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AZ CORP COMMISSION
DOCKET CONTROL

Transcript Exhibit(s)

Docket #(s): W-01445A-11-0310

Exhibit # : A1, A2, A3, S1, Global 1, Global 2
Epcor 1, AIC 1, RRI-1, RUCO 2, RUCO 4
RUCO 5, RUCO 6, RUCO 11, RUCO 12

Arizona Corporation Commission
DOCKETED
APR 17 2013

DOCKETED BY

ARIZONA WATER COMPANY

PHASE 2--EASTERN GROUP GENERAL RATE CASE

SETTLEMENT AGREEMENT
REGARDING DISTRIBUTION SYSTEM IMPROVEMENT CHARGE ("DSIC")
AND OTHER DSIC-LIKE PROPOSALS

Docket No. W-01445A-11-0310

EXHIBIT
A-1
admitted 4-8-13

SETTLEMENT AGREEMENT ON DSIC AND DSIC-LIKE PROPOSALS
AND
LIST OF SIGNATORY PARTIES

The purpose of this Settlement Agreement ("Agreement") is to settle specific, identified remaining issues related to Phase 2 of Docket No. W-01445A-11-0310, Arizona Water Company's ("AWC" or "Company") application to increase rates for its Eastern Group of systems as identified in its August 5, 2011 application ("Rate Case"). These remaining issues relate to a DSIC proposal presented by AWC in the Rate Case and the parties' responses to that proposal, including presentation of DSIC-like proposals. This Agreement is entered into by the following entities:

Arizona Water Company

Arizona Corporation Commission Utilities Division ("Staff")

Global Water – Palo Verde Utilities Company, Global Water – Santa Cruz Water Company, Valencia Water Company- Town Division, Valencia Water Company – Greater Buckeye Division, Water Utility of Greater Tonopah, Willow Valley Water Co. and Water Utility of Northern Scottsdale (collectively the "Global Utilities")

EPCOR Water Arizona Inc.

Rio Rico Utilities, Inc. dba Liberty Utilities ("Liberty Utilities")

The Water Utility Association of Arizona ("WUAA")

Arizona Investment Council ("AIC")

These entities shall be referred to collectively as the "Signatory Parties."

TERMS AND CONDITIONS

In consideration of the promises and agreements contained in this Agreement, the Signatory Parties agree that the following numbered sections and subsections, including attached exhibits and schedules, comprise the Signatory Parties' Agreement.

1.0 RECITALS

1.1 Docket No. W-01445A-11-0310 was commenced by the filing of a rate application by AWC on August 5, 2011. AWC's application ("Application"), among other relief, proposed that the Arizona Corporation Commission ("ACC" or "Commission") adopt a Distribution System Improvement Charge ("DSIC").

1.2 Following a sufficiency finding by Staff on September 6, 2011, RUCO filed an Application to Intervene on September 14, 2011. Kathie Wyatt filed an Application to Intervene on October 20, 2011.

1.3 The Administrative Law Judge granted the applications to intervene filed by RUCO and Kathie Wyatt. No other persons or entities intervened in the Rate Case or participated in the proceedings until after the Commission entered its Decision No. 73736 on February 20, 2013.

1.4 The Administrative Law Judge scheduled an evidentiary hearing on the Application to commence on May 14, 2012. The evidentiary hearing closed on May 24, 2012. Testimony and exhibits were presented by AWC, RUCO, and Staff. Kathie Wyatt did not appear.

1.5 Following post-hearing briefing, the Administrative Law Judge issued a Recommended Opinion and Order ("ROO") on January 30, 2013. AWC and RUCO filed exceptions to the ROO and Staff responded to AWC's exceptions. In addition, amendments to the ROO were presented at the Open Meeting at which the Commission considered the ROO on February 12, 2013. At the Open Meeting on that date, the Commission voted 5-0 to adopt Decision No. 73736, and reopened intervention for the limited purpose of discussing AWC's DSIC proposal, other DSIC-like proposals, and the possibility of achieving a settlement or compromise on the two. On February 21, 2013, the Administrative Law Judge issued a Procedural Order setting forth a schedule for the determination of the remaining issues in Phase 2 of the Rate Case (the "Phase 2 Proceedings").

1.6 The Global Utilities, EPCOR Water Arizona Inc., Liberty Utilities, WUAA, Arizona Investment Council and the City of Globe moved to intervene and were granted intervention in the Phase 2 Proceedings. Staff filed a notice of settlement discussions on February 21, 2013, setting settlement discussions in the Phase 2 Proceedings for March 4, 2013. The Signatory Parties and Kathie Wyatt were notified of the settlement discussion process, were encouraged to participate in the negotiations, and were provided with an equal opportunity to participate. Formal settlement discussions between the Signatory Parties began on the scheduled date of March 4, 2013. Kathie Wyatt did not appear or participate. A settlement was reached on all issues in the Phase 2 Proceedings by the participating Signatory Parties.

1.7 The Signatory Parties agree that the negotiation process undertaken in this matter was open, transparent and inclusive of all Signatory Parties, with each such party having an equal opportunity to participate. All Signatory Parties attended and actively participated in the settlement discussions. This Agreement is a result of those meetings and the Signatory Parties' good faith efforts to settle all of the issues presented in the Phase 2 Proceedings.

1.8 The purpose of this Agreement is to document the settlement of all issues presented in the Phase 2 Proceedings in a manner that will promote the public interest and provide for a prompt resolution of the issues on the schedule ordered by the Commission.

1.9 The Signatory Parties agree that the terms of this Agreement will serve the public interest by providing a just and reasonable resolution of the issues presented in the Phase 2 Proceedings and promoting the health, welfare and safety of customers. Commission approval of this Agreement will further serve the public interest by allowing the Signatory Parties to avoid the expense and delay associated with continued litigation of the Phase 2 Proceedings.

1.10 The Signatory Parties agree to ask the Commission to (1) find that the terms and conditions of this Agreement are just and reasonable and in the public interest, along with all other necessary findings, and (2) approve the Agreement and order that the Agreement and the System Improvement Benefits ("SIB") mechanism contained herein shall become effective at the earliest practicable date.

2.0 SYSTEM IMPROVEMENT BENEFITS ("SIB") MECHANISM

2.1 It is necessary for AWC to undertake a variety of system improvements in order to maintain adequate and reliable service to existing customers. AWC is also required to complete certain system improvements in order to comply with requirements imposed by law. The Signatory Parties acknowledge that these projects are necessary to provide proper, adequate and reliable service to existing customers; are not designed to serve or promote customer growth; and will not comprise an upgrade or expansion of existing plant unless justified for existing customers per Section 6.3.3.

2.2 Both the cost of these projects and the timing of their proposed completion and other factors set forth in the record create a circumstance for AWC that justifies the implementation of a SIB mechanism.

2.3 For ratemaking purposes and for the purposes of this Agreement, the Signatory Parties agree that the Commission may authorize a SIB mechanism for AWC in Docket W-01455A-11-0310. The SIB mechanism is a ratemaking device designed to provide for the timely recovery of the capital costs (depreciation expense and pre-tax return on investment) associated with distribution system improvement projects meeting the requirements contained herein and that have been completed and placed in service and where costs have not been included for recovery in Decision No. 73736.

2.4 A list of these projects and an estimation of the capital costs of each is set forth in SIB Plant Table I, attached hereto as Exhibit A

2.5 AWC may seek a SIB surcharge for projects on SIB Plant Table I that have been completed and placed into service, per SIB Plant Table II (Exhibit C).

3.0 CALCULATION OF AMOUNTS TO BE COLLECTED BY THE SIB SURCHARGE

3.1 The amount to be collected by the SIB surcharge ("SIB Authorized Revenue") shall be equal to the SIB revenue requirement minus the SIB efficiency credit.

3.2 The SIB revenue requirement is equal to the required pre-tax return on investment and depreciation expense associated with SIB-eligible projects that have been completed and placed into service, per SIB Plant Table II (Exhibit C), net of associated retirements. For such calculation:

3.2.1 The required rate of return is equal to the overall rate of return authorized in Decision No. 73736.

3.2.2 The gross revenue conversion factor/tax multiplier is equal to the gross revenue conversion factor/tax multiplier approved in Decision No. 73736 and;

3.2.3 The applicable depreciation rate(s) is equal to the depreciation rate(s) approved in Decision No. 73736.

3.3 The SIB Efficiency Credit shall be equal to five percent of the SIB revenue requirement.

3.4 The amount to be collected by each SIB surcharge filing shall be capped annually at five percent of the revenue requirement authorized in Decision No. 73736.

4.0 TIMING AND FREQUENCY OF SIB FILINGS

4.1 For ratemaking purposes and for purposes of this Agreement, the Signatory Parties agree that:

4.2 AWC may make its initial SIB surcharge filing no earlier than twelve months after the entry of Decision No. 73736.

4.3 Any subsequent SIB surcharge filings shall be made within sixty (60) days of the end of the previous twelve (12)-month SIB surcharge period.

4.4 AWC may make no more than one (1) SIB surcharge filing every twelve (12) months.

4.5 AWC is permitted no more than five (5) SIB surcharge filings between rate case decisions.

4.6 Unless otherwise authorized by the Commission, AWC (Eastern Group) shall be required to file its next general rate case no later than August 31, 2016 with a test year ending no later than December 31, 2015.

4.7 Any SIB surcharges that are in effect shall be reset to zero upon the date new rates become effective in AWC's next general rate case.

4.8 Every six (6) months AWC shall file a report with Docket Control delineating the status of all SIB eligible projects listed per SIB Plant Table I above, and may include modifications to that list for approval by the Commission using the process referenced in Section 6.0.

4.9 AWC shall make an annual SIB surcharge filing to true-up its collections under the SIB surcharge and establish the surcharge for the new surcharge period. A new SIB surcharge may be combined with an existing SIB surcharge such that a single SIB surcharge and SIB efficiency credit are shown on a customer's bill.

5.0 RECONCILIATION AND TRUE-UPS

5.1 The revenue collected by the SIB surcharge over the preceding twelve months shall be trued-up and reconciled with the SIB Authorized Revenue for that period.

5. 2 For each twelve (12) month period that a SIB surcharge is in effect, AWC shall reconcile the amounts collected by the SIB surcharge with the SIB Authorized Revenue, for that twelve (12)-month period, consistent with Schedule B, attached hereto as Exhibit B.

5.3 Any under- or over-collected SIB revenues shall be recovered or refunded, without interest, over a twelve-month period by means of a fixed monthly true-up surcharge or credit.

5.4 Starting with the second annual SIB surcharge, where there are over/under-collected balances related to the previous annual SIB surcharge, such over/under-collected balances shall be carried over to the next year, and capped to the extent annual revenues do not exceed the five percent cap. If, after the five year period there remains an over/under-collected balance, such balance shall be reset to zero, and any over/under-collected balance shall be addressed in the Company's next rate case for the Eastern Group.

6.0 ADDING PROJECTS TO SIB PLANT TABLE I

6.1 For ratemaking purposes and for purposes of this Agreement, the Signatory Parties agree that AWC, during the period to which the SIB applies, may request Commission authorization to modify or add other projects to SIB Plant Table I. Such additional projects may be added to SIB Plant Table I if they satisfy the criteria set forth in Paragraphs 6.2, 6.3, and 6.4.

6.2 To be eligible for SIB recovery, an asset must be utility plant investment that represents expenditures made by the Company to maintain or improve existing customer service and system reliability, integrity and safety. Eligible plant additions are limited to replacement projects. The costs of extending facilities or capacity to serve new customers are not recoverable through the SIB mechanism.

6.3 To be eligible for SIB recovery, a project must be a distribution system improvement that satisfies at least one of the following criteria:

6.3.1 Water loss for the system exceeds ten (10) percent, as calculated by the following formula:

6.3.1.1 ((Volume of Water Produced – (Volume of Water Sold + Volume of Water Put to Beneficial Use))/(Volume of Water Produced)). If the Volume of Water Put to Beneficial Use is not metered, it shall be established in a reliable, verifiable manner;

6.3.2 Water Utility plant assets have remained in service beyond their useful service lives (based on that system's authorized utility plant depreciation rates) and are in need of replacement due to being worn out or in a deteriorating condition through no fault of the Company;

6.3.3 Any other engineering, operational or financial justification supporting the need for a plant asset replacement, other than AWC's negligence or improper maintenance, including, but not limited to:

6.3.3.1 A documented increasing level of repairs to, or failures of, a plant asset justifying its replacement prior to reaching the end of its useful service life (e.g. black poly pipe);

6.3.3.2 Meter replacements for systems that have implemented a meter testing and maintenance program in compliance with A.A.C. R14-2-408 (E);

6.3.3.3 Meters replaced in a system for the purpose of complying with the U.S. Environmental Protection Agency's Reduction of Lead in Drinking Water Act of 2010; and

6.3.3.4 Assets that are required to be moved, replaced or abandoned by a governmental agency or political subdivision if AWC can show that it has made a good faith effort to seek reimbursement for all or part of the costs incurred.

6.4 To be eligible for SIB treatment, a project must be a distribution system improvement with assets to be classified in the following plant categories:

6.4.1 Transmission and Distribution Mains;

6.4.2 Fire Mains;

6.4.3 Services, including Service Connections;

6.4.4 Valves and Valve Structures;

6.4.5 Meters and Meter Installations;

6.4.6 Hydrants

6.5 With a request to modify or add projects to SIB Plant Table I, AWC shall provide a proposed order for Commission consideration. Staff and RUCO shall have 30 days to object to the projects AWC is seeking to include in its revised SIB Plant Table I. Staff shall promptly process AWC's request and shall docket any Staff recommendations to the Commission within thirty days after AWC has filed its request. If there is no objection to AWC's request, that request shall be placed on an open meeting agenda at the earliest practical date.

7.0 SIB SURCHARGE FILING REQUIREMENTS

7.1 For ratemaking purposes and for all purposes of this Agreement, the Signatory Parties agree that AWC shall include the following information with each SIB surcharge filing:

7.1.1 A schedule (an example of which is attached hereto as Exhibit C, SIB Plant Table II) showing the SIB eligible projects completed for which AWC seeks cost recovery. Such projects must 1) be projects set forth in AWC's initial SIB Plant Table I or have been added to said SIB Plant Table I pursuant to Section 6.0 of this agreement; 2) have been completed by AWC; and 3) be actually serving customers.

7.1.2 SIB Schedule A (an example of which is attached hereto as Exhibit D), showing a calculation of the SIB revenue requirement and SIB efficiency credit, as well as the individual SIB fixed surcharge calculation;

7.1.3 SIB Schedule B (an example of which is attached hereto as Exhibit B), showing the overall SIB revenue true-up calculation for the prior twelve-month SIB surcharge period, as well as the individual SIB fixed true-up surcharge or credit calculation;

7.1.4 SIB Schedule C (an example of which is attached hereto as Exhibit E) showing the effect of the SIB surcharge on a typical residential customer bill;

7.1.5 SIB Plant Table II, summarizing SIB-eligible projects completed and included in the current SIB surcharge filing.

7.1.6 SIB Plant Table I (an example of which is attached hereto as Exhibit A), summarizing SIB-eligible projects contemplated for the next twelve (12)-month SIB surcharge period:

7.1.7 SIB Schedule D (an example of which is attached as Exhibit F) showing an analysis of the impact of the SIB Plant on the fair value rate base, revenue, and the fair value rate of return as set forth in Decision No. 73736.

7.1.8 A proposed order for the Commission's consideration.

7.2 At least 30 days prior to the SIB surcharge becoming effective, AWC shall provide public notice in the form of a billing insert or customer letter which includes the following information:

7.2.1 The individual SIB surcharge amount, by meter size;

7.2.2 The individual SIB efficiency credit, by meter size;

7.2.3 Any individual SIB true-up surcharge or credit, by meter size; and

7.2.4 A summary of the projects included in the current SIB surcharge filing, including a description of each project and its cost.

8.0 RATE DESIGN

8.1 The SIB fixed surcharge/rate design shall be calculated as follows:

8.1.1 The SIB surcharge shall be a fixed monthly surcharge containing a SIB fixed surcharge and the SIB efficiency credit as its two components.

8.1.2 The SIB surcharge shall be calculated by dividing the overall SIB revenue requirement by the number of 5/8-inch equivalent meters serving active customers at the end of the most recent twelve (12) month period, and shall increase with meter size based on the following meter capacity multipliers:

8.1.2.1	5/8-inch x ¾-inch	1.0 times
8.1.2.2	1-inch	2.5 times
8.1.2.3	1 ½-inch	5 times
8.1.2.4	2-inch	8 times
8.1.2.5	3-inch	16 times
8.1.2.6	4-inch	25 times

8.1.2.7	6-inch	50 times
8.1.2.8	8-inch	80 times
8.1.2.9	10-inch & above	115 times

8.2 The SIB surcharge shall apply to all of AWC's metered general service customers, including private fire service customers.

9.0 SIB SURCHARGE IMPLEMENTATION

9.1 For ratemaking purposes and for all purposes of this Agreement, the Signatory Parties agree that:

9.2 AWC's SIB surcharges and SIB true-up surcharges/credits shall not become effective unless approved by the Commission.

9.3 AWC shall provide a proposed order with each SIB surcharge filing for the Commission's consideration.

9.4 Staff and RUCO shall have thirty (30) days from the date a SIB surcharge filing is made by AWC to review the amount of the SIB surcharge or SIB true-up surcharge or credit, and dispute and/or file a request for the Commission to alter the SIB surcharge or SIB true-up surcharge/credit. If no objection is filed to AWC's request within the thirty-day timeframe, the request shall be placed on an open meeting agenda at the earliest practicable date.

10.0 COMMISSION REVIEW OF SIB MECHANISM

10.1 For ratemaking purposes and for all purposes of this Agreement, the Signatory Parties agree that the Commission may determine that good cause exists to suspend, terminate or modify AWC's SIB mechanism, after the affected parties are afforded due process and an opportunity to be heard prior to any suspension, termination, or modification of the SIB mechanism.

10.2 The Signatory Parties agree that, although the SIB mechanism discussed in this agreement may be used as a template in other rate proceedings, it is specific to AWC in Docket W-01455A-11-0310. The Signatory Parties further agree that Staff may recommend and/or that any utility may apply to the Commission for a similar SIB mechanism for projects meeting the criteria outlined herein in a full rate case application.

11.0 COMMISSION EVALUATION OF PROPOSED SETTLEMENT

11.1 This Agreement shall serve as the procedural device by which the Signatory Parties will submit their proposed settlement of the Phase 2 Rate Proceeding to the Commission. Nothing herein is intended to amend or supersede Decision No. 73736, which Decision is final in every respect.

11.2 All currently-filed testimony and exhibits, as well as the testimony in support of this Agreement anticipated by the Commission's February 21, 2013 Procedural Order, shall be offered into the Commission's record as evidence. All Signatory Parties waive the filing and submission of surrebuttal testimony and exhibits from Staff and Intervenors, and the filing and submission of rejoinder testimony and exhibits from AWC.

11.3 The Signatory Parties recognize that the Commission will independently consider and evaluate the terms of this Agreement.

11.4 If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute Commission approval of the Agreement. Thereafter, the Signatory Parties shall abide by the terms of this Agreement, as approved by the Commission.

11.5 The Signatory Parties agree to support and defend this Agreement, including filing testimony in support of the Agreement and presenting evidence in support of the Agreement at the hearing in the Phase 2 Proceedings scheduled to begin on April 8, 2013, and will not oppose any provision of the Agreement in pre-filed or live testimony. The parties agree to waive their rights to appeal a Commission Decision approving the same, provided that the Commission approves all material provisions of the Agreement. The Signatory Parties shall take reasonable steps to expedite consideration of the settlement, entry of a Decision adopting the settlement, and implementation of the mechanism anticipated in this Agreement, and shall not seek any delay in the schedules set for consideration of the Agreement or for the Administrative Law Judge's or Commission's consideration of the settlement embodied in the Agreement. If the Commission adopts an order approving all material terms of this Agreement, the Signatory Parties will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.

11.6 If the Commission fails to issue an order adopting all material terms of this Agreement or adds new or different material terms to this Agreement, any or all of the Signatory Parties may withdraw from this Agreement, and such Signatory Party or Parties may pursue without prejudice their respective remedies at law. For the purposes of this Agreement, whether a term is material shall be left to the discretion of the Signatory Party choosing to withdraw from the Agreement. If a Signatory Party files an application for rehearing before the Commission, Staff shall not be obligated to file any document or take any position regarding the withdrawing Signatory Party's application for rehearing.

11.7 The Signatory parties recognize that Staff does not have the power to bind the Commission. For purposes of proposing a settlement agreement, Staff acts in the same manner as any party to a Commission proceeding.

12.0 MISCELLANEOUS PROVISIONS

12.1 The provisions set forth in the Agreement are made for purposes of settlement only and shall not be construed as admissions against interest or waivers of litigation positions of the Signatory parties in this proceeding or related to other or future rate cases.

12.2 This Agreement represents the Signatory Parties' mutual desire to settle disputed issues in a manner consistent with the public interest. None of the positions taken in this Agreement by any of the Signatory Parties may be relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except in furtherance of this Agreement.

12.3 This case presents a unique set of circumstances and to achieve consensus for settlement, participants may be accepting positions that, in other circumstances, they would be unwilling to accept. They are doing so because the Agreement, as a whole, with its various provisions for settling the unique issues presented by this case, is consistent with their long-term interests and with the broad public interest. The acceptance by any Signatory Party of a specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.

12.4 No Signatory Party is bound by any position asserted in negotiations, except as expressly stated otherwise in this Agreement. No Signatory Party shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, or any other regulatory agency, or any court.

12.5 Each of the terms and conditions of the Agreement is in consideration and support of all other terms. Accordingly, the terms are not severable.

11.6 The Signatory Parties warrant and represent that each person whose signature appears below is fully authorized and empowered to execute this Agreement.

12.7 The Signatory Parties acknowledge that they are represented by competent legal counsel and that they understand all of the terms of this Agreement and have had an opportunity to participate in the drafting of this Agreement and to fully review it with their counsel before signing, and that they execute this Agreement with full knowledge of the terms of the Agreement.

12.8 This Agreement may be executed in any number of counterparts and by each individual Signatory Party on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

12.9 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule or regulation, this Agreement shall control.

Executed this 1st day of April, 2013.

ARIZONA WATER COMPANY

By: William M Garfield
Name: William M. Garfield
Its: President and COO

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

By:_____
Name:_____
Its:_____

GLOBAL WATER – PALO VERDE UTILITIES
COMPANY

By:_____
Name:_____
Its:_____

Executed this ____ day of March, 2013.

ARIZONA WATER COMPANY

By:_____
Name:_____
Its:_____

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

By:_____
Name: STEVE OLEA
Its: Utilities Division Director

GLOBAL WATER – PALO VERDE UTILITIES COMPANY

By:_____
Name:_____
Its:_____

Executed this ____ day of March, 2013.

ARIZONA WATER COMPANY

By:_____
Name:_____
Its:_____

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

By:_____
Name:_____
Its:_____

GLOBAL WATER – PALO VERDE UTILITIES
COMPANY

By:_____
Name: Ron Fleming
Its: Vice-President

GLOBAL WATER – SANTA CRUZ WATER COMPANY

By:_____
Name: Ron Fleming
Its: Vice-President

VALENCIA WATER COMPANY – TOWN DIVISION

By:_____
Name: Ron Fleming
Its: Vice-President

VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION

By:_____
Name: Ron Fleming
Its: Vice-President

WATER UTILITY OF GREATER TONOPAH

By:_____
Name: Ron Fleming
Its: Vice-President

WILLOW VALLEY WATER CO.

By:_____
Name: Ron Fleming
Its: Vice-President

WATER UTILITY OF NORTHERN SCOTTSDALE

By:_____
Name: Ron Fleming
Its: Vice-President

EPCOR WATER ARIZONA, INC.

By:_____
Name:_____
Its:_____

RIO RICO UTILITIES, INC. dba LIBERTY UTILITIES

By:_____
Name:_____
Its:_____

THE WATER UTILITY ASSOCIATION OF ARIZONA

By:_____
Name:_____
Its:_____

ARIZONA INVESTMENT COUNCIL

By:_____
Name:_____
Its:_____

WATER UTILITY OF NORTHERN SCOTTSDALE

By:_____
Name:_____
Its:_____

EPCOR WATER ARIZONA, INC.

By:_____
Name: JIM McKEE
Its: VP - CORP. SERVICES

RIO RICO UTILITIES, INC. dba LIBERTY UTILITIES

By:_____
Name:_____
Its:_____

THE WATER UTILITY ASSOCIATION OF ARIZONA

By:_____
Name: Greg PATTERSON
Its: DIRECTOR

ARIZONA INVESTMENT COUNCIL

By:_____
Name:_____
Its:_____

WATER UTILITY OF NORTHERN SCOTTSDALE

By:_____
Name:_____
Its:_____

EPCOR WATER ARIZONA, INC.

By:_____
Name:_____
Its:_____

RIO RICO UTILITIES, INC. dba LIBERTY UTILITIES

By: [signature]
Name: Gregory S Sorensen
Its: VP & GM

THE WATER UTILITY ASSOCIATION OF ARIZONA

By:_____
Name:_____
Its:_____

ARIZONA INVESTMENT COUNCIL

By:_____
Name:_____
Its:_____

WATER UTILITY OF NORTHERN SCOTTSDALE

By:_____
Name:_____
Its:_____

EPCOR WATER ARIZONA, INC.

By:_____
Name:_____
Its:_____

RIO RICO UTILITIES, INC. dba LIBERTY UTILITIES

By:_____
Name:_____
Its:_____

THE WATER UTILITY ASSOCIATION OF ARIZONA

By:_____
Name:_____
Its:_____

ARIZONA INVESTMENT COUNCIL

By: Gary Yaquinto
Name: Gary Yaquinto
Its: President & CEO

EXHIBIT A

SUPERSTITION/APACHE JUNCTION

TABLE I (Page 1 of 6)

Information to be included with SIB-Eligible Project Notification

Project No.	NARUC Acct No. (SIB-eligible plant) 309 Supply Mains	Replacement Plant Description (SIB-eligible plant) Pipe length	Diameter	Material	Cost/Unit	PWSID No.	Site (location description)	Replacement Plant Expected In-Service Date	Cost (estimated)	1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
1	NA					11-004			$0	
2	NA					11-004			$0	
3	NA					11-004			$0	
4	NA					11-004			$0	
6	NA					11-004			$0	
9	NA					11-004			$0	
10	NA					11-004			$0	
11	NA					11-004			$0	
12	NA					11-004			$0	
14	NA					11-004			$0	
17	NA					11-004			$0	
18	NA					11-004			$0	
25	NA					11-004			$0	
27	NA					11-004			$0	
28	NA					11-004			$0	
31	NA					11-004			$0	

SUPERSTITION/APACHE JUNCTION

TABLE I (Page 1 of 6) cont.

Information to be included with SIB-Eligible Project Notification

32	NA					11-004			$0	
33	NA					11-004			$0	
35	NA					11-004			$0	
Subtotal Cost (estimate)									$0	

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 2 of 6) cont.
Information to be included with SIB-Eligible Project Notification

9	343	4,700	6	DI	88.71	11-004	Hidalgo St.	2013	$416,937	Install approximately 4,700 LF of 6-inch DI replacement pipe with polywrap, replace 32 service connections and replace 32 meters along Hidalgo Street and Concho Street. This project will replace approximately 2,950 LF of 1.5-inch and 2-inch GS water main installed in 1959 and 1960 along Hidalgo Street and will also replace approximately 2,350 LF of 1-inch and 2-inch GS water main installed in 1960 along Concho Street. These existing water mains and service connections to be replaced have 19 recorded leaks over the last 8 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
10	NA					11-004			$0	
11	NA					11-004			$0	
12	NA					11-004			$0	
14	NA					11-004			$0	
17	NA					11-004			$0	
18	NA					11-004			$0	
25	NA					11-004			$0	
27	343	500	6	DI	89.65	11-004	Emerald Dr.	2014	$44,825	Install approximately 500 LF of 6-inch DI replacement pipe with polywrap, replace 8 service connections and replace 8 meters along South Emerald Drive. This project will replace approximately 500 LF of 2-inch ST water main installed in 1955 along South Emerald Drive. The existing water mains and service connections to be replaced has 10 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
28	NA					11-004			$0	
31	NA					11-004			$0	
32	343	600	6	DI	84.90	11-004	Broadway Ave.	2014	$50,940	Install approximately 600 LF of 6-inch DI replacement pipe with polywrap, replace 3 service connections, replace 3 meters, and replace 1 fire hydrant along Broadway Avenue from Tomahawk Road to Vista Road. This project will replace approximately 600 LF of 6-inch CA water main installed in 1960 and 1984 along Broadway Avenue. The existing water mains and service connections to be replaced has 7 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 2 of 6) cont.
Information to be included with SIB-Eligible Project Notification

33	NA	1,400	6	DI	89.48	11-004	Boise St.	2014	$125,272	Install approximately 1,400 LF of 6-inch DI replacement pipe with polywrap, replace 13 service connections and replace 13 meters along Boise Street and 105th Place. This project will replace approximately 1,100 LF of 2-inch PVC water main installed in 1966 along Boise Street and approximately 300 LF of 2-inch PVC water main installed in 1966 along 105th Place. The existing water mains and service connections to be replaced have 7 recorded leaks over the last 8 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
35	NA					11-004			$0	
Subtotal Cost (estimate)									**$815,595**	

SUPERSTITION/APACHE JUNCTION

TABLE I (Page 3 of 6)

Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	345 Services	Quantity	Diameter	Material	Cost/Unit			Expected In-Service Date	Cost (estimated)	
1	345	126	1-inch	Copper	4,077.36	11-004	Peralta Estates Unit 2	2014	$513,747	Replace 126 service connections and replace 126 meters in Peralta Estates Unit Two. The existing water mains have 25 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
2	345	88	1-inch	Copper	4,750.34	11-004	Boise St.	2015	$418,030	Install approximately 1,350 LF of 6-inch DI replacement pipe with polywrap, replace 88 service connections and replace 88 meters between Boise Street and Avalon Street. This project will replace approximately 800 LF of 4-inch CA water main installed in 1970 in an alley between 113th Way and 114th Street. The existing water main and service connections to be replaced have 22 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
3	345	102	1-inch	Copper	3,570.63	11-004	114th St.	2014	$364,204	Install approximately 650 LF of 6-inch DI replacement pipe with polywrap, replace 102 service connections, replace 102 meters and replace 1 fire hydrant between 114th Street and Meridian Road. The existing water mains and service connections to be replaced have 22 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
4	345	87	1-inch	Copper	3,902.31	11-004	Delaware Dr.	2014	$339,501	Replace 87 service connections and replace 87 meters along Delaware and Lawther Drives. The existing water mains have 22 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 3 of 6) cont.
Information to be included with SIB-Eligible Project Notification

6	345	25	1-inch	Copper	4,000.32	11-004	Greasewood Dr.	2014	$100,008	Replace 25 service connections and replace 25 meters along Greasewood Drive and Escondido Court. The existing water main has 20 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
9	345	32	1-inch	Copper	4,499.32	11-004	Hidalgo St.	2013	$143,978	Install approximately 4,700 LF of 6-inch DI replacement pipe with polywrap, replace 32 service connections and replace 32 meters along Hidalgo Street and Concho Street. This project will replace approximately 2,950 LF of 1.5-inch and 2-inch GS water main installed in 1959 and 1960 along Hidalgo Street and will also replace approximately 2,350 LF of 1-inch and 2-inch GS water main installed in 1960 along Concho Street. These existing water mains and service connections to be replaced have 19 recorded leaks over the last 8 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
10	345	47	1-inch	Copper	3,987.04	11-004	Sugar Creek Dr.	2014	$187,391	Replace 47 service connections and replace 47 meters along Sugar Creek Drive, Pleasant Place and Breathless Drive. The existing water mains have 19 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
11	345	101	1-inch	Copper	4,041.83	11-004	Pinyon Dr.	2015	$408,225	Replace 101 service connections and replace 101 meters along Pinyon Drive and Virginia, Scenic, Cactus Wren, and Gregory Streets. The existing water mains have 18 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
12	345	44	1-inch	Copper	4,076.36	11-004	Peralta Estates	2015	$179,360	Replace 44 service connections and replace 44 meters in Peralta Estates Unit Two. The existing water main has 17 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
14	345	121	1-inch	Copper	4,127.63	11-004	Copper Dr.	2015	$499,443	Replace 121 service connections and replace 121 meters along Copper, Gold and Silver Drives. The existing water mains have 16 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
17	345	25	1-inch	Copper	4,037.08	11-004	Sleepy Hollow	2015	$100,927	Replace 25 service connections and replace 25 meters along Sleepy Hollow Trail and Lazy Lane. The existing water mains have 15 recorded service line leaks over the last 7 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 3 of 6) cont.
Information to be included with SIB-Eligible Project Notification

18	345	21	1-inch	Copper	3,946.08	11-004	Hideaway Lane	2015	$82,868	Replace 21 service connections and replace 21 meters along Hideaway Lane, Lazy Lane, and Breathless Drive. The existing water mains have 14 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
25	345	48	1-inch	Copper	3,959.74	11-004	Mountain Rd.	2015	$190,068	Replace 48 service connections and replace 48 meters along Mountain Road, Elmont Drive and Malcolm Drive. The existing water mains have 11 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
27	345	8	1-inch	Copper	4,146.89	11-004	Emerald Dr.	2014	$33,175	Install approximately 500 LF of 6-inch DI replacement pipe with polywrap, replace 8 service connections and replace 8 meters along South Emerald Drive. This project will replace approximately 500 LF of 2-inch ST water main installed in 1955 along South Emerald Drive. The existing water mains and service connections to be replaced has 10 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
28	345	30	1-inch	Copper	3,963.58	11-004	Sleepy Hollow Trail, Breathless Dr	2014	$118,907	Replace 30 service connections and replace 30 meters along Sleepy Hollow Trail, Breathless Drive and Tum Tum Court. The existing water mains have 10 recorded service line leaks over the last 7 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
31	345	14	1-inch	Copper	4,055.48	11-004	Hummingbird Lane	2015	$56,777	Replace 14 service connections and replace 14 meters along Hummingbird Lane. The existing water main has 7 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
32	345	3	1-inch	Copper	4,491.60	11-004	Broadway Ave.	2014	$13,475	Install approximately 600 LF of 6-inch DI replacement pipe with polywrap, replace 3 service connections, replace 3 meters, and replace 1 fire hydrant along Broadway Avenue from Tomahawk Road to Vista Road. This project will replace approximately 600 LF of 6-inch CA water main installed in 1960 and 1984 along Broadway Avenue. The existing water mains and service connections to be replaced has 7 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 3 of 6) cont.
Information to be included with SIB-Eligible Project Notification

33	345	13	1-inch	Copper	3,856.50	11-004	Boise St.	2014	$50,135	Install approximately 1,400 LF of 6-inch DI replacement pipe with polywrap, replace 13 service connections and replace 13 meters along Boise Street and 105th Place. This project will replace approximately 1,100 LF of 2-inch PVC water main installed in 1966 along Boise Street and approximately 300 LF of 2-inch PVC water main installed in 1966 along 105th Place. The existing water mains and service connections to be replaced have 7 recorded leaks over the last 8 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
35	345	14	1-inch	Copper	4,055.48	11-004	Alhambra Way	2014	$56,777	Replace 14 service connections and replace 14 meters along Hummingbird Avenue and Alhambra Way. The existing water main has 6 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)									**$3,856,996**	

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 4 of 6)
Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)			PWSID No.	Site (location description)	Replacement Plant		
Project No.	346 Meters	Size	Quantity	Cost/Unit			Expected In-Service Date	Cost (estimated)	1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
1	346	5/8-inch	126	80.00	11-004	Peralta Estates Unit 2	2014	$10,080	Replace 126 meters in Peralta Estates Unit Two. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
2	346	5/8-inch	88	80.00	11-004	Boise St.	2015	$7,040	Replace 88 meters between Boise Street and Avalon Street. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
3	346	5/8-inch	102	80.00	11-004	114th St.	2014	$8,160	Replace 102 meters between 114th Street and Meridian Road. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
4	346	5/8-inch	87	80.00	11-004	Delaware Dr.	2014	$6,960	Replace 87 meters along Delaware and Lawther Drives. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 4 of 6) cont.
Information to be included with SIB-Eligible Project Notification

