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Transcript Exhibit(s)

Docket #(s): W-02113A-10-0309

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Arizona Corporation Commission  
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AZ CORP COMMISSION  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

9 IN THE MATTER OF THE APPLICATION  
10 OF CHAPARRAL CITY WATER  
11 COMPANY, INC. FOR A WAIVER  
12 UNDER A.A.C. R14-2-806 OR, IN THE  
13 ALTERNATIVE, NOTICE OF INTENT TO  
14 REORGANIZE UNDER A.A.C. R14-2-803.

DOCKET NO: W-02113A-10-\_\_\_\_\_

**APPLICATION FOR A WAIVER  
UNDER A.A.C. R14-2-806 OR, IN THE  
ALTERNATIVE, NOTICE OF  
INTENT TO REORGANIZE UNDER  
A.A.C. R14-2-803**

15 Pursuant to A.A.C. R14-2-806, Chaparral City Water Company, Inc. ("CCWC" or  
16 "the Company"), an Arizona public service corporation, hereby requests that the Arizona  
17 Corporation Commission (the "Commission") waive compliance with the requirements of  
18 A.A.C. R14-2-801 to R14-2-806 ("the Affiliated Interests Rules") with respect to a  
19 pending transaction between CCWC's parent, American States Water Company  
20 ("American States), a California corporation, and EPCOR Water (USA) Inc. ("EPCOR  
21 USA"), a Delaware corporation, under which American States will sell to EPCOR USA  
22 all of the issued and outstanding shares of CCWC's common stock ("the Transaction").

23 The nature of the Transaction and the basis for CCWC's requested waiver are set  
24 forth below and have been verified by Keith Switzer, the Vice President, Regulatory  
25 Affairs, of American States, in accordance with A.A.C. R14-2-806(B). In short, none of  
26 the parties to the Transaction are public service corporations, as defined in Article 15, § 2  
of the Arizona Constitution, and the Transaction will not have any effect on CCWC's  
provision of utility services. Under these circumstances, and because the Transaction  
serves the public interest, CCWC requests that the Commission declare that the

1 Transaction is not subject to the Affiliated Interests Rules or grant a waiver from such  
2 rules under A.A.C. R14-2-806(A).

3 Alternatively, and in the event that the Commission declines to grant such waiver,  
4 CCWC hereby gives notice to the Commission pursuant to A.A.C. R14-2-803 that CCWC  
5 intends to "reorganize," as such term is defined in the Affiliated Interests Rules, by virtue  
6 of American States selling all of the outstanding and issued shares of CCWC's common  
7 stock to EPCOR USA. Given the nature of the Transaction, and the fact that it will not  
8 impair CCWC's financial status, prevent CCWC from attracting capital on fair and  
9 reasonable terms, or impair the ability of CCWC to provide safe, reasonable and adequate  
10 service, CCWC requests that the Commission approve the reorganization without a  
11 hearing pursuant to A.A.C. R14-2-803(C).

#### 12 OVERVIEW OF CCWC AND AMERICAN STATES

13 1. CCWC is a public service corporation engaged in providing water utility  
14 service in portions of eastern Maricopa County, Arizona, including the Town of Fountain  
15 Hills, pursuant to a certificate of public convenience and necessity granted by the  
16 Commission. At the present time, CCWC provides water service to approximately 13,000  
17 customers. CCWC's current rates and charges were authorized in Decision No. 71308  
18 (Oct. 21, 2009), as amended *nunc pro tunc* by Decision No. 71724 (December 8, 2009).

19 2. CCWC's parent, American States, is a California corporation headquartered  
20 in San Dimas, California, the stock of which is traded on the New York Stock Exchange.  
21 American States' subsidiary Golden State Water Company provides water service to over  
22 250,000 customers in 75 communities throughout California and distributes electricity to  
23 approximately 23,000 customers in the Big Bear recreational area in California.  
24 American States' subsidiary American States Utility Services contracts with  
25 municipalities, the United States government and private entities to provide various  
26 services, including billing and meter reading, water marketing and operation and

1 maintenance of water and wastewater systems at various military installations throughout  
2 the United States.

3 3. As stated, CCWC is a wholly owned subsidiary of American States, which  
4 owns all of the issued and outstanding shares of common stock in CCWC. For business  
5 reasons, American States has decided to divest itself of its ownership and stock interests  
6 in CCWC, and to focus on its business activities in California and in states other than  
7 Arizona.

8 4. CCWC has no matters pending before the Commission or otherwise  
9 involving the Commission that would be affected by the Transaction. The matters that are  
10 pending are described in Exhibit 1, attached hereto. CCWC is in compliance with local  
11 and state regulatory requirements. The Maricopa County Environmental Services  
12 Department ("MCESD") is responsible for regulating CCWC's compliance with state and  
13 federal drinking water standards. CCWC received a public water system compliance  
14 report from MCESD on June 16, 2010, which described CCWC's general public water  
15 system compliance status as "compliant." CCWC's Annual Water Withdrawal and Use  
16 Report for calendar year 2009 and its Central Arizona Groundwater Replenishment  
17 District 2009 report were filed on March 15, 2010. CCWC's property taxes are current.

#### 18 OVERVIEW OF EPCOR

19 5. EPCOR USA is an indirect wholly owned subsidiary of EPCOR Utilities  
20 Inc. ("EPCOR"). EPCOR is a municipally owned Canadian corporation and holding  
21 company that builds, owns and operates water and wastewater treatment facilities and  
22 infrastructure and electrical transmission and distribution networks, in Canada. EPCOR is  
23 headquartered in Edmonton, Alberta. It is governed by an independent Board of  
24 Directors, and its sole shareholder is the City of Edmonton, Alberta, Canada.

25 6. EPCOR is the parent company of a number of subsidiary companies. Its  
26 primary operating utility subsidiaries are EPCOR Water Services Inc. ("EPCOR Water"),

1 EPCOR Distribution & Transmission Inc. (“EPCOR Distribution”) and EPCOR Energy  
2 Alberta Inc. (“EPCOR Energy”).

3         7. EPCOR Water provides water and wastewater services to over one million  
4 people in more than 70 communities and counties across western Canada. EPCOR Water  
5 and its predecessors have been providing water to the residents of the City of Edmonton  
6 for more than 100 years. EPCOR Water owns and operates seven water treatment  
7 facilities in Alberta and British Columbia; operates 17 other water treatment and  
8 distribution facilities in Alberta and British Columbia; owns and operates five wastewater  
9 treatment facilities in Alberta and British Columbia; and, operates 19 other wastewater  
10 treatment and collection facilities in Alberta and British Columbia. Further, EPCOR  
11 Water has long-standing business and working relationships in Canada with established  
12 American companies such as Stantec Consulting, Inc. and PCL Construction, Inc.,  
13 spanning nearly 50 years, including projects where EPCOR Water and Stantec/PCL have  
14 jointly built and refurbished numerous water and wastewater facilities.

15         8. EPCOR Water operates and manages those regulated water and wastewater  
16 utilities, supplying services to retail and wholesales customers across western Canada.  
17 EPCOR Water specializes in all aspects of water and wastewater plant operations and  
18 maintenance as well as the provision of full customer support services and operator  
19 training. EPCOR Water’s facilities in Edmonton encompass two state-of-the-art water  
20 treatment plants, a distribution network with approximately 2,000 miles of distribution  
21 and transmission mains, and approximately 17,000 hydrants and 53,000 valves. EPCOR  
22 Water’s 12 reservoir sites have an aggregate capacity of approximately 213 million  
23 gallons. EPCOR Energy Services provides call center and billing services for EPCOR  
24 Water’s 250,000 customers.

25         9. EPCOR Water also operates and maintains the distribution systems in the  
26 communities in which it provides water service. Just like CCWC, the service areas for the

1 cities of Edmonton and Canmore, Alberta both have distribution systems with multiple  
2 pressure zones. EPCOR Water's experience operating multiple zone distribution systems  
3 will benefit the customers of CCWC.

4 10. EPCOR Distribution owns and operates high voltage electric substations  
5 and high voltage transmission lines, which form part of the Alberta interconnected electric  
6 system and are situated primarily within and around the City of Edmonton. EPCOR  
7 Distribution also distributes power to more than 330,000 customers within its distribution  
8 service area comprising the City of Edmonton. EPCOR Distribution is regulated by the  
9 Alberta Utilities Commission.

10 11. EPCOR Energy provides customer care and rate-setting services to its  
11 customers in Alberta as well as certain customer care services to affiliates and third  
12 parties. In Alberta's deregulated marketplace, EPCOR Energy provides Regulated Rate  
13 Option electricity service to residential and small commercial consumers within the City  
14 of Edmonton, several Rural Electrification Association service territories, and the  
15 FortisAlberta Inc. service territory. EPCOR Energy also provides billing, collections and  
16 contact center services to the City of Edmonton's Waste and Drainage Divisions. EPCOR  
17 Energy is also regulated by the Alberta Utilities Commission.

18 12. In July 2009, EPCOR sold substantially all of its power generation assets  
19 and related operations to Capital Power, a newly created power generation entity.  
20 EPCOR plans to eventually sell all or a substantial portion of its ownership interest in  
21 Capital Power subject to market conditions, requirements for capital and other  
22 circumstances that may arise in the future, and reinvest the proceeds from such sales in  
23 EPCOR's utility infrastructure businesses, including water and wastewater treatment, and  
24 power transmission and distribution.

25 13. EPCOR has been recognized with various awards for EPCOR's civic  
26 involvement and community interests, and for its long record of good corporate

1 governance and environmental excellence. EPCOR has been recognized as one of  
2 Canada's Top 100 Employers. In 2008, EPCOR was chosen as one of Canada's Top 10  
3 Earth Friendly employers. EPCOR also received the 2010 Alberta Venture Best  
4 Workplace for the Environmentally Conscious (recognizing companies with best practices  
5 and regular contributions in the design and implementation of green initiatives in water,  
6 wastewater and power usage in North America), and the 2009 and 2010 Government of  
7 Alberta EnviroVista Leadership award (recognizing Alberta industrial and manufacturing  
8 facilities and municipal water operations for their environmental excellence). As a  
9 company that privately owns and operates water infrastructure in several communities,  
10 EPCOR has been recognized by the Canadian Council for Public Private Partnerships for  
11 its excellence in service delivery and fiscal management in constructing and operating  
12 water and wastewater facilities.

