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BEFORE THE ARIZONA CORPORATION CO.

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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE ITS ANTHEM WATER DISTRICT AND ITS SUN CITY WATER DISTRICT, AND POSSIBLE RATE CONSOLIDATION FOR ALL OF ARIZONA AMERICAN WATER COMPANY' S DISTRICTS.

DOCKET NO. W-01303A-09-0343

Arizona Corporation Commission

DOCKETED

APR 27 2012

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM / AGUA FRIA WASTEWATER DISTRICT, SUN CITY WASTEWATER DISTRICT, AND SUN CITY WEST WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

**RESPONSE TO RECOMMENDED
OPINION AND ORDER**

- 1 EPCOR Water Arizona Inc.¹ ("EPCOR") files this response to the Recommended
- 2 Opinion and Order ("ROO") dated April 10, 2012, in the above-captioned case, to detail how it
- 3 currently intends to comply with the requirement in the ROO that it file a new rate case "as soon

¹ Arizona-American Water Company was renamed EPCOR Water Arizona Inc.

1 as possible.”² EPCOR is providing its current compliance intention in order to be helpful to the
2 Commission and interested parties and to avoid future misunderstandings.

3 **EPCOR’S INTENTION TO COMPLY**

4 EPCOR intends to comply with the ROO and Decision No. 72047’s related requirements
5 by next filing a system-wide wastewater only rate case including all of its wastewater districts.
6 EPCOR’s wastewater districts are Anthem/Agua Fria, Mohave, Sun City and Sun City West.

7 EPCOR would file, during the time range discussed below, using the same test year for
8 each district on stand alone, consolidated and deconsolidated bases as instructed in the ROO,
9 including cost-of-service studies.

10 Although EPCOR would support to the best of its ability through its application and
11 discovery responses the many permutations and combinations of consolidation and
12 deconsolidation interested parties may wish to examine and recommend, the Company’s own
13 proposal is anticipated to support eventual full system-wide consolidation.

14 However, if system-wide consolidation of all wastewater districts is not achieved,
15 EPCOR’s preferred alternative proposal is anticipated to be the preservation of the existing four
16 district configuration with one exception. That exception is that EPCOR may advocate in favor
17 of removing the Northeast Agua Fria wastewater area from Anthem/Agua Fria district and
18 joining it to the Sun City West wastewater district because Northeast Agua Fria shares the
19 Northwest Valley wastewater treatment plant with Sun City West.

20 EPCOR does not anticipate advocating in support of further deconsolidation.

21 EPCOR’s does not read the ROO as requiring EPCOR’s water districts to be part of the
22 next wastewater rate case docket; although, its water districts would remain subject to the
23 requirements of Decision No. 72047.

24 EPCOR likewise does not view the ROO as prohibiting EPCOR from submitting its next
25 water district rate case earlier than the next wastewater rate case. If, for any reason, the test

² ROO Page 43, Line 21 through Page 44, Line 8.

1 years selected for the next water and wastewater rate cases are identical, EPCOR intends for the
2 water district(s) to proceed in a docket separate from the wastewater docket.

3 It is EPCOR's intention to assemble all interested parties from all of its wastewater areas
4 into a working group well in advance of filing the next rate case in order that all parties'
5 concerns are heard and hopefully addressed expeditiously. EPCOR would endeavor to facilitate
6 cooperative processes, but would welcome assistance from other parties such as RUCO and
7 Commission Staff.

8 As regards the City of Phoenix, EPCOR intends to submit a standard cost-of-service
9 study with the City separately identified as a cost-of-service class. EPCOR emphasizes to the
10 City the importance of resolving existing issues with the metering of its wastewater flows in
11 Anthem before the start of the next test year in order for the cost-of-service study to produce
12 results useful in establishing a new tariff based on wastewater flows. EPCOR also notes that the
13 City may wish to submit its own cost-of-service study in support of its position in the next rate
14 case.