6	346	5/8-inch	25	80.00	11-004	Greasewood Dr.	2014	$2,000	Replace 25 meters along Greasewood Drive and Escondido Court. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
9	346	5/8-inch	32	80.00	11-004	Hidalgo St.	2013	$2,560	Replace 32 meters along Hidalgo Street and Concho Street. The existing meters have reached the end of their useful life. This replacement project is not being constructed to serve new customers.
10	346	5/8-inch	47	80.00	11-004	Sugar Creek Dr.	2014	$3,760	Replace 47 meters along Sugar Creek Drive, Pleasant Place and Breathless Drive. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
11	346	5/8-inch	101	80.00	11-004	Pinyon Dr.	2015	$8,080	Replace 101 meters along Pinyon Drive and Virginia, Scenic, Cactus Wren, and Gregory Streets. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
12	346	5/8-inch	44	80.00	11-004	Peralta Estates	2015	$3,520	Replace 44 meters in Peralta Estates Unit Two. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
14	346	5/8-inch	121	80.00	11-004	Copper Dr.	2015	$9,680	Replace 121 meters along Copper, Gold and Silver Drives. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
17	346	5/8-inch	25	80.00	11-004	Sleepy Hollow	2015	$2,000	Replace 25 meters along Sleepy Hollow Trail and Lazy Lane. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 4 of 6) cont.
Information to be included with SIB-Eligible Project Notification

18	346	5/8-inch	21	80.00	11-004	Hideaway Lane	2015	$1,680	Replace 21 meters along Hideaway Lane, Lazy Lane, and Breathless Drive. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
25	346	5/8-inch	48	80.00	11-004	Mountain Rd.	2015	$3,840	Replace 48 meters along Mountain Road, Elmont Drive and Malcolm Drive. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
27	346	5/8-inch	8	80.00	11-004	Emerald Dr.	2014	$640	Rplace 8 meters along South Emerald Drive. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
28	346	5/8-inch	30	80.00	11-004	Sleepy Hollow Trail, Breathless Dr	2014	$2,400	Replace 30 meters along Sleepy Hollow Trail, Breathless Drive and Tum Tum Court. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
31	346	5/8-inch	14	80.00	11-004	Hummingbird Lane	2015	$1,120	Replace 14 meters along Hummingbird Lane. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
32	346	5/8-inch	3	80.00	11-004	Broadway Ave.	2014	$240	Replace 3 meters along Broadway Avenue from Tomahawk Road to Vista Road. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
33	346	5/8-inch	13	80.00	11-004	Boise St.	2014	$1,040	Replace 13 meters along Boise Street and 105th Place. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 4 of 6) cont.
Information to be included with SIB-Eligible Project Notification

35	346	5/8-inch	14	80.00	11-004	Alhambra Way	2014	$1,120	Replace 14 meters along Hummingbird Avenue and Alhambra Way. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)								**$75,920**	

SUPERSTITION/APACHE JUNCTION

TABLE I (Page 5 of 6)

Information to be included with SIB-Eligible Project Notification

Project No.	NARUC Acct No. (SIB-eligible plant) 348 Hydrants	Replacement Plant Description (SIB-eligible plant) Quantity	Cost/Unit	PWSID No.	Site (location description)	Replacement Plant Expected In-Service Date	Cost (estimated)	1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
1	NA			11-004			$0	
2	NA			11-004			$0	
3	348	1	2,886.70	11-004	114th St.	2014	$2,887	Replace 1 fire hydrant between 114th Street and Meridian Road. This project will replace a fire hydrant installed in 1970. The existing hydrant is old and failing requiring replacement. Replacement parts are unavailable for this hydrant. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
4	NA			11-004			$0	
6	NA			11-004			$0	
9	NA			11-004			$0	
10	NA			11-004			$0	
11	NA			11-004			$0	
12	NA			11-004			$0	
14	NA			11-004			$0	
17	NA			11-004			$0	
18	NA			11-004			$0	
25	NA			11-004			$0	
27	NA			11-004			$0	
28	NA			11-004			$0	
31	NA			11-004			$0	

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 5 of 6) cont.
Information to be included with SIB-Eligible Project Notification

32	348	1	2,693.80	11-004	Broadway Ave.	2014	$2,694	Replace 1 fire hydrant along Broadway Avenue from Tomahawk Road to Vista Road. This project will replace a fire hydrant installed in 1960 along Broadway Avenue. The existing hydrant is old and failing requiring replacement. Replacement parts are unavailable for this hydrant. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
33	NA			11-004			$0	
35	NA			11-004			$0	
Subtotal Cost (estimate)							**$5,581**	

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 6 of 6, Summary)
Information to be included with SIB-Eligible Project Notification

Project No.	PWSID No.	Project Description	Cost (estimated)
1	11-004	REPLACE 126 SERVICE CONNECTIONS IN PERALTA ESTATES UNIT TWO	$523,827
2	11-004	INSTALL 1,350 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 88 SERVICE CONNECTIONS BETWEEN BOISE STREET AND AVALON STREET	$544,964
3	11-004	INSTALL 650 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 102 SERVICE CONNECTIONS BETWEEN 114TH STREET AND MERIDIAN ROAD	$432,978
4	11-004	REPLACE 87 SERVICE CONNECTIONS ALONG DELAWARE AND ALWTHER DRIVES	$346,461
6	11-004	REPLACE 25 SERVICE CONNECTIONS ALONG GREASEWOOD DRIVE AND ESCONDIDO COURT	$102,008
9	11-004	INSTALL 4,700 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 32 SERVICE CONNECTIONS ALONG HIDALOG STREET AND CONCHO STREET	$563,475
10	11-004	REPLACE 46 SERVICE CONNECTIONS ALONG SUGAR CREEK DRIVE, PLEASANT PLACE AND BREATHLESS DRIVE	$191,151
11	11-004	REPLACE 101 SERVICE CONNECTIONS ALONG PINYON DRIVE AND VIRGINIA, SCENIC, CACTUS WREN, AND GREGORY STREETS	$416,305
12	11-004	REPLACE 44 SERVICE CONNECTIONS IN PERALTA ESTATES UNIT TWO	$182,880
14	11-004	REPLACE 121 SERVICE CONNECTIONS ALONG COPPER, GOLD AND SILVER DRIVES	$509,123
17	11-004	REPLACE 25 SERVICE CONNECTIONS ALONG SLEEPY HALLOW TRAIL AND LAZY LANE	$102,927
18	11-004	REPLACE 21 SERVICE CONNECTIONS ALONG HIDEAWAY LANE, LAZY LANE AND BREATHLESS DRIVE	$84,548
25	11-004	REPLACE 48 SERVICE CONNECTIONS ALONG MOUNTAIN ROAD, ELMONT DRIVE AND MALCOLM DRIVE	$193,908
27	11-004	INSTALL 500 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 8 SERVICE CONNECTIONS ALONG SOUTH EMERALD DRIVE	$78,640
28	11-004	REPLACE 30 SERVICE CONNECTIONS ALONG SLEEPY HOLLOW TRAIL, BREATHLESS DRIVE AND TUM TUM COURT	$121,307

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 6 of 6, Summary) cont.
Information to be included with SIB-Eligible Project Notification

31	11-004	REPLACE 14 SERVICE CONNECTIONS ALONG HUMMINGBIRD LANE	$57,897
32	11-004	INSTALL 600 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 3 SERVICE CONNECTIONS ALONG BROADWAY AVENUE FROM TOMAHAWK ROAD TO VISTA ROAD	$67,349
33	11-004	INSTALL 1,400 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 13 SERVICE CONNECTIONS ALONG BOISE STREET AND 105TH PLACE	$176,447
35	11-004	REPLACE 14 SERVICE CONNECTIONS ALONG HUMMINGBIRD LANE AND ALHAMBRA WAY	$57,897
Total Cost (estimate)			**$4,754,092**

SUPERSTITION/SUPERIOR

TABLE I (Page 1 of 6)

Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**309 Supply Mains**	Pipe length	Diameter	Material	Cost/Unit			Expected In-Service Date	Cost (estimated)	
19	NA					11-021			$0	
34	NA					11-021			$0	
36	NA					11-021			$0	
Subtotal Cost (estimate)									$0	

SUPERSTITION/SUPERIOR
TABLE I (Page 2 of 6)
Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**343 T&D Mains**	Pipe length	Diameter	Material	Cost/Unit			Expected In-Service Date	Cost (estimated)	
19	343	1,350	6	DI	83.07	11-021	Stone Avenue	2013	$112,145	Install approximately 1,350 LF of 6-inch DI replacement pipe with polywrap, replace 25 service connections, replace 25 meters, and replace 3 fire hydrants along Stone Avenue from Kiser Street to Mofatt Street. This project will replace approximately 950 LF of 4-inch CI water main installed in 1937 along Stone Avenue and approximately 400 LF of 2-inch CA water main installed in 1942 along Kiser Street. The existing water mains to be replaced have 14 recorded leaks and over the past 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
34	NA					11-021			$0	
36	343	1,250	6	DI	98.18	11-021	Garrot Avenue	2015	$122,725	Install approximately 1,250 LF of 6-inch DI replacement pipe with polywrap, replace 31 service connections, and replace 31 meters along Garrot Avenue and Stansberry Avenue. This project will replace approximately 650 LF of 2-inch CA water main installed in 1939 in the alley west of Garrot Avenue and approximately 600 LF of 6-inch CA water main installed in 1930 on Stansberry Avenue. The existing water mains to be replaced have 6 recorded leaks over the past 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)									**$234,870**	

SUPERSTITION/SUPERIOR
TABLE I (Page 3 of 6)
Information to be included with SIB-Eligible Project Notification

Project No.	NARUC Acct No. (SIB-eligible plant) 345 Services	Replacement Plant Description (SIB-eligible plant) Quantity	Diameter	Material	Cost/Unit	PWSID No.	Site (location description)	Replacement Plant Expected In-Service Date	Cost (estimated)	1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
19	345	25	1-inch	Copper	3,996.17	11-021	Stone Avenue	2013	$99,904	Install approximately 1,350 LF of 6-inch DI replacement pipe with polywrap, replace 25 service connections, replace 25 meters, and replace 3 fire hydrants along Stone Avenue from Kiser Street to Mofatt Street. This project will replace approximately 950 LF of 4-inch CI water main installed in 1937 along Stone Avenue and approximately 400 LF of 2-inch CA water main installed in 1942 along Kiser Street. The existing water mains to be replaced have 14 recorded leaks and over the past 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
34	345	28	1-inch	Copper	4,022.64	11-021	Hill Street	2014	$112,634	Replace 28 service connections along Hill Street from Church Avenue to Terrance Drive. The existing water mains have 7 recorded service line leaks over the past 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
36	345	31	1-inch	Copper	4,958.40	11-021	Garrot Avenue	2015	$153,710	Install approximately 1,250 LF of 6-inch DI replacement pipe with polywrap, replace 31 service connections, and replace 31 meters along Garrot Avenue and Stansberry Avenue. This project will replace approximately 650 LF of 2-inch CA water main installed in 1939 in the alley west of Garrot Avenue and approximately 600 LF of 6-inch CA water main installed in 1930 on Stansberry Avenue. The existing water mains to be replaced have 6 recorded leaks over the past 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)									**$366,248**	

SUPERSTITION/SUPERIOR
TABLE I (Page 4 of 6)
Information to be included with SIB-Eligible Project Notification

Project No.	NARUC Acct No. (SIB-eligible plant) **346 Meters**	Replacement Plant Description (SIB-eligible plant) Size	Quantity	Cost/Unit	PWSID No.	Site (location description)	Replacement Plant Expected In-Service Date	Cost (estimated)	1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
19	346	5/8-inch	25	80.00	11-021	Stone Avenue	2013	$2,000	Replace 25 meters along Stone Avenue from Kiser Street to Mofatt Street. The existing meters have reached the end of their useful life. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
34	346	5/8-inch	28	80.00	11-021	Hill Street	2014	$2,240	Replace 28 meters along Hill Street from Church Avenue to Terrance Drive. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter has to be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
36	346	5/8-inch	31	80.00	11-021	Garrot Avenue	2015	$2,480	Replace 31 meters along Garrot Avenue and Stansberry Avenue. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter has to be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)								**$6,720**	

SUPERSTITION/SUPERIOR
TABLE I (Page 5 of 6)
Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)		PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**348 Hydrants**	Quantity	Cost/Unit			Expected In-Service Date	Cost (estimated)	
19	348	3	2,826.37	11-021	Stone Avenue	2013	$8,479	Replace 3 fire hydrants along Stone Avenue from Kiser Street to Mofatt Street. This project will replace fire hydrants installed in 1937 along Stone Avenue and fire hydrants installed in 1942 along Kiser Street. The existing hydrants are old and failing requiring replacement. Replacement parts are unavailable for these hydrants. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
34	NA			11-021			$0	
36	NA			11-021			$0	
Subtotal Cost (estimate)							**$8,479**	

SUPERSTITION/SUPERIOR
TABLE I (Page 6 of 6, Summary)
Information to be included with SIB-Eligible Project Notification

Project No.	PWSID No.	Project Description	Cost (estimated)
19	11-021	INSTALL 1,350 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 25 SERVICE CONNECTIONS ALONG STONE AVENUE FROM KISER STREET TO MOFATT STREET	$222,528
34	11-021	REPLACE 26 SERVICE CONNECTIONS ALONG HILL STREET FROM CHURCH AVENUE TO TERRANCE DRIVE	$114,874
36	11-021	INSTALL 1,250 LF OF 6" DIP w/POLLYWRAP AND REPLACE 31 SERVICE CONNECTIONS ALONG GARROT AVENUE AND STANSBERRY AVENUE	$278,915
Total Cost (estimate)			**$616,317**

SUPERSTITION/MIAMI

TABLE I (Page 1 of 6)

Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**309 Supply Mains**	Pipe length	Diameter	Material	Cost/Unit			Expected In-Service Date	Cost (estimated)	
5	NA					04-002			$0	
7	NA					04-002			$0	
8	NA					04-002			$0	
13	NA					04-002			$0	
15	NA					04-002			$0	
16	NA					04-002			$0	
20	NA					04-002			$0	
21	NA					04-002			$0	
22	NA					04-002			$0	
23	NA					04-002			$0	
24	NA					04-002			$0	
26	NA					04-002			$0	
29	NA					04-002			$0	
30	NA					04-002			$0	
Subtotal Cost (estimate)									$0	

SUPERSTITION/MIAMI
TABLE I (Page 2 of 6)
Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	343 T&D Mains	Pipe length	Diameter	Material	Cost/Unit			Expected In-Service Date	Cost (estimated)	
5	NA					04-002			$0	
7	NA					04-002			$0	
8	343	600	6	DI	89.54	04-002	Ranch Rd.	2014	$53,724	Install approximately 600 LF of 6-inch DI replacement pipe with polywrap, replace 1 service connection and replace 1 meter along Ranch Road. This project will replace approximately 600 LF of 2-inch PVC water main installed in 1984 on Ranch Road. The existing water main and service connection to be replaced has 20 recorded leaks over the last 3 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
13	343	1,050	6	DI	88.78	04-002	Russell Ave.	2014	$93,219	Install approximately 1,050 LF of 6-inch DI replacement pipe with polywrap, replace 23 service connections, and replace 23 meters along Snedden Avenue east of Russell Avenue. This project will replace approximately 650 LF of 2-inch CA water main installed in 1949, approximately 200 LF of 1-inch GS water main installed in 1950, and approximately 200 LF of 3-inch CA water main installed in 1965. The existing water mains and service connections to be replaced have 17 recorded leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
15	NA					04-002			$0	

SUPERSTITION/MIAMI
TABLE I (Page 2 of 6) cont.
Information to be included with SIB-Eligible Project Notification

16	343	250	6	DI	90.57	04-002	Monroe St.	2013	$22,643	Install approximately 250 LF of 6-inch DI replacement pipe with polywrap, replace 6 service connections and replace 6 meters along Monroe Street from Miami Street to Marion Street. This project will replace approximately 400 LF of 2-inch PVC water main installed in 1976 and 2-inch GS water main installed in 1936 on Monroe Street. The existing water mains and service connections to be replaced have 16 recorded leaks over the last 7 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
20	343	550	6	DI	83.02	04-002	Central Ave.	2014	$45,661	Install approximately 550 LF of 6-inch DI replacement pipe with polywrap, replace 25 service connections, replace 25 meters, replace 1 fire hydrant along Central Avenue from Braley Street to Monroe Street. This project will replace approximately 550 LF of 6-inch ST water main installed in 1955 on Central Avenue. The existing water mains and service connections to be replaced have 14 recorded leaks over the last 7 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
21	343	1,700	6	DI	89.08	04-002	Orphan St.	2014	$151,436	Install approximately 1,700 LF of 6-inch DI replacement pipe with polywrap, replace 33 service connections, and replace 33 meters along Orphan Street and Kenzie Avenue. This project will replace approximately 1,050 LF of 2-inch CA water main installed in 1949 on Orphan Avenue, and will replace approximately 650 LF of 1-inch and 2-inch GS water mains installed in 1932 on Kenzie Avenue. The existing water mains and service connections to be replaced have 14 recorded leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
22	343	2,750	6	DI	87.78	04-002	Fredric St.	2015	$241,395	Install approximately 2,750 LF of 6-inch DI replacement pipe with polywrap, replace 53 service connections, replace 53 meters and replace 2 fire hydrants along Fredric Street and Bird Street. This project will replace approximately 1,450 LF of 2-inch GS water main installed in 1930 and 1936 on Fredric Street and approximately 1,300 LF of 2-inch GS and 4-inch CA water main installed in 1930 and 1949, respectively, and in 1949 on Bird Street. The existing water mains and service connections to be replaced have 13 recorded leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
23	NA					04-002			$0	

SUPERSTITION/MIAMI
TABLE I (Page 2 of 6) cont.
Information to be included with SIB-Eligible Project Notification

24	343	600	6	DI	88.74	04-002	Story St.	2014	$53,244	Install approximately 600 LF of 6-inch DI replacement pipe with polywrap, replace 11 service connections, replace 11 meters and install 2 fire hydrants along Story Street east of Russell Avenue. This project will replace approximately 600 LF of 2-inch GS water main installed in 1956. The existing water mains and service connections to be replaced have 12 recorded leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
26	343	800	6	DI	90.03	04-002	Young St.	2015	$72,024	Install approximately 800 LF of 6-inch DI replacement pipe with polywrap, replace 17 service connections and replace 17 meters along Young Street, Second Avenue, Hill Street, and Third Avenue. This project will replace approximately 300 LF of 1-inch ST water main installed in 1975, approximately 350 LF of 1-inch PVC water main installed in 1979, and approximately 100 LF of 2-inch PVC water main installed in 1975. The existing water mains and service connections to be replaced have 11 recorded leaks over the last 3 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
29	343	1,600	6	DI	87.70	04-002	Washborn Rd.	2013	140,320	Install approximately 1,600 LF of 6-inch DI replacement pipe with polywrap and replace 1 fire hydrant along Washborn Road. This project will replace approximately 1,600 LF of 6-inch HDPE water main along Washborn Road. The existing water main to be replaced has 9 recorded water main leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
30	343	500	6	DI	89.48	04-002	Loomis Ave.	2015	$44,740	Install approximately 500 LF of 6-inch DI replacement pipe with polywrap, replace 5 service connections and replace 5 meters, east of Loomis Avenue. This project will replace approximately 500 LF of 1-inch GS water main installed in 1935 east of Loomis Avenue. The existing water main and service connections to be replaced have 9 recorded leaks in the last 7 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)									**$918,406**	

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TABLE I (Page 3 of 6)
Information to be included with SIB-Eligible Project Notification

Project No.	NARUC Acct No. (SIB-eligible plant) 345 Services	Replacement Plant Description (SIB-eligible plant) Quantity	Diameter	Material	Cost/Unit	PWSID No.	Site (location description)	Replacement Plant Expected In-Service Date	Cost (estimated)	1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
5	345	10	1-inch	Copper	4,147.43	04-002	Globe Ave.	2014	$41,474	Replace 10 service connections and replace 10 meters along Globe Avenue. The existing water mains have 22 recorded service line leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
7	345	22	1-inch	Copper	4,139.00	04-002	Chisolm Ave.	2014	$91,058	Replace 22 service connections and replace 22 meters along Chisolm Avenue. The existing water mains have 20 recorded service line leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
8	345	1	1-inch	Copper	3,435.50	04-002	Ranch Rd.	2014	$3,436	Install approximately 600 LF of 6-inch DI replacement pipe with polywrap and replace 1 service connection, and replace 1 meter along Ranch Road. This project will replace approximately 600 LF of 2-inch PVC water main installed in 1984 on Ranch Road. The existing water main and service connection to be replaced has 20 recorded leaks over the last 3 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
13	345	23	1-inch	Copper	4,137.96	04-002	Russell Ave.	2014	$95,173	Install approximately 1,050 LF of 6-inch DI replacement pipe with polywrap, replace 23 service connections, and replace 23 meters along Snedden Avenue east of Russell Avenue. This project will replace approximately 650 LF of 2-inch CA water main installed in 1949, approximately 200 LF of 1-inch GS water main installed in 1950, and approximately 200 LF of 3-inch CA water main installed in 1965. The existing water mains and service connections to be replaced have 17 recorded leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

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TABLE I (Page 3 of 6) cont.
Information to be included with SIB-Eligible Project Notification

15	345	18	1-inch	Copper	4,055.49	04-002	McKinney Ave.	2015	$72,999	Replace 18 service connections and replace 18 meters along McKinney Avenue from Braley Street to Hill Street. The existing water mains have 16 recorded service line leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
16	345	6	1-inch	Copper	3,848.24	04-002	Monroe St.	2013	$23,089	Install approximately 250 LF of 6-inch DI replacement pipe with polywrap, replace 6 service connections and replace 6 meters along Monroe Street from Miami Street to Marion Street. This project will replace approximately 400 LF of 2-inch PVC water main installed in 1976 and 2-inch GS water main installed in 1936 on Monroe Street. The existing water mains and service connections to be replaced have 16 recorded leaks over the last 7 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
20	345	25	1-inch	Copper	4,192.08	04-002	Central Ave.	2014	$104,802	Install approximately 550 LF of 6-inch DI replacement pipe with polywrap, replace 25 service connections, replace 25 meters and replace 1 fire hydrant along Central Avenue from Braley Street to Monroe Street. This project will replace approximately 550 LF of 6-inch ST water main installed in 1955 on Central Avenue. The existing water mains and service connections to be replaced have 14 recorded leaks over the last 7 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
21	345	33	1-inch	Copper	3,828.75	04-002	Orphan St.	2014	$126,349	Install approximately 1,700 LF of 6-inch DI replacement pipe with polywrap, replace 33 service connections and replace 33 meters along Orphan Street and Kenzie Avenue. This project will replace approximately 1,050 LF of 2-inch CA water main installed in 1949 on Orphan Avenue, and will replace approximately 650 LF of 1-inch and 2-inch GS water mains installed in 1932 on Kenzie Avenue. The existing water mains and service connections to be replaced have 14 recorded leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
22	345	53	1-inch	Copper	4,036.73	04-002	Fredric St.	2015	$213,947	Install approximately 2,750 LF of 6-inch DI replacement pipe with polywrap, replace 53 service connections, replace 53 meters and replace 2 fire hydrants along Fredric Street and Bird Street. This project will replace approximately 1,450 LF of 2-inch GS water main installed in 1930 and 1936 on Fredric Street and approximately 1,300 LF of 2-inch GS and 4-inch CA water main installed in 1930 and 1949, respectively, and in 1949 on Bird Street. The existing water mains and service connections to be replaced have 13 recorded leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

SUPERSTITION/MIAMI
TABLE I (Page 3 of 6) cont.
Information to be included with SIB-Eligible Project Notification

23	345	17	1-inch	Copper	4,028.46	04-002	Glendale Ave.	2015	$68,484	Replace 17 service connections and replace 17 meters along Glendale Avenue from Braley Street to Hill Street. The existing water mains have 13 recorded service line leaks over the last 7 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
24	345	11	1-inch	Copper	4,042.78	04-002	Story St.	2014	$44,471	Install approximately 600 LF of 6-inch DI replacement pipe with polywrap, replace 11 service connections, and replace 11 meters along Story Street east of Russell Avenue. This project will replace approximately 600 LF of 2-inch GS water main installed in 1956. The existing water mains and service connections to be replaced have 12 recorded leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
26	345	17	1-inch	Copper	3,830.70	04-002	Young St.	2015	$65,122	Install approximately 800 LF of 6-inch DI replacement pipe with polywrap, replace 17 service connections and replace 17 meters along Young Street, Second Avenue, Hill Street, and Third Avenue. This project will replace approximately 300 LF of 1-inch ST water main installed in 1975, approximately 350 LF of 1-inch PVC water main installed in 1979, and approximately 100 LF of 2-inch PVC water main installed in 1975. The existing water mains and service connections to be replaced have 11 recorded leaks over the last 3 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
29	NA								$0	
30	345	5	1-inch	Copper	3,575.45	04-002	Loomis Ave.	2015	$17,877	Install approximately 500 LF of 6-inch DI replacement pipe with polywrap, replace 5 service connections and replace 5 meters, east of Loomis Avenue. This project will replace approximately 500 LF of 1-inch GS water main installed in 1935 east of Loomis Avenue. The existing water main and service connections to be replaced have 9 recorded leaks in the last 7 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)									**$968,281**	

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TABLE I (Page 4 of 6)
Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)			PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**346 Meters**	Size	Quantity	Cost/Unit			Expected In-Service Date	Cost (estimated)	
5	346	5/8-inch	10	80.00	04-002	Globe Ave.	2014	$800	Replace 10 meters along Globe Avenue. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
7	346	5/8-inch	22	80.00	04-002	Chisolm Ave.	2014	$1,760	Replace 22 meters along Chisolm Avenue. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
8	346	5/8-inch	1	80.00	04-002	Ranch Rd.	2014	$80	Replace 1 meter along Ranch Road. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
13	346	5/8-inch	23	80.00	04-002	Russell Ave.	2014	$1,840	Replace 23 meters along Snedden Avenue east of Russell Avenue. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

SUPERSTITION/MIAMI
TABLE I (Page 4 of 6) cont.
Information to be included with SIB-Eligible Project Notification

15	346	5/8-inch	18	80.00	04-002	McKinney Ave.	2015	$1,440	Replace 18 meters along McKinney Avenue from Braley Street to Hill Street. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
16	346	5/8-inch	6	80.00	04-002	Monroe St.	2013	$480	Replace 6 meters along Monroe Street from Miami Street to Marion Street. The existing meters have reached the end of their useful life. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
20	346	5/8-inch	25	80.00	04-002	Central Ave.	2014	$2,000	Replace 25 meters along Central Avenue from Braley Street to Monroe Street. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
21	346	5/8-inch	33	80.00	04-002	Orphan St.	2014	$2,640	Replace 33 meters along Orphan Street and Kenzie Avenue. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
22	346	5/8-inch	53	80.00	04-002	Fredric St.	2015	$4,240	Replace 53 meters along Fredric Street and Bird Street. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
23	346	5/8-inch	17	80.00	04-002	Glendale Ave.	2015	$1,360	Replace 17 meters along Glendale Avenue from Braley Street to Hill Street. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
24	346	5/8-inch	11	80.00	04-002	Story St.	2014	$880	Replace 11 meters along Story Street east of Russell Avenue. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

SUPERSTITION/MIAMI
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Information to be included with SIB-Eligible Project Notification

26	346	5/8-inch	17	80.00	04-002	Young St.	2015	$1,360	Replace 17 meters along Young Street, Second Avenue, Hill Street, and Third Avenue. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
29	NA				04-002			$0	
30	346	5/8-inch	5	80.00	04-002	Loomis Ave.	2015	$400	Replace 5 meters east of Loomis Avenue. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)								**$19,280**	

SUPERSTITION/MIAMI
TABLE I (Page 5 of 6)
Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)		PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**348 Hydrants**	Quantity	Cost/Unit			Expected In-Service Date	Cost (estimated)	
5	NA			04-002			$0	
7	NA			04-002			$0	
8	NA			04-002			$0	
13	NA			04-002			$0	
15	NA			04-002			$0	
16	NA			04-002			$0	
20	348	1	2,321.78	04-002	Central Ave.	2014	$2,2322	Replace 1 fire hydrant along Central Avenue from Braley Street to Monroe Street. This project will replace a fire hydrant installed in 1955 on Central Avenue. The existing hydrant is old and failing requiring replacement. Replacement parts are unavailable for this hydrant. This replacement is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
21	NA			04-002			$0	
22	348	2	2,321.12	04-002	Fredric St.	2015	$4,642	Replace 2 fire hydrants along Fredric Street and Bird Street. This project will replace fire hydrants installed in 1930s on Fredric Street and Bird Street. The existing hydrants are old and failing requiring replacement. Replacement parts are unavailable for these hydrants. This replacement is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
23	NA			04-002			$0	
24	NA			04-002			$0	
26	NA			04-002			$0	

SUPERSTITION/MIAMI
TABLE I (Page 5 of 6) cont.
Information to be included with SIB-Eligible Project Notification

29	NA	1	2,517.50	04-002	Washborn Rd.		$2,518	Replace 1 fire hydrant along Washborn Road. This project will replace a fire hydrant Washborn Road. The existing hydrant is old and failing requiring replacement. Replacement parts are unavailable for this hydrant. This replacement is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
30	NA			04-002			$0	
Subtotal Cost (estimate)							**$9,482**	

SUPERSTITION/MIAMI
TABLE I (Page 6 of 6, Summary)
Information to be included with SIB-Eligible Project Notification

Project No.	PWSID No.	Project Description	Cost (estimated)
5	04-002	REPLACE 10 SERVICE CONNECTIONS ALONG GLOBE AVENUE	$42,274
7	04-002	REPLACE 22 SERVICE CONNECTIONS ALONG CHISOLM AVENUE	$92,818
8	04-002	INSTALL 600 LF OF 6-INCH DIP w/POLLYWRAP ALONG RANCH ROAD AND REPLACE 1 SERVICE CONNECTION	$57,240
13	04-002	INSTALL 1,050 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 23 SERVICE CONNECTIONS ALONG SNEDDED AVENUE EAST OF RUSSELL AVENUE	$190,232
15	04-002	REPLACE 18 SERVICE CONNECTIONS ALONG MCKINNEY AVENUE FROM BRALEY STREET TO HILL STREET	$74,439
16	04-002	INSTALL 250 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 6 SERVICE CONNECTIONS ALONG MONROE STREET FROM MIAMI STREET TO MARION STREET	$46,212
20	04-002	INSTALL 550 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 25 SERVICE CONNECTIONS ALONG CENTRAL AVENUE FROM BRALEY STREET TO MONROE STREET	$154,785
21	04-002	INSTALL 1,700 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 33 SERVICE CONNECTIONS ALONG ORPHAN STREET AND KENZIE AVENUE	$280,425
22	04-002	INSTALL 2,750 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 53 SERVICE CONNECTIONS ALONG FREDRIC STREET AND BIRD STREET	$464,224
23	04-002	REPLACE 17 SERVICE CONNECTIONS ALONG GLENDALE AVENUE FROM BRALEY STREET TO HILL STREET	$69,844
24	04-002	INSTALL 600 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 11 SERVICE CONNECTIONS ALONG STORY STREET EAST OF RUSSELL AVENUE	$98,595
26	04-002	INSTALL 800 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 17 SERVICE CONNECTIONS ALONG YOUNG STREET, SECOND AVENUE, HILL STREET AND THRID AVENUE	$138,506
29	04-002	INSTALL 1,600 LF OF 6-INCH DIP w/POLYWRAP ALONG WASHBORN ROAD	$142,838
30	04-002	INSTALL 500 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 5 SERVICES EAST OF LOOMIS AVENUE	$63,017
Total Cost (estimate)			**$1,915,449**

FALCON VALLEY/ORACLE

TABLE I (Page 1 of 6)

Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**309 Supply Mains**	Pipe length	Diameter	Material	Cost/Unit			Expected In-Service Date	Cost (estimated)	
37	NA					11-019			$0	
38	NA					11-019			$0	
39	NA					11-019			$0	
40	NA					11-019			$0	
41	NA					11-019			$0	
42	NA					11-019			$0	
Subtotal Cost (estimate)									**$0**	

FALCON VALLEY/ORACLE
TABLE I (Page 2 of 6)
Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**343 T&D Mains**	Pipe length	Diameter	Material	Cost/Unit			Expected In-Service Date	Cost (estimated)	
37	NA					11-019			$0	
38	NA					11-019			$0	
39	NA					11-019			$0	
40	NA					11-019			$0	
41	NA					11-019			$0	
42	NA					11-019			$0	
Subtotal Cost (estimate)									$0	

FALCON VALLEY/ORACLE
TABLE I (Page 3 of 6)
Information to be included with SIB-Eligible Project Notification

Project No.	NARUC Acct No. (SIB-eligible plant) 345 Services	Replacement Plant Description (SIB-eligible plant) Quantity	Diameter	Material	Cost/Unit	PWSID No.	Site (location description)	Replacement Plant Expected In-Service Date	Cost (estimated)	1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
37	345	61	1-inch	Copper	2,717.88	11-019	Beverly Circle	2013	$165,791	Replace 61 service connections and replace 61 meters along Beverly Circle. The existing water mains have 36 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
38	345	35	1-inch	Copper	2,639.48	11-019	Sonberg Drive	2013	$92,382	Replace 35 service connections and replace 35 meters along Sonberg Drive, Harold Drive and Rockcliff Boulevard. The existing water mains have 21 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
39	345	19	1-inch	Copper	2,735.75	11-019	Camino Seco	2014	$51,979	Replace 19 service connections and replace 19 meters along Camino Seco and Calle Valencia. The existing water mains have 9 recorded service line leaks over the last 5 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
40	345	27	1-inch	Copper	2,837.44	11-019	Adams Street	2014	$76,611	Replace 27 service connections and replace 27 meters along Adams Street, Howard Street and Logan Street. The existing water mains have 7 recorded service line leaks and 1 water main leak over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
41	345	24	1-inch	Copper	2,668.79	11-019	Two O'Clock Hills Road	2015	$64,051	Replace 24 service connections and replace 24 meters along North Two O'clock Hills Road and Chaparral Street. The existing water mains have 8 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

FALCON VALLEY/ORACLE

TABLE I (Page 3 of 6) cont.