13 14. EPCOR Water's technical expertise includes using advanced and highly  
14 automated water treatment systems, ultraviolet disinfection, and remote systems capable  
15 of monitoring all sizes of facilities. It also focuses on the industrial sector by providing  
16 drinking and process water, as well as wastewater treatment, including reuse water.

17 15. EPCOR Water's water and wastewater operations meet or exceed stringent  
18 Canadian federal, provincial, and municipal water quality requirements. In 2008, its  
19 Quality Assurance Laboratory scored the highest among 68 labs across Canada and the  
20 United States in tests administered by the U.S. Environmental Protection Agency. The  
21 majority of the labs were in major United States cities.

22 16. As noted above, EPCOR Water owns and operates seven water treatment  
23 facilities and 17 other water treatment and distribution facilities in Canada. Those  
24 systems obtain water supplies from both ground water and surface water. EPCOR Water  
25 has experience with surface water systems in the City of Edmonton, which is supplied  
26 with water from the North Saskatchewan River. In turn, EPCOR Water has experience

1 with volume and water quality variances, municipal discharges, high turbidity events and  
2 a variety of other circumstances relating to use of surface water. In utilizing surface water  
3 for operations, EPCOR Water's two state-of-the-art surface water treatment plants in  
4 Edmonton have been able to meet or exceed all health and environmental requirements,  
5 illustrating that EPCOR Water has substantial expertise and knowledge for operating  
6 surface water systems. EPCOR Water's experience in operating and managing surface  
7 water systems and treatment plants in Edmonton will benefit customers of CCWC, which  
8 relies heavily on CAP water. EPCOR Water intends to continue use of CAP water as the  
9 primary source of water for CCWC and to use groundwater as a back-up supply, in  
10 furtherance of Arizona's laws and policies relating to the conservation of groundwater.

11 17. EPCOR Water has maintained water efficiency best management practices  
12 in Canada, which support local and provincial goals for sustainable communities. For  
13 example, EPCOR Water implements industry best management practices for water  
14 management, including public education efforts focusing on prudent outdoor watering and  
15 reducing indoor water use through leak detection and use of water efficient appliances.  
16 EPCOR Water also has management practices to maintain and service existing water and  
17 wastewater facilities. Through such practices, water main breaks in Edmonton have been  
18 reduced to their lowest level since the early 1960s, and EPCOR Water has ensured that the  
19 infrastructure is in place to meet the city's water needs long into the future.

20 18. EPCOR Water also has worked closely with the City of Edmonton in  
21 development of its new Water Efficient Fixtures Bylaw. The bylaw requires water  
22 efficient fixtures (toilets, showerheads, faucets) to be installed in all new development and  
23 major renovations that require plumbing permits. As a result of these efforts, Edmonton  
24 residents use 15% less water than residents in other fully metered, large Canadian cities.  
25 In 2009, Edmonton reported one of the lowest water consumption rates for domestic  
26 customers (single family homes and apartments) with an average of 59 gallons per day

1 compared to the average of 70 gallons per day for Canadian residential customers living in  
2 large metered communities. EPCOR will continue to implement such best management  
3 practices for its United States utilities, including CCWC.

4 19. As noted above, EPCOR Water provides water and wastewater services in  
5 over 70 communities in Canada. In the past ten years, EPCOR Water has been subject to  
6 only two environmental administrative penalties, both of which were determined to be  
7 minor violations. Administrative penalties in Canada are the lowest form of action taken  
8 by authorities and do not involve legal proceedings. The first occurred in 2001 and  
9 involved a permitting oversight. The second occurred in 2010 relating to an  
10 administrative penalty for high finished water turbidity in the Town of Okotoks. The  
11 Town had contracted with a third party for the construction and commissioning of its  
12 water treatment plant prior to EPCOR Water's involvement. The penalty stemmed from a  
13 call-out alarm, which did not notify the operator when turbidity limits were exceeded.  
14 The subsequent investigation determined that a line of code in the automated monitoring  
15 system program was missing and the call-out alarm was not functioning. In both of those  
16 cases, EPCOR Water immediately remedied those minor procedural or operational  
17 deficiencies.

18 20. EPCOR Water focuses on being "the neighbor of choice" in all communities  
19 where it operates facilities. EPCOR believes stakeholder participation is a critical element  
20 of a successful utility operation. Stakeholder status is open to any person or group which  
21 believes they have a stake in EPCOR's activities. EPCOR Water will conduct stakeholder  
22 and customer information sessions in Fountain Hills in late summer/early fall of 2010  
23 relating to the acquisition of CCWC and future company operations. Further, EPCOR  
24 Water works closely with its environmental and health boards, municipal councils and  
25 regulatory agencies in all areas where it conducts business in Canada. EPCOR will  
26 continue this operating philosophy in its operation of CCWC.

1           21.    EPCOR USA's purchase of the stock of CCWC is EPCOR's first entry into  
2 the water and wastewater utility industry in the United States. This Transaction is part of  
3 EPCOR's business strategy to invest in and become a long-term owner of Arizona water  
4 and wastewater utilities and to provide various utility-related services to municipalities  
5 and other governmental entities in Arizona and other states. EPCOR's strategy also  
6 includes future opportunities to purchase and operate water and wastewater utilities in  
7 Arizona.

8           **THE TRANSACTION BETWEEN EPCOR USA AND AMERICAN STATES**

9           22.    On June 7, 2010, EPCOR USA entered into a Stock Purchase Agreement  
10 with American States for the purchase of all outstanding shares of CCWC's common  
11 stock (the "Stock Purchase Agreement"). A copy of this agreement will be provided  
12 subject to an appropriate confidentiality agreement.

13           23.    EPCOR USA will purchase the stock of CCWC for approximately \$29  
14 million, which will be paid to American States in cash at closing. CCWC's utility plant,  
15 revenue and other assets will not be used as security for this financing, nor will the stock  
16 of CCWC be pledged or otherwise used as security for this financing.

17           24.    After the Transaction closes, CCWC will remain the same legal entity as  
18 before, except that the Company will be a subsidiary of EPCOR USA rather than  
19 American States. This Transaction does not involve the sale, lease, assignment,  
20 encumbrance or transfer or conveyance of any of the Company's utility plant, assets,  
21 revenue or property. CCWC's current employees are expected to continue to operate the  
22 Company once the Transaction closes. Specifically, EPCOR anticipates that all of the  
23 existing employees of CCWC will remain with the company and continue in their present  
24 roles. EPCOR intends to deploy a managerial staff member to CCWC on a full time basis  
25 to oversee any transition issues, build relationships with our customers and other  
26

1 stakeholders and ensure that all customer issues are addressed. In short, the Transaction  
2 will be transparent to CCWC's customers.

3 25. The Transaction between EPCOR USA and American States will not alter  
4 the utility service provided by CCWC to its customers. CCWC will continue to provide  
5 safe, reliable and adequate water utility service to customers in its service territory under  
6 its existing rates and tariffs. Moreover, CCWC will continue to be operated as a public  
7 service corporation and be subject to the Arizona Corporation Commission's authority  
8 and jurisdiction. Water rates for customers of CCWC are not anticipated to change as a  
9 result of the Transaction, and EPCOR does not intend to seek an acquisition adjustment.

10 **REQUEST FOR WAIVER UNDER RULE 806**

11 26. Based on the nature of the Transaction and the lack of any impact on CCWC  
12 and its operations, the Company submits that, to the extent the Affiliated Interests Rules  
13 may apply to this Transaction, a waiver of such rules is appropriate and in the public  
14 interest under A.A.C. R14-2-806 ("Rule 806").

15 27. CCWC believes that a waiver is appropriate and in the public interest  
16 because the Affiliated Interests Rules do not apply to the sale of issued and outstanding  
17 stock by and between foreign corporations that are not public service corporations and  
18 otherwise conduct no business activities in Arizona. *See, e.g., Arizona Corp. Comm'n v.*  
19 *Consolidated Stage Co.*, 63 Ariz. 257, 161 P.2d 110 (1945). CCWC respectfully submits  
20 that the Commission's jurisdiction over public service corporations does not permit the  
21 Commission to disapprove or otherwise regulate transactions of this nature.

22 28. The Transaction will not alter the capital structure of CCWC. CCWC will  
23 not assume any debt or other liabilities in connection with the Transaction, nor, as stated,  
24 will any utility plant, revenue or other assets currently owned by CCWC be sold,  
25 transferred or encumbered. Consequently, CCWC's ability to raise capital and its  
26 creditworthiness will not be impaired by the Transaction.

1           29. The Transaction will not cause any change in CCWC's cost of providing  
2 utility service. As stated, the Transaction will not cause any change in the manner in  
3 which CCWC will be operated, and local management will be enhanced with on-site  
4 oversight and support. The Transaction will not negatively impact the Company's utility  
5 service to customers; nor will the Transaction eliminate the Commission's existing  
6 regulatory oversight and approval authority relating to CCWC.

7           30. CCWC is fully cognizant of its responsibility to the Commission and its  
8 attendant obligations as a public service corporation to comply with the requirements of  
9 lawful regulation. The Company, however, respectfully submits that the nature of the  
10 Transaction between EPCOR and American States is such that either the Affiliated  
11 Interests Rules do not apply or, in the alternative, the public interest justifies a waiver of  
12 compliance with the requirements set forth in the Affiliated Interests Rules.

13                   **NOTICE OF INTENT – INFORMATION REQUIRED BY RULE 803**

14           31. If the Commission determines that it has jurisdiction over the Transaction  
15 and declines to grant a waiver under Rule 806, then the Company requests in the  
16 alternative that the Commission approve the Transaction under A.A.C. R14-2-803 ("Rule  
17 803"). Pursuant to this alternative request under Rule 803, CCWC provides the following  
18 information specified in Rule 803.

