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PIERCE PROPOSED AMENDMENT #1

DATE PREPARED: May 21, 2012

2012 MAY 21 P 4: 27

COMPANY: EPCOR Water USA

DOCKET NOS: CONTROL W-01303A-09-0343 & SW-01303A-09-0343

OPEN MEETING DATES: May 22 & 23, 2012

AGENDA ITEM: U-15

Page 30, Line 17 **DELETE** sentence beginning "Based on information" through Page 33, Line 19 and **REPLACE** with:

"We agree."

"Maintaining the Anthem-Agua Fria Wastewater District as a consolidated district would not result in just and reasonable rates for Anthem residents. This is so for at least two reasons. First, it is undisputed that the large disparity in deconsolidated rates is due to the Northwest Valley Plant, the Verrado Reclamation Facility and its expansion as well as the Russell Ranch Reclamation Facility. By virtue of geographic separation and no interconnection facilities, Anthem residents do not and cannot use these facilities, whereas Agua Fria wastewater customers do. Thus, in order to more accurately allocate costs to the cost-causers, we will deconsolidate Anthem from the Anthem/Agua Fria Wastewater District at this time.

"Some have argued against deconsolidating Anthem from the Agua Fria Wastewater District by pointing out that the Agua Fria district itself is made up of three distinct wastewater systems that are not interconnected and do not share infrastructure with one another. Accordingly, these parties argue that the deconsolidation of Anthem, will not result in a pure assignment of cost causation among the three separate systems within the Agua Fria wastewater district. We are not persuaded by this line of argument. First, we do not believe the perfect (a complete allocation of costs to each system within the Agua Fria wastewater district) should be the enemy of the good (a more accurate allocation of costs between the Anthem and Agua Fria wastewater districts). Second, no party has actively sought to deconsolidate the separate systems within the Agua Fria wastewater district as Anthem has done in this one. If parties believe that fairness requires the Commission to consider further deconsolidation of the Agua Fria district they are free to advocate for such a result in future Commission proceedings.

THIS AMENDMENT:				Arizona Corporation Commission
<input type="checkbox"/> Passed	<input type="checkbox"/> Passed as amended by			DOCKETED
<input type="checkbox"/> Failed	<input type="checkbox"/> Not Offered	<input type="checkbox"/> Withdrawn		
				MAY 21 2012
				DOCKETED BY <i>ZM</i>

“Moreover, even if we were to set aside our desire to establish rates on cost causation principles, we believe deconsolidation of the Anthem wastewater district would be appropriate in this case in order to preserve the integrity of settlement negotiations that occur in Commission proceedings. In our December 15, 2010 Open Meeting, we encouraged the parties to negotiate the settlement of contentious legal and equitable issues involving the disputed refund payments that the Company paid to Pulte. As part of the settlement agreement that was ultimately reached, Anthem surrendered several arguments against recognizing the disputed refund payments to Pulte for ratemaking purposes. Anthem’s willingness to do so was based on the gains Anthem would make in other areas under the settlement agreement, including the timely deconsolidation of the Anthem/Agua Fria Wastewater District. The record suggests that deconsolidation of the Anthem/Agua Fria Wastewater District was vital to Anthem’s willingness to support the settlement as a complete package. Therefore, in order to preserve the integrity of the settlement negotiations that occur in Commission proceedings, we believe it is in the public interest to deconsolidate Anthem from the Anthem/Agua Fria Wastewater District at this time.

“We recognize that our decision to deconsolidate Anthem from Agua Fria will result in a significant shift in revenue responsibility from Anthem to Agua Fria. While we agree with Anthem that it is appropriate to eliminate the current subsidy that exists, we are mindful of the impact this revenue shift will have on Agua Fria ratepayers. In order to mitigate the impacts of the revenue shift, we will adopt the revenue transition plan proposed by Anthem, with one modification. In order to give Agua Fria customers additional time to prepare for this change, we will require the Company to begin the initial phase of the three-year revenue transition plan on January 1, 2013, instead of immediately as proposed by Mr. Neidlinger.”

Page 34, Line 2 **DELETE** lines 2 through 10.

Page 42, Line 22 **DELETE** beginning with “would not . . .” through line 24 and **INSERT** “is in the public interest.”

Page 43, Line 7 **DELETE** lines 7 through 13.

Page 43, Line 19 **DELETE** beginning with “would not . . .” through line 20, and **INSERT** “is in the public interest.”

“IT IS FURTHER ORDERED that EPCOR Water (USA) shall, on January 1, 2013, initiate the initial phase of the three-year revenue transition plan proposed by Anthem Community Council.”

Page 44, Line 3 **DELETE** lines 3 through 8.

Conforming changes.

THIS AMENDMENT:			
_____ Passed _____	Passed as amended by _____		
_____ Failed _____	_____ Not Offered	_____ Withdrawn	