Information to be included with SIB-Eligible Project Notification

42	345	16	1-inch	Copper	2,709.84	11-019	Cedar Ridge Drive	2015	$43,357	Replace 16 service connections and replace 16 meters along North Cedar Ridge Drive. The existing water main has 6 recorded service line leaks over the last 6 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)									**$494,171**	

FALCON VALLEY/ORACLE
TABLE I (Page 4 of 6)
Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)			PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**346 Meters**	Size	Quantity	Cost/Unit			Expected In-Service Date	Cost (estimated)	
37	346	5/8-inch	61	80.00	11-019	Beverly Circle	2013	$4,880	Replace 61 meters along Beverly Circle. The existing meters have reached the end of their useful life. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
38	346	5/8-inch	35	80.00	11-019	Sonberg Drive	2013	$2,800	Replace 35 meters along Sonberg Drive, Harold Drive and Rockcliff Boulevard. The existing meters have reached the end of their useful life. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
39	346	5/8-inch	19	80.00	11-019	Camino Seco	2014	$1,520	Replace 19 meters along Camino Seco and Calle Valencia. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter has to be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
40	346	5/8-inch	27	80.00	11-019	Adams Street	2014	$2,160	Replace 27 meters along Adams Street, Howard Street and Logan Street. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter has to be installed in its place for compliance. This replacement project is not being constructed to serve new customers.
41	346	5/8-inch	24	80.00	11-019	Two O'Clock Hills Road	2015	$1,920	Replace 24 meters along North Two O'clock Hills Road and Chaparral Street. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter has to be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

FALCON VALLEY/ORACLE
TABLE I (Page 4 of 6) cont.
Information to be included with SIB-Eligible Project Notification

42	346	5/8-inch	16	80.00	11-019	Cedar Ridge Drive	2015	$1,280	Replace 16 meters along North Cedar Ridge Drive. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter has to be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)								**$14,560**	

FALCON VALLEY/ORACLE
TABLE I (Page 5 of 6)
Information to be included with SIB-Eligible Project Notification

Project No.	NARUC Acct No. (SIB-eligible plant) **348 Hydrants**	Replacement Plant Description (SIB-eligible plant) Quantity	Cost/Unit	PWSID No.	Site (location description)	Replacement Plant Expected In-Service Date	Cost (estimated)	1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
37	NA			11-019			$0	
38	NA			11-019			$0	
39	NA			11-019			$0	
40	NA			11-019			$0	
41	NA			11-019			$0	
42	NA			11-019			$0	
Subtotal Cost (estimate)							**$0**	

FALCON VALLEY/ORACLE
TABLE I (Page 6 of 6, Summary)
Information to be included with SIB-Eligible Project Notification

Project No.	PWSID No.	Project Description	Cost (estimated)
37	11-019	REPLACE 61 SERVICE CONNECTIONS AND METERS ALONG BEVERLY CIRCLE.	$170,671
38	11-019	REPLACE 35 SERVICE CONNECTIONS AND METERS ALONG SONBERG DRIVE, HAROLD DRIVE AND ROCKCLIFF BOULEVARD.	$95,182
39	11-019	REPLACE 19 SERVICE CONNECTIONS AND METERS ALONG CAMINO SECO AND CALLE VALENCIA.	$53,499
40	11-019	REPLACE 27 SERVICE CONNECTIONS AND METERS ALONG ADAMS STREET, HOWARD STREET AND LOGAN STREET.	$78,771
41	11-019	REPLACE 24 SERVICE CONNECTIONS AND METERS ALONG NORTH TWO O'CLOCK HILLS ROAD AND CHAPARRAL STREET.	$65,971
42	11-019	REPLACE 16 SERVICE CONNECTIONS AND METERS ALONG NORTH CEDAR RIDGE DRIVE.	$44,637
Total Cost (estimate)			**$508,731**

COCHISE/BISBEE
TABLE I (Page 1 of 6)
Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**309 Supply Mains**	Pipe length	Diameter	Material	Cost/Unit			Expected In-Service Date	Cost (estimated)	
43	NA					02-001			$0	
44	NA					02-001			$0	
45	NA					02-001			$0	
46	NA					02-001			$0	
47	NA					02-001			$0	
48	NA					02-001			$0	
49	NA					02-001			$0	
50	NA					02-001			$0	
51	NA					02-001			$0	
52	NA					02-001			$0	
Subtotal Cost (estimate)									**$0**	

COCHISE/BISBEE
TABLE I (Page 2 of 6)
Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**343 T&D Mains**	Pipe length	Diameter	Material	Cost/Unit			Expected In-Service Date	Cost (estimated)	
43	343	1,900	6	DI	90.27	02-001	Bowers Street	2012	$171,513	Install approximately 1,900 LF of 6-inch DI replacement pipe with polywrap, replace 22 service connections, replace 22 meters, and replace 1 fire hydrant along Bowers Street from Marie Street to McDonald Street. This project will replace approximately 1,250 LF of 4-inch ST water main installed in 1958 and approximately 150 LF of 1-inch GS water main installed in 1961 on Bowers Street; and approximately 500 LF of 2-inch GS water main installed in 1958 on Marie Street. The existing water mains and service connections to be replaced have 80 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
44	343	700	6	DI	88.34	02-001	Ocotillo Avenue	2012	$61,838	Install approximately 700 LF of 6-inch DI replacement pipe with polywrap, replace 11 service connections, replace 11 meters, and replace 1 fire hydrant along Ocotillo Street. This project will replace approximately 600 LF of 1-inch GS water main installed in 1945, 1947, and 1950, approximately 250 LF of 1-inch PVC water main installed in 1980, approximately 150 LF of 4-inch ST water main installed in 1960, and approximately 100 LF of 2-inch CU water main installed in 2007 on Ocotillo Street. The existing water mains and service connections to be replaced have 35 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

COCHISE/BISBEE
TABLE I (Page 2 of 6) cont.
Information to be included with SIB-Eligible Project Notification

45	343	2,450	6	DI	92.37	02-001	Ledge Avenue	2014	$226,307	Install approximately 2,450 LF of 6-inch DI replacement pipe with polywrap, replace 41 service connections, and replace 41 meters along Ledge Avenue and Quality Road. This project will replace approximately 1,050 LF of 1-inch GS water main installed in 1937, 1939, 1958, and 1962; approximately 100 LF of 2-inch ST water main installed in 2002; approximately 1,000 LF of 2-inch GS water main installed in 1932 and 1947; and approximately 200 LF of 3-inch GS water main installed in 1947. The existing water mains and service connections to be replaced have 35 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
46	343	900	6	DI	92.09	02-001	Highway 80	2014	$82,881	Install approximately 900 LF of 6-inch DI replacement pipe with polywrap, replace 1 service connection, and replace 1 meter along Highway 80 and Winwood Road. This project will replace approximately 900 LF of 1-inch PVC water main installed in 1980 on Winwood Road. The existing water mains and service connections to be replaced have 22 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
47	343	1,650	6	DI	91.98	02-001	Ledge Avenue	2014	$151,767	Install approximately 1,650 LF of 6-inch DI replacement pipe with polywrap, replace 20 service connections, and replace 20 meters along Ledge Avenue, Quality Road and Alleys. This project will replace approximately 150 LF of 1-inch GS water main installed in 1939, approximately 100 LF of 1-inch PVC water main installed in 1976, approximately 750 LF of 2-inch GS water main installed in 1939 and 1947; and approximately 350 LF of 3-inch GS water main installed in 1932 and 1952. The existing water mains and service connections to be replaced have 21 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
48	343	2,900	6	DI	91.66	02-001	Teran Street	2013	$265,814	Install approximately 2,900 LF of 6-inch DI replacement pipe with polywrap, replace 22 service connections, and replace 22 meters along Teran Street, Aruizu Street, Carbajal Street, and Vargas Street. This project will replace approximately 700 LF of 1-inch GS water main installed in 1938, approximately 800 LF of 2-inch GS water main installed in 1938, and approximately 1,300 LF of 6-inch ST water main installed in 1908 and 1976. The existing water mains and service connections to be replaced have 20 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

COCHISE/BISBEE
TABLE I (Page 2 of 6) cont.
Information to be included with SIB-Eligible Project Notification

49	343	700	6	DI	88.73	02-001	Park Avenue	2013	$62,111	Install approximately 700 LF of 6-inch DI replacement pipe with polywrap, replace 12 service connections, replace 12 meters, and replace 1 fire hydrant along Park Avenue. This project will replace approximately 650 LF of 2-inch GS water main installed in 1920 and 1967; approximately 300 LF of 4-inch GS water main installed in 1922; and approximately 250 LF of 6-inch ST water main installed in 1922 on Second Street. The existing water mains and service connections to be replaced have 16 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
50	343	600	6	DI	92.16	02-001	Brophy Avenue	2014	$55,296	Install approximately 600 LF of 6-inch DI replacement pipe with polywrap, replace 11 service connections, and replace 11 meters along Brophy Avenue. This project will replace approximately 400 LF of 1-inch GS water main installed in 1944 and approximately 200 LF of 2-inch CU water main installed in 1980 on Brophy Avenue. The existing water mains and service connections to be replaced have 15 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
51	343	1,000	6	DI	86.18	02-001	Cole Avenue	2014	$86,180	Install approximately 1,000 LF of 6-inch DI replacement pipe with polywrap, replace 7 service connections, replace 7 meters, and replace 2 fire hydrants along Cole Avenue. This project will replace approximately 800 LF of 6-inch ST water main installed in 1908 and approximately 150 LF of 8-inch ST water main installed in 1908 on Cole Avenue. The existing water mains and service connections to be replaced have 14 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
52	343	400	6	DI	85.06	02-001	Church Street	2012	$34,024	Install approximately 400 LF of 6-inch DI replacement pipe with polywrap, replace 7 service connections, replace 7 meters, and replace 1 fire hydrant along Church Street from Clawson Avenue to Sowels Avenue. This project will replace approximately 300 LF of 4-inch ST water main installed in 1930, 1975, and 1978 and approximately 100 LF of 6-inch ST water main installed in 1908 on Church Street. The existing water mains and service connections to be replaced have 12 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)									**$1,197,731**	

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TABLE I (Page 3 of 6)
Information to be included with SIB-Eligible Project Notification

Project No.	NARUC Acct No. (SIB-eligible plant) **345 Services**	Replacement Plant Description (SIB-eligible plant) Quantity	Diameter	Material	Cost/Unit	PWSID No.	Site (location description)	Replacement Plant Expected In-Service Date	Cost (estimated)	1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
43	345	22	1-inch	Copper	2555.67	02-001	Bowers Street	2012	$56,225	Install approximately 1,900 LF of 6-inch DI replacement pipe with polywrap, replace 22 service connections, replace 22 meters, and replace 1 fire hydrant along Bowers Street from Marie Street to McDonald Street. This project will replace approximately 1,250 LF of 4-inch ST water main installed in 1958 and approximately 150 LF of 1-inch GS water main installed in 1961 on Bowers Street; and approximately 500 LF of 2-inch GS water main installed in 1958 on Marie Street. The existing water mains and service connections to be replaced have 80 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
44	345	11	1-inch	Copper	2673.90	02-001	Ocotillo Avenue	2012	$29,413	Install approximately 700 LF of 6-inch DI replacement pipe with polywrap, replace 11 service connections, replace 11 meters, and replace 1 fire hydrant along Ocotillo Street. This project will replace approximately 600 LF of 1-inch GS water main installed in 1945, 1947, and 1950, approximately 250 LF of 1-inch PVC water main installed in 1980, approximately 150 LF of 4-inch ST water main installed in 1960, and approximately 100 LF of 2-inch CU water main installed in 2007 on Ocotillo Street. The existing water mains and service connections to be replaced have 35 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

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TABLE I (Page 3 of 6) cont.
Information to be included with SIB-Eligible Project Notification

45	345	41	1-inch	Copper	2,178.15	02-001	Ledge Avenue	2014	$89,304	Install approximately 2,450 LF of 6-inch DI replacement pipe with polywrap, replace 41 service connections, and replace 41 meters along Ledge Avenue and Quality Road. This project will replace approximately 1,050 LF of 1-inch GS water main installed in 1937, 1939, 1958, and 1962; approximately 100 LF of 2-inch ST water main installed in 2002; approximately 1,000 LF of 2-inch GS water main installed in 1932 and 1947; and approximately 200 LF of 3-inch GS water main installed in 1947. The existing water mains and service connections to be replaced have 35 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
46	345	1	1-inch	Copper	1,717.75	02-001	Highway 80	2014	$1,718	Install approximately 900 LF of 6-inch DI replacement pipe with polywrap, replace 1 service connection, and replace 1 meter along Highway 80 and Winwood Road. This project will replace approximately 900 LF of 1-inch PVC water main installed in 1980 on Winwood Road. The existing water mains and service connections to be replaced have 22 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
47	345	20	1-inch	Copper	1,954.85	02-001	Ledge Avenue	2014	$39,097	Install approximately 1,650 LF of 6-inch DI replacement pipe with polywrap, replace 20 service connections, and replace 20 meters along Ledge Avenue, Quality Road and Alleys. This project will replace approximately 150 LF of 1-inch GS water main installed in 1939, approximately 100 LF of 1-inch PVC water main installed in 1976, approximately 750 LF of 2-inch GS water main installed in 1939 and 1947; and approximately 350 LF of 3-inch GS water main installed in 1932 and 1952. The existing water mains and service connections to be replaced have 21 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
48	345	22	1-inch	Copper	2,052.15	02-001	Teran Street	2013	$45,147	Install approximately 2,900 LF of 6-inch DI replacement pipe with polywrap, replace 22 service connections, and replace 22 meters along Teran Street, Aruizu Street, Carbajal Street, and Vargas Street. This project will replace approximately 700 LF of 1-inch GS water main installed in 1938, approximately 800 LF of 2-inch GS water main installed in 1938, and approximately 1,300 LF of 6-inch ST water main installed in 1908 and 1976. The existing water mains and service connections to be replaced have 20 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

COCHISE/BISBEE
TABLE I (Page 3 of 6) cont.
Information to be included with SIB-Eligible Project Notification

49	345	12	1-inch	Copper	2,698.67	02-001	Park Avenue	2013	$32,384	Install approximately 700 LF of 6-inch DI replacement pipe with polywrap, replace 12 service connections, replace 12 meters, and replace 1 fire hydrant along Park Avenue. This project will replace approximately 650 LF of 2-inch GS water main installed in 1920 and 1967; approximately 300 LF of 4-inch GS water main installed in 1922; and approximately 250 LF of 6-inch ST water main installed in 1922 on Second Street. The existing water mains and service connections to be replaced have 16 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
50	345	11	1-inch	Copper	1,875.09	02-001	Brophy Avenue	2014	$20,626	Install approximately 600 LF of 6-inch DI replacement pipe with polywrap, replace 11 service connections, and replace 11 meters along Brophy Avenue. This project will replace approximately 400 LF of 1-inch GS water main installed in 1944 and approximately 200 LF of 2-inch CU water main installed in 1980 on Brophy Avenue. The existing water mains and service connections to be replaced have 15 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
51	345	7	1-inch	Copper	2,985.16	02-001	Cole Avenue	2014	$20,896	Install approximately 1,000 LF of 6-inch DI replacement pipe with polywrap, replace 7 service connections, replace 7 meters, and replace 2 fire hydrants along Cole Avenue. This project will replace approximately 800 LF of 6-inch ST water main installed in 1908 and approximately 150 LF of 8-inch ST water main installed in 1908 on Cole Avenue. The existing water mains and service connections to be replaced have 14 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
52	345	7	1-inch	Copper	2,507.04	02-001	Church Street	2012	$17,549	Install approximately 400 LF of 6-inch DI replacement pipe with polywrap, replace 7 service connections, replace 7 meters, and replace 1 fire hydrant along Church Street from Clawson Avenue to Sowels Avenue. This project will replace approximately 300 LF of 4-inch ST water main installed in 1930, 1975, and 1978 and approximately 100 LF of 6-inch ST water main installed in 1908 on Church Street. The existing water mains and service connections to be replaced have 12 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)									**$352,359**	

COCHISE/BISBEE
TABLE I (Page 4 of 6)
Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)			PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**346 Meters**	Size	Quantity	Cost/Unit			Expected In-Service Date	Cost (estimated)	
43	346	5/8-inch	22	80.00	02-001	Bowers Street	2012	$1,760	Replace 22 meters along Bowers Street from Marie Street to McDonald Street. The existing meters have reached the end of their useful life. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
44	346	5/8-inch	11	80.00	02-001	Ocotillo Avenue	2012	$880	Replace 11 meters along Ocotillo Street. The existing meters have reached the end of their useful life. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
45	346	5/8-inch	41	80.00	02-001	Ledge Avenue	2014	$3,280	Replace 41 meters along Ledge Avenue and Quality Road. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
46	346	5/8-inch	1	80.00	02-001	Highway 80	2014	$80	Replace 1 meter along Highway 80 and Winwood Road. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
47	346	5/8-inch	20	80.00	02-001	Ledge Avenue	2014	$1,600	Replace 20 meters along Ledge Avenue, Quality Road and Alleys. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

COCHISE/BISBEE
TABLE I (Page 4 of 6) cont.
Information to be included with SIB-Eligible Project Notification

48	346	5/8-inch	22	80.00	02-001	Teran Street	2013	$1,760	Replace 22 meters along Teran Street, Aruizu Street, Carbajal Street, and Vargas Street. The existing meters have reached the end of their useful life. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
49	346	5/8-inch	12	80.00	02-001	Park Avenue	2013	$960	Replace 12 meters along Park Avenue. The existing meters have reached the end of their useful life. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
50	346	5/8-inch	11	80.00	02-001	Brophy Avenue	2014	$880	Replace 11 meters along Brophy Avenue. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
51	346	5/8-inch	7	80.00	02-001	Cole Avenue	2014	$560	Replace 7 meters along Cole Avenue. In 2014 the existing meters are no longer NSF approved due to the new lead free brass requirements. Once a meter is removed from service, a new NSF approved meter must be installed in its place for compliance. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
52	346	5/8-inch	7	80.00	02-001	Church Street	2012	$560	Replace 7 meters along Church Street from Clawson Avenue to Sowels Avenue. The existing meters have reached the end of their useful life. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)								**$12,320**	

COCHISE/BISBEE

TABLE I (Page 5 of 6)

Information to be included with SIB-Eligible Project Notification

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)		PWSID No.	Site (location description)	Replacement Plant		1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing plant to address excessive water loss (10% or more) - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
Project No.	**348 Hydrants**	Quantity	Cost/Unit			Expected In-Service Date	Cost (estimated)	
43	348	1	2,876.32	02-001	Bowers Street	2012	$2,876	Replace 1 fire hydrant along Bowers Street from Marie Street to McDonald Street. This project will replace a fire hydrant installed in 1958 along Bowers Street. The existing hydrant is old and failing requiring replacement. Replacement parts are unavailable for this hydrant. This replacement is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
44	348	1	2,524.87	02-001	Ocotillo Avenue	2012	$2,525	Replace 1 fire hydrant along Ocotillo Street. This project will replace a fire hydrant installed in 1960 along Ocotillo Street. The existing hydrant is old and failing requiring replacement. Replacement parts are unavailable for this hydrant. This replacement is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
45	NA			02-001			$0	
46	NA			02-001			$0	
47	NA			02-001			$0	
48	NA			02-001			$0	
49	348	1	2,615.10	02-001	Park Avenue	2013	$2,615	Replace 1 fire hydrant along Park Avenue. This project will replace a fire hydrant installed in 1920 along Park Avenue. The existing hydrant is old and failing requiring replacement. Replacement parts are unavailable for this hydrant. This replacement is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
50	NA			02-001			$0	
51	348	2	2,634.45	02-001	Cole Avenue	2014	$5,269	Replace 2 fire hydrants along Cole Avenue. This project will replace fire hydrants installed in 1908 along Cole Avenue. The existing hydrants are old and failing requiring replacement. Replacement parts are unavailable for these hydrants. This replacement is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

COCHISE/BISBEE
TABLE I (Page 5 of 6) cont.
Information to be included with SIB-Eligible Project Notification

52	348	1	2,743.86	02-001	Church Street	2012	$2,744	Replace 1 fire hydrant along Church Street from Clawson Avenue to Sowels Avenue. This project will replace a fire hydrant installed in 1908 along Church Street from Clawson Avenue to Sowels Avenue. The existing hydrant is old and failing requiring replacement. Replacement parts are unavailable for this hydrant. This replacement is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)							**$16,029**	

COCHISE/BISBEE

TABLE I (Page 6 of 6, Summary)

Information to be included with SIB-Eligible Project Notification

Project No.	PWSID No.	Project Description	Cost (estimated)
43	02-001	INSTALL 1,900 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 22 SERVICE CONNECTIONS ALONG BOWERS STREET FROM MARIE STREET TO McDONALD STREET.	$232,374
44	02-001	INSTALL 700 LF OF 6-INCH DIP W/POLYWRAP AND REPLACE 11 SERVICE CONNECTIONS ALONG OCOTILLO AVENUE.	$94,656
45	02-001	INSTALL 2,450 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 41 SERVICE CONNECTIONS ALONG LEDGE AVENUE AND QUALITY ROAD.	$318,891
46	02-001	INSTALL 900 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 1 SERVICE CONNECTION ALONG HIGHWAY 80 AND WINWOOD ROAD.	$84,679
47	02-001	INSTALL 1,650 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 20 SERVICE CONNECTIONS ALONG LEDGE AVENUE, QUALITY ROAD, AND ALLEYS.	$192,464
48	02-001	INSTALL 2,900 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 22 SERVICE CONNECTIONS ALONG TERAN STREET, ARUIZU STREET, CARBAJAL STREET, AND VARGAS STREET.	$312,721
49	02-001	INSTALL 700 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 12 SERVICE CONNECTIONS ALONG PARK AVENUE.	$98,070
50	02-001	INSTALL 600 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 11 SERVICE CONNECTIONS ALONG BROPHY AVENUE.	$76,802
51	02-001	INSTALL 1,000 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 7 SERVICE CONNECTIONS ALONG COLE AVENUE.	$112,905
52	02-001	INSTALL 400 LF OF 6-INCH DIP w/POLYWRAP AND REPLACE 7 SERVICE CONNECTIONS ALONG CHURCH STREET FROM CLAWSON AVENUE TO SOWELS AVENUE.	$54,877
Total Cost (estimate)			**$1,578,439**

EXHIBIT B

ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
Calculation of Overall SIB True-Up and Individual True-Up Surcharge/Credit
As of December 31, 2012

SIB Schedule B

Line No.	CALCULATION OF OVERALL SIB REVENUE TRUE-UP FROM PRIOR 12-MONTH SIBA SURCHARGE PERIOD	[A] SUPERSTITION	[B]
1			
2	Overall SIB Revenue Requirement from Prior 12-Month SIB Surcharge Period	$ 335,722	
3			
4	Overall SIB Efficiency Credit from Prior 12-Month SIB Surcharge Period	$ (16,786)	
5			
6	Total SIB Revenue Requirement Net of Efficiency Credit - Prior 12-Month SIB Surcharge Period		$ 318,936
7			
8	Total SIB Surcharge Revenues from Prior 12-Month SIB Surcharge Period	$ 310,000	
9			
10	Total SIB Efficiency Credit Refunds from Prior 12-Month SIB Surcharge Period	$ (15,500)	
11			
12	Total SIB Surcharge Revenues Net of Efficiency Credit from Prior 12-Month SIB Surcharge Period		$ 294,500
13			
14	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (ln. 6 - ln. 12)		24,436
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ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
Calculation of Overall SIB True-Up and Individual True-Up Surcharge/Credit
As of December 31, 2012

CALCULATION OF INDIVIDUAL SIB FIXED TRUE-UP SURCHARGE/CREDIT

Line No.	Customer Meter Size	[A] No. of Customers 12/31/2012	[B] Meter Multiplier	[C] 5/8 x 3/4-inch Equivalent Meters (C X F)	[D] SIB True-Up Surcharge/(Credit) Fixed Surcharge / (Credit)	[E] SIB True-Up Surcharge/(Credit) Annual Revenue by Meter Size
9	5/8 x 3/4-inch	21,521	1	21,521	$ 0.07	$ 17,098
10	1-inch	1,824	2.5	4,559	$ 0.17	$ 3,622
11	1 1/2-inch	-	5	-	$ 0.33	$ -
12	2-inch	285	8	2,278	$ 0.53	$ 1,810
13	3-inch	31	16	492	$ 1.06	$ 391
14	4-inch	21	25	523	$ 1.66	$ 415
15	6-inch	25	50	1,225	$ 3.31	$ 973
16	8-inch	2	80	160	$ 5.30	$ 127
17	10-inch	-	115	-	$ 7.61	$ -
19	Totals	23,708		30,758		$ 24,436

24	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (p. 1, ln. 14)	$ 24,436
26	Individual SIB Fixed True-Up Surcharge/(Credit) Per 5/8 x 3/4-inch Equivalent Meter (ln. 24 ÷ col. C, ln. 19 ÷ 12)	0.07

EXHIBIT C

SIB PLANT TABLE II (Page 1 of 6)

Information to be included with SIB-Eligible Completed Project Filings

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		Original Plant (Plant Being Retired)			
Project No.	**309 Supply Mains**	Pipe Length	Diameter	Material	Cost/Unit			In-Service Date (provide ADEQ AOC and other related approvals by state and/or federal agencies when applicable; pictures of installed plant)	Actual Cost	Actual Retirement Date	Original In-Service Date	Original Cost	Accumulated Depreciation Reserve (as of the actual retirement date)
Subtotal Actual Cost													

SIB PLANT TABLE II (Page 2 of 6)

Information to be included with SIB-Eligible Completed Project Filings

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		Original Plant (Plant Being Retired)			
Project No.	**331 T&D Mains**	Pipe Length	Diameter	Material	Cost/Unit			In-Service Date (provide ADEQ AOC and other related approvals by state and/or federal agencies when applicable; pictures of installed plant)	Actual Cost	Actual Retirement Date	Original In-Service Date	Original Cost	Accumulated Depreciation Reserve (as of the actual retirement date)
Subtotal Actual Cost													

SIB PLANT TABLE II (Page 3 of 6)

Information to be included with SIB-Eligible Completed Project Filings

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)				PWSID No.	Site (location description)	Replacement Plant		Original Plant (Plant Being Retired)			
Project No.	**333 Services**	Quantity	Diameter	Material	Cost/Unit			In-Service Date (provide ADEQ AOC and other related approvals by state and/or federal agencies when applicable; pictures of installed plant)	Actual Cost	Actual Retirement Date	Original In-Service Date	Original Cost	Accumulated Depreciation Reserve (as of the actual retirement date)
Subtotal Actual Cost													

SIB PLANT TABLE II (Page 4 of 6)

Information to be included with SIB-Eligible Completed Project Filings

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)			PWSID No.	Site (location description)	Replacement Plant		Original Plant (Plant Being Retired)			
Project No.	**334 Meters**	Size	Quantity	Cost/Unit			In-Service Date (provide ADEQ AOC and other related approvals by state and/or federal agencies when applicable; pictures of installed plant)	Actual Cost	Actual Retirement Date	Original In-Service Date	Original Cost	Accumulated Depreciation Reserve (as of the actual retirement date)
Subtotal Actual Cost												

Information to be included with SIB-Eligible Completed Project Filings

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)		PWSID No.	Site (location description)	Replacement Plant		Original Plant (Plant Being Retired)			
Project No.	**335 Hydrants**	Quantity	Cost/Unit			In-Service Date (provide ADEQ AOC and other related approvals by state and/or federal agencies when applicable; pictures of installed plant)	Actual Cost	Actual Retirement Date	Original In-Service Date	Original Cost	Accumulated Depreciation Reserve (as of the actual retirement date)
Subtotal Actual Cost											

SIB PLANT TABLE II (Page 6 of 6, Summary)

Information to be included with SIB-Eligible Completed Project Filings

Project No.	PWSID No.	Project Description	Cost (estimated)	Actual Cost	Detailed explanation of why actual costs have exceeded estimated costs by more than 10% for the project
Total Cost					

EXHIBIT D

ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2012

SIB Schedule A

Line No.	CALCULATION OF OVERALL SIB REVENUE REQUIREMENT & EFFICIENCY CREDIT	[A] SUPERSTITION	[B]
1			
2	Total Authorized Revenue Requirement - Decision No. 73736	$ 17,848,923	
3			
4	SIB Revenue Cap %	5.00%	
5			
6	Net SIB Revenue Cap (ln. 2 x ln. 4)		$ 892,446
7			
8	SIB-Eligible Plant in Service - Per SIB Table II Summary	$ 2,000,000	
9			
10	Accumulated Depreciation - 1/2-Year Convention (ln. 24 x .5)	27,700	
11			
12	SIB Rate Base (ln. 8 - ln. 10)	$ 1,972,300	
13			
14	Required Rate of Return - Decision No. 73736	8.72%	
15			
16	Required SIB Operating Income (ln. 12 x ln. 14)	$ 171,985	
17			
18	Gross Revenue Conversion Factor/Tax Multiplier - Per Decision No. 73736	1.6590	
19			
20	Revenue Requirement - Return on SIB-Eligible Rate Base (ln. 16 x ln. 18)	$ 285,322	
21			
22	Applicable Depreciation Rate - Per Decision No. 73736	2.77%	
23			
24	SIB Depreciation Expense (ln. 8 x ln. 22)	$ 55,400	
25			
26	Less: Depreciation Expense Associated with Applicable Retirements - Per SIB Table II Summary	$ 5,000	
27			
28	Net Depreciation Expense - SIBA Eligible Plant (ln. 24 - ln. 26)	$ 50,400	
29			
30	SIB Capital Costs - Pre-Tax Return & Depreciation (ln. 20 + ln. 28)		$ 335,722
31			
32	*Under or Over Recovery from Previous Period*		$ -
33			
34			
35	Overall SIB Revenue Requirement - Lesser of Net SIB Revenue Cap or SIB Captial Costs		$ 335,722
36			
37	SIB Efficiency Credit %	-5.00%	
38			
39	Overall SIB Efficiency Credit (ln. 35 x ln. 37)		$ (16,786)
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ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2012

SIB Schedule A

CALCULATION OF INDIVIDUAL SIB FIXED SURCHARGE AND EFFICIENCY CREDIT

Line No.	Customer Meter Size	[A] No. of Customers 12/31/2012	[B] Meter Multiplier	[C] 5/8 x 3/4-inch Equivalent Meters (C X F)	[D] SIB Surcharge Individual Fixed Surcharge	[E] SIB Surcharge Annual Revenue by Meter Size	[F] SIB Efficiency Credit Individual Fixed Credit	[G] SIB Efficiency Credit Annual Refund by Meter Size
9	5/8 x 3/4-inch	21,521	1	21,521	$ 0.91	$ 234,900	$ (0.05)	(11,745.00)
10	1-inch	1,824	2.5	4,559	$ 2.27	$ 49,763	$ (0.11)	(2,488.16)
11	1 1/2-inch	-	5	-	$ 4.55	$ -	$ (0.23)	-
12	2-inch	285	8	2,278	$ 7.28	$ 24,864	$ (0.36)	(1,243.21)
13	3-inch	31	16	492	$ 14.55	$ 5,370	$ (0.73)	(268.51)
14	4-inch	21	25	523	$ 22.74	$ 5,708	$ (1.14)	(285.38)
15	6-inch	25	50	1,225	$ 45.48	$ 13,371	$ (2.27)	(668.54)
16	8-inch	2	80	160	$ 72.77	$ 1,746	$ (3.64)	(87.32)
17	10-inch	-	115	-	$ 104.60	$ -	$ (5.23)	-
18								
19	Totals	23,708		30,758		$ 335,722		$ (16,786)

Overall SIB Revenue Requirement (p. 1, ln. 32) $ 335,722

Individual SIB Fixed Surcharge Per 5/8 x 3/4-inch Equivalent Meter (ln. 24 ÷ col. C, ln. 19 ÷ 12) $ 0.91

Overall SIB Efficiency Credit (p. 1, ln. 36) $ (16,786)

Individual SIB Fixed Efficiency Credit Per 5/8 x 3/4-inch Equivalent Meter (ln. 28 ÷ col. C, ln. 19 ÷ 12) $ (0.05)

EXHIBIT E

ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
Typical Bill Analysis - Residential 5/8 x 3/4-Inch Meter
As of December 31, 2012

SIB Schedule C

Line No.	Gallons Consumed	[A] Present Bill	[B] SIB Fixed Surcharge	[C] SIB Efficiency Credit	[D] SIB True-Up Surcharge / (Credit)	[E] Total Pro Forma Bill	[F] Net SIB Increase	[G] Percent SIB Increase
					SUPERSTITION			
1	-	$ 22.26	$ 0.91	$ (0.05)	$ 0.07	$ 23.19	$ 0.93	4.2%
2	1,000	23.89	0.91	(0.05)	0.07	24.82	0.93	3.9%
3	2,000	25.53	0.91	(0.05)	0.07	26.46	0.93	3.6%
4	3,000	27.16	0.91	(0.05)	0.07	28.09	0.93	3.4%
5	4,000	30.49	0.91	(0.05)	0.07	31.42	0.93	3.1%
6	5,000	33.82	0.91	(0.05)	0.07	34.75	0.93	2.8%
7	6,000	37.14	0.91	(0.05)	0.07	38.07	0.93	2.5%
8	7,000	40.47	0.91	(0.05)	0.07	41.40	0.93	2.3%
9	8,000	43.80	0.91	(0.05)	0.07	44.73	0.93	2.1%
10	9,000	47.12	0.91	(0.05)	0.07	48.05	0.93	2.0%
11	10,000	50.45	0.91	(0.05)	0.07	51.38	0.93	1.8%
12	11,000	55.25	0.91	(0.05)	0.07	56.18	0.93	1.7%
13	12,000	60.05	0.91	(0.05)	0.07	60.98	0.93	1.5%
14	13,000	64.84	0.91	(0.05)	0.07	65.77	0.93	1.4%
15	14,000	69.64	0.91	(0.05)	0.07	70.57	0.93	1.3%
16	15,000	74.44	0.91	(0.05)	0.07	75.37	0.93	1.2%
17	20,000	98.42	0.91	(0.05)	0.07	99.35	0.93	0.9%
18	25,000	122.41	0.91	(0.05)	0.07	123.34	0.93	0.8%
19								
20								
21								
22								
23								
24	Residential Bill at Average Consumption of 6,300 Gallons	$ 38.14	$ 0.91	$ (0.05)	$ 0.07	$ 39.07	$ 0.93	2.4%
25								
26								
27	Basic Service Charge	$ 22.26	$ 0.91	$ (0.05)	$ 0.07	$ 23.19	$ 0.93	4.2%
28								
29	Commodity Rate Per 1,000 Gallons							
30	0 - 3,000 Gallons	$ 1.6340	n/a	n/a	n/a	n/a	n/a	n/a
31	3,001 - 10,000 Gallons	$ 3.3270	n/a	n/a	n/a	n/a	n/a	n/a
32	Over 10,000 Gallons	$ 4.7970	n/a	n/a	n/a	n/a	n/a	n/a
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EXHIBIT F

ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
Fair Value Rate Base, Revenue & Rate of Return
As of December 31, 2012

SIB Schedule D

SUPERSTITION

Line No.		[A] Per Decision 73736	[B] Net SIB Step-1 Increase	[C] Net SIB Step-2 Increase	[D] Net SIB Step-3 Increase	[E] Net SIB Step-4 Increase	[F] Net SIB Step-5 Increase	[G] Pro Forma With SIB
1	Total Operating Revenue	$ 17,848,923	$ 318,936	$ -	$ -	$ -	$ -	$ 18,167,859
2								
3	Operating Expenses							
4	Operations & Maintenance	$ 8,057,876	$ -	$ -	$ -	$ -	$ -	$ 8,057,876
5	Depreciation & Amortization	2,671,694	50,400	-	-	-	-	2,722,094
6	Taxes Other than Income	1,049,113	-	-	-	-	-	1,049,113
7	Income Taxes	1,695,023	106,663	-	-	-	-	1,801,686
8	Total Operating Expenses	$ 13,473,706	$ 157,063	$ -	$ -	$ -	$ -	$ 13,630,769
9								
10	Operating Income (ln. 1 - ln. 8)	$ 4,375,217	$ 161,874	$ -	$ -	$ -	$ -	$ 4,537,091
11								
12	Interest Expense							
13	Weighted Avg. Cost of Debt	3.34%	3.34%	3.34%	3.34%	3.34%	3.34%	3.34%
14	Interest Expense (ln. 13 x ln. 19)	$ 1,676,832	$ 65,914	$ -	$ -	$ -	$ -	$ 1,742,746
15								
16	Net Income (ln. 10 - ln. 14)	$ 2,698,385	$ 95,959	$ -	$ -	$ -	$ -	$ 2,794,344
17								
18								
19	Rate Base - O.C.L.D.	$ 50,174,504	$ 1,972,300	$ -	$ -	$ -	$ -	$ 52,146,804
20								
21	Return on Rate Base - O.C.L.D. (ln. 10 ÷ ln. 19)	8.72%	8.21%	0.00%	0.00%	0.00%	0.00%	8.70%
22								
23	Authorized Return on Rate Base	8.72%	8.72%	8.72%	8.72%	8.72%	8.72%	8.72%
24								
25	Capital Structure							
26	Debt %	49.03%	49.03%	49.03%	49.03%	49.03%	49.03%	49.03%
27	Equity %	50.97%	50.97%	50.97%	50.97%	50.97%	50.97%	50.97%
28								
29	Total Equity (ln. 19 x ln. 27)	$ 25,573,945	$ 1,005,281	$ -	$ -	$ -	$ -	$ 26,579,226
30								
31	Authorized Return on Equity	10.55%	10.55%	10.55%	10.55%	10.55%	10.55%	10.55%
32								
33	Return on Equity (Ln. 16 ÷ ln. 29)	10.55%	9.55%	0.00%	0.00%	0.00%	0.00%	10.51%
34								
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RECEIVED APR 3 - 2013

COMMISSIONERS

Bob Stump - Chairman
Gary Pierce
Brenda Burns
Susan Bitter Smith
Bob Burns

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY, AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	DOCKET NO. W-01445A-11-0310 **NOTICE OF FILING TESTIMONY IN SUPPORT OF SETTLEMENT AGREEMENT (PHASE 2-DSIC)**

Arizona Water Company hereby files the Testimony of Joel M. Reiker in support of settlement in the above-captioned docket.

RESPECTFULLY SUBMITTED this 2nd day of April, 2013.

ARIZONA WATER COMPANY

By: _____

Joel M. Reiker
Vice President – Rates and Revenues
ARIZONA WATER COMPANY
Post Office Box 29006
Phoenix, Arizona 85038-9006

and

EXHIBIT
A-2
admitted 4-8-13

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An original and fifteen (15) copies of the foregoing were delivered this 2nd day of April, 2013 to:

Docketing Supervisor
Docket Control Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

A copy of the foregoing was mailed this 2nd day of April, 2013 to:

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By: _____

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II.	Settlement Process	3
III.	Distribution System Improvement Charge ("DSIC") and the System Improvement Benefits ("SIB") Mechanism	7
IV.	SIB Mechanism Benefits	11
V.	Public Interest	14

ARIZONA WATER COMPANY

Testimony of

Joel M. Reiker

I. Introduction

Q. PLEASE STATE YOUR NAME, EMPLOYER AND TITLE.

A. My name is Joel M. Reiker. I am employed by Arizona Water Company (the "Company") as Vice President – Rates and Revenues.

