to refinance up to \$133.0 million in existing long-
3 term debt that will mature on December 15, 2021 approved in Decision No. 72668 in
4 accordance with A.R.S. §§ 40-301 and 40-302;
- 5 2. authorize it to engage in any transactions and execute any documents necessary to
6 effectuate the authorizations requested in this Application; and
- 7 3. approve these requests so that the order is effective on or before December 15, 2021.

8 Further, EWAZ requests the Commission grant any such other and further relief as may be
9 appropriate under the circumstances herein.

10 RESPECTFULLY SUBMITTED this 15th day of September, 2021.

11 EPCOR WATER ARIZONA INC.

12 /s/ Jason D. Gellman

13 Jason D. Gellman
14 2355 West Pinnacle Peak Road, Suite 300
15 Phoenix, AZ 85027
Attorney for EPCOR Water Arizona Inc.

16 ORIGINAL of the foregoing efiled this 15th day
17 of September, 2021, with:

18 Docket Control
19 Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

20 Copy emailed this 15th day
21 of September, 2021 to:

22 Jane Rodda, Esq.
23 Chief Administrative Law Judge
Hearing Division
24 Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007
25 hearingdivision@azcc.gov

26 Robin R. Mitchell, Esq.
27 Legal Division Chief Counsel/Division Director
Arizona Corporation Commission
1200 W. Washington Street

Phoenix, Arizona 85007

legaldiv@azcc.gov

Elijah Abinah

Director, Utilities Division

Arizona Corporation Commission

1200 W. Washington Street

Phoenix, Arizona 85007

utildivservicebyemail@azcc.gov

/s/ Jason D. Gellman

Exhibit 1

This summary of terms and conditions of financing is indicative and does not constitute a commitment or obligation by EPCOR Utilities Inc. or any of its affiliates. This indicative term sheet is based on the most current information and is not necessarily exhaustive as to the final terms and conditions which will govern this financing.

December [XX], 2021



EPCOR Water Arizona Inc. Promissory Note Indicative Term Sheet

Issuer:	EPCOR Water Arizona Inc. ("the Corporation or EPCOR")
Principal Amount:	USD \$133.00 million
Ratings:	S&P: A- (Private Credit Analysis - April 2016)
Pricing Date:	Estimated at December 15, 2021
Settlement Date:	Estimated at December 15, 2021
Maturity Date:	10-30 year maturities
Tenor:	10-30 year maturities
Structure:	Unsecured Bullet Debt
Credit Spread ⁽¹⁾:	+ 100 to 175 bps
Treasury Yield:	[X.XX%] Benchmark US Treasury Bond Yield
Fixed Coupon:	[X.XX%] semiannually in arrears on June 15 th and December 15 th commencing on June 15 th , 2022.
Rank:	The Notes will be direct, unsecured and unsubordinated obligations of the Corporation, and will passu with all other unsecured and unsubordinated indebtedness of the Corporation.
Use of Proceeds:	Refinance existing indebtedness.
Prepayment:	Notes are callable at any time in whole or in part. Make-whole call discounted at UST + 50bps.
Financial and Non-Financial covenants:	Covenants to be consistent with EPCOR USA Inc. notes.
Assignment:	The Corporation may not assign any of its rights or obligations hereunder without the prior written consent of the Lender.
Law:	Alberta


(1) The Credit Spread shows the basis point difference between the yield on the **Notes** and the yield on the specified United States benchmark Treasury bond.

Exhibit 2

**EPCOR WATER ARIZONA INC.
FINANCIAL STATEMENTS - UNAUDITED
DECEMBER 31, 2020**

Officer's Certification

I, the undersigned, certify that these financial statements have been prepared under my direction, from the original books, paper and records; that I have carefully examined the same, and declare them to be complete and correct for the period covered, to the best of my knowledge, information, and belief.



Gregory A. Barber
Vice President and Controller

EPCOR WATER ARIZONA INC.
Table of Contents
DECEMBER 31, 2020

Financial Statements - Unaudited	Page
Balance Sheet	2
Statement of Income.....	3

EPCOR WATER ARIZONA INC.
BALANCE SHEET
DECEMBER 31, 2020

Unaudited (in thousands)

ASSETS	<u>December 31, 2020</u>
Utility plant	\$ 1,416,349
Less: accumulated depreciation	(512,786)
Construction work in process	31,271
Net utility plant	<u>934,834</u>
Current assets	
Cash and cash equivalents	79
Trade and other receivables	7,796
Unbilled revenue	15,370
Prepaid expenses	1,639
Inventories	2,675
Total current assets	<u>27,559</u>
Non-current assets	
Regulatory assets	27,525
Inter-company receivable	101,148
Intangible assets	1,728
Total non-current assets	<u>130,401</u>
TOTAL ASSETS	<u><u>\$ 1,092,794</u></u>
CAPITALIZATION AND LIABILITIES	
Common stockholder's equity	\$ 291,943
Long term debt, less current maturities	255,544
Total capitalization	<u>547,487</u>
Current liabilities	
Trade and other payables, net	71,988
Loans and borrowings	10,634
Advances for Construction	2,109
Other current liabilities	629
Total current liabilities	<u>85,360</u>
Non-current liabilities	
Advances for Construction	140,114
Contributions in aid of construction, net	266,355
Deferred tax liabilities, net	9,737
Other liabilities	12,565
Total non-current liabilities	<u>31,176</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u>459,947</u>
	<u><u>\$ 1,092,794</u></u>

These unaudited financial statements have been prepared solely for internal use only and are considered confidential and proprietary: not to be disclosed, reproduced, or distributed.