19           **1. The Names and Business Addresses of the Proposed Officers and Directors of**  
20           **the Holding Company.**

21           32. Attached as Exhibit 2 is a list of the names and business addresses of the  
22 individuals responsible for the management of EPCOR Utilities Inc., EPCOR Water  
23 Services Inc., EPCOR Water Development (West) Inc., and EPCOR Water (USA), Inc.

24           **2. The Business Purposes for Establishing or Reorganizing the Holding**  
25           **Company.**

26

1           33.    CCWC believes that the Transaction does not involve the establishment or  
2 reorganization of a holding company in the sense contemplated by the Commission when  
3 it adopted the Affiliated Interests Rules. *See, e.g.*, Decision No. 56844 (March 14, 1990);  
4 Decision No. 56618 (Aug. 25, 1989) (describing purpose of rules). Instead, as previously  
5 indicated, the Transaction involves the sale of CCWC's issued and outstanding common  
6 stock by American States to EPCOR USA and EPCOR USA's purchase of all of CCWC's  
7 issued and outstanding shares of common stock from American States in an arms-length,  
8 bargained-for transaction.

9           34.    The purpose of the Transaction is set forth above in paragraphs 3, and 21-  
10 25. As explained above, for business reasons American States has decided to divest itself  
11 of its ownership and stock interests in CCWC. The Transaction reflects EPCOR's  
12 business plan to enter into the water utility market in Arizona and is part of EPCOR's  
13 long-term strategy to invest in and own water and wastewater facilities in the southwest  
14 United States and contract to provide similar services to municipal and other  
15 governmental authorities.

16           35.    As stated above, EPCOR is a trusted developer and operator of utility  
17 infrastructure and works hard to maintain its reputation for quality and reliability. The  
18 United States provides opportunities to build a larger portfolio of water and wastewater  
19 assets. Water scarcity, increasing regulation requiring additional investment in water  
20 infrastructure, openness to private participation, a greater focus on quality than on private  
21 participation, the presence of business partners who have established a local presence, and  
22 significant business opportunity in the targeted areas of California and Arizona relative to  
23 the Canadian marketplace highlight EPCOR's reasons for pursuing investment in the U.S.  
24 market and the purchase of American States' interest in CCWC.

25  
26

1     **3. The Proposed Method of Financing the Holding Company and the Resultant**  
2     **Capital Structure.**

3             36. As stated above, EPCOR USA will purchase the stock of CCWC from  
4 American States for \$29 million, as adjusted at closing. The purchase price will be  
5 funded by cash on hand together with either the issuance of short term debt via EPCOR's  
6 commercial paper program or bank debt. As previously stated, EPCOR has substantial  
7 assets and business operations in Canada. In 2009, EPCOR had approximately \$2.4  
8 billion (\$Cdn) in revenue from its various operations, and net income of approximately  
9 \$125 million (\$Cdn). No material changes to EPCOR's capital structure are expected as a  
10 result of the Transaction, and EPCOR will continue to finance capital projects in the same  
11 way it has in the past.

12     **4. The Resultant Effect on the Capital Structure of the Public Utility.**

13             37. The capital structure of CCWC will not change as a result of the  
14 Transaction.

15     **5. An Organization Chart of the Holding Company That Identifies All Affiliates**  
16     **and Their Relationships within the Holding Company.**

17             38. An organizational chart identifying EPCOR and its affiliates and  
18 subsidiaries is attached as Exhibit 3.

19     **6. The Proposed Method for Allocating Federal and State Income Taxes to the**  
20     **Subsidiaries of the Holding Company.**

21             39. In conjunction with setting rates and charges for service and related  
22 regulatory matters, CCWC's federal and state income taxes will be computed on a stand-  
23 alone basis. Further, the Transaction will not cause any federal or state income taxes or  
24 any other taxes resulting from the activities of any other affiliate of EPCOR to be  
25 allocated to CCWC.

26

1 **7. The Anticipated Changes in the Utility's Cost of Service and the Cost of**  
2 **Capital Attributable to the Reorganization.**

3 40. As previously stated, the Transaction will not have any effect on the capital  
4 structure of CCWC. Likewise, the Transaction is not anticipated to result in any material  
5 changes to the Company's cost of service or its cost of capital. CCWC will continue to be  
6 operated on a stand-alone basis, and will contract for services, equipment and supplies,  
7 and will raise capital like other Arizona utilities. The only change will be the ownership  
8 of CCWC's outstanding common stock.

9 **8. A Description of Diversification Plans of Affiliates of the Holding Company.**

10 41. EPCOR intends to focus on its core utility and related businesses and does  
11 not have any immediate plans to diversify its operations of affiliates. EPCOR's business  
12 strategy is to own and operate water and wastewater treatment facilities and infrastructure  
13 and electrical transmission and distribution facilities in Canada and the United States, and  
14 to provide contract services of a like nature to municipal and other governmental entities.  
15 This Transaction will not result in any change to EPCOR's strategy. And, as stated above,  
16 CCWC will be operated on a stand-alone basis and will not be combined or merged with  
17 any other EPCOR entity for income tax or rate-making purposes.

18 **9. Copies of All Relevant Documents and Filings With the United States**  
19 **Securities and Exchange Commission and Other Federal or State Agencies.**

20 42. None. EPCOR Utilities Inc. has continuous disclosure filings with  
21 Canadian securities regulators. The filings are available on the SEDAR website at  
22 [www.sedar.com](http://www.sedar.com).

23 **10. The Contemplated Annual and Cumulative Investment in Each Affiliate for**  
24 **the Next Five Years, In Dollars and as a Percentage of Projected Net Utility**  
25 **Plant, and An Explanation of the Reasons Supporting the Level of Investment**  
26 **and the Reasons This Level Will Not Increase the Risks of Investments in the**  
**Public Utility.**

1           43. As stated above in paragraphs 6 to 12, EPCOR owns interests in numerous  
2 water, wastewater and electric facilities in Canada. As such, it would be extremely  
3 difficult to provide this information due to the large number and diverse nature of the  
4 various companies and businesses that will become an "affiliate" of EPCOR under the  
5 definition of "affiliate" provided in R14-2-801(1). EPCOR USA has reviewed American  
6 States' projected capital budget for CCWC for the years 2010 through 2014 and intends to  
7 generally adopt the projected capital budget plan. Under that plan, capital projects  
8 totaling approximately \$8.5 million would be constructed over the next five years.<sup>1</sup> For  
9 the reasons previously stated, EPCOR has access to the capital market and will be able to  
10 support CCWC as appropriate. In 2009 EPCOR had revenues of approximately \$2.4  
11 billion (\$Cdn) and a net income of approximately \$125 million (\$Cdn) from its various  
12 operations. Therefore, the Transaction will not increase the level of investment risk in  
13 CCWC.

14           44. For the reasons previously explained, this Transaction will not increase the  
15 risks of investment in CCWC. No utility funds will be co-mingled with non-utility funds,  
16 nor will any cross-subsidization of non-utility activities take place. Further, the  
17 Transaction will not alter the Commission's existing regulatory oversight and approval  
18 authority with respect to CCWC's operations and its dealings with affiliates. For these  
19 reasons, the Transaction will not increase the level of risk associated with an investment  
20 in CCWC.

21           **11. An Explanation of the Manner in Which the Utility Can Ensure That**  
22           **Adequate Capital Will Be Available for the Construction of New Utility Plant**  
23           **and For Improvements In Existing Utility Plant At No Greater Cost Than If**  
24           **the Utility or Its Affiliate Did Not Organize or Reorganize a Public Utility**  
25           **Holding Company.**

26           <sup>1</sup> Should the transfer be approved, EPCOR USA may wish to include additional projects,  
substitute or alter the timing of planned projects to ensure that necessary investments to maintain  
and improve the provision of utility service are undertaken.



1 service.

2 RESPECTFULLY SUBMITTED this 23rd day of July 2010.

3 FENNEMORE CRAIG, P.C.

4

5

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By   
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Attorneys for Chaparral City Water  
Company

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10

11

12 **CERTIFICATE OF SERVICE**

13

14

15 ORIGINAL and thirteen (13) copies  
of the foregoing were filed  
this 23rd day of July 2010, to:

16

17

18 Docket Control  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

19

20

21 COPY of the foregoing was hand delivered  
this 23rd day of July 2010, to:

22

23

24 Lyn Farmer, Chief  
Hearing Division  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

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26

27 Steven M. Olea, Director  
Utilities Division  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

1 Janice Alward, Chief Counsel  
Legal Division  
2 Arizona Corporation Commission  
1200 W. Washington Street  
3 Phoenix, AZ 85007  
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5 By Mary House  
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**VERIFICATION**

STATE OF CALIFORNIA )  
County of Los Angeles ) ss.

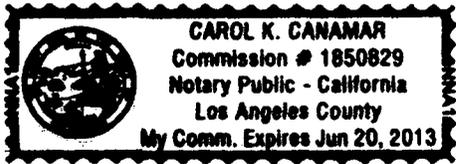
Keith Switzer, being first duly sworn upon his oath, deposes and says:

1. I am the Vice President, Regulatory Affairs of American States Water Company, and am authorized to make this verification on behalf of Chaparral City Water Company.

2. I have read the foregoing Application for a Waiver Under A.A.C. R14-2-806 or, In the Alternative, Notice of Intent to Reorganize Under A.A.C. R14-2-803, and I hereby verify that the statements contained therein are true and correct to the best of my information, knowledge and belief.

*Keith Switzer*  
\_\_\_\_\_

SUBSCRIBED AND SWORN TO before me, the undersigned Notary Public, on this 22<sup>nd</sup> day of July, 2010, by Keith Switzer, personally known to me or provided to me on the basis of satisfactory evidence to be the person who appeared before me.