Q. ARE YOU THE SAME JOEL M. REIKER THAT PREVIOUSLY PROVIDED DIRECT, REBUTTAL AND REJOINDER TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support the proposed Settlement Agreement Regarding Distribution System Improvement Charges ("DSIC") and Other DSIC-Like Proposals ("Settlement Agreement") filed on April 1, 2013, in this proceeding.

II. Settlement Process

Q. PLEASE PROVIDE A SUMMARY OF THIS PROCEEDING AS IT RELATES TO THE SETTLEMENT AGREEMENT.

A. On August 5, 2011, the Company filed an application with the Arizona Corporation Commission ("Commission") for an increase in the rates and charges for utility service provided by its Eastern Group of water systems. The Company's Eastern Group includes the Superstition (Apache Junction, Superior and Miami), Cochise (Bisbee and Sierra Vista), San Manuel, Falcon Valley (Oracle and SaddleBrooke Ranch) and Winkelman systems. In addition to its request for a general rate increase, the Company sought, among other relief, authorization to implement a DSIC in its Eastern Group.

Testimony was filed by the Company, the Arizona Corporation Commission's Utilities Division Staff ("Staff") and the Residential Utility Consumer Office ("RUCO"). Intervention was also granted to Kathie Wyatt, although Ms. Wyatt did not participate in the proceedings.

Evidentiary hearings commenced on May 14, 2012, and closed on May 24, 2012. Following post-hearing briefing, the Administrative Law Judge issued a Recommended Opinion and Order ("ROO") on January 30, 2013. The Company and RUCO filed exceptions to the ROO and Staff responded to the Company's exceptions. In addition, amendments to the ROO were presented at the Open Meeting during which the Commission considered the ROO on February 12, 2013. At that Open Meeting, following substantial discussion, deliberation, and review of public testimony and the arguments of the parties, the Commission voted to adopt the ROO, as amended, resulting in Decision No. 73736. Although the Commission stated that it was supportive of a DSIC-type mechanism, it did not authorize a DSIC for the Company's Eastern Group in Decision No. 73736.[1]

Q. HOW WAS THE ROO AMENDED?

A. As it relates to the Settlement Agreement, the ROO was amended such that Decision No. 73736 provided for the reopening of intervention for the limited purpose of discussing the Company's DSIC proposal. Specifically, the Commission stated:

> Although we will not authorize a DSIC herein, today, we are supportive of the DSIC type mechanism and therefore we will leave this Docket open to allow the parties the opportunity to enter into discussions regarding AWC's DSIC proposal and other DSIC like proposals Staff may wish to introduce.

---

[1] *See* Decision No. 73736, dated February 20, 2013. p. 104, lines 22 – 25.

> In order to allow other parties that may be interested in this issue the ability to have input, we will allow such parties the opportunity to request late intervention in this Docket for the specific and limited purpose of participating in proceedings addressing [DSIC and other DSIC-like proposals]. ... The Hearing Division shall issue a proposed Order on this matter such that it may be considered by the Commission no later than its Open Meeting on June 11 and 12, 2013.[2]

Accordingly, the Administrative Law Judge issued Procedural Orders on February 21, February 25, and March 21, 2013, setting forth procedural deadlines related to what is now referred to as Phase-2 of Docket No. 11-0310. The Settlement Agreement is the result of Phase-2 settlement discussions.

Q. DID ANY PARTIES INTERVENE IN PHASE-2?

A. Yes. The following entities intervened for the purpose of discussing the Company's DSIC proposal and other DSIC-like mechanisms:

- Global Water – Palo Verde Utilities Company, Global Water – Santa Cruz Water Company, Valencia Water Company – Town Division, Valencia Water Company – Greater Buckeye Division, Water Utility of Greater Tonopah, Willow Valley Water Co. and Water Utility of Northern Scottsdale (collectively referred to as the "Global Utilities").
- EPCOR Water Arizona Inc. ("EPCOR")
- Rio Rico Utilities, Inc. dba Liberty Utilities ("Liberty Utilities")
- The Water Utility Association of Arizona ("WUAA")
- Arizona Investment Council ("AIC")
- City of Globe

Q. HOW WAS THE SETTLEMENT PROCESS CONDUCTED?

---

[2] *See* Decision No. 73736, dated February 20, 2013. P. 104, line 26 – p. 25, line 3.

A. Staff notified all parties to this proceeding of the settlement discussions on February 21, 2013, and formal settlement discussions commenced on March 4, 2013. The settlement discussions included the Company, Staff, RUCO, Global Utilities, EPCOR, Liberty Utilities, AIC and the City of Globe.[3] The settlement discussions were open, transparent, and inclusive of all participating parties, with each such party having an equal opportunity to participate. As is the nature of all settlement negotiations and resulting compromises, no one party received everything they wanted. Instead, the parties agreed upon a conceptual compromise that when viewed as a whole, was in the best interests of all parties.

The parties then drafted and circulated a proposed Settlement Agreement reflecting the agreements reached in the March 4, 2013, meetings, which led to further communications and negotiations regarding the specific terms. On March 26, 2013, following multiple exchanges of drafts and discussions among the parties, the parties and the majority of the intervenors and their counsel met again at the Commission's offices and finalized the terms of the Settlement Agreement.

The Company believes the Settlement Agreement represents a balanced and complete package that will promote the public interest and provide for a prompt resolution of the DSIC issue while avoiding the expense associated with delay and continued litigation of the Phase-2 proceedings.

Q. WHICH OF THE PARTIES TO THIS PROCEEDING ARE SIGNATORIES TO THE SETTLEMENT AGREEMENT?

A. The Company, Staff, Global Utilities, EPCOR, Liberty Utilities, WUAA and AIC (collectively referred to as the "Signatory Parties") are signatories to the Settlement Agreement.

---

[3] Neither WUAA nor Kathie Wyatt participated in the settlement discussions.

III. Distribution System Improvement Charge ("DSIC") and the System Improvement Benefits ("SIB") Mechanism

Q. PLEASE EXPLAIN THE DSIC AS ORIGINALLY PROPOSED BY THE COMPANY.

A. As more fully explained by Company witness Joseph D. Harris in Section VI of his pre-filed direct testimony filed on August 5, 2011, in this proceeding, a DSIC is a ratemaking tool that provides for the recovery of the capital costs (i.e. depreciation expense and pre-tax return on investment) associated with non-revenue producing distribution system improvement projects completed between general rate cases. The Company first requested a DSIC in its last total-Company general rate case (Docket No. W-01445A-08-0440). While the Commission did not approve a DSIC in that proceeding, it stated in Decision No. 71845 (dated August 24, 2010), that an infrastructure funding mechanism may be reasonable for certain of the Company's aging systems that face unique challenges. The Commission further stated its belief that it was appropriate for the Company to further develop the issue for future consideration by preparing a study and filing a report on DSIC, and to utilize the information from that study to inform the Commission in future rate cases.

Q. DID THE COMPANY PREPARE AND FILE SUCH A STUDY?

A. Yes. The Company filed its original DSIC study in Docket No. 08-0440 on July 22, 2011. The DSIC study is also attached as Exhibit JDH-3 to Mr. Harris' pre-filed direct testimony in this proceeding. The Company's DSIC study details the history of the DSIC, the need for distribution system improvements, the cost of those improvements, the potential rate impacts, and the benefits associated with such a mechanism.

Q. PLEASE EXPLAIN THE SETTLEMENT AGREEMENT'S RESOLUTION OF THE COMPANY'S DSIC PROPOSAL.

A. The Signatory Parties agree that both the timing and magnitude of certain infrastructure improvements the Company must undertake in order to maintain adequate and reliable service to its customers create a circumstance justifying a DSIC-type mechanism in this case. The Signatory Parties also agree that a DSIC-type mechanism is an appropriate means for allowing the Company the opportunity to make such improvements while reducing the negative financial impact on the Company and providing benefits to customers. Additionally, the mechanism developed by the Signatory Parties and proposed herein can serve as a template in future proceedings, where appropriate. Accordingly, the Signatory Parties, through the process of negotiation, developed a "System Improvement Benefits" ("SIB") mechanism. The SIB mechanism is substantially similar to DSIC and DSIC-type mechanisms that have been approved in other states in that it allows for the timely recovery of the capital costs associated with certain infrastructure replacements completed and placed in service between general rate cases. The mechanics of the SIB mechanism were developed under a collaborative effort of the Signatory Parties who, collectively, benefit from expertise in several areas of regulation and ratemaking.

Q. PLEASE PROVIDE A SUMMARY OF THE SIB MECHANISM PROPOSED IN THE SETTLEMENT AGREEMENT.

A. The Signatory Parties developed a number of key provisions to the SIB mechanism that appropriately balance the interests of the Company and its customers. The major provisions are:

- <u>Commission Pre-Approval of SIB-Eligible Projects</u> – All of the infrastructure replacement projects contemplated for SIB recovery must be approved by the Commission prior to the Company filing for recovery of the capital costs associated with such projects. The specific projects the Company proposes for SIB treatment in this proceeding are listed in SIB Plant Table I, attached to the Settlement Agreement as Exhibit A. All of

the Commission-approved projects that are included in a SIB surcharge filing must be completed and placed in service prior to the SIB surcharge going into effect. If circumstances require the Company to undertake a qualifying project that is not on the list of SIB-eligible projects, it may seek Commission approval to add such project to the list. Additionally, Section 4.8 of the Settlement Agreement requires the Company to file a report with the Commission every six months summarizing the status of all SIB-eligible projects.

- SIB Project Eligibility Criteria – Only those projects completed for the purpose of maintaining or improving existing customer service and reliability, integrity and safety are eligible for SIB treatment. Projects designed to extend existing facilities or expand capacity to serve new customers are not eligible for SIB treatment.
- Costs Eligible for SIB Recovery – The project costs that are eligible for SIB surcharge recovery are limited to the pre-tax rate of return on investment and depreciation expense associated with SIB-eligible projects. The rate of return, depreciation rate, and tax multiplier are equal to those approved by the Commission in the Company's most recent general rate case – in this case Decision No. 73736. The calculation of the SIB surcharge will also take into account any related plant retirements.
- Efficiency Credit – A credit equal to five percent of the SIB surcharge will be given back to customers in the form of a SIB efficiency credit.
- SIB Surcharge Cap – The amount to be collected from each SIB surcharge is capped annually at five percent of the revenue requirement authorized in the Company's most recent general rate case.
- SIB Surcharge Rate Design – The SIB surcharge will be a fixed monthly surcharge presented on customers' bills as a SIB fixed surcharge and SIB

efficiency credit as two separate line-items. The surcharge will increase with meter size based on the flow capacity of the meter.

- Commission Approval of SIB Surcharge – Each SIB surcharge filing must be approved by the Commission prior to the Company implementing such surcharge. To this end, the Company will include a proposed order for the Commission's consideration with each SIB surcharge filing. When the Company files a SIB surcharge, Staff and RUCO will have 30 days to review the filing and, if no objection is raised, the surcharge will be placed on an open meeting agenda at the earliest practicable date.
- Number of SIB Surcharge Filings Allowed Between General Rate Cases – The Company may file up to five SIB surcharges between general rate cases, with the initial filing being no sooner than 12 months after the date of the Commission's decision in its most recent general rate case. The Company may file no more than one SIB surcharge every 12 months. Additionally, the Company must file its next general rate case no later than five years after its most recent general rate case, at which time any SIB surcharges that are in effect will end and the associated costs will be included in base rates.
- Annual SIB True-up – For each 12-month period that a SIB surcharge is in effect, the Company will reconcile the revenue collected with the SIB revenue authorized for that period. Any over- or under-collected SIB surcharge revenues will be refunded, or collected, as appropriate over the subsequent 12-month period.
- Public Notice – At least 30 days prior to a SIB surcharge becoming effective, the Company will provide public notice in the form of a billing insert or customer letter that summarizes the amount of the SIB surcharge, SIB efficiency credit, any true-up, as well as a summary of the projects included in the surcharge and their associated cost.

Q. DOES STAFF AGREE THAT THE INFRASTRUCTURE REPLACEMENT PROJECTS LISTED IN SIB PLANT TABLE I (EXHIBIT A TO THE SETTLEMENT AGREEMENT) ARE APPROPRIATE AND ELIGIBLE FOR SIB TREATMENT IN THIS PROCEEDING?

A. Yes. Staff agrees with the Company's proposed list of SIB-eligible projects shown in SIB Plant Table I, attached to the Settlement Agreement as Exhibit A.

Q. WHEN DOES THE COMPANY CONTEMPLATE MAKING ITS FIRST SIB SURCHARGE FILING?

A. Section 4.2 of the Settlement Agreement provides that the Company cannot file its first SIB surcharge any sooner than 12 months after the date of Decision No. 73736, dated February 20, 2013. Accordingly, the Company plans to make its first SIB surcharge filing on or about February 20, 2014.

Q. WHAT IS THE ESTIMATED MAXIMUM IMPACT OF THE SIB SURCHARGE ON THE AVERAGE RESIDENTIAL CUSTOMER'S BILL IN EACH OF THE WATER SYSTEMS IN THE EASTERN GROUP THAT THE COMPANY CONTEMPLATES IMPLEMENTING THE SIB MECHANISM?

A. The table shown in Exhibit JMR-1, attached to this testimony, summarizes the estimated maximum impact of the SIB surcharge on the average residential customer's monthly bill, based the SIB surcharge cap of five percent. As shown in Exhibit JMR-1, the estimated maximum impact on the average residential customer's monthly bill ranges from 5.08% (San Manuel) to 6.46% (Sierra Vista).

IV. <u>SIB Mechanism Benefits</u>

Q. WHAT TYPES OF BENEFITS ARE ASSOCIATED WITH THE SIB MECHANISM AS SET FORTH IN THE SETTLEMENT AGREEMENT?

A. The SIB mechanism will reduce regulatory lag for the most critical types of capital projects – the replacement of aging and failing infrastructure. The Company must have the ability to recover costs in a timely manner in order to remain financially viable and undertake the infrastructure replacement projects that are

required in the coming years. The SIB mechanism will reduce regulatory lag and help to maintain the Company's financial integrity, which will promote the investment in replacement infrastructure. As explained by Company witness Pauline M. Ahern in her pre-filed rebuttal testimony filed on April 10, 2012 in this proceeding, two of the major bond/credit rating agencies in the U.S., Moody's and Standard and Poor's, agree that infrastructure replacement mechanisms such as the one embodied in the Settlement Agreement are credit supportive and serve to maintain the financial integrity of utilities facing major capital expenditures.

Q. DO CUSTOMERS BENEFIT FROM A UTILITY'S ABILITY TO RECOVER COSTS IN A TIMELY MANNER?

A. Yes. If a utility's rates are consistently lower than cost, the owners of that utility are forced to subsidize the provision of service – a situation that is not sustainable in the long-term.

Q. WILL CUSTOMERS BENEFIT IN OTHER WAYS?

A. Yes. The Settlement Agreement allows for the replacement of aging and failing infrastructure, and because the Company places a priority on the most problematic areas, customers in those areas will see prompt improvements in water quality, fire protection, water loss, water pressure and frequency of service interruptions. As explained by Mr. Harris in Section VI of his direct testimony, failing distribution infrastructure causes a number of customer service issues such as degradation of water quality and service interruptions. Service interruptions can affect hundreds of customers at one time, and leaking water mains and services result in millions of gallons of potable water failing to reach customers every year.

Customer benefits are not limited to quality of service. Rate stability is also important to customers and the SIB mechanism will help to limit rate increases to smaller, more regularly timed increases as opposed to much larger

increases that frequently occur absent such a mechanism. Also, because the Company operates in a rising-cost industry, delaying an infrastructure replacement project means that it will ultimately cost more than it would if the Company was able to undertake it earlier. With the SIB mechanism the Company will be able to replace infrastructure sooner rather than later, and at a lower cost. The SIB mechanism will also help to mitigate rising operations and maintenance costs in the long-term as a result of improved infrastructure. Finally, in addition to the cost discounts that are already built into residential rates, customers will receive an efficiency credit on their bills equal to five percent of the cost of SIB-eligible projects.

Q. CAN CUSTOMERS OF OTHER ARIZONA WATER AND WASTEWATER UTILITIES BENEFIT FROM THE SETTLEMENT AGREEMENT?

A. Yes. Not all of the parties participating in this proceeding are Signatories to the Settlement Agreement. Nevertheless, the Settlement Agreement reflects the thoughtful input and expertise offered by RUCO, as well as representatives of Global Utilities, EPCOR and Liberty Utilities. As a result, the Settlement Agreement can serve as a template for the Commission in other proceedings, similar to the Arsenic Cost Recovery Mechanism.

Q. IS THE SIB MECHANISM A FULL COST RECOVERY MECHANISM?

A. No. As mentioned above, the SIB mechanism includes a customer efficiency credit, which makes it only a partial cost recovery mechanism. As a matter of comparison, the Company's cost of common equity, as determined by the Commission in Decision No. 73736, is 10.55 percent. As a result of the efficiency credit, the *effective* return on common equity that the Company will earn on SIB-eligible projects is only 9.55 percent - 100 basis points *lower* than what the Commission determined the Company's cost of equity to be in Decision No. 73736. Further, while the SIB mechanism will serve to alleviate the regulatory lag associated with certain plant replacements, it will not eliminate it.

The fact remains that the Company will continue to under-recover its cost of providing utility service. Nevertheless, the SIB mechanism is significant step in the right direction.

V. **Public Interest**

Q. **PLEASE EXPLAIN WHY THE COMMISSION'S APPROVAL OF THE SETTLEMENT AGREEMENT RESULTS IN RATES, CHARGES AND CONDITIONS OF SERVICE THAT ARE JUST AND REASONABLE AND IN THE PUBLIC INTEREST.**

A. In the context of utility regulation, a just and reasonable rate is one that provides the utility an opportunity to recover no less, and no more, than its cost of providing service, including the cost of the capital deployed in the provision of such service. The Settlement Agreement provides for the *partial* recovery of known and measurable costs and, while not a full-cost recovery mechanism, as mentioned above it represents a step in the right direction. The SIB mechanism also includes various regulatory safeguards intended to ensure the Company does not earn excessive returns. These safeguards include a revenue cap, customer efficiency credit, annual true-up and a requirement to file a future general rate case within a specified time period. In addition, Staff and RUCO will have the opportunity to review all SIB-eligible projects, their associated costs and the resulting impact on customers. Finally, the Commission retains ultimate authority over the rates charged pursuant to the SIB mechanism and, as described in Section 10 of the Settlement Agreement, may determine that good cause exists to suspend, terminate or modify the SIB mechanism as it deems appropriate.

Q. **DOES THAT CONCLUDE YOUR TESTIMONY IN SUPPORT OF THE AGREEMENT?**

A. Yes.

EXHIBIT JMR-1

ARIZONA WATER COMPANY

RESIDENTIAL CUSTOMER BILL ANALYSIS (⅝-INCH X ¾-INCH)
ESTIMATED MAXIMUM IMPACT OF THE SIB SURCHARGE

	Average Usage in Gallons	Current Monthly Bill	SIB Surcharge	SIB Efficiency Credit	Total Bill with SIB & Efficiency Credit	Net Bill Increase	Percentage Increase
Superstition	6,321	$ 38.21	$ 2.38	$ (0.12)	$ 40.47	$ 2.26	5.93%
Cochise - Bisbee	4,832	$ 31.88	$ 2.06	$ (0.10)	$ 33.83	$ 1.95	6.13%
Cochise - Sierra Vista	7,995	$ 30.25	$ 2.06	$ (0.10)	$ 32.20	$ 1.95	6.46%
Falcon Valley	5,140	$ 46.45	$ 2.50	$ (0.13)	$ 48.83	$ 2.38	5.12%
San Manuel	7,139	$ 51.94	$ 2.77	$ (0.14)	$ 54.58	$ 2.64	5.08%
Winkelman	9,398	$ 33.81	$ 2.12	$ (0.11)	$ 35.82	$ 2.01	5.94%

ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2012

SIB Schedule A

Line No.	CALCULATION OF OVERALL SIB REVENUE REQUIREMENT & EFFICIENCY CREDIT		[A] SUPERSTITION	[B]
1				
2	Total Authorized Revenue Requirement - Decision No. 73736		$ 17,848,923	
3				
4	SIB Revenue Cap %		5.00%	
5				
6	Net SIB Revenue Cap (ln. 2 x ln. 4)			$ 892,446
7				
8	SIB-Eligible Plant in Service - Per SIB Table II Summary		$ 2,000,000	
9				
10	Accumulated Depreciation - 1/2-Year Convention (ln. 28 x .5)		27,700	
11				
12	SIB Rate Base (ln. 8 - ln. 10)		$ 1,972,300	
13				
14				
15	Required Rate of Return - Decision No. 73736			
16	Weighted Cost of Equity:	5.38%		
17	Revenue Conversion Factor:	1.6590		
18	Pre-Tax Weighted Cost of Equity (ln. 16 x ln. 17):	8.92%		
19	Weighted Cost of Debt:	3.34%		
20				
21	Pre-Tax Cost of Capital (ln. 18 + ln. 19):	12.26%	12.26%	
22				
23	Required Revenues (ln. 12 x ln. 21)		$ 241,900	
24				
25				
26	Applicable Depreciation Rate - Per Decision No. 73736		2.77%	
27				
28	SIB Depreciation Expense (ln. 8 x ln. 26)		$ 55,400	
29				
30	Less: Depreciation Expense Associated with Applicable Retirements - Per SIB Table II Summary		$ 5,000	
31				
32	Net Depreciation Expense - SIBA Eligible Plant (ln. 28 - ln. 30)		$ 50,400	
33				
34	SIB Capital Costs - Pre-Tax Return & Depreciation (ln. 23 + ln. 32)			$ 292,300
35				
36	Under or Over Recovery from Previous Period			$ -
37				
38				
39	Overall SIB Revenue Requirement - Lesser of Net SIB Revenue Cap or SIB Captial Costs			$ 292,300
40				
41	SIB Efficiency Credit %		-5.00%	
42				
43	Overall SIB Efficiency Credit (ln. 39 x ln. 41)			$ (14,615)
44				
45				
46				
47				
48				
49				
50				

EXHIBIT
A-3
admitted 4-11-13

ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
Fair Value Rate Base, Revenue & Rate of Return
As of December 31, 2012

SIB Schedule D

Line No.		[A]	[B]	[C]	[D]	[E]	[F]	[G]
					SUPERSTITION			
		Per Decision 73736	Net SIB Step-1 Increase	Net SIB Step-2 Increase	Net SIB Step-3 Increase	Net SIB Step-4 Increase	Net SIB Step-5 Increase	Pro Forma With SIB
1	Total Operating Revenue	$ 17,848,923	$ 277,685	$ -	$ -	$ -	$ -	$ 18,126,608
2								
3	Operating Expenses							
4	Operations & Maintenance	$ 8,057,876	$ -	$ -	$ -	$ -	$ -	$ 8,057,876
5	Depreciation & Amortization	2,671,694	50,400	-	-	-	-	2,722,094
6	Taxes Other than Income	1,049,113	-	-	-	-	-	1,049,113
7	Income Taxes	1,695,023	64,101	-	-	-	-	1,759,124
8	Total Operating Expenses	$ 13,473,706	$ 114,501	$ -	$ -	$ -	$ -	$ 13,588,207
9								
10	Operating Income (ln. 1 - ln. 8)	$ 4,375,217	$ 163,184	$ -	$ -	$ -	$ -	$ 4,538,401
11								
12	Interest Expense							
13	Weighted Avg. Cost of Debt	3.34%	3.34%	3.34%	3.34%	3.34%	3.34%	3.34%
14	Interest Expense (ln. 13 x ln. 19)	$ 1,676,832	$ 65,914	$ -	$ -	$ -	$ -	$ 1,742,746
15								
16	Net Income (ln. 10 - ln. 14)	$ 2,698,385	$ 97,270	$ -	$ -	$ -	$ -	$ 2,795,655
17								
18								
19	Rate Base - O.C.L.D.	$ 50,174,504	$ 1,972,300	$ -	$ -	$ -	$ -	$ 52,146,804
20								
21	Return on Rate Base - O.C.L.D. (ln. 10 ÷ ln. 19)	8.72%	8.27%	0.00%	0.00%	0.00%	0.00%	8.70%
22								
23	Authorized Return on Rate Base	8.72%	8.72%	8.72%	8.72%	8.72%	8.72%	8.72%
24								
25	Capital Structure							
26	Debt %	49.03%	49.03%	49.03%	49.03%	49.03%	49.03%	49.03%
27	Equity %	50.97%	50.97%	50.97%	50.97%	50.97%	50.97%	50.97%
28								
29	Total Equity (ln. 19 x ln. 27)	$ 25,573,945	$ 1,005,281	$ -	$ -	$ -	$ -	$ 26,579,226
30								
31	Authorized Return on Equity	10.55%	10.55%	10.55%	10.55%	10.55%	10.55%	10.55%
32								
33	Return on Equity (Ln. 16 ÷ ln. 29)	10.55%	9.68%	0.00%	0.00%	0.00%	0.00%	10.52%
34								
35								
36								
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50								

EXHIBIT
Phase 2
S-1
admitted 4-11-13

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	)	DOCKET NO. W-01445A-11-0310

TESTIMONY

IN SUPPORT OF

THE SETTLEMENT AGREEMENT

STEVEN M. OLEA

DIRECTOR

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 2, 2013

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EXECUTIVE SUMMARY
ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310

Mr. Olea's testimony supports the adoption of the Settlement Agreement ("Agreement") as proposed by the Signatories in this case. This testimony describes the settlement process as open, candid, transparent and inclusive of all Signatories to this case. Mr. Olea explains why Staff believes this Agreement is in the public interest.

Mr. Olea's testimony recommends that the Commission adopt the Agreement as proposed.

SECTION I - INTRODUCTION

Q. Please state your name and business address.

A. Steven M. Olea, 1200 West Washington, Phoenix, Arizona, 85007.

Q. By whom and in what capacity are you employed?

A. I am employed by the Arizona Corporation Commission ("Commission") as the Director of the Utilities Division ("Staff").

Q. Please state your educational background.

A. I graduated from Arizona State University ("ASU") in 1976 with a Bachelors Degree in Civil Engineering. From 1976 to 1978 I obtained 47 graduate hours of credit in Environmental Engineering at ASU.

Q. Please state your pertinent work experience.

A. From April 1978 to October 1978, I worked for the Engineering Services Section of the Bureau of Air Quality Control in the Arizona Department of Health Services ("ADHS"). My responsibilities were to inspect air pollution sources to determine compliance with ADHS rules and regulations.

From November 1978 to July 1982, I was with the Technical Review Unit of the Bureau of Water Quality Control ("BWQC") in ADHS (this is now part of the Arizona Department of Environmental Quality ["ADEQ"]). My responsibilities were to review water and wastewater construction plans for compliance with ADHS rules, regulations, and Engineering Bulletins.

From July 1982 to August 1983, I was with the Central Regional Office, BWQC, ADHS. My responsibilities were to conduct construction inspections of water and wastewater facilities to determine compliance with plans approved by the Technical Review Unit. I also performed routine operation and maintenance inspections to determine compliance with ADHS rules and regulations, and compliance with United States Environmental Protection Agency requirements.

From August 1983 to August 1986, I was a Utilities Consultant/Water-Wastewater Engineer with the Division. My responsibilities were to provide engineering analyses of Commission regulated water and wastewater utilities for rate cases, financing cases, and consumer complaint cases. I also provided testimony at hearings for those cases.

From August 1986 to August 1990, I was the Engineering Supervisor for the Division. My primary responsibility was to oversee the activities of the Engineering Section, which included one technician and eight Utilities Consultants. The Utilities Consultants included one Telecommunications Engineer, three Electrical Engineers, and four Water-Wastewater Engineers. I also assisted the Chief Engineer and performed some of the same tasks as I did as a Utilities Consultant.

In August 1990, I was promoted to the position of Chief Engineer. My duties were somewhat the same as when I was the Engineering Supervisor, except that now I was less involved with the day-to-day supervision of the Engineering Staff and more involved with the administrative and policy aspects of the Engineering Section.

In April 2000, I was promoted to the position of one of two Assistant Directors of the Division. In this position, I assisted the Division Director in the policy aspects of the Division. I was primarily responsible for matters dealing with water and energy.

In August 2009, I was promoted to my present position as Director of the Utilities Division. In this position, I manage the day-to-day operations of the Utilities Division with the assistance of the Utilities Division Assistant Directors and oversee the management of the Division's Telecom & Energy Section, the Financial & Regulatory Analysis Section, the Consumer Services Section, the Engineering Section, the Compliance Section, and the Administrative Section. In addition, I am responsible for making policy decisions for the Division.

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

A. The purpose of my testimony is to support the Proposed Settlement Agreement ("Agreement"). I will also provide testimony which addresses the settlement process, public interest benefits and general policy considerations.

Q. Did you participate in the negotiations that led to the execution of the Agreement?

A. Yes, I did.

Q. How is your testimony being presented?

A. My testimony is organized into five sections. Section I is this introduction, Section II provides discussion of the settlement process, Section III discusses the various parts of the Agreement, Section IV identifies and discusses the reasons why the Agreement is in the public interest and Section V addresses general policy considerations.

SECTION II – SETTLEMENT PROCESS

Q. Please discuss the settlement process.

A. The settlement process was open, transparent and inclusive. All parties received notice of the settlement meetings and were accorded an opportunity to raise, discuss, and propose resolutions to any issue that they desired.

Q. Who participated in those meetings?

A. The following parties were participants in some or all of the meetings: Arizona Water Company ("AWC" or "Company"); the Residential Utility Consumer Office ("RUCO"); the Arizona Investment Council ("AIC"); Global Water – Palo Verde Utilities Company, Global Water – Santa Cruz Water Company, Valencia Water Company – Town Division, Valencia Water Company – Greater Buckeye Division, Water Utility of Greater Tonopah, Willow Valley Water Co., Water Utility of Northern Scottsdale (collectively the "Global Utilities"); EPCOR Water Arizona, Inc. ("EPCOR"); Rio Rico Utilities, Inc. dba Liberty Utilities; The Water Utility Association of Arizona; the City of Globe ("City"); and Staff.

Q. Could you identify some of the diverse interests that were involved in this process?

A. Yes. The diverse interests included Staff, RUCO, AWC, shareholders investment council, the City, the water utility industry, and the wastewater utility industry.

Q. Were there parties who chose not to execute the Agreement?

A. Yes. The Agreement was not signed by RUCO nor the City of Globe.

Q. Was there an opportunity for all issues to be discussed and considered?

A. Yes, each party had the opportunity to raise issues and have them considered and discussed.

Q. Were the Signatories able to resolve all issues?

A. Yes, the Signatories were able to resolve and reach agreement on all issues.

Q. How would you describe the negotiations?

A. I believe that all participants zealously advocated and represented their interests. I would characterize the discussions as candid but professional. While acknowledging that not all participants executed the Agreement, I must re-emphasize that all participants had the opportunity to be heard and to have their issues and input fairly considered.

Q. Would you describe the process as requiring give and take?

A. Yes, I would. As a result of the varied interests represented in the settlement process, a willingness to compromise was necessary. As evidenced in the Agreement, the Signatories compromised on what could be described as vastly different litigation positions.

Q. Because of such compromising, do you believe the public interest was compromised?

A. No. As I will discuss later in this testimony, I believe that the compromises made by the Signatories further the public interest.

Q. Mr. Olea, you have indicated that the Agreement incorporates diverse interests. Please discuss how the Agreement addresses the diverse interests of these entities.

A. The diverse interests I refer to deal with those of AWC and the utility industry and the interests of the ratepayers/customers. At first glance these interests may seem to be opposite of each other, but actually they are quite similar. Both sides of the issue want the same outcome, i.e., the provision of proper, adequate, safe and reliable water utility service at a fair and reasonable price. The differences in opinion come about because the

thoughts/ideas on how to achieve this goal are not always the same. I believe that the establishment of the System Improvement Benefit ("SIB") mechanism as outlined in the Agreement is a solution that provides benefits to all the diverse interests. For the utility the SIB provides a means to generate revenue from plant investment that is necessary to maintain and/or improve service to ***existing*** customers. I emphasize "existing" because the SIB will not include plant necessary to serve new customers or necessary for growth. For the customers the SIB provides a means for the Company to provide proper service with smaller, more gradual rate increases and at the same time provides a benefit to customers because of the efficiency credit that is part of the SIB.

SECTION III – AGREEMENT

Q. Mr. Olea can you please describe Section 2 of the Agreement?

A. Section 2 is a general description of the SIB mechanism. It states that the SIB will include AWC plant replacement investment for its Eastern Group that is necessary to provide proper, adequate and reliable service to AWC's existing customers and that has not already been included for cost recovery in Decision No. 73736 (the rate case decision in this docket).

Q. Please describe Section 3 of the Agreement?

A. Section 3 discusses the calculation of the amounts eligible for collection pursuant to the SIB and what will be included in that calculation. The SIB revenue requirement is equal to the pre-tax return on investment plus depreciation expense on the completed SIB eligible projects (net of retirements). The rate of return, the gross revenue conversion factor, and the depreciation rates will be equal to those established in Decision No. 73736, i.e. those established in this rate case docket. The revenue requirement will be offset by a

five percent efficiency credit. In addition, the SIB revenue increase will be capped annually at five percent of the revenue requirement established in Decision No. 73736.

Q. Please describe Section 4 of the Agreement.

A. This part of the Agreement delineates when and how often AWC can make a SIB surcharge filing. AWC's first SIB surcharge filing can occur no sooner than 12 months after the effective date of Decision No. 73736 and AWC can make only one SIB surcharge filing every 12 months. Once a SIB surcharge is in place, AWC must make a filing each 12 months to true-up the over/under collection, regardless of whether AWC installs additional SIB eligible plant within that 12-month period. In between the annual filings, AWC shall file status reports regarding the progress of SIB eligible plant construction. AWC may make no more than five SIB surcharge filings between rate case decisions. AWC must file its next general rate case for its Eastern Group using a test year no later than December 31, 2015, with that rate case being filed no later than August 31, 2016. Staff believes that with a SIB mechanism, a company should file rate cases with test years no more than five years apart.

Q. Please describe Section 5 of the Agreement.

A. Section 5 describes how the revenues collected by the SIB surcharge will be trued-up each year, as referenced above. These true-up provisions will ensure that AWC collects, but does not over-collect, its authorized revenue for its SIB eligible plant.

Q. Can you please describe Section 6 of the Agreement?

A. Section 6 of the Agreement delineates what plant improvements/replacements are eligible to be included for recovery by the SIB mechanism. To be eligible for SIB recovery, plant

cannot be for service to new customers or for growth. In addition, the plant must also satisfy at least one of the following:

a. Plant being replaced must be contributing to water loss that is equal to or greater than ten percent, or

b. Plant being replaced must be beyond its depreciable life and deteriorated to such a point that it needs to be replaced and the deterioration was not the fault of AWC, or

c. AWC can demonstrate that although the plant being replaced does not meet either criteria 'a' or 'b' above, the replacement is necessary to provide proper, adequate and reliable service to existing customers as per the criteria discussed in paragraph 6.3.3 of the Agreement.

This section also states what type of plant may be considered to be SIB eligible and how AWC can request to make adjustments to proposed plant improvements listed in SIB Plant Table I in order to seek recovery in a subsequent SIB mechanism surcharge request.

Q. Please describe Section 7 of the Agreement.

A. This part of the Agreement discusses what information AWC must submit with its annual SIB surcharge request filing and describes the notice requirements. In order to help make the process more efficient, AWC will submit a proposed order for the Commission's consideration. Assuming all the information submitted by AWC is in order, the Agreement provides for the Commission to be able to consider the SIB surcharge request filing at its first Open Meeting following a 30-day review period.

Q. Please describe Section 8 of the Agreement.

A. This section of the Agreement describes how the amounts authorized to be collected by the SIB will be collected through actual rates. The amount authorized for recovery will be collected as a fixed surcharge based on meter size, with the 5/8-inch x 3/4-inch meter being the base size.

Q. Please explain Section 9 of the Agreement.

A. This part delineates how AWC's SIB surcharge request will come before the Commission for a vote at an Open Meeting. With its SIB surcharge request, along with all the required information for Staff to review, AWC will submit a proposed order for Commission consideration. There will then be a 30-day review period in which a party may make a filing opposing the SIB surcharge request. If no such filing is made, the Commission can consider AWC's proposed order at the earliest Open Meeting following the 30-day review period.