15 EPCOR interprets the ROO as also requiring the submission of test year rate base and
16 expense information for consideration of deconsolidating the three sub-areas of Agua Fria
17 wastewater. That level of detail was not submitted in the instant proceeding and it does not
18 currently exist.

19 EPCOR notes that it presently does not have rate base and expense data at a level of
20 detail necessary to support deconsolidation of the Agua Fria wastewater area into the three
21 additional sub-areas of Verrado, Russell Ranch and Northeast Agua Fria. Establishing this hard
22 data will be required prior to the filing of the next rate case. Furthermore, deconsolidating the
23 existing Agua Fria area into three smaller areas for ratemaking purposes would be expensive,
24 time-consuming, and imprecise, not to mention the loss of some existing efficiencies and
25 economies of scale within the business on a going forward basis. Within the Agua Fria
26 wastewater area, EPCOR presently only maintains a single business unit on its accounting books
27 and records for the Agua Fria service area. As of the end of 2011, there were only 5,094

1 customers in the relatively small Agua Fria service area, of which 2,956 were in Verrado, 1,926
2 in Northeast Agua Fria and 212 in Russell Ranch.

3 Business units are the lowest organizational level used to track assets, operations and
4 maintenance expenses for purposes such as ratemaking. Creating three new business units would
5 provide imprecise results. For example, not all existing Agua Fria plant in service can be
6 accurately assigned to each of the areas as capital project work orders did not always contain
7 geographic location detail for that purpose. Also, associated contributions and advances arising
8 in line extension agreements were not linked to the capital project work orders that gave rise to
9 the contribution or advance and may not be capable of being accurately matched to the
10 associated plant in service in all cases. Although the Company could formulate assumptions and
11 allocations to assign remaining plant and costs to each of the three areas, those assumptions and
12 allocations may not be sufficiently precise or acceptable to the Commission and interested
13 parties for separate costs of service in support of ratemaking. Depending on the degree of detail
14 requested by the parties, this could be a costly and time consuming process for such a small
15 number of customers.

16 It is important for the parties to understand that EPCOR will not have historical data for
17 periods earlier than the start of the test year for the three new business units in the event that—
18 for whatever reason—the parties wish to examine data for a longer period. EPCOR does not
19 have adequate records to determine what retroactive deconsolidation would have looked like.
20 Even if such records did exist, EPCOR does not have the resources to essentially create historical
21 test years for each of the three new business units, which would have to go years back in time.
22 As a consequence, the future schedules filed in support of ratemaking for the three new areas
23 would not display historical data earlier than the test year.

24 Therefore, as regards to what is possible for the timing of the filing of the next
25 wastewater rate case in compliance with the ROO as written, EPCOR does not envision a test
26 year sooner than December 31, 2013, as currently possible. EPCOR would need at least 18
27 months after the approval of the ROO to create the additional business units, to instruct

1 employees how to accurately and properly charging their expenses into the new business units
2 and to allow the necessary twelve months' time to pass for the new business units to establish a
3 test year. This would imply a rate case filing not sooner than mid-2014, especially if the above
4 discussed working group is formulated.

5 However, if EPCOR—either in the instant order or at a later date—is not required to
6 submit data deconsolidating these three business units in the next rate case, it envisions a test
7 year of not sooner than June 30, 2013 as possible. EPCOR's ownership of the Company began
8 February 1, 2012 and, thus, it will not have a full year of ownership in a test year until at least
9 January 31, 2013. Not surprisingly, there have been one-time expenses and out of period debits
10 and credits associated with the transition and it is EPCOR's opinion that it would be better for a
11 few additional months to pass before measuring test period results. This would imply a rate case
12 filing not sooner than year-end 2013.

13 As discussed above, EPCOR has described—in a spirit of cooperation—how it presently
14 expects to comply with the ROO. Of course, the above-described anticipated events may evolve
15 or unfold differently than currently anticipated or as later agreed to in joint party processes. For
16 this reason, EPCOR opposes any firm deadline to file the compliance wastewater rate case under
17 the ROO as currently written.

18 **Respectfully submitted** on April 27, 2012, by:

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