EPCOR WATER ARIZONA INC.
STATEMENTS OF INCOME (unaudited)
YEAR ENDED DECEMBER 31, 2020

(in thousands)

Revenue	
Water sales	\$ 159,302
Other income	3,947
Total operating revenues	<u>163,249</u>
Operating expenses	
Other raw materials and operating charges	21,204
Staff costs and employee benefits expenses	22,483
Other operating expenses	6,449
Depreciation and amortization	36,827
Other administrative expenses	16,839
Property Taxes	5,600
Total operating expenses, net	<u>109,402</u>
Operating income	<u>53,847</u>
Other income (expenses)	
Financing expenses	(10,673)
Income taxes	(11,114)
Total other income (expenses)	<u>(21,787)</u>
Net income	<u><u>\$ 32,060</u></u>

These unaudited financial statements have been prepared solely for internal use only and are considered confidential and proprietary: not to be disclosed, reproduced, or distributed.

Exhibit 3

**PUBLIC NOTICE OF EPCOR WATER ARIZONA INC. TO REFINANCE UP TO
\$133 MILLION IN EXISTING LONG-TERM DEBT PURSUANT TO A.R.S. §§
40-301 AND 40-302
DOCKET NO WS-01303A-21-0XXX**

EPCOR Water Arizona Inc. (EPCOR) on [DATE] filed an application with the Arizona Corporation Commission for authority to refinance up to \$133 million in existing long-term debt that will mature on December 15, 2021. The long-term debt was originally approved for EPCOR Water Arizona Inc. in Decision No. 72668. The purpose for the refinancing is to maintain a balanced capital structure to fund necessary capital investments over the next three-to-five years. EPCOR seeks to obtain financing approval requested in this application as soon as possible in order to take advantage of relatively low interest rates. This matter is separate from the ongoing water rate case in Docket No. WS-01303A-20-0177.

How You Can View or Obtain a Copy of the Application

Copies of the Application are available at the Commission's offices at 1200 West Washington, Phoenix, Arizona, 85007 for public inspection during regular business hours, and on the Internet via the Commission's website (www.azcc.gov) using the e-Docket function. A copy of the application is also available on the company's website at www.epcor.com.

Arizona Corporation Commission Public Hearing Information.

Written public comments may be submitted by mailing a letter referencing **Docket No. WS-01303A-21-0XXX** to Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, AZ 85007, or by submitting comments on the Commission's website (www.azcc.gov) using the "Submit a Public Comment for a Utility" function. If you require assistance, you may contact the Consumer Services Section at 602-542-4251 or 1-800-222-7000.

If you do not intervene in this proceeding, you will receive no further notice of the proceedings in this docket. However, all documents filed in this docket are available online (usually within 24 hours after docketing) at the Commission's website (www.azcc.gov) using the e-Docket function.

About Intervention.

An interested person may be granted intervention if the outcome of the case will directly and substantially impact the person, and the person's intervention will not unduly broaden the issues in the case. Intervention, among other things, entitles a party to present sworn evidence at hearing and to cross-examine other parties' witnesses. **However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case.**

To request intervention, you must file **an original and 13 hard copies** of a written request to intervene with Docket Control, 1200 West Washington, Phoenix, AZ 85007, **no later than [DATE]**. You also **must** serve a copy of the request to intervene on each party of record, on the same day that you file the request to intervene with the Commission. Information about intervention and sample intervention requests are available on the Commission's website (www.azcc.gov) using the "Intervention in Utility Cases" link.

Your request to intervene must contain the following:

1. Your name, address, and telephone number, and the name, address, and telephone number of any person upon whom service of documents is to be made, if not yourself

2. A reference to **Docket No. WS-01303A-21-0XXX**
3. A short statement explaining:
 - a. Your interest in the proceeding (e.g., a customer of EPCOR, etc.);
 - b. How you will be directly and substantially affected by the outcome of the case; and
 - c. Why your intervention will not unduly broaden the issues in the case;
4. A statement certifying that you have served a copy of the request to intervene on EPCOR or its attorney and all other parties of record in the case; and
5. If you are not represented by an attorney who is an active member of the Arizona State Bar, and you are not representing yourself as an individual, sufficient information and any appropriate documentation to demonstrate compliance with Arizona Supreme Court Rules 31, 38, 39, and 42, as applicable.

The granting of motions to intervene shall be governed by A.A.C. R14-3-105, except that **all motions to intervene must be filed on or before [DATE]**.

ADA/Equal Access Information.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Carolyn Buck, E-mail ADACoordinator@azcc.gov, voice phone number 602-542-2247. Requests should be made as early as possible to allow time to arrange the accommodation.