Q. Please explain Section 10 of the Agreement.

A. Section 10 states that if the Commission believes that this SIB mechanism is not working as intended or there is some other good cause, the Commission may suspend, terminate or modify this SIB mechanism. This section also states that Staff may recommend a SIB mechanism or a utility may apply to the Commission for a SIB mechanism similar to the one being requested here for AWC's Eastern Group.

SECTION IV – PUBLIC INTEREST

Q. Mr. Olea, is the Agreement in the public interest?

A. Yes, in Staff's opinion, the Agreement is fair, balanced, and in the public interest.

Q. Would you summarize the reasons that led Staff to conclude that the Agreement is fair, balanced, and in the public interest?

A. As I stated earlier, it allows AWC to make large plant investments to maintain and/or improve service to existing customers in a way that will lessen rate shock by allowing smaller, more incremental (although more frequent) rate increases to cover the costs of these necessary plant investments. In addition, because of the five percent efficiency credit, the SIB rate increases that will be granted to AWC are actually less than otherwise would have been granted.

Q. Mr. Olea, what was Staff's goal when it agreed to be a Signatory to the Agreement?

A. The primary goal of Staff in this matter, as in all proceedings before the Commission, is to protect the public interest by making recommendations that are just, fair and reasonable for both the ratepayers and the Company. Staff believes it has accomplished this objective by reviewing the facts presented and making the appropriate recommendations to the Commission for its consideration. Staff believes that the proposed settlement balances the interests of AWC and its ratepayers, by ensuring that the Company will have the tools and financial health to provide safe, adequate and reliable service, while complying with Commission requirements at just and reasonable rates.

SECTION V – POLICY CONSIDERATIONS

Q. Mr. Olea, what was the major policy consideration the Signatories had to deal with in this Docket?

A. That consideration was whether or not to implement a DSIC-type mechanism for a water utility. The water utility industry has been advocating for this type mechanism for some time now. Up to this point Staff has been recommending against it, primarily because it seemed that the only benefit to customers was rate gradualism, i.e, more frequent but

smaller rate increases. It is Staff's opinion that there needs to be something more in it for customers other than just rate gradualism. With the SIB mechanism outlined in the Agreement, Staff believes it has accomplished this goal by including the five percent efficiency credit. This credit will reduce the SIB revenue requirement by five percent. Without this credit or something similar, Staff would not have been able to recommend that the Commission approve the SIB mechanism or anything similar.

Q. Is there anything else you would like to add regarding the Agreement?

A. I would like to reiterate that the settlement discussions were transparent, candid, professional and open to all parties in this docket. All Parties were allowed to openly express their views and opinions on all issues. I believe the Settlement Agreement is in the public interest.

Q. Does this conclude your testimony?

A. Yes.

PHASE 2 EXHIBIT
GLOBAL - 1

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	DOCKET NO. W-01445A-11-0310

Direct Testimony

of

Ron Fleming

April 2, 2013

EXHIBIT
Global 1
admitted 4-8-13

Q. Please state your name and business address.

A. My name is Ron Fleming. My business address is 21410 North 19th Avenue, Suite 201, Phoenix, Arizona 85027.

Q. Who are you testifying on behalf of?

A. Pursuant to A.A.C. R-14-3-105, Global Water – Palo Verde Utilities Company, Global Water – Santa Cruz Water Company, Valencia Water Company – Town Division, Valencia Water Company – Greater Buckeye Division, Water Utility of Greater Tonopah, Willow Valley Water Co. and Water Utility of Northern Scottsdale (collectively, the "Global Utilities").

Q. What is your position with the Global Utilities?

A. I am the President of the Regulated Utilities Division of Global Water Resources, Inc., which is the ultimate parent company of each of the Global Utilities. In that capacity, I am responsible for all operational and regulatory matters for the Global Utilities.

Q. Why did the Global Utilities intervene in Phase II of this docket?

A. The Global Utilities believe that the issue in the docket – the consideration of a Distribution System Improvement Charge ("DSIC") or similar mechanism – is an important issue for Arizona and for the Global Utilities.

Q. Did you attend the settlement meetings in this matter?

A. Yes, I personally attended and participated in the settlement discussions in this matter.

Q. Was the settlement process fair and inclusive?

A. Yes.

Q. Do the Global Utilities support the settlement agreement in this docket?

A. Yes. The Global Utilities support the settlement and I signed the settlement agreement on their behalf.

Q. Why did the Global Utilities sign the settlement agreement?

A. The Global Utilities believe that the settlement is fair and reasonable.

Q. **Are you testifying about merits of the System Improvement Benefits ("SIB") mechanism described in the settlement agreement?**

A. No. Paul Walker of Insight Consulting, LLC is providing testimony for the Global Utilities regarding the regulatory policy reasons the System Improvement Benefits ("SIB") mechanism should be approved.

Q. Are the Global Utilities requesting a DSIC mechanism in their pending rate case?

A. Yes. The Global Utilities have proposed a DSIC mechanism (and a CSIC mechanism for wastewater) in their pending rate case. The Global Utilities' proposed DSIC and CSIC mechanism is described in the Direct Testimony of Paul Walker filed on July 9, 2012 in Docket No. SW20445A-12-0310, at pages 20 to 28.

Q. Are the Global Utilities open to replacing their DSIC proposal with a proposal for a SIB mechanism based on the one proposed in the settlement agreement in this case?

A. Yes. The intent of the settlement agreement is that the proposed SIB mechanism is available for use as a template in other cases. If the SIB mechanism is approved in this case, the Global Utilities intend to pursue discussions with Staff and other interested parties about using the SIB mechanism for the Global Utilities.

Q. Does this conclude your testimony?

A. Yes.

PHASE 2 EXHIBIT
GLOBAL - 2

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	DOCKET NO. W-01445A-11-0310

Direct Testimony

of

Paul Walker

April 2, 2013

EXHIBIT
Global-2
admitted 4-8-13

Q. Please state your name.

A. My name is Paul Walker.

Q. By whom are you employed and what is your position?

A. I am the founder and owner of Insight Consulting, LLC.

Q. Please describe your background and qualifications.

A. I hold an MBA from the Thunderbird School of Global Management, and a Bachelor's in Business Management from the University of Phoenix; additionally I have completed numerous military schools and courses. In 2001, I joined the Commission as Policy Advisor to Commissioner Marc Spitzer. Prior to that I had served on Governor Hull's negotiating team working with Arizona's Indian Tribes to develop Indian gaming compacts, and as Policy & Communications Manager at the Arizona Department of Gaming.

In my current work, I provide regulatory consulting, advice and analysis, as well as testimony drafting, editing, and preparation services to utility and regulated industry clients. In addition, I provide regulatory analysis to utility investors, and chair Arizonans for Responsible Water Policy, a trade group and PAC representing water utilities in Arizona. I have given numerous presentations at regulatory workshops and industry meetings; and I am also a member of the Arizona Power Plant and Line Siting Committee.

Q. **Have you testified or presented before the Commission on the subject of Distribution Service Improvement Charges (DSICs) before?**

A. Yes, I presented on the topic during the Commission's water workshops in Docket No. W-00000C-06-0140 (See Attachment A); and I have provided testimony on DSICs in the pending Global Water rate case, Docket No. W-01212A-12-0309.

Q. Have you participated in the writing of any white papers on DSICs?

A. Yes, as Chairman of Arizonans for Responsible Water Policy, I co-authored "Moving Beyond Rate Shock and Regulatory Lag" in October of 2012 (See Attachment B.)

Q. What are some of the benefits of a DSIC?

A. A DSIC promotes rate gradualism, that is, smaller, more frequent rate adjustments rather than less frequent, but much larger rate increases. In addition, a DSIC mechanism allows for the replacement of outdated infrastructure that may be beyond its useful life. And DSICs benefit the utility by reducing "regulatory lag", thus leading to financially stronger utilities.

Q. **Did you participate in the negotiations regarding Arizona Water Company's proposed DSIC?**

A. Yes.

Q. Were the negotiations open and fair to all parties?

A. Yes. All parties who wished to present their views did so, and there was significant 'give and take.'

Q. Which element of the proposed settlement will you be addressing?

A. I will address the "Efficiency Credit."

Q. Please describe the Efficiency Credit.

A. The Efficiency Credit is a proposed 5% reduction in the DSIC surcharge.

Q. What is the purpose of the Efficiency Credit?

A. The Efficiency Credit provides a monetary benefit to the customers from the

implementation of a DSIC. All DSICs provide a number of benefits to customers: improved service quality, reduced outage risk and reduced costs from repairing and replacing plant after it had failed, and significant downward pressure on future rate hikes by gradually placing repair and replacement costs into rates. In addition, the Efficiency Credit provides customers with a more direct and immediate monetary benefit.

Q. Do other states that use DSIC mechanisms have a monetary benefit?

A. In the other states that use DSICs, one state, Arkansas, also has a direct monetary benefit to customers.

Q. How does Arkansas provide that monetary benefit?

A. Arkansas provides a reduction to the ROE element in the surcharge; Arkansas reduces the ROE used in calculating the surcharge by 10 to 25 basis points.

Q. How does the efficiency credit compare to the Arkansas approach?

A. The efficiency credit is equivalent to a a 100 basis point reduction to the ROE used in the DSIC surcharge calculation (for a utility with a capital structure of 50% equity and 50% debt). For comparison, a 100 basis point reduction is four times the high end of the range used in Arkansas, and again none of the other states reduce the ROE element at all.

Q. Why didn't the parties propose an ROE reduction instead of an Efficiency Credit?

A. The parties believed that given the Commission's low ROEs relative to the rest of the U.S. water industry, investors would be concerned with such a direct approach. Most parties were concerned that investors would believe that Arizona, with already low ROEs, shouldn't be further reducing the ROE.

Q. Does the Efficiency Credit relate to an ROE reduction?

A. It does. An ROE reduction of 100 basis points in a company with a capital structure of 50% debt and 50% equity would reduce the DSIC required revenues by 5 percent. Thus the Efficiency Credit leads to the exact same result as a 100 basis point reduction to the ROE without sending a signal to investors that Arizona's low ROE was being directly reduced even further.

Q. Do you believe that a 5 percent reduction to the DSIC revenues is a fair outcome for customers?

A. I believe it is fair because it provides the customers with a direct monetary benefit, the benefit is four times larger than the Arkansas approach, and as I pointed out earlier in my testimony, no other state provides any direct monetary benefit to customers, so this is literally an extraordinarily good deal for customers. That said, while the "give back" is very large, it is not a deal-breaker for utilities.

Q. If the Efficiency Credit was increased, would the Commission run the risk of the DSIC not being utilized?

A. Yes. The fact of the matter is the DSIC surcharge does not increase a company's ROE – to use the DSIC at all, a company has to emplace infrastructure, it has to be used and useful, in fact it can only be plant that repairs or replaces already used and useful plant. There is no growth plant in the proposed DSIC, so it won't be plant that adds new customers or new revenues that investors could value. Investors will recognize that a 5 percent Efficiency Credit is a *de facto* reduction to earnable ROE; and if that Credit is made larger, investors will tell utilities to stick with the current model of investing in plant and filing a rate case immediately – that is the path to larger rate increases. So to make rate gradualism work the Commission needs to balance the interests of investors and customers. The 5 percent Efficiency Credit is a fair balance.

Q. How do you respond to the criticism that the provision of a DSIC can only be fair if the Company's entire ROE is reduced?

A. First of all, I have a Master's in Business Administration, not a Juris Doctorate. So my view is not a lawyer's view but rather the view of someone who worked for a Corporation Commissioner, who worked for Wall Street firms for nine years, and who has worked with utilities for nearly ten years. When I began working for then-Commissioner Marc Spitzer as his policy advisor, he told me that he had studied regulatory models and concluded that the most appropriate way to regulate utilities was to "find the balance between investor's needs and customer's interests."

When I began working for Wall Street and researching utility and energy cases, legislation, and issues throughout the U.S., my clients told me to look for situations that were "out of balance." I looked for situations in which a regulator was too skewed pro-company because we felt those were unsustainable and the company's share value would fall; and for situations in which a regulator was too skewed anti-company because we felt those situations were also unsustainable because the customers would soon begin demanding better service – and the company would have to increase investment and attain higher earnings, and that would increase share price.

In my work with utilities, I am constantly exposed to the need to explain to investors that they are receiving a fair return and that the regulator is taking the market into consideration.

So the ROE and the fairness of the allowed rate base are issues that wise regulators, Wall Street analysts, and investors are constantly focused upon. In the proposed settlement, the ROE is effectively reduced to account for the increased certainty of return and the decreased regulatory lag between investment and return.

To take the DSIC and its provision of timely recovery on those investments (capped at 5 percent per year) and then conclude that somehow the entire investment in the company should also be reduced is unsupportable on the facts. The invested capital in the traditional rate base does not have annualized changes, the ROE does not change when the market goes into chaos, the return of and on their rate base investment is completely unaffected by the allowance of costs for repairing and replacing broken plant.

Q. What would happen if the Commission decided that the existence of a DSIC required a company-wide ROE reduction?

A. Companies would not use the DSIC because the cost to investors would be too great. So companies would continue to file a rate case immediately upon completion of plant. Repair and replacement costs would accrue between rate cases and we would continue to see rate increases that worry and sometimes alarm customers. Thus, there would be no rate gradualism.

Q. Does this conclude your testimony?

A. Yes.

Attachment

"1"

Distribution System Improvement Charges

Presented to the Arizona Corporation Commission, Water Workshop #2

January 14, 2011

Insight Consulting, LLC

DOCKET NO. W-00000C-06-0149

What are DSICs?

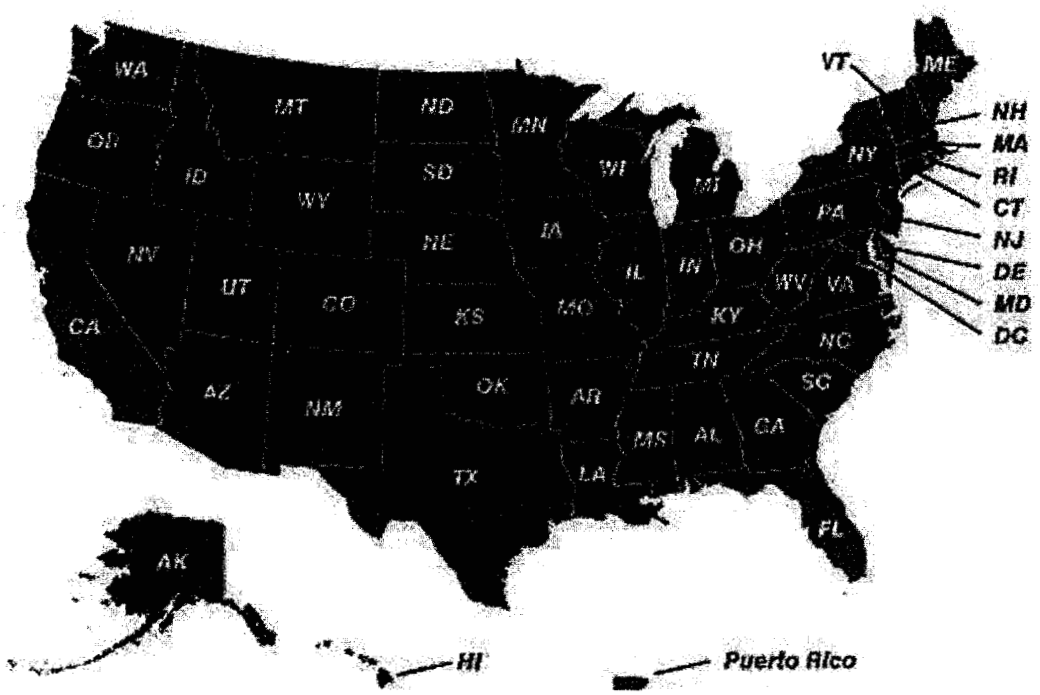
- Adjustor mechanisms that pass through the capital costs (ROE and depreciation) of designated water and wastewater replacement infrastructure without the need for a full rate case.

DSIC Features

- Capped surcharge - % of revenues, 5-10% is the range across PUCs
- DSIC filings made periodically, surcharge changes approved based on filing not hearings,
- DSIC filings usually quarterly,
- DSIC audits and Rate Cases provide increased regulatory oversight

States with DSICs

Source: National Association of Water Companies www.nawc.org



January 14, 2011

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What charges go into DSICs?

- DSICs generally include:
  - Services, meters, and hydrant replacement,
  - Main and valve replacement,
  - Main extensions that ameliorate health/supply issues, e.g., looping distribution systems
  - Main cleaning and relining
  - Facility relocation due to highway/road construction

Major Financial Costs facing U.S. Water and Wastewater

Increasing environmental standards

+

Population Growth

+

Infrastructure replacement & growth

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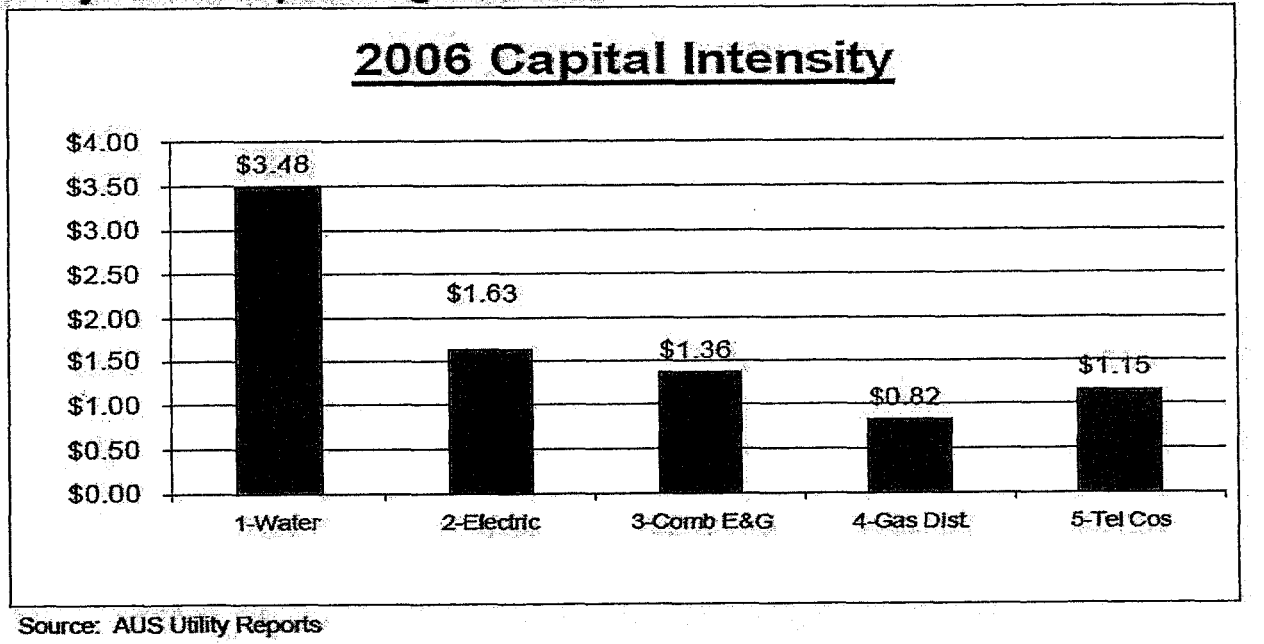
Why we need DSICs

AMERICAN WATER

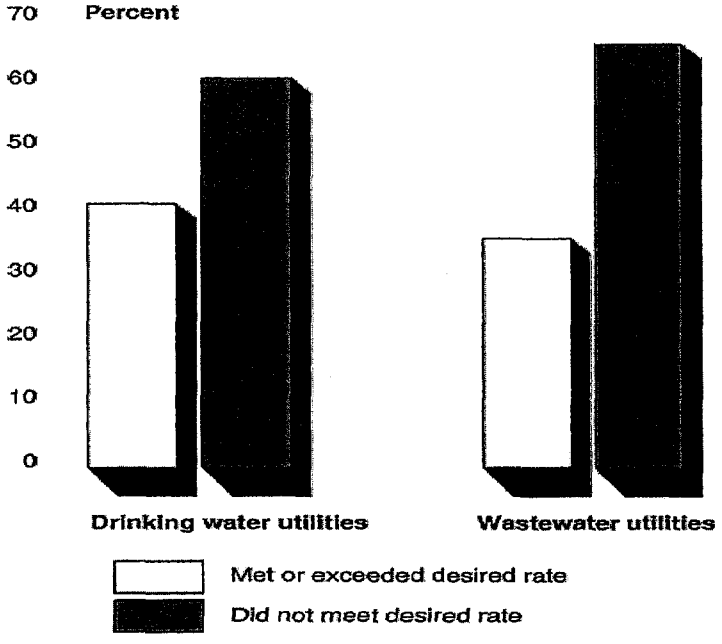
Capital Intensity:
Utility Plant / Operating Revenue



Source: AUS Utility Reports

Why we need DSICs

Figure 2: Extent to Which Utilities' Actual Rate of Pipeline Rehabilitation and Replacement Met or Exceeded Their Desired Rate (on average, fiscal years 1998 through 2000)



Source: GAO's analysis of survey data.

GAO
Accountability * Integrity * Reliability

US GAO Report 02-764, "Water Infrastructure" Aug. 2002, Page 42

EPA
Infrastructure Investment Needs
20 Years

Water
$276 Billion

Wastewater
$202 Billion

TOTAL: $478 Billion

U.S. Congressional Research Service, "Water Infrastructure Needs and Investment: Review and Analysis of Key Issues", November 24, 2008 Page CRS-13

CBO
Infrastructure Investment Needs
20 Years

CONGRESSIONAL BUDGET OFFICE

Water:

$232 to $402 Billion

Wastewater:

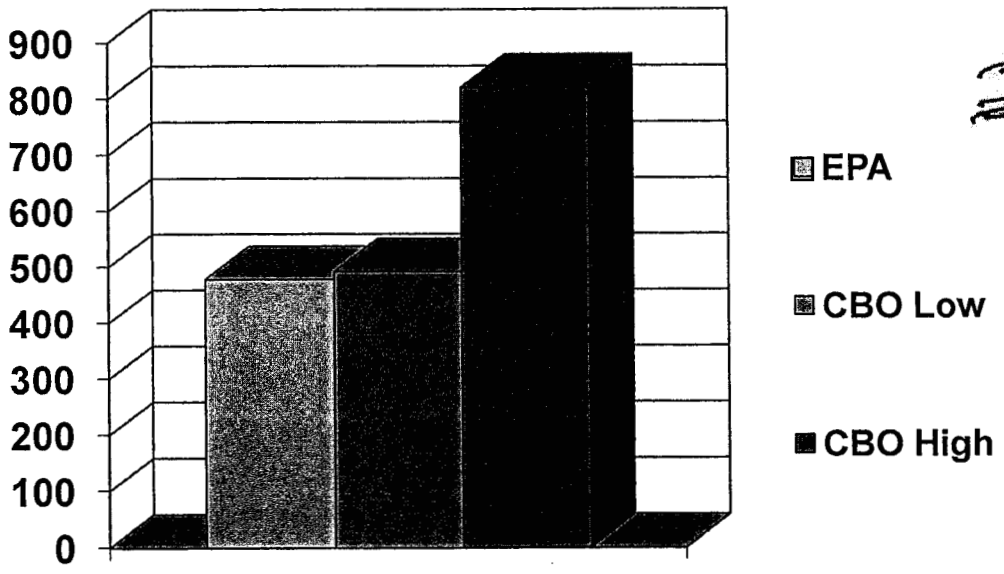
$260 to $418 Billion

TOTAL: $492 to $820 Billion

U.S. Congressional Research Service, "Water Infrastructure Needs and Investment: Review and Analysis of Key Issues", November 24, 2008 Page CRS-13

20-Year Infrastructure Investment Needs

($ Billions)



Congressional Research Service

Insight Consulting, LLC

DOCKET NO. W-00000C-06-0149

CBO
Annual O&M Estimate

Water

$25.7 to $31.8 Billion

Wastewater

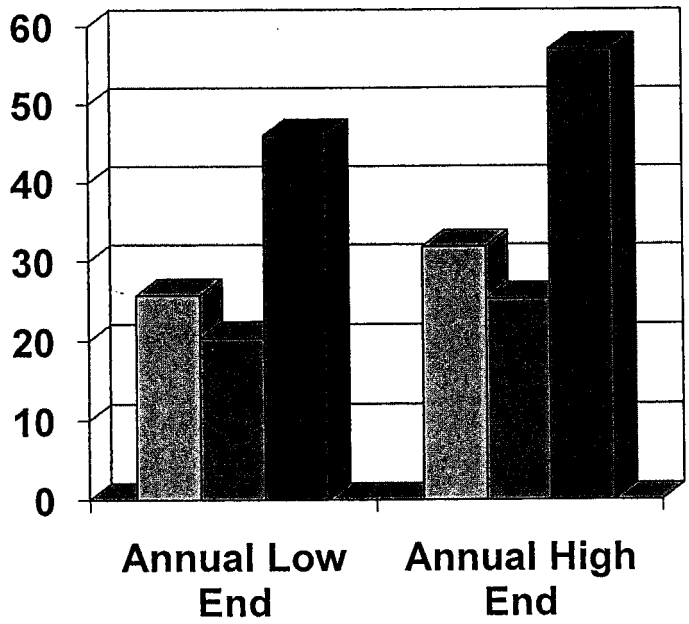
$20.3 to $25.2 Billion

ANNUAL O&M TOTAL: $46.0 to $57.0 Billion

U.S. Congressional Research Service, "Water Infrastructure Needs and Investment: Review and Analysis of Key Issues", November 24, 2008

CBO Annual O&M Estimates

($ Billions)



CONGRESSIONAL BUDGET OFFICE

- Drinking Water
- Wastewater
- Combined

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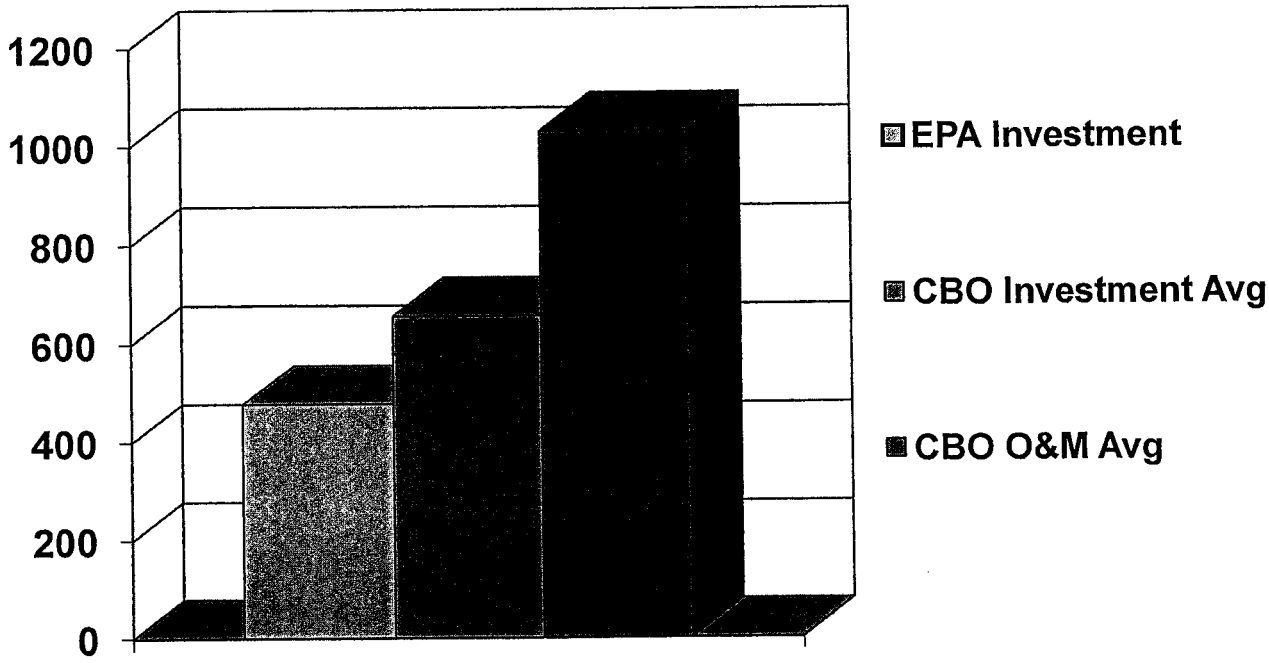
Investment vs. O&M
20 – Year Totals

($ Billions)



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1999 Water Task Force Report

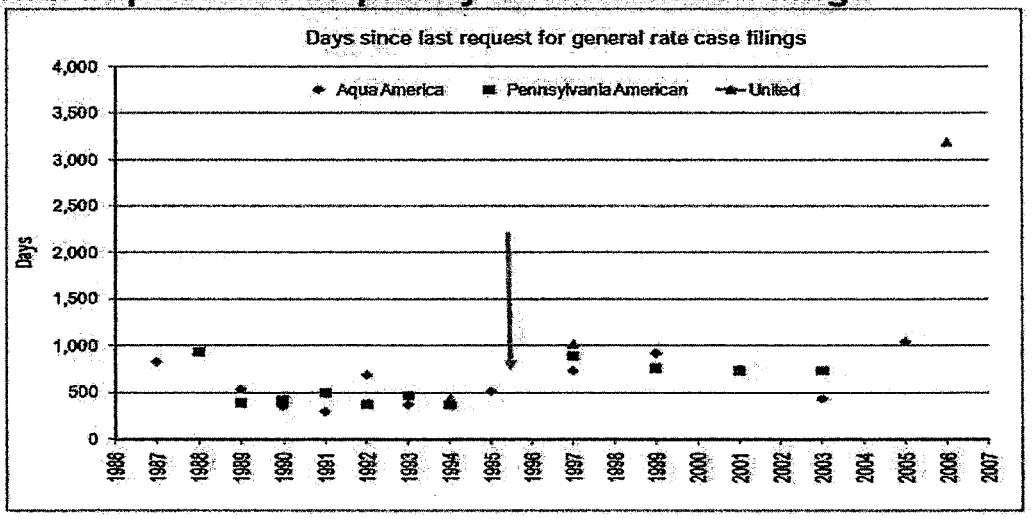
- "RUCO agrees that [a DSIC], if properly designed, has the potential to promote the upgrading of deteriorating water systems, without harmful or biased rate impacts on customers."

- "Commission Staff is not opposed to implementing a policy similar to Pennsylvania's DSIC."

Benefits of DSICs

AMERICAN WATER

Focus on Pennsylvania: Potential Impact on Frequency of Rate Case Filings



(Source: Presentation of Dr. Jan Beecher, Executive Director, Institute for Public Utilities, Michigan State University, to the 2008 Eastern NARUC Water Committee Rate School)

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Benefits of DSICs

- Less "rate shock" as plant phases into rate base,
- Healthier utilities,
- Reduced water loss,
- Higher quality and more reliable systems,
- A tendency toward longer periods between rate cases,
- Dedicated investment pool for replacements.

Caveat on DSICs

Negative Rate Base Companies Cannot be helped with DSIC:

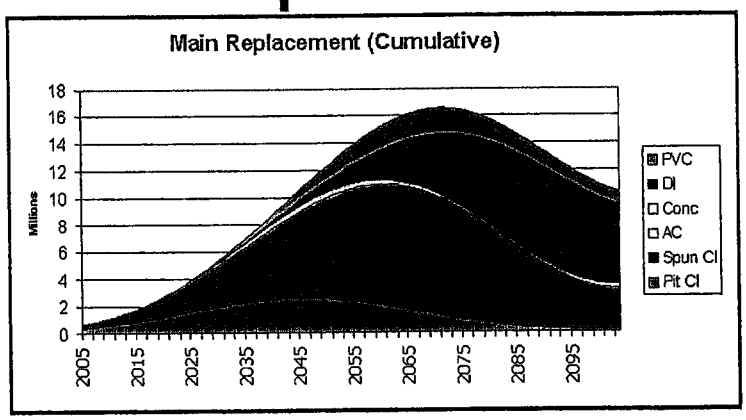
Under current ACC policy, utilities with a negative rate base are not eligible to earn a return on new incremental investments.

DSICs Address Investment Needs & Reduce O&M Expense

Fewer line breaks,

Fewer outages,

Avoiding major repairs.



Smoothing the rate base process,

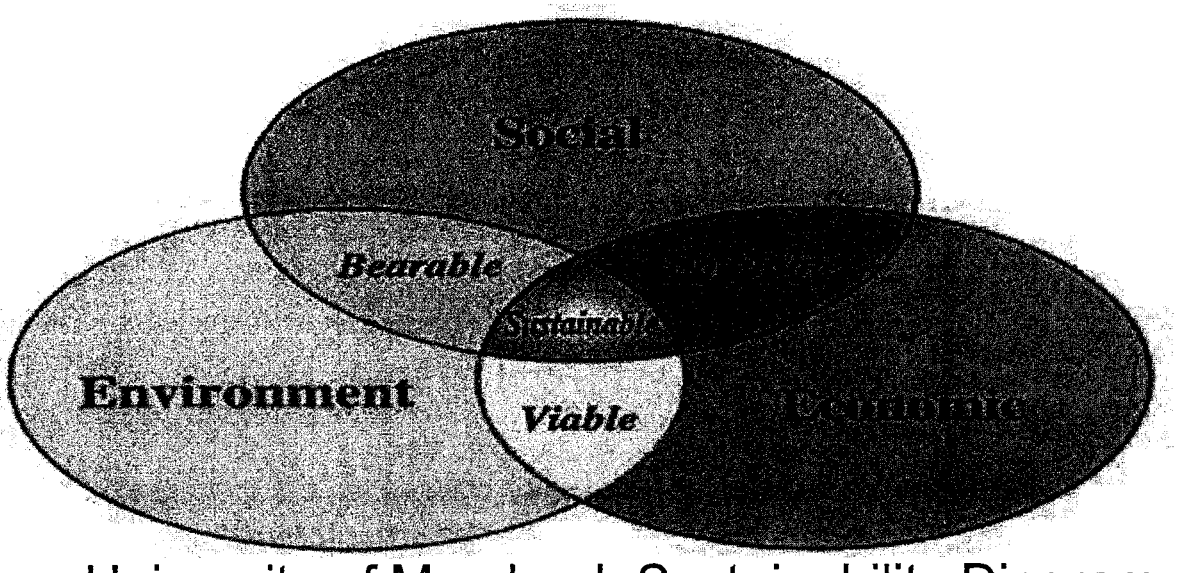
Increasing investment,

Replacing aging infrastructure.

What Arizona can Gain with DSICs

- De *minimis* changes to rates - decreasing "rate shock" and rate case frequency,
  - (Social Benefit)
- More modern, more efficient infrastructure,
  - (Environmental Benefit)
- Healthier water and wastewater companies,
  - (Economic Benefit).

The Triple Bottom Line in Economics… *Socially* responsible, *environmentally* sound, *economically* beneficial programs are **sustainable**.



University of Maryland, Sustainability Diagram

January 14, 2011

Insight Consulting, LLC

DOCKET NO. W-00000C-06-0149

Attachment

"2"

Moving Beyond Rate Shock & Regulatory Lag
How Distribution and Collection System Improvement Charges benefit customers, investors, and regulators.

October 2012

Abstract

Arizonans for Responsible Water Policy is a trade group whose members serve nearly one million people in Arizona. Our members operate water and wastewater systems in over 60 communities and have been actively involved in every water commission and study group in the state over the past 30 years.

In this paper, Responsible Water looks at the arguments used against DSICs and the wastewater form, the CSIC. We find that the arguments used against DSICs are often disingenuous, frequently hyperbolic, and in the end do not reflect the simple fact that well-regulated DSIC programs reduce rate case filings, streamline the regulatory process so that utility commissioners can focus on larger policy issues instead of "firefighting", and DSICs provide customers with manageable rate adjustments that almost never exceed a few dollars a month.

We close the paper with a recommended process for implementing and regulating DSICs, and by providing sample schedules for utilities' use in DSIC implementation.

Authors

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Joel Reiker, V.P., Rates & Revenues, Arizona Water Company, MBA, 13 years in utility regulation and operations

Paul Walker, Chairman of Responsible Water, President at Insight Consulting, MBA, 12 years in utility regulation, analysis, and consulting

Note: Throughout the paper we use the DSIC and "Distribution System Improvement Charge" to include the CSIC or "Collection System Improvement Charge" which is the wastewater utility version of the DSIC.

Distribution System Improvement Charges

("DSIC")

For over 13 years, the Arizona Corporation Commission has considered and denied implementing Distribution System Improvement Charges (and the equivalent for sewer utilities, the Collection System Improvement Charge) for the water and wastewater utilities it regulates DSICs and CSICs are used in a dozen other states, from California to Pennsylvania, and time and again have been proven to reduce the frequency of rate cases, lower the size of rate hikes, and incent a smoother and more consistent infrastructure replacement program that deals with aging and failing infrastructure.