*Carol K. Canamar*  
\_\_\_\_\_  
Carol K. Canamar, Notary Public

My Commission Expires: June 20, 2013

2328540.4/10696.001

# **EXHIBIT**

**1**

# CHAPARRAL CITY WATER COMPANY

## EXHIBIT 1

### SUMMARY OF PENDING MATTERS

1. Rehearing of Decision No. 71308 (Oct. 21, 2009), amended *nunc pro tunc* by Decision No. 71424 (December 8, 2009). On January 19, 2010, the Commission granted CCWC's request for rehearing on two issues: (1) recovery of rate case expense associated with appeal and remand of Decision No. 68176 (September 30, 2005), and (2) treatment of the proceeds of a settlement made with the Fountain Hills Sanitation District settlement. A hearing was held on April 12, 2010 before an administrative law judge, and post-hearing briefs have been filed. A decision on the rehearing of the two issues is expected this fall.

2. Appeal of Decision No. 70441 (July 28, 2008). CCWC appealed Decision No. 70441 to the Arizona Court of Appeals, arguing that the Commission failed to properly use the Company's fair value rate base, in accordance with the Article 15, Section 14 of the Arizona Constitution. The appeal was decided adversely to CCWC. *Chaparral City Water Co. v. ACC*, No. 1 CA-CC 08-0002, memo. dec. (June 10, 2010). CCWC elected not seek review of the court's decision, which is now final.

3. Pending Appeal of Decision No. 71308 (Oct. 21, 2009), amended *nunc pro tunc* by Decision No. 71424 (December 8, 2009). CCWC appealed Decision No. 71308 to the Arizona Court of Appeals because it involved issues that are similar to the issues involved in CCWC's appeal of Decision No. 70441 (summarized above). The new appeal was stayed by stipulation of the parties pending a decision in CCWC's appeal of Decision No. 70441. Based on the court's decision in that appeal, CCWC intends to dismiss its appeal of Decision No. 71308.

4. CPUC Investigation of Golden States Water. In Decision No. 71308, the Commission ordered that the docket remain open pending Staff review of certain documents furnished by CCWC in early 2009 concerning an investigation being conducted by the California Public Utility Commission ("CPUC"). This investigation does not relate to CCWC. On February 26, 2010, Staff filed an update in the docket, indicating that Staff had completed its review of the documents and that CCWC's operating expenses and rate base have not been affected by the alleged improprieties. Staff nevertheless recommended several requirements which CCWC opposes. On March 31, 2010, a recommended order was issued by the administrative law judge without conducting a hearing. The recommended order has not been considered by the Commission. If the Transaction occurs, this matter will become moot. Consequently, CCWC has delayed filing its exceptions and has not requested an evidentiary hearing.

5. Decision No. 68238 (Oct. 25, 2005) (Order Preliminary). In 2005, CCWC applied for an order preliminary pursuant to A.R.S. § 40-282.D to allow CCWC to extend its CC&N to include approximately 1,300 acres of state trust contiguous to its existing service area. The Commission granted the application, but stated that a final order

extending the CC&N would be issued upon the Company's satisfaction of certain conditions within a three-year time period. CCWC subsequently obtained an 18-month extension of the deadline for satisfying the conditions at the request of Fountain Hills Investment Company, which purchased the state land. Decision No. 70608 (Nov. 12, 2008). On June 3, 2010, Chaparral City filed a request to extend the deadline from April 25, 2010 to February 1, 2011, at the request of the landowner. A recommended order that would grant the extension has been issued by the administrative law judge, but the matter has not been decided by the Commission.

2332771

# **EXHIBIT**

**2**

**EPCOR Water (USA) Inc.**

List of Directors

<u>Name</u>	<u>Business Address</u>
Don Lowry	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Jeffery Kishel	Stantec Consulting Inc., 2000 South Colorado Boulevard, Suite 2 – 300, Denver, Colorado, 80222
Donald Munson	13417 North 76 Place, Scottsdale, Arizona, 85260

**EPCOR Water (USA) Inc.**

## List of Officers

<b>Name</b>	<b>Position</b>	<b>Business Address</b>
Don Lowry	President & CEO	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	Senior Vice President & Chief Financial Officer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Ron Liteplo	Senior Vice President, Legal & External Relations and Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Sam Myers	Treasurer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Stephen Stanley	Senior Vice President, Water Services	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Joe Gysel	Senior Vice President, Water Development	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Duane Sommerfeld	Corporate Controller	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Suzanne Polkosnik	Associate General Counsel & Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

**EPCOR Water Development (West) Inc.**  
List of Directors

<u>Name</u>	<u>Business Address</u>
Don Lowry	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

**EPCOR Water Development (West) Inc.**

## List of Officers

<b>Name</b>	<b>Position</b>	<b>Business Address</b>
Don Lowry	President & CEO	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	Senior Vice President & Chief Financial Officer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Ron Liteplo	Senior Vice President, Legal & External Relations and Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Sam Myers	Treasurer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
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Joe Gysel	Senior Vice President, Water Development	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Duane Sommerfeld	Corporate Controller	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Suzanne Polkosnik	Associate General Counsel & Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

**EPCOR Water Services Inc.**

List of Directors

<u>Name</u>	<u>Business Address</u>
Don Lowry	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

**EPCOR Water Services Inc.**  
List of Officers

<b>Name</b>	<b>Position</b>	<b>Business Address</b>
Don Lowry	President & CEO	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	Senior Vice President & Chief Financial Officer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
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Duane Sommerfeld	Corporate Controller	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Suzanne Polkosnik	Associate General Counsel & Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

**EPCOR Utilities Inc.**

## List of Directors

<u>Name</u>	<u>Business Address</u>
Hugh Bolton	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Robert Phillips	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Sheila Weatherill	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Doug Mitchell	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mike Percy	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
James Carter	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Alex Davidson	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Steve Matyas	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Larry Pollock	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Wesley Twiss	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Helen Sinclair	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Allister McPherson	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

**EPCOR Utilities Inc.**

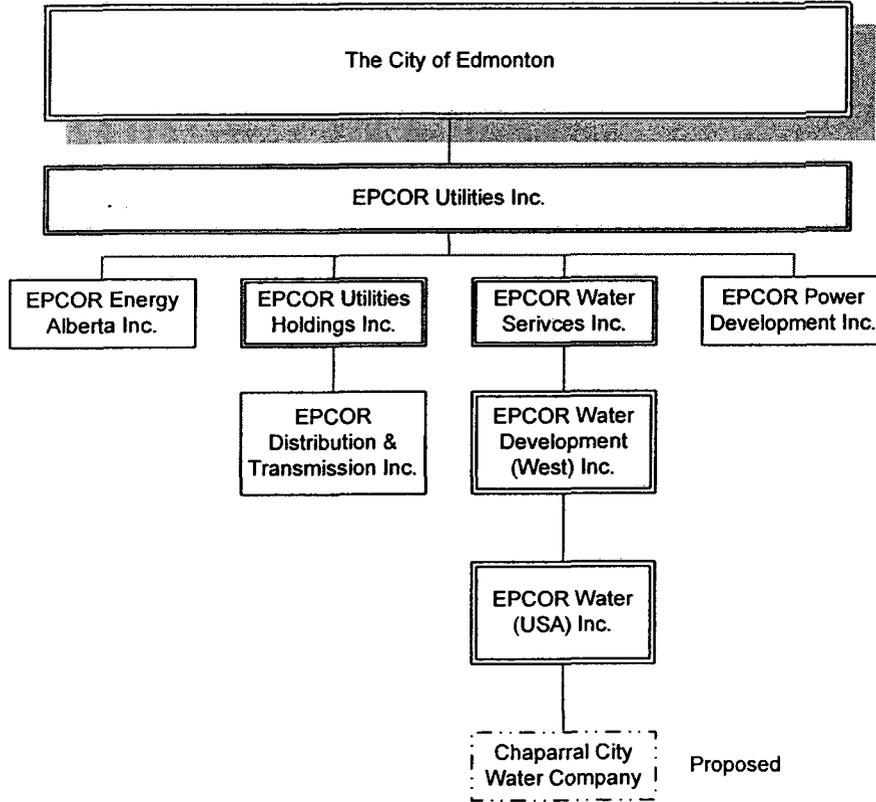
## List of Officers

<b>Name</b>	<b>Position</b>	<b>Business Address</b>
Don Lowry	President & CEO	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
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Suzanne Polkosnik	Associate General Counsel & Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

# **EXHIBIT**

**3**

**EPCOR Utilities Inc.  
Corporate Organization Chart**



CHAPARRAL CITY WATER COMPANY, INC.

DOCKET NO. W-02113A-10-0309

DIRECT TESTIMONY

OF

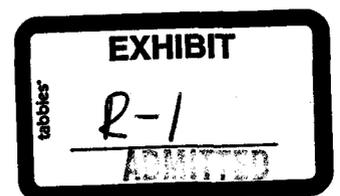
WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 10, 2010



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APPENDIX 1 – Qualifications of William A. Rigsby, CRRA

1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed  
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.  
5 Washington, Suite 220, Phoenix, Arizona 85007.

6  
7 Q. Please describe your qualifications in the field of utilities regulation and  
8 your educational background.

9 A. I have been involved with utilities regulation in Arizona since 1994. During  
10 that period of time I have worked as a utilities rate analyst for both the  
11 Arizona Corporation Commission ("ACC" or "Commission") and for RUCO.  
12 I hold a Bachelor of Science degree in the field of finance from Arizona  
13 State University and a Master of Business Administration degree, with an  
14 emphasis in accounting, from the University of Phoenix. I have been  
15 awarded the professional designation, Certified Rate of Return Analyst  
16 ("CRRRA") by the Society of Utility and Regulatory Financial Analysts  
17 ("SURFA"). The CRRRA designation is awarded based upon experience  
18 and the successful completion of a written examination. Appendix I, which  
19 is attached to my direct testimony further describes my educational  
20 background and also includes a list of the rate cases and regulatory  
21 matters that I have been involved with.

22

23

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to present recommendations that are  
3 based on my analysis of the proposed sale of all of the issued and  
4 outstanding shares of common stock of Chaparral City Water Company  
5 ("CCWC" or "Company") from American States Water Company  
6 ("American States") to EPCOR (USA) Inc. ("EPCOR USA"). CCWC filed  
7 an application for a waiver under A.A.C. R14-2-806 or in the alternative,  
8 notice of intent to reorganize under A.A.C. R14-2-803 ("Application" or  
9 "Proposed Reorganization") with the Arizona Corporation Commission  
10 ("ACC" or "Commission") on July 23, 2010.