Organizations like Food & Water Watch have attacked DSICs. RUCO and others have mischaracterized DSICs. Organizations like NARUC and the Council of State Governments have endorsed DSICs.[1] The Commission has supported the end goals of DSICs for the state's largest utilities while denying them to the water industry.

The end goals of DSICs echo the Commission's support for APS Settlements, i.e., "that APS's customers will have the benefit of rate stability...while also providing the Company with adequate revenue to enable it to provide safe and reliable electric service."[2] The end goals of a DSIC are:

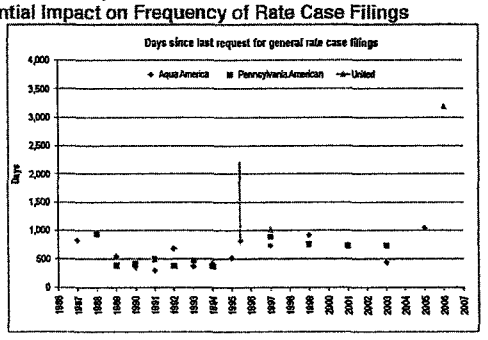
- Reduced rate case frequency and cost,
- Smaller rate hikes and increased rate stability,
- Improved infrastructure, and an
- Improved regulatory climate for investment.

This paper explores the benefits of DSICs and contrasts the Commission's supportive positions with regard to energy utilities against its opposition to DSICs for water utilities and closes by recommending a procedural process for DSICs and a set of 11 schedules that the Commission could easily adopt as a template and begin moving Arizona towards a more reliable and sustainable water future.

<u>It is inarguably true that DSICs reduce the frequency of rate cases, and the size of rate hikes.</u>

The gold vertical arrow in the middle of the graph denotes the start of Pennsylvania's DSIC era – as one can see, rate cases are less frequent. This means less rate case expense for the company, the customers, and the Commission; increased efficiency as the Commission deals with continuing staffing and budget pressures; and ultimately the customers benefit as rates become stable with gradual and manageable increases.

Focus on Pennsylvania:
Potential Impact on Frequency of Rate Case Filings



(Source: Presentation of Dr. Jan Beecher, Executive Director, Institute for Public Utilities, Michigan State University, to the 2008 Eastern NARUC Water Committee Rate School)

[1] NARUC Resolution, February 24, 1999; NARUC Best Practice Resolution, July 27, 2005; Council of State Governments, Publications of Suggested State Legislation, 1999.

[2] See, e.g., Staff's Opening Brief, APS Rate Case, 11-0224, Page 12, Lines 14-16

Regulatory lag leads to larger rate hikes and creates "rate shock."

Some argue that regulatory lag is a "benefit" to customers because it provides them the use of infrastructure without them having to pay for that infrastructure. But that is only the 'seen' aspect of the economics of utility investment, the 'unseen' aspect is that there is no such thing as a free lunch: With lag, those assets will go into rate base in one fell swoop – and the customers are always shocked and upset when that bill comes due because it includes several years' of plant investment. How many thousands of water customers have to ask the Commission the same question ("why does my bill have to go up by so much at one time?") before it realizes that the supposed regulatory lag benefit is, in fact, worse for customers.

Under a DSIC approach, plant would not "stack up" for the next rate case – it would incrementally flow into rates, the model used by Arizona's cities and municipal water providers. This incremental approach, which some call rate gradualism, is also the basis for APS, TEP, and Unisource recovering their investment in renewable energy, transmission, and pollution control flow through their adjustor mechanisms – each of which is based on utility plant.

Customers overwhelmingly support small, annual rate adjustments instead of large, infrequent ones.

Responsible Water commissioned a poll of 4,000 Arizonans in September of 2012 – in that poll we asked "when utility rates have to go up, would you prefer: 1) small annual changes, or b) large changes every few years?" **89.4% of Arizonans said they preferred rate gradualism – small annual changes.** This approach has the least impact on their household budget and allows them to adjust to cost increases as they occur instead of bundling several years' of those increases into one large hike.

The impact to customer rates from DSICs is small and manageable for customers, and reduces rate hike request size and frequency. Actual DSIC adjustor surcharges from around the nation:

AMERICAN WATER

DSIC Charges – Examples of Approximate Impact on Typical Customer Bill

State	DSIC MAX (% of revenues)	Typical Avg Monthly Residential Bill	MAX DSIC Surcharge Per Month	% Current Surcharge	Current Surcharge Per Month
IL	5%	$40.33 (Peoria)	$2.02	0.00%*	$0.00
IN	5%	$30.53	$1.53	2.49%	$0.76
OH	3%/filing 3 filings between rate cases	$35.07 (Franklin Co)	$1.05 (each yr for 3 yrs)	0.00%*	$0.00
MO (St Louis Co)	10%	$21.50	$2.15	2.10%	$0.45
NY	Capped at $3 million over routine spend	$48.99	X	X	$0.35
PA	7.50%	$42.64	$3.20	2.44%	$1.04

* Surcharges worked into general rates pursuant to general rate cases

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In particular, let's focus on Pennsylvania; the state most aggressively trying to consolidate and reform its water industry. It has gone from regulating and overseeing 500 water companies to 125 in under a decade and is on its way to 50 companies.[3] In that most pro-investor state, the DSIC surcharge is averaging $1.04 a month.

[3] Arizona Regulatory Reports, Issue 11-4, August 5, 2011, *"Time for Action – Regulatory Leadership Can Create A Better Future"*

DSICs, like other adjustors for known and measurable costs, are not single issue ratemaking.

The other criticism is that while DSICs provide for gradualism, they risk "single issue ratemaking." This is interesting when contrasted with the Commission's support of APS settlements that include a host of adjustor mechanisms, each largely based on ensuring "that APS's customers will have the benefit of rate stability...while also providing the Company with adequate revenue to enable it to provide safe and reliable electric service."[4]

It is worth highlighting that APS' non-fuel and non-power related adjustor-based revenues are nearly two and a half times larger than the DSIC proposal offered by Responsible Water. Arizona Public Service (far and away the largest utility in Arizona) provided Responsible Water with the following information regarding their estimates of bill adjustor amounts (excluding fuel and power costs which we will describe later in the paper.)

APS Adjustors (Excluding Fuel and Power)	% of APS 2011 Revenues [$2.992 BN]	Estimated Annual Impact
Demand Side Management[5]	2.2%	$66 MM
Retail Transmission Cost[6] Adjustor[7]	2.5%	$76 MM
Renewable Energy[8]	2.4%	$71 MM
Lost Fixed Cost Revenue[9]	0.2%	$7 MM
Non-fuel/Non-Power Adjustors	**7.3%**	**$220 MM**

In addition to those adjustors, APS was provided with post-test year plant adjustments to rate base in both its 2009 and 2012 Rate Case Settlements. In dollars, and as a percent of rate base, APS saw significant Commission steps to reduce regulatory lag on its investments into plant:

APS Plant Adjustments	% of APS Rate Base [$8.167 BN]	Rate Base Added
Four Corners[10]	3.4%	$279 MM
2012 Post-TY Plant[11]	1.4%	$116.3 MM
Solar Transfer from Renewable Surcharge to Base Rates[12]	2.8%	$226.7 MM
Total Post-TY Rate Base Adjustments, 2012	**7.6%**	**$622 MM**

[4] Staff's Opening Brief, APS Rate Case, 11-0224, Page 12, Lines 14-16
[5] Data provided to Responsible Water from APS
[6] Data provided to Responsible Water from APS
[7] Data provided to Responsible Water from APS
[8] Data provided to Responsible Water from APS
[9] These numbers were provided to Responsible Water from APS – however, the 2012 APS Settlement allows APS to flow up to 1% of its revenues thru the LFCR, which would raise its annual impact from APS' $7 MM figure, to $29 MM.
[10] Data provided to Responsible Water from APS.
[11] Data provided to Responsible Water from APS.
[12] APS 2012 Settlement, Docket No. 11-0224, "Renewable Energy Projects Transferred from the Renewable Energy Surcharge ('RES') to Base Rates," Attachment D to Settlement, Page 1 of 1.

This of course leaves out the question of the APS power and fuel supply adjustor. The so-called PSA has been supported by many parties, including Commission Staff, RUCO, and APS as being essential given the size and importance of fuel and power supply costs.

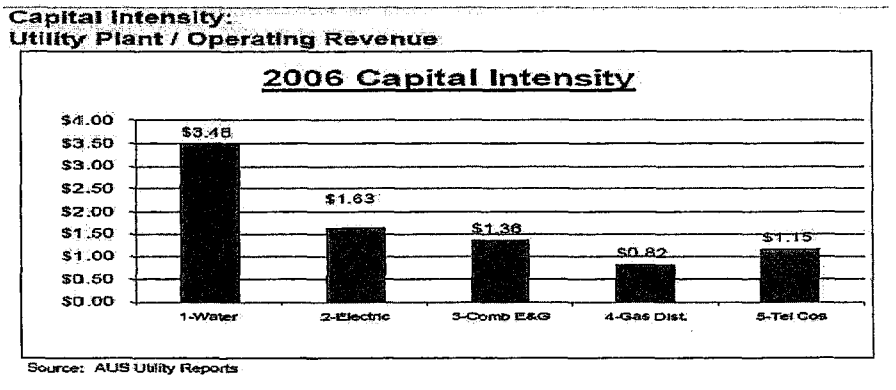
The PSA is provided to APS (and other electric utilities in Arizona) despite the fact that those utilities have abilities that no water company has with regard to power costs: Electric utilities can purchase power in a competitive market, we cannot. And electric utilities can sign long-term contracts with different providers, we cannot. Which entirely raises the question of: Why does the Commission deny power supply adjustor requests from water companies while simultaneously: a) approving double-digit price hikes in water pumping tariffs, *and* b) preventing water companies from having electric choice and competition?[13]

In trying to estimate the "value" of the PSA, there seems to be only one number that is meaningful – APS can pass thru changes in its power and fuel costs of up to $0.004/kWh.[14] APS' retail sales were 28,210,326,000 kWh in 2011.[15]

Therefore, APS' 2012 Settlement provides it with the opportunity to pass thru PSA adjustments of $112MM per year – based on $2.992BN of revenues **APS' PSA alone could add an additional 3.7% per year to customer bills.**[16]

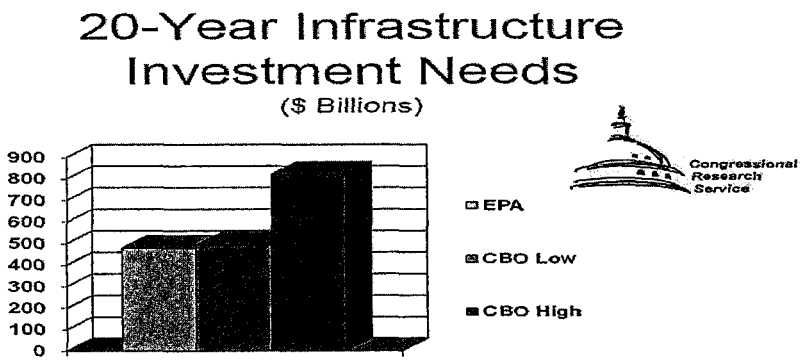
Despite the fact that the DSICs proposed by Responsible Water would be limited to 3% of revenues for normally operating systems, and 7% for systems facing critical infrastructure demands, those who oppose DSICs argue that adjustors that improve investor attitudes are not in the public interest when they apply to water companies. From the bases of consistency and relative impact, opposition to the DSIC cannot be squared with support for the adjustors and post-test year plant adjustments granted to energy companies like APS.

When compared with APS' Commission-approved adjustors and post-test year plant adjustments, the DSIC is miniscule – but relativity and consistency aren't the only reasons to implement a DSIC policy. Water and wastewater utilities face a much higher degree of capital intensity than electric utilities:



[13] This is a question that will be explored in future studies by Responsible Water.
[14] APS 2012 Settlement, Docket No. 11-0224, "Power Supply Adjustor Plant of Administration," Attachment C to Settlement, Page 1 of 20, Section 1.
[15] APS' 2011 Renewable Energy Standard Compliance Report dated March 20, 2012, Page 3, Footnote 10 which says "Based on 2011 retail sales of 28,210,326 MWH." Our calculation is as follows: 1,000 kWh = 1 MWH. Thus 28,210,326 MWH = 28,210,326,000 kWh. 28,210,326,000 * $0.004 = $112,842,304.
[16] $112,000,000 / $2,992,000,000 = 3.74%

That increased capital intensity faces a major challenge: the increasing need for capital to repair and replace infrastructure that has been in the ground for decades. **While we often think of Arizona as a young state, it's worth noting that a water main put in the ground when Ronald Reagan took office is now fully depreciated and is entering old age and facing line break and water loss issues.** In fact, across the U.S. the need for water and wastewater investment has been studied by the EPA and the Congressional Budget Office, with each finding at least $25 billion a year in capital needs:



Surcharge mechanisms, like the DSIC, don't guarantee earnings, they encourage investment.

A primary attack on the DSIC is based on the theory that it "ensures" companies earn their ROE. Claiming that a DSIC would "ensure" ROEs in Arizona is simply incorrect; DSICs reduce the amount of ROE under-recovery by reducing regulatory lag. To do that, a DSIC provides a return on invested capital in the form of used and useful plant – thus while revenues increase under a DSIC, so has investment in used and useful plant and the only return allowed is the rate of return on used and useful plant. It is not mathematically possible to guarantee ROE earnings by allowing rate of return recovery on invested capital.

This opposition to the DSIC stands in contrast to Commission support for APS settlements since 2009 in which the improvement in investor attitudes resulting from adjustors was cited as a public benefit. For example, Commission Staff argued in the APS 2012 rate case that a reason for its support was that "[t]he proposed Settlement Agreement builds on the progress made in APS's last rate case by including provisions designed to improve the Company's financial condition so that it can compete in attracting capital for investments to meet the needs of its customers."[17]

RUCO supported the series of APS Settlements and the adoption of numerous adjustors by arguing that "a stable rate base with the ability for the Company to remain financially healthy through changes in its adjustors is in the public interest."[18] Commission Staff then cited and highlighted that RUCO position as a reason why the Commission should support the APS 2012 Settlement.[19,20]

[17] Staff's Opening Brief, APS Rate Case, 11-0224, Page 10, Lines 19-23
[18] Transcript, APS, 11-0224, at Pg. 130
[19] Staff's Opening Brief, APS Rate Case, 11-0224, Page 12, Lines 9-10
[20] See also, Dec. No. 73183, May 2012, at Page 18, Lines 21.5 thru 25.5

RUCO and Staff's concern should extend to the water industry: For the period, 2006-2010, the average earned ROE of the Class A Responsible Water companies was only 1.96%.[21]

Finally, this argument misstates the very nature of risk: by reducing regulatory lag for used and useful plant investments, the Commission does not reduce risk compensated for in ROE. According to the text books Commission Staff relies upon, risk is related to *variability* of operating income, not the *level* of operating income.[22]

A DSIC increases revenues by an amount that is directly based on additional fixed costs that are actually incurred. A DSIC does not reduce the variability of operating income, which varies mainly as a result of fluctuating sales (e.g. weather) and variable costs (e.g. power, chemicals). Reducing the amount of regulatory lag (and as a result the level of under-recovery) does not equate to a reduction in the variability of operating earnings. And it certainly doesn't reduce the variability of that portion of operating earnings that Staff would claim is "systematic," or "non-diversifiable," and therefore affects the cost of capital.

We are not suggesting that the Commission turn a blind eye to earnings; in fact our proposed DSIC schedules provide explicit data on earnings.

The argument that ROEs must be cut in "exchange" for DSICs is one-sided and asymmetrical.

An ROE is the incentive for an investor to take on risk – the possibility of making a return on her investment impels an investor to put capital at risk. So, it is important to clearly understand what "risk" means from an investment perspective: According to Harry Markowitz, the father of the Efficient Market Hypothesis which led to, among other things, the Capital Asset Pricing Model (CAPM), "Efficient portfolios minimize that 'undesirable thing' called variance while simultaneously maximizing that 'desirable thing' called getting rich... That is what Markowitz meant when he introduced the concept of variance to measure risk, or the uncertainty of return."[23]

But in the past several years, the average return for the class A water companies which comprise Responsible Water has been 1.96% - while allowed ROEs in Arizona over that period averaged 9.60%.[24]

In Arizona, the variance between what water utilities actually earn and what utilities are authorized to earn is staggering. It is that variance, Markowitz's "risk" that has led several investment analysts to rank the state among the worst in the nation for utility investment.[25]

Furthermore, regulatory lag, in an environment of rising infrastructure-related costs, will cause a utility to under-recover its cost of service. The Commission has never added a premium to a utility's authorized ROE to account for regulatory lag (i.e. the fact that the utility likely will not earn its cost of capital under the traditional ratemaking framework in Arizona the "historic test year"). **Mechanisms that are designed to reduce regulatory lag, such as the DSIC, do not warrant a downward adjustment to the authorized ROE, as such a reduction would defeat the purpose of the DSIC (reducing regulatory lag) and render it useless.**

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[21] Data provided by Desert Mountain Analytical Services

[22] See, for example, Emery, Douglas R., Finnerty, John D. *Principles of Corporate Finance with Corporate Applications*, (1991), Pages 157 - 158.

[23] Peter L. Bernstein, *Against the Gods: The Remarkable Story of Risk*, (1998), Page 256

[24] Data provided by Desert Mountain Analytical Services; and Insight Consulting

[25] See, e.g., Janney Montgomery Scott, "Introducing the Janney RCI" (2011); and also, S&P, "Assessment of US Regulatory Climates" (2008, 2010)

Behind all these arguments, there seems to be a general attitude among some parties that if water utilities recover their costs of service (including a return on invested capital), the Commission has somehow failed. This is in contrast with the Commission's decisions to allow APS to recover revenues through adjustors, and over half a billion dollars of post-test year plant adjustments in the explicit interest of minimizing APS' earnings variability and making APS better able to serve customers.

Reducing the ROE in exchange for DSIC approval eliminates the benefit of DSICs and increases "Rate Shock" challenges.

Some suggest that if water companies receive DSICs they should be required to accept lower ROEs – this is premised on a) the misunderstanding of what risk is (i.e., variability in returns), and b) the theory that utility ratemaking is a zero-sum game in which anything improving a utility's financial condition has to be tied to something that harms its financial condition. In the end, the zero-sum approach means that the Commission will never improve financial conditions, because the lost revenue resulting from a reduced ROE in a general rate case could be greater than any potential revenues resulting from a subsequent DSIC filing (depending on the utility's rate base and operating revenues).

A utility in need of a DSIC is likely riskier.

To the extent a utility is faced with an infrastructure crisis (i.e. the need to replace large amounts of infrastructure), and is therefore in need of a DSIC, it is *more* risky, and warrants a higher ROE to enable it to attract capital on reasonable terms for the purpose of replacing such infrastructure. Complicating matters is the fact that the interest coverage requirements required by lenders and contained in bond indentures, which can be as high as 2.5 times total interest expense, are remnants of the days before volumetric and tiered rates were in effect. These coverage requirements and other covenants have not been adjusted to accommodate the newer conservation rate structures with declining revenues over time or the increasing burden of infrastructure replacement programs. (See "The Pendulum Swing of Revenue Stability and Conservation" Journal AWWA, Aug. 2010, p. 26) As a result, potential lenders are less likely to loan significant amounts of money to water utilities with low authorized ROEs, historical test years, and conservation-based rates.

Proposed DSIC Process - Overview.

One of the key challenges in implementing a new policy is the question of how to do so – Responsible Water proposes the following process as a proper beginning for the implementation of DSICs. Without question, over time the Commission, the customers, and the regulated utilities will identify opportunities and ways to improve the process. With biennial workshops on water policy, the Commission should include a review of this and other processes.

Proposed DSIC and CSIC Process

1. Utilities shall apply for and obtain generic approval of a DSIC or CSIC in the context of a rate case.

2. Once approved generically, DSICs and CSICs shall not have annual adjustments greater than either 3% or 7% of annual revenues. Utilities requesting 7% annual caps must show that the infrastructure replacement needs in the affected utility require an investment of greater than 50% of existing rate base in less than a five-year period; or greater than 100% over a ten-year period.

3. Each utility granted a DSIC shall comply with the following process and requirements:
    a. To initiate a DSIC or CSIC adjustment, the utility shall file Schedules (See Attached) which show the following:
        i. DSIC-eligible plant installed through the period for which recovery is sought, by NARUC account type;
        ii. Proposed surcharge for all DSIC-eligible plant;
        iii. Prior year DSIC collections and Over/ Under collected amounts;
        iv. Balance sheet before and after DSIC plant inclusion;
        v. Income statement before and after DSIC surcharge inclusion;
        vi. Revenue requirement calculations;
        vii. Surcharge Calculation;
        viii. Construction Ledger;
        ix. Earnings test;
        x. Typical bill analysis.
    b. As part of its DSIC adjustor filing, the utility shall make readily available documentation which shows the following:
        i. Approval Of Construction and Invoices for DSIC-eligible plant installed;
        ii. DSIC-eligible plant and projects the utility plans to install in the then-current year , by NARUC account type;
        iii. Actual and estimated in-service dates for said plant.
    c. Concurrent with its DSIC adjustor filing, the utility shall notify customers of its proposed DSIC adjustment and its potential impact on rates; the notice shall include information on how to contact the Commission's consumer services section and how to contact the utility for more information.

4. The adjustor is automatically effective within 30 days of receipt of the DSIC adjustor filing, unless Staff notifies the utility whether it believes it needs more time to review or issue a report or if a hearing is required to adjudicate the DSIC proposal.
    a. If a hearing is required, it shall be completed within 45 days, and a ROO shall be issued within 45 days of the conclusion of the hearing(s). The Commission shall issue an order at the next open meeting.

ABLE WATER COMPANY
Docket No. W-XXXXX-XX-XXXX
Balance Sheet
As of December 31, 20XX

Line No.		W SYSTEM
1	ASSETS BUILT IN PAST YEAR BY NARUC ACCOUNT	
2	309 SUPPLY MAINS	
3	Project Name & Location	
4	Gross Utility Plant	
5	Less: Accumulated Depreciation	
6	Net Utility Plant	$ -
7	332 DISTRIBUTION AND TRANSMISSION MAINS	
8	Project Name & Location	
9	Gross Utility Plant	
10	Less: Accumulated Depreciation	
11	Net Utility Plant	$ -
12	333 SERVICES	
13	Project Name & Location	
14	Gross Utility Plant	
15	Less: Accumulated Depreciation	
16	Net Utility Plant	$ -
17	334 METERS	
18	Project Name & Location	
19	Gross Utility Plant	
20	Less: Accumulated Depreciation	
21	Net Utility Plant	$ -
	TOTAL DSIC PLANT	$ -
	LESS: ACCUMULATED DEPRECIATION	$ -
22	NET DSIC PLANT	$ -
23	AUTHORIZED WACC, DECISION NO.	
24	DSIC SURCHARGE	$ -
	AUTHORIZED ROE, DECISION NO.	
	EARNED ROE WITH SURCHARGE	

ABLE WATER COMPANY
Docket No. W-XXXXX-XX-XXXX
Balance Sheet
As of December 31, 20XX

1-Balance Sht

Line No.		[A] TOTAL COMPANY	[B] REGION	[C] DISTRICT
1	ASSETS			
2				
3	UTILITY PLANT			
4	Gross Utility Plant	$ -		
5	Less: Accumulated Depreciation	-		
6	Net Utility Plant	$ -		
7				
8	CURRENT ASSETS			
9	Cash on Hand and in Banks	-		
10	Investments and Special Deposits	-		
11	Accounts Receivable	-		
12	Materials & Supplies	-		
13	Other	-		
14	Total Current Assets	$ -		
15				
16	DEFERRED DEBITS	$ -		
17				
18	TOTAL ASSETS	$ -		
19				
20				
21	LIABILITIES			
22				
23	CAPITALIZATION			
24	Common Stock	-		
25	Capital Surplus	-		
26	Retained Earnings	-		
27	Common Stockholders Equity	$ -	$ -	$ -
28	Long-Term Debt	-	-	-
29	Total Capitalization	$ -	$ -	$ -
30				
31	CURRENT LIABILITIES			
32	Notes Payable	-		
33	Accounts Payable	-		
34	Accrued Expenses	-		
35	Other	-		
36	Total Current Liabilities	$ -		
37				
38	DEFERRED CREDITS			
39	Advances for Construction	-		
40	Contributions In Aid of Construction	-		
41	Deferred Income Taxes	-		
42	Other	-		
43	Total Deferred Credits	$ -		
44				
45	TOTAL CAPITAL AND LIABILITIES	$ -		
46				
47				
48				
49				
50				
51				
52				
53				
54				
55				

1-Balance Sht

ABLE WATER COMPANY
Docket No. W-XXXXX-XX-XXXX
Income Statement
As of December 31, 20XX

2-Income Stmt

Line No.		[A] TOTAL COMPANY	[B] SYSTEM
1			
2	OPERATING REVENUE	$ -	$ -
3			
4	OPERATING EXPENSES		
5	Operation and Maintenance	-	-
6	Depreciation	-	-
7	Taxes Other than Income	-	-
8	Income Taxes	-	-
9	Total Operating Expenses	$ -	$ -
10			
11	OPERATING INCOME	$ -	$ -
12			
13	OTHER (INCOME) AND DEDUCTIONS		
14	Other (Income) - Net	-	-
15			
16	Interest on Long-Term Debt	-	-
17	Other Interest and Amortization	-	-
18	Total Interest	$ -	$ -
19			
20	Total Other (Income) and Deductions	$ -	$ -
21			
22	NET INCOME	$ -	$ -
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
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55			

2-Income Stmt

ABLE WATER COMPANY
Docket No. W-XXXXX-XX-XXXX
Earnings Test
As of December 31, 20XX

Line No.		[A] DISTRICT
1		
2	REVENUE	
3	Total Operating Revenue	$ -
4		
5	OPERATING EXPENSES	
6	Operation and Maintenance	-
7	Depreciation	-
8	Taxes Other than Income	-
9	Income Taxes	-
10	Total Operating Expenses	$ -
11		
12	OPERATING INCOME/(LOSS)	$ -
13		
14	RATE BASE - O.C.L.D. (Includes DSIC Plant)	$
15	(Sch. 7, Ln. 33)	
16		
17	RATE OF RETURN - O.C.L.D	%
18	(Ln. 12 / Ln. 14)	
19		
20	AUTHORIZED RATE OF RETURN	%
21	(Decision No. _____)	
22		
23	OPERATING MARGIN	%
24	(Ln. 12 / Ln. 3)	
25		
26	Interest Expense - Net	$ -
27		
28	INEREST COVERAGE	
29	[(Ln. 12 + Ln. 9) / Ln. 26]	
30		
31	Other (Income) and Deductions	$ -
32		
33	Equity Ratio	
34	(Decision No. _____)	
35		
36	Allocated Equity	
37	(Ln. 14 x Ln. 33)	
38		
39	RETURN ON EQUITY	%
40	[(Ln. 12 - Ln. 26 - Ln. 31) / Ln. 36]	
41		
42	AUTHORIZED RETURN ON EQUITY	
43	(Decision No. _____)	
44		
45		
46		
47		
48		
49		
50		
51		
52		
53		
54		
55		

ABLE WATER COMPANY
Docket No. W-XXXXX-XX-XXXX
Rate Review
As of December 31, 20XX

4-Rate Review

[A]

DISTRICT A

Line No.		Per Dec. No. XXXXX	12 Mos. Ending 12/31/2011	DSIC Increase	Adjusted with DSIC
1					
2	REVENUE				
3	Total Operating Revenue	$ -	$ -	$ -	$ -
4					
5	OPERATING EXPENSES				
6	Operation and Maintenance	-	-	-	-
7	Depreciation	-	-	-	-
8	Taxes Other than Income	-	-	-	-
9	Income Taxes	-	-	-	-
10	Total Operating Expenses	$ -	$ -	$ -	$ -
11					
12	OPERATING INCOME/(LOSS)	$ -	$ -	$ -	$ -
13					
14	RATE BASE - O.C.L.D.	-	-		-
15	(Sch. 7, Ln. 33)				
16					
17	RATE OF RETURN - O.C.L.D				
18	(Ln. 12 / Ln. 14)				
19					
20	AUTHORIZED RATE OF RETURN				
21	(Decision No. 71845)				
22					
23	OPERATING MARGIN				
24	(Ln. 12 / Ln. 3)				
25					
26	Interest Expense - Net	$ -	$ -	$ -	$ -
27					
28	INEREST COVERAGE				
29	[(Ln. 12 + Ln. 9) / Ln. 26]				
30					
31					
32					
33	Equity Ratio				
34	(Decision 71845)				
35					
36	Allocated Equity	$ -	$ -	$ -	$ -
37	(Ln. 14 x Ln. 33)				
38					
39	RETURN ON EQUITY				
40	[(Ln. 12 - Ln. 26) / Ln. 36]				
41					
42	AUTHORIZED RETURN ON EQUITY				
43	(Decision No. 71845)				
44					
45	THREE FACTOR RATIO	-			
46					
47					
48					
49					
50					
51					
52					
53					
54					
55					

4-Rate Review

ABLE WATER COMPANY
Docket No. W-XXXXX-XX-XXXX
Revenue Requirement
As of December 31, 20XX

5-Revenue Req

Line No.		[A] DISTRICT
1	TEST YEAR DATA	
2		
3	Eligible DSIC Plant In Service	
4	Accumulated Depreciation	
5	(Sch. 8, p. 1)	
6	Eligible DSIC Plant Rate Base	$ -
7	Required Rate of Return	
8		
9	Required Operating Income	$ -
10	(Ln. 6 x Ln. 7)	
11	Revenue Conversion Factor	
12		
13	Revenue Requirement - Return on Eligible DSIC Plant	$ -
14	(Ln. 9 x Ln. 11)	
15		
16	Depreciation on Eligible DSIC Plant	
17	(Sch. 8, p. 1)	
18		
19	Total Revenue Requirement	$ -
20	(Ln. 13 + Ln. 16)	
21		
22	Total Operating Revenue	$ -
23		
24	Maximum Increase cap	
25		
26	Maximum Increase	$ -
27	(Ln 22 X Ln 24)	
28		
29	Total Revenue Requirement lesser of Ln19 or Ln 26	$ -
30		
31		
32		
33		
34		DISTRICT
35		Current Rates
36		Proposed Rates
37		
38		Decision No.
39		DSIC / Total [B + C]
40	5/8 X 3/4-INCH RESIDENTIAL METER	
41	Basic Service Charge	$ / $ / $
42	Commodity Rate (Per M Gallon)	$ / $ / $
43	0 - X,000 Gallons	$ / $ / $
44	X,001 - X,000 Gallons	$ / $ / $
45	Over X,000 Gallons	$ / $ / $
46		
47		
48		
49		
50	Average Residential Bill (5/8 x 3/4 meter) - (____ gallons of usage)	
51		
52		
53		
54		
55		

5-Revenue Req

ABLE WATER COMPANY
Docket No. W-XXXXX-12-XXXX
Surcharge Calculation
As of December 31, 2011

6-Schg Calc

Line No.		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
						DISTRICT				
1										
2				M Gallons	M Gallons					
3	GROWTH		Customers	Sold	Sold Per Cust.					
4	12/31/2010 (Year 1)									
5	12/31/2011 (Year 2)									
6	Increase/(Decrease)		-	-	-					
7	Percentage Change									
8	Average M Gallons									
9										
10										
11	INCREMENTAL FIXED COSTS TO BE RECOVERED PER BILL									
12										
13				Est. Average				Equivalent	Fixed Increment	
14		Customers by Meter Size		Customers		Basic Service	Meter	Meters	Monthly	Annual
15	Size	12/31/20XX	12/31/20XY	(A + B) / 2		Charge	Multiples	(C X F)	(G39 X F)	(C X G) X 12
16										
17	5/8"							-		
18	1"							-		
19	1.5"							-		
20	2"							-		
21	3"							-		
22	4"							-		
23	6"							-		
24	8"							-		
25	10"							-		
26	Totals							-		$ -
27										
28										
29	CALCULATION OF SURCHARGE									
30								Minimum		
31								Surcharge		
32								(F34)		
33										
34	Total Revenue Requirement of DSIC Eligible Plant Capital Costs						$ -			
35	100% of Total Revenue Requirement on Line 34 Recoverable through Basic Service Charge							$ -		
36										
37										
38	Equivalent Meters (Col. G, Ln. 26 X 12 Mos.)							-		
39	Increment Per Equivalent 5/8" Meter (Col. G, Ln. 35 / Col. G, Ln. 38)									
40										
41	Average M Gallons (Col. C, Ln. 8)									
42	Increment Per M Gallon (Col. H, Ln. 36 / Col. H, Ln. 41)									
43										
44										
45										
46										
47										
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55										

ABLE WATER COMPANY
Docket No. W-XXXXX-XX-XXXX
Rate Base
As of December 31, 20XX

7-Rate Base

Line No.		[A] Per Dec. No.	[B] DISTRICT DSIC Plant Increase	[C] Year End Balance (A + B)	[D] Current Balance 12/31/20XX
1					
2	DSIC Eligible Plant	$ -			$ -
3					
4	Other Utility Plant in Service		-		
5	Total Plant in Service	$ -	$ -		$ -
6	(Ln. 2 + Ln. 4)				
7					
8	Accumulated Depreciation				-
9	Net Utility Plant	$ -	$ -	$ -	$ -
10	(Ln. 5 - Ln. 8)				
11					
12	Advances	-	-		-
13					
14	Contributions - Net	-	-		-
15					
16	Deferred Income Tax	-	-		-
17					
18	Customer Deposits	-			-
19					
20	Working Capital Allowance	-	-		-
21	(Per Decision No. _____)				
22					
23	Net Regulatory Asset/(Liability)	-			
24					
25	Total Rate Base	$ -	$ -	$ -	$ -
26	(Ln. 9 - Ln. 12 - Ln. 14 - Ln. 16 + Ln. 18)				
27					

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7-Rate Base

ABLE WATER COMPANY
Docket No. W-XXXXX-XX-XXXX
CWIP Ledger
As of December 31, 20XX

8-CWIP Lgr

Line No.	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
						DISTRICT				
1										
2	W.A. No.	Month/Year	Date	Description	Vendor Name	Invoice No's.	1	2	3	Total
3										
4	X-									-
5										-
6										-
7							$ -	$ -	$ -	$ -
8										
13										
14										
15										
16										
17										
18							$ -	$ -	$ -	$ -
19										
20						Project Totals	$ -	$ -	$ -	$ -
21										
22						Depreciation Rate				
23										
24						Annual Depreciation Expense	$ -	$ -	$ -	$ -
25										
26										
27										
28										
29										
30										
31										
32										
33										
34										
35										
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ABLE WATER COMPANY
Docket No. W-XXXXX-XX-XXXX
Three Factor Calculation
As of December 31, 20XX

9-Three Fac

Line No.	System	20XX Customers	20XX Gross Plant Less Intangibles	20XX Gross Payroll	Ratios Customers	Ratios Gross Plant Less Intangibles	Ratios Gross Payroll	Total
1								
2								-
3								-
4								-
5								-
6								-
7								-
8								-
9								-
10								-
11								-
12								-
13								-
14								-
15								-
16								-
17								-
18								-
19								-
20								
21	Totals	-	$ -	$ -		$ -	$ -	-
22								
23								
24								
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26								
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9-Three Fac

ABLE WATER COMPANY
Docket No. W-XXXXX-XX-XXXX
Typical Bill Analysis
As of December 31, 20XX

10-Typical Bill

Line No.	Gallons Consumption	[A] Present Rates	[B] Proposed DSIC Surcharge	[C] New Rates	[D] Percent Increase
		DISTRICT			
1					
2	-	$	$	$	
3	1,000				
4	2,000				
5	3,000				
6	4,000				
7	5,000				
8	6,000				
9	7,000				
10	8,000				
11	9,000				
12	10,000				
13	11,000			-	
14	12,000			-	
15	13,000			-	
16	14,000			-	
17	15,000			-	
18	20,000			-	
19	25,000			-	
20					
21					
22	Average Residential Consumption				
23					
24	Residential Bill at Average Consumption	$	$	$	
25					
26					
27					
28					
29					
30	Basic Service Charge	$	$		
31					
32	Commodity Rate (per M Gallon)				
33	0 - 3,000 Gallons	$	$		
34	3,001 - 10,000 Gallons	$	$		
35	Over 10,000 Gallons	$	$		
36					
37					
38					
39					
40					
41					
42					
43					
44					
45					
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48					
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EXHIBIT
Epcor-1
Admitted 8-8-13

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman

GARY PIERCE

BRENDA BURNS

SUSAN BITTER SMITH

BOB BURNS

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP ANDFOR CERTAIN RELATED APPROVALS.	DOCKET NO. W-01445A-11-0310

DIRECT TESTIMONY
OF
THOMAS M. BRODERICK
ON BEHALF OF
EPCOR WATER ARIZONA, INC.
APRIL 2, 2013

DIRECT TESTIMONY
OF
THOMAS M. BRODERICK
ON BEHALF OF
EPCOR WATER ARIZONA, INC.
APRIL 2, 2013

TABLE OF CONTENTS

I INTRODUCTION AND QUALIFICATIONS 1
II PURPOSE OF TESTIMONY 2

INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Thomas M. Broderick. My business address is 2355 W. Pinnacle Peak Road, Suite 300, Phoenix, AZ 85027. My business phone is 623-445-2420.