11

12 Q. Have you filed testimony on CCWC and American States in prior cases  
13 before the ACC?

14 A. Yes. I have filed testimony in a number of proceedings involving CCWC  
15 both as an analyst with the ACC Staff and as an analyst with RUCO. As  
16 an ACC Staff member, I recommended that the Commission approve the  
17 sale of CCWC from MCO Properties, Inc. to the Company's current owner,  
18 American States.<sup>1</sup> As an analyst for RUCO, I have testified in every  
19 CCWC rate case that has been decided on by the ACC since the  
20 Commission approved the sale of CCWC to American States in  
21 September 2000.<sup>2</sup> I was also involved in CCWC's appeal of Decision No.

---

<sup>1</sup> Docket No. W-02113A-00-0233,

<sup>2</sup> Docket No.'s W-02113A-04-0616 and W-02113A-07-0551

1 68176, which resulted in Decision No. 70441, dated July 28, 2008. In  
2 April of 2010, I filed direct testimony and testified in a rehearing of  
3 Decision No. 71308, which established CCWC's present rates.  
4

5 Q. Have you filed testimony on EPCOR USA in prior cases before the ACC?

6 A. No. This is the first time that I have filed testimony on EPCOR USA.  
7

8 Q. Please describe your analysis of the Proposed Reorganization requested  
9 by CCWC.

10 A. My analysis relies on information contained in the Company's Application  
11 and on information that was obtained from responses to data requests  
12 issued by ACC Staff and RUCO. I studied information obtained over the  
13 course of discovery in order to ascertain whether or not the Proposed  
14 Reorganization is in the public interest and meets the requirements for  
15 reorganization pursuant to A.A.C. R14-2-803(C).  
16

17 Q. What is CCWC seeking in its Application?

18 A. According to CCWC's Application, the Company is seeking a waiver from  
19 the Commission's Public Utility Holding Companies and Affiliated Interest  
20 rules as set forth in A.A.C. R14-2-806. Should the Commission deny the  
21 waiver being sought by the Company, CCWC gives notice to the  
22 Commission of its intent to reorganize pursuant to A.A.C. R14-2-803 by  
23 virtue of American States selling all of the outstanding and issued shares  
24 of CCWC's common stock to EPCOR USA.

1 Q. What is the standard that you relied on in determining whether or not the  
2 ACC should approve CCWC's request to reorganize under A.A.C. R14-2-  
3 803?

4 A. The standard that I relied on is found in A.A.C. R14-2-803(C) which states  
5 the following:

6 At the conclusion of any hearing on the organization or reorganization of  
7 a utility holding company, the Commission may reject the proposal if it  
8 determines that it would impair the financial status of the public utility,  
9 otherwise prevent it from attracting capital at fair and reasonable terms,  
10 or impair the ability of the public utility to provide safe, reasonable and  
11 adequate service.  
12

13 Q. Briefly summarize the recommendations that you are making in your  
14 testimony.

15 A. Based on the results of my analysis, I am recommending that the ACC  
16 approve CCWC's request on two conditions. The first condition is that no  
17 acquisition costs related to the transfer of ownership between American  
18 States and EPCOR (USA) be passed on to Arizona ratepayers. The  
19 second condition is that no acquisition premium (i.e. the difference  
20 between EPCOR USA's purchase price of CCWC's outstanding and  
21 issued shares of common stock and the book value of CCWC at the time  
22 the transaction is finalized) be recovered by EPCOR USA in any future  
23 rate case decisions.

24  
25 My recommendation is based on my belief that EPCOR USA is a fit and  
26 proper entity whose ownership of CCWC will not impair the financial status  
27 of the Company, or prevent CCWC from attracting capital at fair and

1 reasonable terms, or impair the ability of CCWC to provide safe,  
2 reasonable and adequate service. For the reasons stated above, I am  
3 recommending that the Commission approve CCWC's requested  
4 reorganization subject to the two conditions that I described above and will  
5 address later in my testimony.

6  
7 **BACKGROUND**

8 Q. Please provide a brief description of CCWC.

9 A. According to the Company's Application, CCWC is a public service  
10 corporation that provides water utility service to approximately 13,000  
11 customers in a Commission-approved certificated area which includes the  
12 Town of Fountain Hills and portions of eastern Maricopa County. CCWC's  
13 current rates and charges were authorized in Decision No. 71308, dated  
14 Oct. 21, 2009 as amended nunc pro tunc by Decision No. 71724, dated  
15 December 8, 2009.

16  
17 Q. Does CCWC have any pending matters before the ACC?

18 A. Yes. However, the Company states that none of the CCWC matters  
19 pending before the Commission, or otherwise involving the Commission,  
20 would be affected by the Proposed Reorganization.

21  
22 ...

1 Q. Please describe the CCWC matters that are presently before the  
2 Commission.

3 A. Presently there are three matters pending before the ACC.

4 The first matter involves a rehearing of two specific issues that were  
5 addressed in CCWC's most recent rate case proceeding<sup>3</sup>. The first issue  
6 on rehearing involves the treatment of proceeds obtained from a  
7 settlement agreement that was reached between CCWC and the Fountain  
8 Hills Sanitary District. The second issue on rehearing deals with the  
9 recovery of costs associated with the appeal and remand of Decision No.  
10 68176, dated September 30, 2005. The rehearing was concluded on April  
11 12, 2010. No Recommended Opinion and Order has been issued to date.

12  
13 A second matter pending before the ACC involves a Commission order to  
14 leave the docket open on Decision No. 71308 until ACC Staff completes  
15 its review of a California Public Utilities Commission investigation of  
16 Golden State Water. Golden State Water is a subsidiary of American  
17 States, which, as noted earlier, is the current owner of CCWC. The  
18 Company states, and RUCO agrees, that if the Proposed Reorganization  
19 is approved by the Commission, the matter involving Golden State Water  
20 will be moot.

21

22

---

<sup>3</sup> Docket No. W-02113A-07-0551, Rehearing of Dec. No. 71308.

1       The third matter involves CCWC's request for an extension of time to  
2       comply with a number of conditions originally set forth in Decision No.  
3       68238, dated October 25, 2005, which granted an Order Preliminary for a  
4       CC&N extension that would allow the Company to include an additional  
5       1,300 acres of state trust land in CCWC's certificated area.<sup>4</sup> The  
6       Commission later issued Decision No. 70608, which amended Decision  
7       No. 68238 and extended the amount of time for CCWC to meet the  
8       aforementioned compliance by eighteen months. Under Decision No.  
9       70608, if the compliance conditions were not met by April 25, 2010, the  
10      Order Preliminary would be deemed null and void. On June 3, 2010,  
11      CCWC filed a request for an additional extension of the April 25, 2010  
12      deadline established in Decision No. 70608. On June 4, 2010, ACC Staff  
13      issued a memorandum which concluded that the Order Preliminary was  
14      null and void, but that during a Commission Staff Open Meeting, held on  
15      May 13, 2010, the Commission directed the Hearing Division to prepare a  
16      Recommended Opinion and Order on the issue. The Commission  
17      subsequently issued Decision No. 71824, dated August 10, 2010, which  
18      reinstated the Order Preliminary granted in Decision No. 68238, as  
19      amended by Decision No. 70608, and granted CCWC an extension until  
20      February 1, 2011 to comply with the requirements of those prior  
21      Decisions.

---

<sup>4</sup> Docket No. W-02113A-05-0178

1 Q. What is the status of any Company appeals of ACC Decisions?

2 A. Since the Company filed its Application with the Commission, the Arizona  
3 Court of Appeals has granted CCWC's motions to voluntarily dismiss  
4 pending appeals of Commission Decision No.'s 70441 and 71308.

5

6 Q. Is the Company in compliance with state and federal drinking water  
7 standards and current on its property taxes?

8 A. The Company stated in its Application that it is currently in compliance  
9 with state and federal drinking water standards and received a public  
10 water system compliance report from the Maricopa County Environmental  
11 Services Department ("MCESD") that described CCWC's general public  
12 water system as "compliant." The Company also stated that it was current  
13 on CCWC's property tax payments. The Company also stated that  
14 CCWC's Annual Water Withdrawal and Use Report for calendar year 2009  
15 and its Central Arizona Groundwater Replenishment District 2009 report  
16 were filed on March 15, 2010.

17

18 Q. Please provide a brief description of CCWC's parent company, American  
19 States.

20 A. American States is a California corporation based in San Dimas,  
21 California, which is publicly traded on the New York Stock Exchange  
22 ("NYSE"). As noted above, in addition to CCWC, American States is also  
23 the parent of Golden State Water Company, which provides water service

1 to over 250,000 customers in 75 communities throughout California, and  
2 distributes electricity to approximately 23,000 customers in the Big Bear  
3 recreational area in California.

4  
5 American States also owns American States Utility Services, an  
6 unregulated subsidiary which contracts with municipalities, the U. S.  
7 government, and other private entities. American States Utility Services  
8 provides various services, including billing and meter reading, water  
9 marketing as well as the operation and maintenance of water and  
10 wastewater systems at a number of military installations throughout the  
11 United States.

12  
13 Q. Please describe EPCOR USA.

14 A. EPCOR USA is presently a shell corporation that is an indirect, wholly  
15 owned subsidiary of EPCOR Utilities Inc. ("EPCOR"). According to the  
16 Company's Application, EPCOR is a municipally owned Canadian  
17 corporation and holding company that builds, owns and operates water  
18 and wastewater treatment facilities. EPCOR also builds, owns and  
19 operates infrastructure and electrical transmission and distribution  
20 networks in Canada. EPCOR is headquartered in Edmonton, Alberta, and  
21 is governed by an independent board of directors. Its sole shareholder is  
22 the City of Edmonton, Alberta, Canada.

23

1 According to CCWC's Application, EPCOR's primary operating  
2 subsidiaries are EPCOR Water Services Inc. ("EPCOR Water"), EPCOR  
3 Distribution & Transmission Inc. ("EPCOR Distribution") and EPCOR  
4 Energy Alberta Inc. ("EPCOR Energy"). In July of 2009, EPCOR sold  
5 substantially all of its power generation assets and related operations to  
6 Capital Power, which was described as "a newly created power generation  
7 entity." The Application states that, depending on market conditions,  
8 EPCOR has plans to eventually sell all or a substantial portion of its  
9 ownership interest in Capital Power and use the proceeds to finance  
10 needed capital improvement projects in EPCOR's various utility  
11 infrastructure businesses that provide water, wastewater treatment, power  
12 transmission and power distribution services.

13  
14 CCWC's Application states that EPCOR has extensive technical  
15 experience in the operation and maintenance of water and wastewater  
16 facilities that provide service to over one million people in more than 70  
17 communities and counties located in Western Canada. The Company  
18 also stated in its Application that EPCOR's holdings include systems that  
19 have operating characteristics that are similar to CCWC's.<sup>5</sup> According to  
20 the Company's application, EPCOR intends to continue to use Central

---

<sup>5</sup> On pages 4 and 5 of CCWC's Application, the Company states that "Just like CCWC, the service areas for the cities of Edmonton and Canmore, Alberta both have distribution systems with multiple pressure zones" and that "EPCOR Water's experience operating multiple zone distribution systems will benefit the customers of CCWC."

1 Arizona Project ("CAP") water as the primary source of water for CCWC's  
2 customers in order to conserve Arizona's groundwater resources.

3  
4 **PROPOSED REORGANIZATION**

5 Q. Why is American States selling CCWC to EPCOR USA?

6 A. According to the Company's Application, American States has decided to  
7 divest itself of its ownership and stock interests in CCWC in order to focus  
8 on its business activities in California and in states other than Arizona.

9  
10 Q. Why is EPCOR USA buying CCWC?

11 A. According to CCWC's Application, EPCOR USA sees this transaction as  
12 the beginning of an overall business strategy to invest in, and become a  
13 long-term owner of water and wastewater utilities in Arizona and other  
14 states. EPCOR USA's business strategy also includes the provision of  
15 various utility-related services to municipalities and other governmental  
16 entities located in Arizona and other states.

17  
18 Q. Briefly describe the Proposed Reorganization.

19 A. CCWC's Application states that on June 7, 2010, EPCOR USA entered  
20 into an agreement with American States to purchase all of the outstanding  
21 shares of CCWC's common stock for \$29 million ("Stock Purchase  
22 Agreement"). At the time of closing, EPCOR USA will pay, in cash, the  
23 agreed upon sum to American States in exchange for CCWC's utility

1 plant, revenue and other assets which will not, as with CCWC's stock, be  
2 used as security for the financing. At the close of the transaction, CCWC  
3 will remain as the same legal entity that it was prior to the transaction,  
4 except that it will now be a subsidiary of EPCOR USA as opposed to a  
5 subsidiary of American States.

6  
7 **ANALYSIS OF PROPOSED REORGANIZATION**

8 Q. Has RUCO had the opportunity to study the Proposed Reorganization of  
9 CCWC?

10 A. Yes.

11  
12 Q. Does RUCO believe that the Proposed Reorganization is in the public  
13 interest?

14 A. Yes.

15  
16 Q. Why does RUCO believe that the Proposed Reorganization is in the public  
17 interest?

18 A. RUCO believes that the Proposed Reorganization meets the standard  
19 found in A.A.C. R14-2-803(C). Based on RUCO's analysis, the Proposed  
20 Reorganization will not impair the financial status of CCWC, nor will it  
21 prevent the Company from attracting capital at fair and reasonable terms,  
22 or impair the ability of CCWC to provide safe, reasonable and adequate  
23 service.

1 Q. Why does RUCO believe that the Proposed Reorganization will not impair  
2 the financial status of CCWC?

3 A. Under the Proposed Reorganization, CCWC will remain the same entity  
4 that it currently is. As explained earlier, none of the Company's shares of  
5 stock, utility plant, current or future revenue streams or other assets will be  
6 encumbered or pledged as security as a result of the transaction. CCWC  
7 will continue to have the ability to earn a return on its existing assets and  
8 use all of the Company's operating revenues and cash flows to cover its  
9 operating expenses and existing debt obligations.

10

11 Q. Will the Proposed Reorganization prevent CCWC from attracting capital at  
12 fair and reasonable terms?

13 A. No. Under the terms of the Stock Purchase Agreement, CCWC will not  
14 assume any additional debt or other liabilities in connection with the  
15 transaction. Consequently, CCWC's capital structure will not change as a  
16 result of the transaction and the Company's ability to attract capital at fair  
17 and reasonable terms will be no different than it was prior to the  
18 transaction. The Company would still be owned by a larger entity that has  
19 the ability to obtain needed capital through the debt and equity markets  
20 and make cash infusions to finance infrastructure improvements. RUCO  
21 believes that, for all practical purposes, the Proposed Reorganization is  
22 essentially no different from the one previously approved by the

1 Commission in which the ownership of CCWC was transferred from MCO  
2 Properties, Inc. to the Company's current owner, American States.<sup>6</sup>

3  
4 Q. What is the current capital structure of EPCOR USA's ultimate parent  
5 EPCOR?

6 A. According to EPCOR's consolidated balance sheet for the period ended  
7 December 31, 2009, EPCOR's end-of-year capital structure for 2009 was  
8 comprised of approximately 41 percent long-term debt and 59 percent  
9 common equity. This reflected an increase in EPCOR's equity position  
10 over the previous end-of-year capital structure of 53 percent long-term  
11 debt and 47 percent common equity.

12  
13 Q. Why does RUCO believe that the Proposed Reorganization will not impair  
14 the ability of CCWC to provide safe, reasonable and adequate service?

15 A. As explained above, the absence of any financial harm to CCWC, as a  
16 result of the Proposed Reorganization, will not hinder the Company's  
17 ability to continue to operate as it has prior to the change of ownership  
18 and to continue to meet required water quality standards. RUCO also  
19 believes that EPCOR, which will become CCWC's ultimate parent under  
20 the terms of the Stock Purchase Agreement, is a fit and proper entity that  
21 has both the experience and expertise to operate a regulated water  
22 provider such as CCWC.

---

<sup>6</sup> Decision No. 62909, dated September 18, 2000.

1 Q. What information did RUCO rely on to determine that EPCOR is a fit and  
2 proper entity that has both the experience and expertise to operate a  
3 regulated water provider?

4 A. In addition to relying on information contained in the Company's  
5 Application and responses to formal data requests, RUCO had the  
6 opportunity to meet personally with a representative of EPCOR who  
7 answered a number of questions posed by RUCO's staff. EPCOR later  
8 provided RUCO with documents<sup>7</sup> and answers to questions that EPCOR's  
9 representative did not have complete responses for during the  
10 aforementioned meeting at RUCO's offices.

11  
12 Q. Does RUCO believe that EPCOR has the ability to provide safe,  
13 reasonable and adequate service to CCWC's ratepayers?

14 A. Yes. According to the Company's Application, EPCOR's water and  
15 wastewater operations presently meet or exceed stringent Canadian  
16 federal, provincial, and municipal water quality requirements. CCWC  
17 further stated in its Application that in 2008, EPCOR's Quality Assurance  
18 Laboratory scored the highest among 68 labs across Canada and the  
19 United States in tests administered by the U.S. Environmental Protection  
20 Agency and that the majority of the labs were in major United States cities.  
21 During the meeting noted above, a representative from EPCOR

---

<sup>7</sup> EPCOR provided RUCO with the following reports: 2009 Edmonton Water and Wastewater Performance Report, 2009 Performance Based Rates Progress Report, 2009 Canmore Utility Performance Report, 2009 Town of Tabor Performance Highlights, 2009 Town of Chestermere Performance Highlights, 2010 Sooke Contract Performance Report, 2008 EPCOR French Creek Annual Performance Report, 2008 EPCOR White Rock Annual Performance Report.

1           satisfactorily addressed questions posed by RUCO staff members on  
2           information in the Company's Application regarding two environmental  
3           administrative penalties, both of which were determined to be minor  
4           violations by authorities and did not involve legal proceedings. EPCOR  
5           later provided RUCO with additional information on its experience related  
6           to surface water treatment and arsenic removal. EPCOR also informed  
7           RUCO that it had gone for five years with no Environmental Protection and  
8           Enhancement Act ("EPEA") or Water Act prosecutions, enforcement  
9           orders, environmental protection orders, administrative penalties or  
10          warning letters in connection with its Edmonton facilities. EPCOR also  
11          stated that it had no outstanding notices of investigations from Alberta  
12          Environment under the aforementioned EPEA or Water Act.

13  
14          In summary, after a review of all of the information obtained to date, both  
15          formally and informally, RUCO has concluded that EPCOR is a fit and  
16          proper entity that has both the experience and expertise to own and  
17          operate a regulated water provider in Arizona. RUCO also believes that  
18          EPCOR will insure that CCWC is staffed with qualified individuals that will  
19          continue to provide safe, reasonable and adequate service to ratepayers.

20  
21          For all of the reasons cited above, RUCO believes that the Proposed  
22          Reorganization meets the standard set forth in A.A.C. R14-2-803(C).

23

1 **RECOMMENDATION**

2 Q. What is RUCO's recommendation regarding the Proposed  
3 Reorganization?

4 A. RUCO recommends that the Commission approve the Proposed  
5 Reorganization subject to two conditions that relate to the recovery of  
6 possible acquisition costs or an acquisition adjustment or premium. First,  
7 RUCO recommends that no costs resulting from the sale of CCWC from  
8 American States to EPCOR USA be passed on to ratepayers in a future  
9 rate case proceeding. Second, RUCO recommends that no acquisition  
10 adjustment or premium related to the sale of CCWC from American States  
11 to EPCOR USA be allowed recovery in a future rate case proceeding.