Q. IN WHAT CAPACITY AND BY WHOM ARE YOU EMPLOYED?

A. I am employed by EPCOR Water (USA) Inc. ("EWUS"), the owner of EPCOR Water Arizona, Inc. ("EWAZ") and Chaparral City Water Company ("CCWC"), as Director, Rates.

Q. PLEASE DESCRIBE YOUR PRIMARY RESPONSIBILITIES FOR THE COMPANY.

A. I am responsible for water and wastewater rate cases, other regulatory applications and public utility regulation related activities and tasks.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND EDUCATION.

A. Prior to starting my present position in 2005, for more than 20 years I held various management positions in the electric-utility industry with responsibilities for regulatory and government affairs, corporate economics, planning, load forecasting, finance and budgeting with Arizona Public Service Company, PG&E National Energy Group and PG&E Energy Services, and the United States Agency for International Development. I was employed at APS for nearly 14 years as Supervisor, Regulatory Affairs, then Supervisor, Forecasting, and then Manager, Planning. For PG&E National Energy Group, I was Director, Western Region-External Relations. For USAID, I was Senior Energy Advisor to Ukraine.

I have a Masters Degree in Economics from the University of Wisconsin – Madison and a Bachelors Degree in Economics from Arizona State University.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, on many occasions.

I PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. The purpose of my testimony is to express EWAZ's support for the Settlement Agreement Regarding Distribution System Improvement Charge ("DSIC") and Other DISC-Like Proposals docketed April 1, 2013 in Phase 2 of this Arizona Water Company ("AWC") rate case. EWAZ, a signatory, supports the Agreement for all of the reasons set forth in the Agreement and asks the Commission to find the Agreement in the public interest and approve it for implementation for AWC. CCWC, although not a signatory to the Agreement, also supports the implementation of the SIB mechanism for AWC. Although EWAZ and CCWC intend to seek a SIB mechanism in their future cases, the companies recognize and understand the provisions of Section 12 of the Agreement relating to the scope of the Settlement and its use in future cases.

Q. DID YOU PARTICIPATE IN THE NEGOTIATIONS LEADING TO THE SETTLEMENT?

A. Yes.

Q. HOW DOES EWAZ SEE THE PUBLIC INTEREST BEING SERVED BY APPROVAL OF THE SIB MECHANISM?

A. The SIB mechanism is one means of improving the fairness of water regulation. Arizona is a state which relies upon an historic test year, has a tradition of long rate case processing timelines, and has ever more conservation oriented water rate designs leading

to reduced water usage often in communities that are built out with aged water infrastructure which all together causes significant regulatory lag. The SIB mechanism reduces regulatory lag and can increase the likelihood of undertaking earlier, well-paced and necessary investments to replace water infrastructure to maintain or improve service to existing customers. The SIB does this by allowing cost recovery in customer rates sooner and in smaller increments than has been the case in Arizona in the past. Rather, recent history has seen a parade of large rate increases from Arizona's regulated water industry. EWAZ believes that a significant percentage of its customer base prefers gradualism in rates and, therefore, many customers are likely to see the SIB mechanism as beneficial and in contrast to the rate shock of the past.

Q. HOW DOES EWAZ VIEW THE SIB EFFICIENCY CREDIT?

A. EWAZ views the SIB Efficiency Credit as a major concession in the Agreement. There were a number of ways to cast an equivalent value of a concession. The Agreement settled on a SIB Efficiency Credit - an assumed 5% reduction in the amount otherwise eligible for recovery in the SIB mechanism's revenue requirement. As compared to other ways to structure this concession, EWAZ views the SIB Efficiency Credit as not only a revenue concession, but also as a means of incenting efficiency in the future, possibly leading to cost reduction that might not otherwise occur. EWAZ views this feature as superior to, say, casting an equivalent concession as a reduction in the return on equity. That would be a less direct and less understandable method of incenting efficiency.

Q. WHAT IMPRESSED YOU MOST ABOUT THIS AGREEMENT?

A. This is the first time I have seen a large segment of the water industry come together and speak, for the most part, with one voice throughout the Phase 2 process in support of another water company, AWC. As compared to other settlement agreements I have reviewed, this Agreement is more detailed and sets forth a clearer road map for what is to

1 happen throughout the time of AWC's SIB mechanism. That clarity should be useful to
2 AWC and Staff as the SIB mechanism proceeds through the various upcoming filings and
3 should be useful later to others that are parties to rate cases in which a SIB mechanism is
4 under consideration. No doubt this will enable an evolution of the SIB mechanism
5 through time to the continuing betterment of the public interest.

6 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7 A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	Docket No. W-01445A-11-0310

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
(602) 530-8000

Settlement Agreement Testimony

of Gary Yaquinto

on Behalf of

Arizona Investment Council

April 2, 2013

3341335v1/18762-0001

EXHIBIT
AIC-1
admitted 4-8-13

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GALLAGHER & KENNEDY, P.A.
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I. QUALIFICATIONS

Q. Please state your name, position and business address.

A. Gary M. Yaquinto. I am President and CEO of the Arizona Investment Council ("AIC"). Our offices are located at 2100 North Central Avenue, Phoenix, Arizona 85004.

Q. Please summarize your educational background and professional experience.

A. I earned B.S. and M.S. Degrees in Economics in 1974 from Arizona State University, as well as an MBA from the University of Phoenix in 2005. From 1975 to 1977, I was employed by the State of Wyoming as an economist responsible for evaluating the economic, fiscal and demographic effects of resource development in Wyoming. From 1977 to 1980, I was Chief Research Economist for the Arizona House of Representatives. From 1980 to 1984, I was employed as an economist in the consulting industry. Since 1984, I have worked in various capacities in government and the private sector in the area of utility regulation, including positions with the Utilities Division Staff of the Arizona Corporation Commission, a competitive local exchange telephone carrier and as a consultant. I also served as the Chief Economist at the Arizona Attorney General's Office from 2003-2005 and as the Director of the Governor's Office of Strategic Planning and Budgeting from 2005-2006. I became AIC's President in December of 2006.

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II. ARIZONA INVESTMENT COUNCIL ("AIC")

Q. What is the Arizona Investment Council and what is its mission?

A. The AIC is a non-profit association organized under Chapter 501(c)(6) of the Internal Revenue Code. AIC's membership includes approximately 6,000 individuals – many of whom are debt and equity investors in Arizona utility companies and other Arizona businesses.

AIC's mission is to advocate on behalf of its members' interests, primarily before regulatory bodies as well as the Legislature and, specifically, to enlarge and maximize the influence of utility investors on public policies and governmental actions that impact investors and their investments.

AIC also works with the Commission and policymakers generally to find ways to support investment in Arizona's essential backbone infrastructure, as well as improvements to, or remediation of, existing facilities. We view this aspect of our mission as complementary to our core advocacy of investor interests.

AIC also sponsors research into subjects affecting Arizona, its citizens and its utilities. In that regard, and very relevant to the issues in this docket, continuing investment in essential, backbone infrastructure is critical to support a well-functioning and robust economy, as well as the health and welfare of Arizonans. In 2008, AIC published "Infrastructure Needs and Funding Alternatives for Arizona: 2008-2032" – a comprehensive study that took a close look at infrastructure, operations and funding

requirements over that 25-year period in four important areas: energy, water, telecommunications and transportation. This report, prepared by economists from Arizona State University, estimated investment requirements of about $500 billion to meet the State's needs in these four critical areas.

Specifically in the areas of water and wastewater systems, AIC's 2008 study projected a funding shortfall of some $30 billion as to what will be needed to support water supply augmentation and water/wastewater infrastructure to meet the State's needs. This includes both municipal, as well as private, water and wastewater operators.

Q. Are the study's observations still relevant today and in the context of this Docket specifically?

A. Yes. Although Arizona's population growth slowed since the study's original publication in 2008, the fact remains that our recovery continues and Arizona is at a serious crossroads in supporting investment in these systems. According to the report: "The infrastructure systems built decades ago are now due for replacement – what the American Water Works calls the 'dawn of the replacement era' is upon Arizona."[1]

In the case of Arizona Water Company's Eastern Group system, the need to replace aging and deteriorating infrastructure was thoroughly documented by the Company in its rate case. That fact was acknowledged by the Commission in its Decision No. 73736 as a

[1] *Infrastructure Needs and Funding Alternatives,* L. William Seidman Research Institute, W.P. Carey School of Business, Arizona State University, prepared for Arizona Investment Council, May 2008, p. 389.

reason to consider further a surcharge mechanism to assist in financing system replacements and improvements.[2]

Q. Please summarize AIC's interest in this case

A. AIC's interest in this case is twofold:

First, AIC believes the System Improvements Benefit ("SIB") rate mechanism described in the Settlement Agreement provides Arizona Water Company an important tool for acquiring the capital needed to finance badly needed repairs to, and replacement of, infrastructure in the Company's Eastern Group systems. The Settlement Agreement provides the criteria under which a narrowly defined SIB charge may be imposed (Section 6.3), as well the infrastructure asset categories eligible for rate treatment under the SIB (Section 6.4). The opportunity timely to recover some of these costs between rate cases afforded through the SIB mechanism reduces the regulatory lag which effectively penalizes investors for supplying the capital needed to ensure safe and adequate service to customers.

Second, AIC has supported ratemaking mechanisms like the SIB for all water and wastewater companies whose rates are regulated by the ACC for the reasons stated. The SIB authorized in the Settlement Agreement for Arizona Water Company will serve as a template for other companies to seek such a mechanism.

[2] ACC Decision No. 73736, February 20, 2013, p. 104.

III. AIC SUPPORTS THE PROPOSED SETTLEMENT AGREEMENT

Q. Is AIC a signatory to the Settlement Agreement?

A. Yes.

Q. Why does AIC support the Settlement Agreement?

A. First and foremost, AIC supports the Settlement Agreement, because the SIB mechanism positions Arizona Water Company to compete for capital on better terms and conditions than would otherwise be available to make critical repairs and improvements to its Eastern Group systems. It does so by enabling the more timely recovery of capital costs related to water system repairs and improvements. As stated in Section 2.3 of the Settlement Agreement, "[t]he SIB mechanism is a ratemaking device designed to provide for the timely recovery of the capital costs (depreciation expense and pre-tax return on investment) associated with distribution system improvement projects meeting the requirements . . . and that have been completed and placed in service . . ."

Further, ratemaking mechanisms like the SIB proposed in the Settlement Agreement also signal to investors generally an improved regulatory climate in Arizona. This enhances the overall ability of Arizona's utilities to compete for scarce capital.

Q. Are there other reasons AIC supports the Settlement Agreement?

A. Yes. Because the investments that qualify for SIB treatment are needed to ensure safe, reliable and adequate water service to customers, they also benefit from the clause.

Further, efficiency gains from the investments are passed through to customers through an efficiency credit which is equal to five percent of the SIB revenue.

By providing more timely recovery of the capital costs associated with system improvement, small rate adjustments are spread more evenly between rate case filings. Without the SIB, these costs accumulate and compound until they can begin to be recovered only after completion of the Company's next rate case. That results in much larger rate increases and rate shock, which is not good for consumers, the Commission, the utility or its investors. Finally, this rate gradualism is further encouraged by the Settlement Agreement, because any SIB surcharge is capped at five percent annually.

IV. AIC'S RECOMMENDATION REGARDING THE SETTLEMENT AGREEMENT

Q. Mr. Yaquinto, what is AIC's recommendation for the Commission in relation to the Settlement Agreement?

A. The Settlement Agreement represents an appropriate, productive balance among divergent views of the signatories on a challenging and a very important issue. We recommend the Commission enter its Order approving the Settlement Agreement.

Q. Does that conclude your testimony?

A. Yes.

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A Professional Corporation
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Phoenix, Arizona 85016
Telephone (602) 916-5000

Attorneys for Rio Rico Utilities, Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS	DOCKET NO. W-01445A-11-0310

DIRECT TESTIMONY OF

GREG SORENSEN

April 2, 2013

EXHIBIT
RRUT-1
admitted 4-8-13

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I. INTRODUCTION AND PURPOSE OF TESTIMONY 1

II. APPROVAL OF THE SIB SETTLEMENT IS IN THE PUBLIC INTEREST 2

8064208.1/080191.0014

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Greg Sorensen. My business address is 12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am employed by Liberty Utilities as Vice President and General Manager.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. On behalf of the Intervenor Rio Rico Utilities, Inc. dba Liberty Utilities ("Liberty Utilities").

Q. PLEASE DESCRIBE LIBERTY UTILITIES AND YOUR ROLE AS VICE PRESIDENT.

A. Liberty Utilities is the Algonquin Power and Utilities Corporation subsidiary that owns and operates water, wastewater, gas and electric utilities in Arizona, Arkansas, California, New Hampshire, Georgia, Missouri, Illinois, Texas and Iowa (www.libertyutilities.com). I am currently responsible for Liberty Utilities' water and wastewater operations in Texas, Missouri, Illinois, and Arizona.

In Arizona, I am responsible for the daily operations and administration of all the utilities, including Rio Rico Utilities, for the financial and operating results for each utility, for capital and operating cost budgeting, for rate case planning and oversight, and rate setting policies and procedures as they relate to the operations under my responsibility. I also oversee customer and development services, human resources, engineering and conservation planning.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes, I have testified in Commission proceedings for all of Liberty Utilities' affiliate entities, including several rate cases.

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. To support the adoption of a DSIC-like mechanism for Arizona Water Company that can then be used as a model or template for other Arizona public service corporations such as RRUI and its affiliates.

II. APPROVAL OF THE SIB SETTLEMENT IS IN THE PUBLIC INTEREST

Q. WHY DID LIBERTY UTILITIES PARTICIPATE IN THE PHASE 2 OF THIS DOCKET?

A. Liberty Utilities intervened in Phase 2 of this docket after the Commission approved an amendment asking parties to consider a DSIC-like mechanism. We felt then and still feel that this effort should result in a model that can be used in our industry.

Q. DID LIBERTY PARTICIPATE IN THE SETTLEMENT NEGOTIATIONS?

A. Yes, I directly participated along with Christopher D. Krygier, Liberty's Utility Rates and Regulatory Manager.

Q. DID LIBERTY SIGN THE SETTLEMENT AGREEMENT?

A. Yes, after significant give and take by all parties involved, Liberty Utilities believes that the DSIC-like mechanism, now known as a System Improvement Benefits Mechanism ("SIB"), represents a reasonable tool to start working towards rate gradualism in customer rates. As such, we signed the settlement agreement.

Q. WHY IS THE AGREEMENT IN THE PUBLIC INTEREST?

A. The SIB is a regulatory tool that will promote rate gradualism, a critical long-term goal of the Commission. Under the current regulatory framework, water and wastewater utilities investment tends to be lumpy or irregular, generally leading to requests for large rate increases. With the SIB, water and wastewater utilities can start gradually increasing rates over smaller increments, much more in line with customer's own economic realities.

Q. WHAT BENEFITS DO CUSTOMERS RECEIVE BESIDES SMALLER RATE INCREASES?

A. The SIB includes a tremendous customer benefit, a 5 percent revenue requirement reduction or the equivalent of a one hundred basis point lowering of their return on equity for SIB eligible plant. To our knowledge, this is the most significant customer benefit of any similar mechanism in the country.

Q. SO THE REDUCTION IS ONLY ON SIB ELIGIBLE PLANT?

A. Yes, our understanding when joining in the settlement agreement was that there are to be no future reductions to a utility company's authorized return on equity because of the SIB. It is with this understanding that Liberty Utilities is able to view this as a critical step down the road to key policy reforms that benefit customers, the Commission and utility companies.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

EXHIBIT
RVC02
admitted 4-8-13

State Utility Regulation

State Regulatory Programs

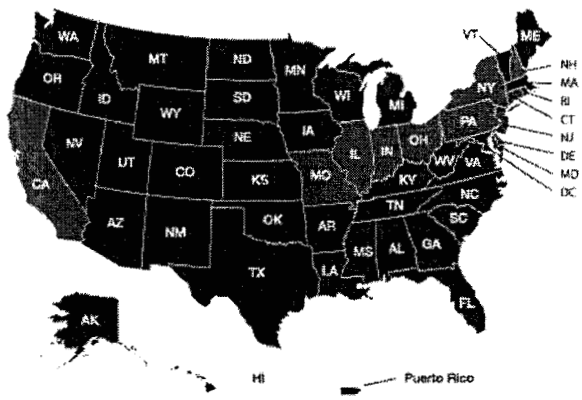
Regulatory Practices

- Distribution System Investment Charge (DSIC)
- Prospectively Relevant Test Year
- Acquisition Adjustments
- Construction Work In Progress (CWIP)
- Decoupling
- Pass-Through Adjustments
- Rate Consolidation
- Mediation & Settlement Procedures
- Defined Timeframes for Rate Cases

Distribution System Investment Charge (DSIC) for Water and Wastewater Systems

DSIC was first implemented in Pennsylvania in approximately 1996 and allows for rate increases, outside of a general rate proceeding, for non-revenue producing investments to replace aging infrastructure. In Pennsylvania, the program has operated for almost 10 years with no known customer complaints. Benefits of the program include more efficient and timely investment of capital, significant progress in replacing aging infrastructure, enhanced service quality, reduction of water lost through leaks, avoidance of rate shock, and others. As water supplies become more stressed in the future due to many factors, reducing water lost through aging infrastructure will become more important. Such programs typically include protections for customers such as limits on the amount of incremental revenues that can be collected, exclusion of capital projects that are revenue producing, and true-up mechanisms.

States with DSIC



California
Infrastructure Investment Surcharge Mechanism (IISM) — pilot basis for California American Water's Los Angeles District

Connecticut
Water Infrastructure and Conservation Adjustment (WICA)

Delaware
Distribution System Improvement Charge (DSIC)

Illinois
Qualifying Infrastructure Plant Surcharge (QIPS)

Indiana
Distribution System Improvement Charge (DSIC)

Missouri
System Infrastructure Charge (SIC)

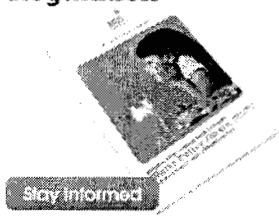
New Hampshire
Water Infrastructure and Conservation Adjustment (WICA) — pilot basis for Aquarion Water

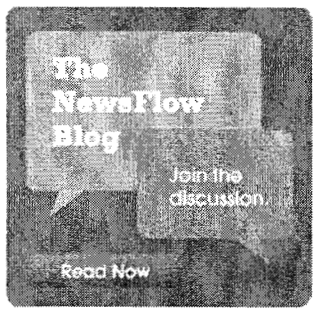
New Jersey
Distribution System Improvement Charge (DSIC)

New York
Distribution System Improvement Charge (DSIC)

Join NAWC

State Utility Regulation





Ohio
System Infrastructure Charge (SIC)

Pennsylvania
Distribution System Improvement Charge (DSIC)

OUR INDUSTRY
Private Water Solutions
The Truth About PPPs
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Sustainability
Innovation & Technology
Accountability & Transparency
Our Children's Water

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Our Program
Our Positions
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Federal Regulations
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By the Regulatory Commission of Alaska on May 31, 2012

STATE OF ALASKA

REGULATORY COMMISSION OF ALASKA

Before Commissioners: T.W. Patch, Chair
Kate Giard
Paul F. Lisankie
Robert M. Pickett
Janis W. Wilson

In the Matter of the Consideration of a Plant Replacement Surcharge Mechanism for Water And Wastewater Utilities	))))	R-11-006

EXHIBIT
Ruco-4
Notice

COMMENTS OF THE ATTORNEY GENERAL

The Attorney General (AG), under the authority of AS 44.23.020(e), offers the following comments in response to Order R-11-6(2), dated May 1, 2012.

INTRODUCTION

Order R-11-6(2) requests comments on a Utility Group's[1] position paper and suggested regulations for a surcharge that would allow water and wastewater utilities to recover costs associated with infrastructure investment outside of normal rate cases.[2] Because only a limited number of states have experimented with or implemented similar

[1] The Utility Group consists of AWWU, GHU/CUC, Doyon Utilities and David Kranich, a small utility consultant. Order R-11-6(2) at 2.

[2] Order U-11-6(2) refers to the surcharge as a Plant Replacement and Improvement Surcharge Mechanism or a "PRISM." These surcharges are given different names in different jurisdictions. In Delaware, Indiana, New York, Maine and Pennsylvania the surcharge is called a Distribution System Improvement Surcharge (DSIC). In California it is called an Infrastructure Investment Surcharge Mechanism (IISM). In Connecticut and New Hampshire it is called a Water Infrastructure and Conservation Act (WICA) surcharge. In Illinois it is called a Qualifying Infrastructure Plant (QIP) surcharge. In Missouri it is called an Infrastructure System Replacement Surcharge (ISRS), and in Ohio it is called a System Improvement Surcharge (SIC).

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surcharge mechanisms, these AG Comments will first track the evolution of the surcharge mechanisms, and their success at addressing many of the same issues identified by the Commission as support for possible PRISM (or "DSIC") implementation in Alaska.[3] These Comments will then address the Utility Group's proposed regulation.

The AG Comments presented below represent the culmination of a substantial research project conducted by RAPA staff on the issues presented in Order R-11-6(2). RAPA staff research included, but was not necessarily limited to:

- Review of statutes and regulations of other jurisdictions implementing DSIC-type surcharges;
- Review of orders from other state commissions, and utility and intervener testimonies relating to the implementation of DSIC-type surcharges;
- Review of other state commission websites;
- Review of National Regulatory Research Institute (NRRI) white papers;
- Participation in NRRI *Webinars* on water utility issues;
- Discussions with the National Association of State Utility Consumer Advocates (NASUCA) Water Committee;

[3] The infrastructure investment surcharge programs are referred to in these Comments using the generic term "DSIC."

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- Discussion with at least one utility representative, Commission staff member and/or consumer advocate from each jurisdiction where a DSIC-type surcharge has been allowed; and
- Communications with National Association of Water Companies (NAWC).

SUMMARY OF COMMENTS

The results of DSIC surcharge adoption in other jurisdictions in improving quality of service or decreasing rate case frequency are largely mixed or inconclusive. Where measurement is possible, there is little if any evidence showing DSIC adoption has led to a reduction in rate case frequency or rate case expense. Instead, the surcharge's availability generally subjects ratepayers to more frequent rate increases at the expense of rate stability, while at the same time jeopardizing assurances that infrastructure costs rolled into rates are prudently incurred.

The vast majority of DSIC-eligible utilities also do not use the surcharge. Its use has instead been largely relegated to a handful of large multi-state utilities. And even though a DSIC program (much like any utility's capital improvement plan) allows for infrastructure improvements which can improve service quality, it is difficult or impossible to track whether DSIC adoption has increased the rate of infrastructure investment.

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Based on the experience of other jurisdictions, only two large water and wastewater utilities can be expected to use the surcharge in Alaska with any regularity.[4] Such limited use suggests a "one-size fits all" regulation might not be a good fit for Alaskan utilities of different sizes, facing different issues and having different levels of sophistication. It would appear prudent instead to address the necessity of implementing a surcharge in individual adjudicatory dockets rather than in a rulemaking.[5]

Adopting the Utility Group's proposed surcharge is questionable for added reasons. DSIC adoption circumvents numerous ratemaking safeguards, interjecting a substantial degree of uncertainty into the ratemaking process to the likely detriment of ratepayers. In addition, substantial commission resources appear to have been devoted to implementing and administering DSIC-type surcharges in other jurisdictions.[6] To the extent added Commission resources will be required to administer this surcharge in

---

[4] Anchorage Water & Wastewater Utility (AWWU) and Golden Heart Utilities/College Utilities Corp. (GHU/CUC).

[5] *See Amerada Hess Pipeline Corp. v. APUC*, 711 P.2d 1170, 1178 (Alaska 1986)("[A]bsent statutory restrictions and due process limitations, administrative agencies have the discretion to set policy by adjudication instead of rulemaking.")

[6] For example, Connecticut regulates approximately 20 water utilities. Of the 20, approximately 5 participate in its DSIC program. The Connecticut review process requires the commission staff and the advocate to look at utility systems closely. Utilities are required to show replacement projects are incremental to an ongoing replacement program for eligibility. The Connecticut Commission has approximately 2 or 3 staff qualified to conduct these reviews. The state's consumer advocate generally accompanies staff on their assessments. In Delaware, all DSIC rates are subject to later review, audit or revision. Illinois, Indiana and Ohio require substantial filings to justify initial eligibility and ongoing review. And in Pennsylvania, Commission staff performs periodic management and operations audits or management efficiency investigations in addition to administering a program to aid in monitoring lost and unaccounted for water.

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Alaska, it is unclear how the Commission will be able to ensure that consumers will be adequately protected from unreasonable surcharge requests without added resources.[7]

Finally, the Utility Group's proposed regulation is seriously flawed. It is over-inclusive as to the scope of items allowed without imposing any cap or other limit, it allows for use of a stale rate of return (ROR) at odds with case law and fails to account for reduced risk in the proposed DSIC formula, it is unsynchronized because it fails to require updated plant accounts and accumulated depreciation, it appears to violate state law by allowing the use of cost estimates without any true-up to actual cost at the time of assessment, it employs an impossible-to-use test for eligibility, and it is structured in a way that will deprive the Commission and any interested person from testing included cost items in a meaningful way.

[7] Under AS 44.62.195, agencies are required to evaluate if adopting a new regulation would require increased state appropriations. The Commission should therefore comprehensively evaluate what added resources it would need (and the Attorney General might need as well) to administer any new surcharge mechanism in order to ensure consumers are protected from unreasonable rates. The Commission is mandated by law to provide consumers this protection. AS 42.05.381(a). It also appears unlikely a DSIC could be administered in Alaska without increased administrative costs, particularly given the Commission's existing duties under AS 42.05.175.

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USE OF DSIC-TYPE SURCHARGES IN OTHER JURISDICTIONS

Pennsylvania was the first state to implement a DSIC-type surcharge in 1997. Since then another seven states have authorized DSIC-type surcharges by statute[8]:

- Connecticut: C.G.S.A. § 16-262w[9]
- Delaware: 26 Del. C. § 314[10]
- Illinois: Ill. Stat. § 9-220.2[11]

---

[8] Copies of each state's statutes are attached in Appendix A.

[9] In Connecticut, before a utility is allowed to implement a DSIC (WICA), it must first file an initial assessment report addressing the condition of their system. Based on that report the Commission may find the utility eligible to participate in the WICA program. In order to participate in a WICA program a utility must show that the replacements projects included in the surcharge are incremental to the utilities ongoing replacement program.

Once a utility is found to be WICA eligible it must make a filing ranking the projects it intends to pursue. Projects are limited to the distribution system. (There is a separate mechanism for treatment plant projects). Once the ranked projects are placed into service the utility can file a WICA surcharge request. The Commission staff and the Connecticut Office of Consumer Counsel verify that the plant was approved and is in service. There is currently a 7.5 percent cap on the surcharge. Most WICA surcharges are currently about 2 percent.

[10] Under Delaware's DSIC, utilities are able to recover depreciation and pretax return on post-test year used and useful plant additions between rate cases. The DSIC is allowed to renew existing water mains, valves, services, meters and hydrants or to extend mains to eliminate "dead ends." DSIC projects must either be a water supply project identified as, or subsequently added as an "A list projects" in the December 1999 Governor's Task Force Report to resolve regional water supply concerns, or the project must be placed in service to meet new state or federal water quality standards rules or regulations.

The Delaware DSIC rate is capped at 7.5 percent of the amount billed to customers for all other rates and charges, but cannot increase more than 5 percent within any 12 month period. DSIC rates are implemented subject to later "review, audit or revision." The Delaware DSIC statute also allows Commission staff or the Public Advocate to revisit and, after a hearing (without the necessity of a general rate filing), reset a water utility's cost of capital to reflect its current cost of capital. The DSIC rate is adjusted back to the date of the motion to reflect any change in the cost of capital determined by the Commission.

[11] The Illinois DSIC is limited to a return on the investment in and depreciation expense on plant items which (1) are not included in base rates and (2) are not installed to serve new customers. An annual true-up of the revenues received through the surcharge is required.

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- Indiana: IC § 8-1-31 *et. seq.*[12]
- Maine: 35-A MRSA §6107-A[13]
- Missouri: V.A.M.S. § 293.1000 – 393.1006[14]
- Ohio: O.R.C. §4909.1762[15]
- Pennsylvania: 66 Pa. C.S. § 1350 *et. seq.*[16]

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[12] Indiana DSIC projects are limited to used and useful and non-revenue producing net plant necessary to transport treated water from the treatment facility to the point where it is delivered to customers which was not included in base rates. DSIC costs include depreciation and pre-tax return, adjusted for changes in the weighted average cost of capital on eligible projects. The surcharge is capped at 5 percent of revenues from the last rate case. Utilities are prohibited from filing a DSIC and a general rate case in the same year.

Indiana DSIC filing requirements include specified schedules and forms along with testimony describing the projects, identifying why projects are needed, how the projects benefit the utility and the ratepayers, and the age of plant being replaced. Utilities must also include a 5 year replacement plan and proposed tariff sheets. Annual reconciliation filings that include an offset for retired plant are also required.

[13] Maine will allow water utilities to implement infrastructure improvement surcharges subject to rules that are yet to be established by the Maine Public Utility Commission. New rules are to be modeled after the Connecticut rules, which among other things limit eligible plant and include a cap on the surcharge.

[14] The Missouri DSIC is limited to a single utility, Missouri-American. The DSIC may include estimated distribution plant subject to refund until the next rate case. The surcharge includes "bonus depreciation" property taxes, pre-tax return, a reconciliation factor and adjustments for plant retirements, and eligible plant additions. There is no preapproval process for what plant will be allowed into the surcharge, but the surcharge is subject to refund until after the subsequent rate case. Staff review generally includes work order inspection, discovery and discussions with utility personnel.

[15] Ohio DSIC filings must include testimony supporting the proposed surcharge. Eligible projects are limited to distribution or gathering plant or to main extensions that eliminate documented supply problems. Proposed projects must be listed by major property group, account and by month. Projects must be traceable to the general ledger and / or continuing property records and be used and useful at a date certain. Commission staff does a physical inspection of projects.

The surcharge calculation includes proposed rate base, pre-tax rate of return and net depreciation expense to arrive at a revenue requirement for the infrastructure improvement surcharge. Each surcharge is capped at 3 percent of revenues for each customer class however, the utility can have up to three surcharges at one time.

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Indiana and Illinois enacted DSIC legislation in 2000. Delaware did so in 2001, Missouri in 2002, Ohio and Connecticut in 2007, and Maine in 2012.

In addition to implementation by statute, a number of state commissions have authorized or rejected the use of DSIC-type surcharges administratively.[17] Beginning in 2002, the New York Public Utility Commission began accepting some

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[16] Pennsylvania's DSIC was originally limited to water systems when it was adopted in 1997. 66 Pa.C.S.A. §1307(g). This statute was repealed in 2012. The new statute applies to water, wastewater, electric and gas distribution systems. 66 Pa. C.S.A. § 1350 *et. seq.* The Pennsylvania Commission regulates approximately 184 water and wastewater utilities – 73 of which are eligible for the DISC. Its staff conducts periodic management and operational audits, or management efficiency investigations. The results of these investigations are considered in general rate cases. It has a program to aid water utilities in monitoring Lost and Unaccounted for water (LAUF). Municipally-owned utilities like AWWU are not eligible for Pennsylvania's DSIC.

Commission staff and the Pennsylvania Department of Environmental Protection (DEP) communicate regularly regarding troubled infrastructure areas. Sometimes the DEP makes filings in various utility application proceedings asking the Commission to require utility compliance with DEP requirements.

The Pennsylvania Commission also has authority to prohibit utilities from filing general rate cases for set periods of time. At least some Pennsylvania water utility shareholders make voluntary contributions to the "H_20 Help to Others Program" which provides grants, discounts and water saving devices and education to customers.

[17] At least one state court has concluded a public utility commission is without authority to implement a surcharge in the absence of express enabling legislation. *See Popowsky v. Pennsylvania Public Utility Commission*, 869 A.2d 1144, 1158 – 1160 (Pa. Commw. Ct. 2005). *Accord, State, Office of Public Counsel v. Missouri Pub. Serv. Comm'n.*, 331 S.W.3d 677, 685 (Missouri App. 2011)(finding the Missouri Commission had express statutory authority to implement regulations allowing periodic rate adjustments outside a general rate case). These AG Comments do not address this issue other than to note the RCA's broad enabling legislation (AS 42.05.141(a)(3)), and the APUC/RCA's long-standing approved use of surcharges first in tariffs, and later as permitted by regulation. *See* Orders U-74-2(2), U-74-115(6), U-79-23(5)(discussing the use of fuel adjustment clauses since 1974) and 3 AAC 52.501 - .519 (2004). *See also, MEA v. Chugach Electric Ass'n*, 53 P.3d 578, 581 (Alaska 2002)(discussing use of a COPA surcharge established in a utility's tariff in dicta). *Cf., MEA v. Chugach Electric Ass'n*, 58 P.3d 491, 494 (Alaska 2002)(concluding the Commission had jurisdiction to adjudicate a dispute arising under a contract executed between Chugach and MEA that governed the preliminary method by which changes in rates to be imposed by Chugach on MEA would be noticed and developed. The Court reasoned that because the contract "expressly deals with issues lying within the Commission's core area of jurisdiction – changes in rates, charges or other tariff provisions" that the Commission had jurisdiction to adjudicate the dispute.)

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settlement agreements which allowed DSIC surcharge implementation in limited instances.[18] In August 2007, the California Public Utility Commission authorized one utility to implement a DSIC-type mechanism in a single service area, but this utility has since requested the surcharge be discontinued.[19] In 2009, the New Hampshire

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[18] The New York settlements allowing a DSIC have limited it to expected distribution upgrades. The DSIC is limited to expenditures recorded in certain accounts. The DSIC can be implemented for any project that the settling parties agree is needed. No DSIC can be implemented until the project is used and useful.

Settling parties generally review the utilities capital improvement plans, and projects that are in progress to determine what projects they are willing to agree should be included in a DSIC rate plan. When the utility files to actually implement an agreed DISC or rate plan increase, the Commission's staff conducts a review to ensure that the requested capital investment has actually been made or the agreed cost has been incurred.

Many rate case settlement agreements include a 3 to 5 year rate plan, where the utility agrees not to file a new rate case for a set period of time. In exchange the utility is allowed to increase rates on an agreed timeframe, subject to refund. The rate plan rate increases are based on an understanding of what infrastructure improvements or cost increases the utility is expected to incur. DISC surcharges are sometimes a part of that process. During the next rate case, the utility's operations during the rate plan period are reviewed. If projected costs did not materialize then a downward revenue requirement adjustment is included in the next case. Over the last two years, DSIC use in settlements has decreased as utilities and advocates have turned to adding provisions to three year rate plans instead.

[19] Docket No. D0708030. http://docs.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/71722.htm. On July 28, 2011, the utility requested that its DSIC be discontinued. *See* http://docs.cpuc.ca.gov/efile/MOTION/141195.pdf at page 305, Sec. 11.7 (where the utility, California-American, stated "the quarterly DSIC rate surcharges have resulted in frequent and confusing rate changes for customers.")

The Cal-Am DSIC was initially approved in 2007 as a pilot project for the utility's Los Angeles district. In approving the pilot program, the CPUC stated, among other things that "We have carefully reviewed Cal-Am's capital investment plan and the underlying supporting cost determinations, and set a cap commensurate with this review. . . . We have strengthened Cal-Am's capital asset planning requirements and will fully review its planning and the results of the pilot program in the next GRC proceeding."

The Cal-Am DSIC was subject to the following requirements: eligibility was limited to specific projects as determined in the prior general rate case, the program was capped at 7 percent of revenues, with a quarterly 4 percent cap, and revenues received under the DSIC were subject to true-up provisions with interest assessed at the 90 day commercial paper rate.