12  
13 Q. Why is RUCO recommending that no costs resulting from the sale of  
14 CCWC form American States to EPCOR USA be passed on to ratepayers  
15 in a future rate case proceeding?

16 A. RUCO believes that ratepayers should not have to bear any acquisition  
17 related costs that may be incurred in order to integrate CCWC into  
18 EPCOR or EPCOR USA's system for accounting, billing or other business  
19 related functions. RUCO believes that these types of costs should be  
20 borne by the acquiring entity or its ultimate parent. RUCO recommended  
21 the same condition in the Qwest/CenturyLink merger case that is now  
22 pending before the Commission.

23

1 Q. Why is RUCO recommending that no acquisition adjustment or premium  
2 related to the sale of CCWC from American States to EPCOR USA be  
3 allowed recovery in a future rate case proceeding?

4 A. RUCO believes that ratepayers should not have to pay for the difference  
5 between the price EPCOR pays for CCWC and the book value of the  
6 Company at the time of the acquisition. RUCO's recommendation is  
7 consistent with the Commission's past practice of not allowing acquisition  
8 premiums in rate base.

9  
10 Q. Do you believe that the Commission has the authority to approve the  
11 Proposed Merger on a conditional basis?

12 A. Yes. While I am not a lawyer and I am not expressing a legal opinion, I  
13 believe that the Commission has the constitutional authority to approve a  
14 merger or acquisition on certain conditions in order to insure that  
15 ratepayers are not harmed as a result of a transaction such as the  
16 Proposed Reorganization being sought in this proceeding.

17  
18 Q. Can you cite a case in which the Commission approved a request for a  
19 merger or acquisition on a conditional basis?

20 A. Yes. The best example is Decision No. 62909, dated September 18,  
21 2000, cited earlier in my testimony, in which the Commission approved the  
22 sale of CCWC from MCO Properties, Inc. to American States on condition  
23 that CCWC's customers be held harmless from any obligation to pay

1 judgments arising out of future lawsuits against California subsidiaries of  
2 American States.

3

4 Q. Does your silence on any of the issues or positions addressed in the  
5 Company's Application constitute acceptance?

6 A. No, it does not.

7

8 Q. Does this conclude your direct testimony on the Proposed Reorganization  
9 of CCWC?

10 A. Yes, it does.

**Qualifications of William A. Rigsby, CRRA**

**EDUCATION:**

University of Phoenix  
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University  
College of Business  
Bachelor of Science, Finance, 1990

Mesa Community College  
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts  
38th Annual Financial Forum and CRRA Examination  
Georgetown University Conference Center, Washington D.C.  
Awarded the Certified Rate of Return Analyst designation  
after successfully completing SURFA's CRRA examination.

Michigan State University  
Institute of Public Utilities  
N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999

Florida State University  
Center for Professional Development & Public Service  
N.A.R.U.C. Annual Western Utility Rate School, 1996

**EXPERIENCE:**

Public Utilities Analyst V  
Residential Utility Consumer Office  
Phoenix, Arizona  
April 2001 – Present

Senior Rate Analyst  
Accounting & Rates - Financial Analysis Unit  
Arizona Corporation Commission, Utilities Division  
Phoenix, Arizona  
July 1999 – April 2001

Senior Rate Analyst  
Residential Utility Consumer Office  
Phoenix, Arizona  
December 1997 – July 1999

Utilities Auditor II and III  
Accounting & Rates – Revenue Requirements Analysis Unit  
Arizona Corporation Commission, Utilities Division  
Phoenix, Arizona  
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II  
Arizona Department of Revenue  
Transaction Privilege / Corporate Income Tax Audit Units  
Phoenix, Arizona  
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona Water Company	W-01445A-02-0619	Rate Increase
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0491	Rate Increase
UNS Electric, Inc.	E-04204A-06-0783	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Black Mountain Sewer Corporation	SW-02361A-08-0609	Rate Increase
Global Utilities	SW-02445A-09-0077 et al.	Rate Increase
Litchfield Park Service Company	SW-01428A-09-0104 et al.	Rate Increase
UNS Electric, Inc.	E-04204A-09-0206	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-08-09-0257	Rate Increase
Arizona-American Water Company	W-01303A-09-0343	Rate Increase
Bella Vista Water Company	W-02465A-09-0411 et al.	Rate Increase
Qwest/CenturyLink	T-04190A-10-0194 et al.	Merger

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES  
Chairman  
GARY PIERCE  
Commissioner  
PAUL NEWMAN  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
BOB STUMP  
Commissioner

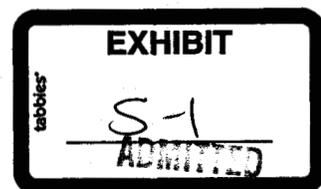
IN THE MATTER OF THE APPLICATION OF )  
CHAPARRAL CITY WATER COMPANY, INC. )  
FOR A WAIVER UNDER A.A.C. R14-2-806 OR, )  
IN THE ALTERNATIVE, NOTICE OF INTENT )  
TO REORGANIZE UNDER A.A.C. R14-2-803 )  
\_\_\_\_\_ )

DOCKET NO. W-02113A-10-0309

DIRECT  
TESTIMONY  
OF

DARRON W. CARLSON  
PUBLIC UTILITIES ANALYST MANAGER  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

NOVEMBER 10, 2010



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**EXECUTIVE SUMMARY  
CHAPARRAL CITY WATER COMPANY, INC.  
DOCKET NO. W-02113A-10-0309**

Chaparral City Water Company, Inc. ("CCWC" or "Company") is an Arizona public service corporation and a Class "A" water utility. It provides water utility services in portions of eastern Maricopa County, including the town of Fountain Hills. At the present time, CCWC provides water services to approximately 13,000 customers, of which the vast majority are residential customers.

CCWC filed an application with the Arizona Corporation Commission ("Commission") on July 23, 2010, for a waiver of the requirements of the public utilities holding companies and affiliated interests rules (A.A.C. R14-2-801, *et seq.*) ("Rules") that may be allowed under A.A.C. R14-2-806. In the alternative, if the Commission denies the waiver, the Company requests that the Commission consider this same application a notice of intent to reorganize ("Notice") under A.A.C. R14-2-803.

The reorganization involves the purchase of CCWC from its current parent, American States Water Company ("American States"), a California corporation, by EPCOR Water (USA), Inc. ("EPCOR USA"), a Delaware corporation. American States will sell all of the issued and outstanding shares of CCWC's common stock to EPCOR USA.

Staff concludes that, after the subject reorganization, CCWC will experience no short-term changes, benefits, or detriments. Staff also believes that CCWC will experience no measurable long-term changes, benefits, or detriments.

**Recommendations:**

Staff recommends denial of the request for a waiver of the Rules.

Staff recommends approval of the requested reorganization, with the following conditions:

- That the Company and its affiliates fully cooperate with Staff in any future inquiries or requests for information and/or documents regarding any transactions that Staff determines might have some effect, direct or indirect, on the Company's operational or financial health.
- That the Company refrain from seeking an acquisition adjustment due to this transaction in any future rate case.
- That the Company shall maintain its quality of service, including, but not limited to, that the number of service complaints should not increase, that the response time to service complaints should not increase, and that service interruptions should not increase as a result of the reorganization.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Darron W. Carlson. I am a Public Utilities Analyst Manager employed by the  
4 Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division  
5 ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.  
6

7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst Manager.**

8 A. In my capacity as a Public Utilities Analyst Manager, I supervise one of two groups of  
9 Public Utilities Analysts in the Financial and Regulatory Analysis section of the Utilities  
10 Division, who examine, verify and analyze utilities' statistical, financial, and other  
11 information. These analysts write reports and/or testimonies based on their analyses that  
12 provide Staff recommendations to the Commission on rates, mergers, acquisitions,  
13 financings, sales of assets, and other matters. I provide support and guidance along with  
14 reviewing and editing the work products. I perform analysis as needed on special projects.  
15 I can be called upon to provide expert testimony at formal hearings and train others on  
16 techniques of presenting testimony. Additionally, I provide support and advice regarding  
17 accounting, tax, and other financial matters to Staff attorneys during formal hearings  
18 involving direct, rebuttal, surrebuttal, rejoinder, cross, and redirect testimonies.  
19

20 **Q. Please describe your educational background and professional experience.**

21 A. I hold Bachelor of Arts degrees in both Accounting and Business Management from  
22 Northeastern Illinois University in Chicago, Illinois. I have participated in a number of  
23 seminars and workshops related to utility rate-making, cost of capital, and similar issues.  
24 These have been sponsored by organizations such as the National Association of  
25 Regulatory Utility Commissioners ("NARUC"), Duke University, Florida State  
26 University, Michigan State University, New Mexico State University, and various other

1 organizations. I have led or actively participated in more than 135 cases before this  
2 Commission over the last nineteen years. Since my promotion to management, I have  
3 supervised analysts involved in more than 200 additional cases before this Commission.  
4

5 **Q. What is the purpose of your testimony in this case?**

6 A. The purpose of my testimony in this proceeding is to present Staff's position and  
7 recommendations regarding the application of Chaparral City Water Company, Inc.  
8 ("CCWC" or "Company") for a waiver of the requirements of the public utilities holding  
9 companies and affiliated interests rules (A.A.C. R14-2-801, *et seq.*) ("Rules") that may be  
10 allowed under A.A.C. R14-2-806, which was filed with the Commission on July 23, 2010.  
11 In the alternative, if the Commission denies the waiver, the Company requests that the  
12 Commission consider this same application a notice of intent to reorganize ("Notice")  
13 under A.A.C. R14-2-803.  
14

15 **Q. Have you reviewed the application submitted by the Company in this case?**

16 A. Yes. I reviewed the Company's application and note that there was no Direct Testimony  
17 submitted with the application. The Company is requesting the Commission's approval  
18 without a hearing pursuant to A.A.C. R14-2-803(C).  
19

20 **GENERAL INFORMATION**

21 **Q. Please briefly describe CCWC.**

22 A. CCWC is an Arizona public service corporation and a Class "A" water utility. It provides  
23 water utility services in portions of eastern Maricopa County, including the town of  
24 Fountain Hills. At the present time, CCWC provides water services to approximately  
25 13,000 customers, of which the vast majority are residential customers.  
26

1 **Q. Please describe the reorganization that is the subject of this filing.**

2 A. The reorganization involves the purchase of CCWC from its current parent, American  
3 States Water Company ("American States"), a California corporation, by EPCOR Water  
4 (USA), Inc. ("EPCOR USA"), a Delaware corporation. American States will sell all of  
5 the issued and outstanding shares of CCWC's common stock to EPCOR USA.

6

7 According to the public announcement of the purchase, the purchase price for CCWC is  
8 approximately U.S. \$35,000,000. The terms include a cash payment of U.S. \$29,000,000  
9 and the assumption of U.S. \$6,000,000 in long-term debt. Staff found nothing in the  
10 confidential stock purchase agreement between American States and EPCOR USA to  
11 contradict this information.

12

13 Staff has determined that the purchase price is in excess of the net book value of the  
14 Company's assets and liabilities. CCWC has indicated that it will not seek an acquisition  
15 adjustment in any future rate case.

16

17 **Q. Are there any other entities that would or could be directly, or indirectly, involved**  
18 **with CCWC after the merger?**

19 A. Yes, there are. EPCOR USA is an indirect wholly-owned subsidiary of EPCOR Utilities,  
20 Inc. ("EPCOR"). EPCOR is a municipally-owned Canadian corporation and holding  
21 company that builds, owns, and operates water and wastewater treatment facilities and  
22 infrastructure and electrical transmission and distribution networks, in Canada. EPCOR is  
23 governed by an independent Board of Directors, and its sole shareholder is the City of  
24 Edmonton ("City"), Alberta, Canada.

25

1 EPCOR is the parent company of a number of subsidiary companies. Its primary  
2 operating utility subsidiaries are EPCOR Water Services, Inc. ("EPCOR Water"), EPCOR  
3 Distribution & Transmission, Inc. ("EPCOR Distribution"), and EPCOR Energy Alberta,  
4 Inc. ("EPCOR Energy"). The Company's application includes further descriptions of  
5 these EPCOR subsidiaries.  
6

7 **WAIVER OF THE RULES**

8 **Q. Please describe CCWC's request for a waiver of the Rules.**

9 A. CCWC is requesting a complete waiver of the Rules based on its contention that the  
10 reorganization will have no effect or impact on CCWC.  
11

12 **Q. Under what criterion can the Rules be waived?**

13 A. A.A.C. R14-2-806 (A) reads, "The Commission may waive compliance with any of the  
14 provisions of this Article upon a finding that such waiver is in the public interest."  
15

16 **Q. Does Staff interpret the "public interest" to mean no harm or a benefit?**

17 A. Staff has determined that a benefit is necessary in order for a waiver to be in the public  
18 interest.  
19

20 **Q. Did CCWC describe or demonstrate that the waiver request of the subject  
21 reorganization is in the public interest?**

22 A. CCWC stated that the reorganization is in the public interest; however, it also indicated  
23 that the reorganization would have no effect on CCWC. CCWC did not otherwise  
24 demonstrate any benefit that would result from the transaction.  
25

1 **Q. Did Staff attempt to find any measurable benefit as a result of the reorganization?**

2 A. Staff reviewed the application, various annual reports, the Company's responses to Staff's  
3 data requests, and the Company's responses to the Residential Utility Consumer Office  
4 ("RUCO") data requests and could not identify any measurable benefit resulting from the  
5 reorganization.

6 **Q. What is Staff's recommendation regarding CCWC's request for a waiver?**

7 A. Staff recommends denial of the Company's request for a waiver of the Rules.  
8

9 **NOTICE OF INTENT TO REORGANIZE**

10 **Q. Did CCWC file a notice of intent to reorganize?**

11 A. Yes, CCWC's original application for a waiver of the Rules also contained a notice of  
12 intent to reorganize, in case the Commission determined that a waiver was not appropriate.  
13

14 **Q. What has Staff concluded from its review of the Notice and the additional  
15 information supplied by CCWC pursuant to Staff and RUCO data requests?**

16 A. Staff has some concerns regarding the willingness of CCWC to allow access to its  
17 affiliates books and records as contemplated by the rules. While CCWC provided  
18 responses to Staff data requests, CCWC seemed to indicate that access and providing  
19 information related to two specific parent transactions were "irrelevant".  
20

21 **Q. If Staff received sufficient responses to all of its data requests, why is Staff  
22 concerned?**

23 A. The Rules cover the Commission's review of transactions between public utilities and  
24 affiliates. In general, A.A.C R14-2-804 states that, in order to transact business with an  
25 affiliate, the utility must agree to provide the Commission with access to the books and  
26 records of the affiliate to investigate transactions between the two. The utility is also

1 obligated to maintain necessary accounting records regarding transactions with each  
2 affiliate. The Rules were created so that the Commission could be made aware of  
3 transactions and other occurrences at the holding company level that may affect the  
4 regulated utility's operations or financial well-being – even if indirectly. In the past, when  
5 dealing with utilities with corporate parents, Staff has sometimes experienced difficulties  
6 obtaining information at the parent level that Staff believed was necessary for a complete  
7 analysis. Staff notes this concern now in hopes of avoiding any such delays or lack of  
8 cooperation in this and any future proceedings the Commission may have with the  
9 Company.

10  
11 **Q. What is Staff's recommendation?**

12 A. Staff recommends that the Commission Order the Company and its affiliates to fully  
13 cooperate with Staff in any future inquiries or requests for information and/or documents  
14 regarding any transactions that Staff determines might have some effect, direct or indirect,  
15 on the Company's operational or financial health.

16  
17 **FINANCIAL ASPECTS**

18 **Q. What does the Commission consider when evaluating a Notice?**

19 A. Under A.A.C. R14-2-803 (C), "[T]he Commission may reject the proposal, if it  
20 determines that it would impair the financial status of the public utility, otherwise prevent  
21 if from attracting capital at fair and reasonable terms, or impair the ability of the public  
22 utility to provide safe, reasonable, and adequate service."

23  
24 **Q. Did Staff perform a financial comparison of American States versus EPCOR USA?**

25 A. Staff found that EPCOR USA, established in 2009, had very little useful financial  
26 information available. Alternatively, Staff reviewed financial information on EPCOR and

1 compared that information to American States. That comparison indicates that EPCOR is  
2 a larger entity than American States based on sales volume, plant values, and number of  
3 customers served. Additionally, Staff found that EPCOR has a better bond rating average  
4 than American States.

5  
6 **Q. Does Staff believe that this merger might improve CCWC's financial status?**

7 A. No, the Company has already indicated that there will be no change to CCWC after the  
8 merger. Realistically, CCWC's financial status can only be measured in a rate case where  
9 it indicates/estimates its cost of debt, cost of equity, and capital structure that leads to the  
10 cost of capital to be considered at that time. There is no indication in the subject  
11 application that any of these items may be improved or changed from the previously-  
12 approved cost of capital that supports the Company's current rates.

13  
14 **Q. Does Staff believe the subject merger could impair the Company's financial status?**

15 A. No, Staff did not find any evidence that the Company's financial status would be harmed  
16 or impaired.

17  
18 **OPERATIONAL ASPECTS**

19 **Q. Does Staff believe that this merger might improve or impair CCWC's operational**  
20 **status?**

21 A. The Company's application indicates there will be no change to CCWC subsequent to the  
22 subject merger. Staff does note that there will be one change to the CCWC staff. The  
23 District Manager position will be filled by a replacement from EPCOR. That position is  
24 currently filled (on an interim basis) by an employee of Golden State Water Company (an  
25 affiliate of American States). All other CCWC positions will remain the same after the  
26 subject merger.

1 **Q. Has Staff reviewed the customer service policies and how they might change?**

2 A. The Company has indicated that customer service, during working hours, will remain the  
3 same. The local Fountain Hills office will handle all customer service calls. The after-  
4 hours service calls are currently handled by American States' California Call Center.  
5 After the subject merger, the after-hours service calls will be handled by EPCOR Water  
6 Services Dispatch Centre, located in Edmonton, Alberta, Canada. The Canadian Centre is  
7 staffed 24 hours per day, seven days a week to handle any water emergencies.

8  
9 **Q. Does Staff see any problems in customer service due to the distance between  
10 Fountain Hills and Edmonton?**

11 A. Staff does not believe that distance should be a problem. All calls would be taken in the  
12 same way they are now in California. Any need for immediate action would be taken by  
13 "on-call" personnel in the local Fountain Hills office.

14  
15 **Q. What does Staff recommend?**

16 A. The Company shall maintain its quality of service, including, but not limited to, that the  
17 number of service complaints should not increase, that the response time to service  
18 complaints should not increase, and that service interruptions should not increase as a  
19 result of the reorganization.

20  
21 **CONCLUSION**

22 **Q. What is Staff's conclusion?**

23 A. Staff concludes that, after the subject reorganization, no short-term changes, benefits, or  
24 detriments will accrue to CCWC. Staff also believes that no measurable long-term  
25 changes, benefits, or detriments will accrue to CCWC.

26

1 **RECOMMENDATIONS**

2 **Q. What are Staff's recommendations?**

3 A. Staff recommends denial of the request for a waiver of the Rules.

4  
5 Staff recommends approval of the requested reorganization, with the following conditions:

6  
7 That the Commission order the Company and its affiliates to fully cooperate with Staff in  
8 any future inquiries or requests for information and/or documents regarding any  
9 transactions that Staff determines might have some effect, direct or indirect, on the  
10 Company's operational or financial health.

11  
12 That the Commission order the Company to refrain from seeking an acquisition  
13 adjustment due to this transaction in any future rate case.

14  
15 That the Commission order the Company to maintain its quality of service, including, but  
16 not limited to, that the number of service complaints should not increase, that the response  
17 time to service complaints should not increase, and that service interruptions should not  
18 increase as a result of the reorganization.

19  
20 **Q. Does this conclude your Direct Testimony?**

21 A. Yes, it does.