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Commission accepted the first of three settlement agreements that allowed DSIC-type surcharges to be implemented on a pilot project basis.[20] And in late 2011, the New Jersey Board of Public Utilities released a DSIC draft rule for public comment.[21]

In 2011 and 2012, the Iowa and West Virginia Commissions both denied utility requests to implement DSIC-type surcharges. The Iowa Commission found claims about regulatory lag inadequate to justify surcharge adoption.[22] The West Virginia Commission also found DSIC adoption unreasonable.[23] It instead concluded use of an

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[20] Docket No. DW 08-098, Order 25,019. http://www.puc.state.nh.us /Regulatory/CASEFILE/2008/08-098/ORDERS/08-098%202009-09-25%20ORDER%20NO.%2025%20019-%20ORDER%20APPROVING%20%20SETTTLEMENT%20AGREEMENT%20AND%20PERMANENT%20RATE%20INCREASE.PDF.

The New Hampshire DSIC (WICA) has been limited to projects which the Consumer Advocate agrees to in advance. The WICA is limited to distribution system projects. An initial infrastructure assessment report detailing the capital improvement projects eligible is required. The assessment takes into account asset management (break history, size of pipe, materials, water quality, soil type, age, location and, paving projects) hydraulic improvements and the need for redundancy.

[21] http://nj.gov/bpu/newsroom/news/pdf/20111109.pdf.

[22] *See*, https://efs.iowa.gov/efiling/groups/external/documents/docket/094181.pdf at pages 6 - 14 (where the Iowa Commission concluded regulatory lag is not a sufficient justification for implementing the surcharge in part because of the utility's ready access to interim rate relief, and because the utility could not show how *ratepayers* would benefit "either in the form of increased time periods between general rate cases" or from "a reduction in the rate of return on the [surcharge] investment to reflect reduced regulatory lag.")

[23] http://www.psc.state.wv.us/scripts/WebDocket/ViewDocument.cfm?CaseActivityID=319347&NotType='WebDocket' at pages 7- 8 (where the West Virginia Commission stated that use of a DSIC-type surcharge would not be allowed, concluding approval of a DSIC would "inevitably be viewed by the public [and the utility] as automatic and additional rate increases that the DSIC will visit on [the utility's] customers.")

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alternative ratemaking mechanism (an "AFFAC") would accomplish the same goals as a DSIC without creating a new and administratively burdensome surcharge methodology.[24]

Similar surcharges (or "riders") proposed by different types of utilities have been rejected by other state commissions. For example, in 2011 the Maryland Commission rejected a gas distribution utility's request to implement a surcharge for pipe replacement. The utility unsuccessfully claimed implementing a surcharge would allow it to improve service quality by permitting it more rapid cost recovery, and that consumer rates would be reduced because rate case frequency would fall.[25]

The following table summarizes this DSIC-type surcharge history for water and wastewater utilities by jurisdiction over time:

1997	**Pennsylvania.** Legislation allowing a DSIC for water utilities is enacted with a 5 percent cap.
2000	**Indiana.** Legislation allowing a DSIC for water utilities is enacted with a 5 percent cap.
2000	**Illinois.** Legislation allowing a DSIC for water and wastewater utilities is enacted with a 5 percent cap.
2001	**Delaware.** Legislation allowing a DSIC for water utilities is enacted with a 7.5 percent cap.
2002	**Missouri.** Legislation allowing a DSIC for Missouri American Water Company is enacted with a 10 percent cap.

[24] "We believe that the income flowing from AFFAC accounting, although non-cash earnings, will provide relief for WVAWC between rate cases without the need for the quarterly rate adjustments required by the Company DSIC proposal. We will allow an accounting procedure that includes recording an AFFAC debit in a single account rather than to individual plant accounts. The accumulated AFFAC debits may be depreciated through the application of an average depreciation rate on the accumulated AFFAC balance. . . . The AFFAC should provide a current return on all qualified plant investment and will eliminate the current regulatory lag between the date that the qualified plant goes into service and the effective date of rates in the Company's next rate case."

[25] http://webapp.psc.state.md.us/Intranet/Maillog/orders_new.cfm. Maryland Public Service Commission Docket No. 9267, Order 84475 (November 14, 2011) at 95 – 96, 106 - 108.

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2002	**New York.** The NY Commission begins accepting settlement agreements that include DSIC surcharge provisions.
2005	**Pennsylvania.** Commonwealth Court reverses a Pennsylvania Commission decision allowing DSIC use by a wastewater utility because of the absence of enabling legislation. *Popowski v. Penn. P.U.C.*, 869 A.2d 1144 (Pa. Commw. Ct. 2005).
2007	**Ohio.** DSIC legislation enacted for water and wastewater utilities with a 3 percent cap for each filing.
2007	**Connecticut.** Legislation allowing a DSIC for water utilities enacted with a 7.5 percent cap.
2007	**California.** The California PUC allows California-American Water Company to implement a DSIC in one of its service districts, subject to a 4 percent cap.
2009-2010	**New Hampshire.** The NH Commission accepts a series of three settlement agreements that allow DSIC surcharges on a pilot basis.
2010	**California.** California American files a request to discontinue its DSIC surcharge effective December 2011.
2011	**California.** California American discontinues its DSIC.
2011	**West Virginia.** The Public Service Commission of West Virginia denies West Virginia-American's request to implement a DSIC.
2011	**New Jersey.** NJ Board of Public Utilities publishes draft DSIC rules for public comment. Draft rules include a 5 percent cap.
2012	**Iowa.** The Iowa Utilities Board denies Iowa-American's petition to implement a DSIC.
2012	**Maine.** Legislation allowing a DSIC for water utilities enacted.
2012	**Pennsylvania.** Legislation enacted expanding DSIC allowed use to wastewater utilities.

In all, eight states have enacted legislation allowing DSIC surcharges, three states have accepted settlement agreements that have allowed utilities to implement DSIC surcharges, one state has recently issued draft regulations for public comment regarding a DSIC, and at least two state commissions have explicitly denied utility requests to use

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DSIC surcharges. A total of approximately 693 utilities are eligible to implement a DSIC type surcharge,[26] but research to date shows only 34 (4.9%) have done so. Of the 34 utilities that have implemented a surcharge, at least 20 are owned, in whole or in part by one the nation's four largest water companies: Aqua America, American Water Works, United Water Company and Utilities Inc.

WHAT ARE THE CLAIMED PURPOSES OF DSIC SURCHARGES?

Utility goals in seeking DSIC surcharge adoption typically focus on reducing regulatory lag or difficulties utilities face reaching authorized returns.[27] These same objectives ("problems") are identified by the Utility Group in this Docket. At Appendix A to Order R-11-6(2), the Utility Group lists three basic complaints:

- Regulatory lag creates a problem for utilities that are highly capital intensive and which need "robust" capital investment plans.
- Utilities are not earning their authorized returns and therefore must file "almost annual rate cases."
- Filing rate cases is costly which "creates a disincentive for utilities to invest capital into their aging systems."

The National Association of Regulatory Utility Commissioners (NARUC) has also addressed DSIC-type surcharges in resolutions. But the focus of its DSIC

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[26] Excluding Maine.

[27] *E.g.*, West Virginia (Order dated April 18, 2011 in Docket No. 10-0920-W-42T at 7); Iowa (Order dated February 23, 2012 in Docket No. RPU-2011-0001 at 11). Links for these orders are found above.

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discussion is very different. NARUC makes no mention of reducing regulatory lag, improving utility achieved returns or any other utility-oriented benefit as a driver for DSIC adoption. NARUC instead focuses on perceived *ratepayer benefits* as the litmus test underlying its DSIC endorsement.[28]

In its February 1999 Resolution, NARUC lists six *ratepayer benefits* then thought to flow from use of a DSIC-type surcharge:

- "improved water quality"
- "increased pressure"
- "fewer main breaks"
- "fewer service interruptions"
- "lower levels of unaccounted for water"; and
- "more time between rate cases which leads to greater rate stability."[29]

Other jurisdictions adopting a DSIC-type surcharge articulate similar ratepayer-oriented, rather than utility-oriented, goals. For example, the Pennsylvania

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[28] Appendix B. A subsequent 2005 NARUC Resolution referenced DSIC surcharges, among other tools, as having been identified by the National Association of Water Companies (NAWC) as a method state commissions could use to promote "capital investment and cost effective rates." But no consensus was reached by those entities participating in the NAWC Forum (which did *not* include any consumer advocacy groups) on the tools NAWC's Summary Report ultimately proposed – including the DSIC. *See* Appendix C. *See also* Order R-11-3(1), App. at 7 ("NAWC is a trade organization for private water companies, so it cannot be assumed that water utility customers or consumer advocates would necessarily concur that these practices are the best.")

[29] Appendix B.

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Commission's 2009 Annual Report says its DSIC surcharge was designed to provide ratepayers with "improved water quality, greater rate stability, increased water pressure, fewer main breaks, fewer service interruptions, and lower levels of unaccounted for water."[30]

NASUCA has also addressed DSIC surcharges, disagreeing that DSIC adoption is appropriate. In a June 1999 resolution, NASUCA recommended state legislatures and state commissions avoid adopting DISC surcharges for numerous reasons, including:

- prudence and reasonableness reviews are truncated or inadequate;
- regulatory incentives to control costs are reduced or eliminated;
- price stability is reduced;
- a lack of any "convincing evidence . . . to support the claim that the frequency of rate cases is reduced by such [surcharges]"; and
- creating an inappropriate shift in business risk away from utilities towards consumers for the purpose enticing utilities to perform obligations they are already required to perform by law.[31]

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[30] http://www.puc.state.pa.us/general/publications_reports/pdf/09-10_PUC_Ann_Rpt.pdf.

[31] Appendix D. Other consumer organizations have criticized DSIC-type surcharges for reasons similar to those stated by NASUCA. Appendix E is a copy of an October 2011 *Food & Water Watch* publication detailing many objections to using DSIC-type surcharges, claiming their use: sidesteps adequate regulatory review, ignores offsetting decreases in operating expenses, unreasonably inflates a utility's return by failing to account for reduced risk, and creates "unnecessary consumer burden[s]" and "inflated water bills."

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The competing leanings of these two associations (NARUC and NASUCA) show DSIC surcharge adoption is quite controversial. However, at a minimum, the gatekeeper for preliminary DSIC consideration should be as NARUC suggests – a demonstration of *actual ratepayer benefits*.

DO DSIC SURCHARGES REDUCE RATE CASE FREQUENCY?[32]

RAPA staff reviewed the rate case filing practices of water utilities using DSIC surcharges in 10 states. Thirty four utilities in 10 jurisdictions have implemented some sort of DSIC-type program since 1997. Where records were available, RAPA staff compared the number of rate cases the DSIC-using utilities filed before they began using a DISC with the number of rate cases they filed after implementing the DSIC:

- California implemented a DSIC for a single utility in a single service district in 2007 which the utility asked to be discontinued in 2010. It is unclear what conclusions can be drawn from California's limited DSIC experiment.[33]

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[32] It cannot be claimed DSIC adoption has resulted in fewer wastewater utility rate cases because research has not shown any wastewater utility having taken advantage of DSIC surcharge availability where it is permitted. Wastewater utilities have been authorized to use a DSIC in Ohio (since 2003) and Illinois (since 2000). No other jurisdictions appear to allow wastewater utilities to use a DSIC surcharge other than Pennsylvania which enacted legislation in 2012.

[33] A partial settlement filed in the utility's 2010 rate case included the utility's statement: "The current DISC structure, the quarterly and annual limitations and review process are preventing the program from operating in a beneficial manner. The quarterly DISC surcharges have resulted in frequent and confusing rate changes for customers." CPUC Docket No. A1007007. http://docs.cpuc.ca.gov/efile/MOTION/141195.pdf at page 305, Sec. 11.7.

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- Connecticut's DSIC was adopted in 2008, and its impact on utility filing frequency is largely inconclusive. To the extent any preliminary conclusion can be reached it would be that rate case frequency is largely unchanged.[34]
- Delaware adopted a DSIC in 2001. Three utilities use the surcharge regularly; two others have used it on a single occasion.[35] RAPA staff

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[34] Connecticut regulates approximately 20 water utilities, of which 5 participate in its DSIC (WICA) program. Since 2002, the five participating Connecticut water utilities have filed rate cases at the following frequency:

- Torrington Water filed a rate case in 2008, about the same time the WICA program became available.
- United Water of Connecticut filed a rate case in 2006 and one in 2009,
- Aquarian Water Company filed rate cases in 2004, 2007 and 2010,
- Connecticut Water Company filed rate cases in 2006, 2007 and 2010, and
- Avon Water Company filed rate cases in 2005 and 2009.

[35] There are 12 regulated water utilities in Delaware. All are DSIC eligible. Three have made regular DSIC filings. These three utilities are: United Water of Delaware (serving 110,000 customers), Tidewater Utilities (serving approximately 32,700 customers), and Artesian Water Company, Inc. (serving approximately 76,000 customers). Two other utilities have each made a single DSIC filing. These two utilities are: Prime Hook Water Company (serving 440 customers), and Sussex Shores Water Co. (serving approximately 1,200 customers). All three utilities regularly filing a DSIC have filed rate cases since 2005 (which is the time limit on electronic access to Delaware Commission records):

- United Water – Delaware filed rate cases in 2006, 2009, and 2010,
- Tidewater Water Company filed rate cases in 2006, 2009 and 2011, and
- Artesian Water Company filed rate cases in 2006, 2008 and 2011.

During the same timeframe one of the two utilities that filed a single DSIC filed a rate case (Sussex Shore Water Co. in 2007), and two non-DSIC participating utilities filed rate cases in 2005, 2007 and 2010.

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was not able to access pre-2001 electronic records to determine if utility rate case frequency decreased since Delaware's DSIC was implemented.

- Illinois adopted a DSIC in 2000. Its adoption has had mixed results in rate case frequency for two participating utilities. One utility filed one less rate case in ten-year block comparisons, while the other filed the same number of rates cases in the same ten-year block comparisons.[36]
- Indiana's DSIC was adopted in 2000. Four utilities participate. Rate case frequency has either increased or remained the same for each since DSIC adoption.[37]

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[36] Illinois regulates approximately 33 water, 5 sewer and 14 combined water/sewer utilities. Only Illinois-American Water Company and Aqua Illinois, Inc., the state's two largest utilities, have used the Illinois DSIC (QIP).

Prior to QIP implementation, Illinois-American/Citizens Utilities filed rate cases for its water utility in 1990, 1992, 1994, 1995, and 1997. After the QIP was implemented, Illinois-America filed rate cases in 2000, 2002, 2007, and 2009.

Prior to QIP implementation, Aqua Illinois (f/k/a Consumer Illinois), filed rate cases for its water and/or sewer utilities in 1990, 1991, 1993, 1995, 1997, 1998, and 1999. After QIP implementation, Aqua Illinois filed rate cases in 2000, 2003, 2004, 2005, 2006, 2007, 2008, 2010 and 2011.

[37] There are about 110 water utilities that are eligible to file a DSIC in Indiana. Four have participated in the program: Indiana America Water Company, Utility Center, Inc., Water Services Company of Indiana, and Indiana Water Service, Inc.

Indiana America Water Company serves 284,000 customers. It has made seven DISC filings since 2002 and has filed rate cases in 1991, 1996, 1999, 2001, 2003, 2006, 2009 and 2011.

Utility Center, Inc. serves 12,161 customers. It made five DSIC filings since 2003 and since 1991 it filed rate cases in 2007, 2008 and 2010. Utility Center is owned by Aqua America.

Water Services Company of Indiana serves 184 customers. It filed one DSIC in 2004. Since 1991 it has filed one rate case in 2005. Water Services of Indiana is owned by Utilities Inc.

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- Maine's DSIC was just adopted in 2012. No data is available to draw conclusions.
- Missouri's DSIC was adopted in 2002. One utility uses the surcharge.[38] RAPA staff was not able to access pre-2002 electronic records to determine if this single utility's rate case frequency has decreased.
- New Hampshire has allowed a DSIC in pilot projects for three different utilities, one in 2009, and two in 2011.[39] Inadequate time has elapsed to evaluate rate case filing frequency for these three utilities.
- New York has allowed DSIC use in five settlement agreements.[40] Because some settlements bar the utility from filing rate cases for a set period, it is not possible to draw conclusions from New York's limited DSIC implementation.

Indiana Water Service Inc. serves 1,825 customers. It filed one DSIC in 2004 and since 1991 it has filed one rate case in 2011. Indiana Water Service Inc. is owned by Utilities, Inc.

[38] The one regulated utility allowed to use the surcharge is Missouri-American, which serves approximately 1.5 million customers. It filed general rate cases in 2003, 2007 and 2008. DSIC (ISRS) filings were made in 2003, 2006 (twice), 2008, 2009 and 2010.

[39] The New Hampshire Commission regulates 20 water utilities. The first DSIC (WICA) was approved for Aquarian Water Company in September 2009, the second was approved for Pennichuck Water Works in October 2011, and the third was approved for Pittsfield Aqueduct Company in October 2011.

[40] Long Island American Water (serving 200,000 customers), United Water New Rochelle, Inc. (serving 143,000 customers), United Water New York Inc. (serving 70,240 customers), United Water Westchester Inc. (serving 44,000 customers), and New York Water Service Company (serving 152,000 customers).

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- Ohio's DSIC was enacted in 2003, and procedures implementing it in 2004. Two utilities use the surcharge. One has filed more rate cases since DSIC implementation, and the other has filed rate cases at the same frequency.[41]
- Pennsylvania's DSIC was implemented in 1997. RAPA staff was not able to access pre-1997 electronic records to determine if rate case frequency has decreased for Pennsylvania utilities using the surcharge.

The data available from other jurisdictions does not appear to support a conclusion that DSIC adoption reduces rate case frequency. At best, the results can be said to be mixed or inconclusive. Perhaps more accurately the same data can be said to show no reduction or an actual increase in rate case frequency among utilities using a DSIC.

Testimony filed in a West Virginia Public Service Commission docket supports the later:

> In the twelve years since the DSIC was first implemented, [Pennsylvania American Water Company] has filed six base rate

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[41] The Ohio Commission regulates 15 water utilities and seven wastewater utilities. Only two water utilities use the DSIC (SIC): Aqua Ohio (f/k/a Consumers Ohio Water) and Ohio American Water. No wastewater utilities have used the surcharge.

Aqua Ohio serves 88,000 customers. It has made nine SIC filings and four rate case filings since 2003. From 1993 through 2002 it filed 2 rate cases.

Ohio American serves 200,000 customers. It has made three SIC filings and filed five rate cases since 2003. From 1993 through 2002 it filed five rate cases.

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> cases for its entire utility and three rate cases for selected districts. . . . . Over the same time period the DSIC has been in effect in Pennsylvania, [West Virginia American Water Company] has also filed six base rate cases. Of course, it is difficult to make comparisons between utilities operating in different states, but it does not appear that there is any evidentiary support for the idea that the DSIC will have an impact on how often general rate cases are filed.[42]

DO DSIC SURCHARGES IMPROVE QUALITY OF SERVICE?

Correlating a link between DSIC adoption and service quality improvements based on existing data is difficult. This is because some tie must be found between surcharge access and work that would not have been performed when it was performed but for the surcharge's availability. Since utilities must make capital investments necessary to meet safety and reliability duties as a condition of certification, some tie to the surcharge's use in expediting what would be done anyway must be found in order to judge surcharge effectiveness in improving service quality.[43]

In most jurisdictions finding any link between DSIC adoption and quicker necessary infrastructure investment is illusive. With one possible exception, RAPA staff was unable to find any link showing DSIC availability has speeded up necessary

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[42] July 9, 2010 Supplemental Direct Testimony of Byron L. Harris on behalf of the Consumer Advocate Division of the Public Service Commission of West Virginia in Docket Number 08-0900-42T. http://www.cad.state.wv.us/080900ByronSuppDirect.pdf.

[43] *See* AS 42.05.241 ("A certificate may not be issued unless the commission finds that the applicant is fit, willing, and able to provide the utility services applied for and that the services are required for the convenience and necessity of the public.); AS 42.05.291(a)("Each public utility shall furnish and maintain adequate, efficient, and safe service and facilities. This service shall be reasonably continuous and without unreasonable interruption or delay.") *See also* Order U-00-115(18) at 12 ("[T]he regulatory covenant does not promise utility owners that they will be able to 'sustain' a utility without supplying equity capital when the utility needs investment.")

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infrastructure investment. The possible exception is Connecticut which requires that a DSIC participant show replacement projects included for surcharge consideration are incremental to the utility's ongoing capital replacement program.

No link has been found in the remaining DSIC jurisdictions. For example, the Pennsylvania Commission's Water & Wastewater Staff were unaware of any documentation or study showing DSIC use correlates with improvements to water quality or quality of service.[44] But since the DSIC has been implemented in Pennsylvania, ratepayers of Pennsylvania's two largest water utilities (both DSIC participants) have added new DSIC surcharges each year, while also increasing base rates virtually every other year.[45] In other words, ratepayers of the two largest Pennsylvania utilities have experienced annual rate increases, but there has been no showing that water quality or quality of service has improved.[46]

UTILITY USE OF DSIC SURCHARGES

Eligible utility use of an available DSIC surcharge shows little wide-spread penetration. As noted earlier, a total of approximately 693 utilities are eligible to use a

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[44] RAPA Staff did receive information from the Pennsylvania Commission showing how many miles of pipe have been replaced for selected utilities. In one example, the Pennsylvania Water Company replaced 25 miles of pipe in 1995 and 81 miles of pipe in 2010. However, Pennsylvania American has 9,900 miles of pipe in its system, and the increase, which is not shown to be a direct result of the DSIC, is replacing less than one percent of its pipe each year.

[45] *See* Appendix F.

[46] RAPA Staff asked NAWC representatives and individuals in each jurisdiction with a DSIC if they were aware of any studies showing that DSIC implementation improved the quality of service and water quality. No one was aware of any study demonstrating such a link.

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DSIC-type surcharge, but research shows only 34 (4.9%) have done so.[47] Of those using a DSIC, the bulk (about 60%) are owned, in whole or in part by one the nation's four largest water companies, Aqua America, American Water Works, United Water Company, and Utilities Inc.

REGULATORY LAG & REALIZING AUTHORIZED RETURNS

Concerns about regulatory lag and difficulties in reaching authorized returns are typical justifications offered by utilities in support of DSIC surcharge adoption. But while efficient ratemaking is an optimal goal, it must be carefully engineered.

Regulatory lag performs an important public interest role in the ratemaking process. It provides an incentive for utilities to operate efficiently and contain costs and it is a necessary byproduct of comprehensive regulatory oversight which must be in place to protect captive consumers from public utility monopoly power.[48] As the Commission put it in 1986, ". . . a reasonable period of regulatory lag which works contrary to a

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[47] Excluding Maine.

[48] *See* Order U-83-74(7) at 13 (addressing the benefits of adhering to a normal rate review processes. The benefits mentioned include creating relatively stable consumer rates, adherence to the matching principle, creating effective opportunities for affected consumer participation in the rate review process, and **"not to be minimized is that under the standard ratemaking approach utilities have a considerable incentive to minimize costs, either to maintain profits or offset other rising costs under existing rates and, thereby, to avoid the necessity of seeking rate relief in formal rate proceedings with their unlimited scope of review and uncertain results. Surcharges, on the contrary, are erratic whenever they are intended to recover on a monthly basis variable current expenses."** [Emphasis added].)

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utility's financial interests is proper to impose on a utility in exchange for the benefits of economic insulation . . ."[49]

Surcharges (including a DSIC) can easily sidestep the safeguards of adequate regulatory oversight and create a substantial danger that consumers will be saddled with excessive rates:

> [A]s a surcharge item, the situation would be lacking the typical dynamic for the utility to minimize costs . . . Indeed, there could be a disincentive to the utility's exploring larger reconfigurations in the event of a mandated reimbursement in order to avoid complications in determining proper allocations to the surcharge account. This is not to suggest that the utility's normal prudence or the Commission's own review efforts would be ineffective checks, or that some sort of notice provision could not be interwoven into an MFRCA surcharge. However, the added value of a utility's traditional incentive to minimize cost is not a factor that should be lightly removed. . . . Moreover, **it should not be forgotten that surcharges** even in fuel and wholesale power situations **are not well received of late (if ever), principally because their presence reduces incentives to minimize or offset cost increases.**[50] [Emphasis added].

Regulatory lag therefore plays a very important role in ratemaking, and it is part of the price tag associated with a grant of monopoly power. Other than an after-the-fact review for prudence,[51] regulatory lag is the only regulatory tool available to protect

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[49] Order U-86-20(3), *reprinted at* 7 APUC 514, 516 (Alaska P.U.C. 1986). This discussion occurred in the context of the Commission's review of a request for interim rate relief.

[50] Order U-83-74(7) at 15.

[51] Historically, utilities in Alaska do not seek a prudence predetermination for planned infrastructure investment. Instead, Alaska's Commission has generally relied on after-the-fact project reviews conducted in the context of a rate case. *See, e.g.*, Order U-10-29(15). There have been exceptions. *See* Order U-10-41(5).

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captive ratepayers because it creates an economic incentive for utilities to curtail unnecessary spending:

> The delay in recovery between when a company incurs capital expenditures and when it recovers a return of and on such expenditures in its base rates is referred to as regulatory lag. In satisfying their obligation to provide safe and reliable service to their ratepayers, companies have the incentive to invest in capital improvements rather than O&M expenses, even if a capital improvement represents a sub-optimal solution as compared to non-capital production factors. Unlike O&M expenses, capital expenditures provide a return to their shareholders when ultimately included in rate base (as stated above, this bias toward capital investment is known as the Averch Johnson effect). **The existence of regulatory lag provides an important counterbalance to the Averch Johnson effect because companies will not earn a return on their investments until their next rate case proceeding. As such, regulatory lag provides the incentive for companies to pursue a more balanced strategy between capital expenditures and O&M expenses in their provision of safe and reliable service to their ratepayers.**[52] [Emphasis added].

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[52] *Petition of Massachusetts Electric Co. and Nantucket Electric Co.*, 2009 WL 4543112 (Mass. D.P.U. 2009). *See also, In re Southern Nevada Water Co.*, 1996 WL 304355 (Nev. P.S.C. 1996)("Among the potential sources of allocative inefficiencies Bonbright cites is the Averch Johnson effect (AJ). The AJ effect suggests that traditional rate base/rate of return regulation biases a regulated firm toward more capital intensive modes of production because of the ability to earn a return on capital investments included in rate base. For instance, in the electric utility industry, utilities are sometimes believed to be biased in favor of building their own generating capacity, rather than purchasing available capacity from other sources. To the extent that this bias has occurred, it would be consistent with the Averch Johnson effect."); *Popowsky v. Pennsylvania Public Utility Commission*, 869 A.2d at 1160 ("The PUC's belief that there is no limit on its authority to approve the use of a surcharge as the means for any utility to recover its costs for any facility addition is contrary to precedent and to sound principles of statutory construction. It means that utilities can recover their capital costs without any incentive to invest wisely and efficiently. Indeed, when recovery is allowed on a cost-plus basis, the incentive is otherwise because the return factor is calculated as a percentage of the capital cost.")

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There can be a tension between regulatory lag and its impact on a utility's achieved return. But in evaluating this tension, two things should be remembered. First, Alaskan utilities have a largely unfettered right to interim rate relief usually implemented within 45 days of filing a request for rate relief.[53] Any discussion of regulatory lag should include interim rate relief's use in Alaska to mitigate its impact.[54] Second, a utility's authorized return is generally viewed as "a ceiling that utilities typically do not actually realize. In other words, although utilities are permitted to achieve a profit margin up to the statutorily authorized rate of return, they typically operate at a level of profitability below this figure."[55]

Regulatory lag therefore serves two important functions. It serves as a protective shield for ratepayers, and it also functions as an economic driver used to incent utilities to make efficient economic decisions which helps utilities migrate towards their authorized returns.[56]

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[53] The Commission currently employs a "not frivolous or obviously without merit" standard. *See* Order U-10-101(7) at 4 – 5.

[54] It is rare to see an Alaska utility rate case filing unaccompanied by a companion request for interim rate relief.

[55] *Southern New England Telephone Co. v. Dep't of Public Utility Control*, 874 A.2d 776 (Conn. 2005). *See also*, *Re West Virginia-American Water Co.*, Docket No. 10-0920-W-42T at 1 (W.Va. P.S.C., April 18, 2011)("The opportunity of earning a fair ROR is, however, not only a function of Commission approved rates, but also is dependent on the skill and efficiency of utility management. Utilities should stop viewing Commission revenue requirement decreases as an anchor, pulling their return on equity (ROE) down, and start viewing those decisions as a budget target that, if met, will buoy their ROE.") http://www.psc.state.wv.us/scripts/WebDocket/ViewDocument.cfm?CaseActivityID=319347&NotType='WebDocket'.

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AFFORDABILITY

Absent in the Utility Group's proposal is any discussion of consumer affordability. This is not a subject that should go unmentioned in review of the Utility Group's surcharge proposal. Even NAWC recognizes that making provision "to assist payment-troubled customers" is a best practice.[57]

Whether the Commission allows implementation of a DSIC or not, Alaskan water and wastewater utility ratepayers can expect steep rate increases in the coming years. For example, AWWU recently projected steep rate increases, even without a surcharge:[58]

Year	Water	Wastewater	Total	5 yr. Inc.
2012 (Actual)	$45.85	$37.35	$83.20	
2017	$67.82	$56.89	$124.71	49.89%
2022	$85.82	$67.30	$153.12	22.78%
2026	$102.64	87.73	$190.37	24.33%

As the table shows, AWWU's residential customers can expect a near 50 percent rate increase in the next five years, which is over three times the 15.9 percent

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[56] The Commission should also be wary about embracing utility claims of under-earning: "[I]n order to test [a utility's] assertion that it did not earn its revenue requirement in the prior years, it would be necessary for Staff to review each of those years and the Commission to resolve disputes for each of those years, essentially holding a complete rate case for each year. Clearly, such a procedure is not feasible." Order U-90-32(4) at 6. *See also, Re Washington Gas Light Co.*, Docket No. 1054, Order No. 14391 at ¶ 9-10 (D.C. P.S.C. 2007)(denying a utility's request for surcharge adoption to remedy the utility's claimed under-recovery of its authorized return.) http://www.dcpsc.org/pdf_files/commorders/orderpdf/orderno_14391_FC1054.pdf.

[57] http://www.naruc.org/Publications/WPF2005report.pdf at 16.

[58] *See* Exhibits GJG-03 and GJG-04 to the Prefiled Testimony of Glenda J. Gibson filed November 11, 2011 in TA137-122/TA134-126.

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total inflation used by the Municipality of Anchorage in its fiscal plans for the same five year period.[59] Affordability is clearly implicated under such circumstances.

Water utilities in many jurisdictions, including Pennsylvania, contribute to programs that help subsidize rates for low income water utility customers. No such protection is afforded to low income Alaskan water utility customers now, nor does the Utility Group propose such a program. Because DSIC adoption can accelerate AWWU's predicted rate increases, some consideration of affordability should accompany consideration of any new surcharge.

COMMENTS ON THE UTILITY GROUP'S PROPOSED REGULATION

There can be no dispute that allowing a DSIC, as a surcharge, would be an exception to the general ratemaking process. Accordingly, the Commission should avoid adopting regulations implementing a DSIC absent a showing of exceptional circumstances.[60] Exceptional circumstances are often best demonstrated in individualized circumstances. Thus, it may be more prudent for any DSIC consideration to be addressed by each utility individually in an adjudicatory docket, rather than in a generic rulemaking docket.

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[59] According to the Municipality of Anchorage's 2012-2017 Fiscal Program, the expected inflation rate for that period is 3.0 percent per year, which equates to a total inflation increase of 15.9 percent over the next five years.

[60] *Madigan v. Illinois Commerce Comm'n*, 2011 WL 4580558 at *8 (Ill. App. 2011)("[B]ecause a rider , by nature, is a method of single-issue ratemaking, it is not allowed absent a showing of exceptional circumstances.")

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For example, as the Commission originally proposed and as the Utility Group suggests, DSIC access is to be limited to plant additions having no "significant impact on revenues or operating costs."[61] This limitation is intended to avoid synchronization or matching problems which normally arise whenever single-issue ratemaking proposals, such as a DSIC, are presented.[62] But no litmus test is given to gauge what is or is not a material or "significant" impact on revenues or expenses. What might be considered *de minimus* to a large utility like AWWU with a larger customer base to spread costs might not be to a small utility like Potter Creek. Such determinations might best be made in individual adjudications, rather than by attempting to fit all water and wastewater utilities in the same regulation box.[63]

Testing claims about prudence or an absence of synchronization problems would also be challenging under the Utility Group's proposed timelines. Under normal

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[61] Order R-11-6(1), App. B at 1, 2, 5.

[62] *Madigan v. Illinois Commerce Comm'n*, 2011 WL 4580558 at *6 ("Single issue ratemaking is prohibited because it considers changes in particular portions of a utility's revenue requirement in isolation, which ignores potentially offsetting considerations and risks understating or overstating the overall revenue requirement.")

[63] Exceptional circumstances justifying surcharge adoption would also likely differ among Alaskan utilities. Unlike many small water utilities, AWWU's capital improvement plan already lays out its timeline for infrastructure investment. AWWU is therefore already making infrastructure investment as it is required to do under AS 42.05.291(a). Surcharge access will not improve service quality because there is no claimed need for surcharge access to make needed improvements. *See* AWWU General Manager Craig Woodard's Prefiled testimony, filed on November 11, 2011 in TA137-122/TA134-126, at Answers 13 – 18. GHU is in a somewhat different but analogous situation. It has already received extraordinary ratepayer subsidies outside of any surcharge to make infrastructure investments. In 2003, the Commission awarded GHU a $5.3 million acquisition adjustment, and earlier an enhanced ROE, in large part because of the utility's plans to upgrade degraded plant it inherited from the City of Fairbanks. *See* Order U-02-13(7) at 5 – 8, and Order U-05-43(15) at 48 – 50.

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guidelines, prudence and synchronization issues are investigated in a rate case which ordinarily provides ample opportunity for discovery and the orderly progression of prefiled testimony. As proposed, this review will now be radically condensed into either 60 or 180 days, and place the initial burden of proof on any party contesting particular cost item's inclusion.[64] Although a burden shift is appropriate in a case where prudence is challenged,[65] we are unaware of any authority that allows such a burden shift for synchronization issues.[66]

The Utility Group's proposed procedure also appears unlikely to result in meaningful review. Within 60 days the Commission must make an initial assessment whether "costs of a specific project or projects qualify for inclusion in a utility's PRISM." But any interested member of the public will need to do so sooner – within 30 days. AS 42.05.411(a). This presumably includes a review of prudence and synchronization matters, as well as a review to ensure all proposed plant addition are

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[64] Order R-11-6(2), App. B at 3, 5.

[65] A utility's request to include costs associated with new plant additions usually occurs in a rate case where a plant addition enjoys a presumption of reasonableness unless a "substantial showing" is made by another party challenging its inclusion in rates. Order U-10-29(15) at 8.

[66] The Utility Group's proposal is internally inconsistent on this point. At Order R-11-6(2), App. B page 3, the Utility Group suggests all initial burdens are placed on parties challenging cost inclusion, whether for prudence or synchronization. However, on App. B page 7, it appears the utility Group recognizes it bears the burden of making a *prima facie* showing that no synchronization issues will arise with the plant proposed to be included. Assuming the later – which is the correct burden placement – the Utility Group then invents a "clear showing" rebuttal standard that is unsupported by law.

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"primarily" dedicated to replacement, improving quality, health or safety improvement.[67] Any unchallenged portion of the surcharge is deemed approved and not subject to refund.[68]

As proposed, any prudence or synchronization challenge will therefore need to be presented by the public even before a right to discovery accrues. It would seem a misstatement to suggest any meaningful prudence or synchronization review can occur within such tight timelines and without discovery. Since AS 42.05.381(a) requires the Commission ensure rates demanded are just and reasonable, the Utility Group's proposed procedure appears to work at cross purposes with the Commission's statutory mandate.

There are five additional flaws with the Utility Group's proposal. First, a cost estimate is used to set the surcharge. There is no true-up.[69] But under prudence and original cost ratemaking requirements, consumers cannot be charged in rates any more than actual cost for invested capital.[70] The Utility Group's recommendation, by

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[67] The proposed regulation does not define or quantify what plant is or is not "primarily" dedicated to these services, or explain why anything that is not specifically dedicated to these services should be allowed in a surcharge at all.

[68] Order R-11-6(2), App. B at 5.

[69] Order R-11-6(2), App. B at 1, 7 ("Inclusion of projects and project costs in a finally approved PRISM surcharge constitutes final approval of the surcharge amounts which are no longer subject to refund to customers.") Obviously if a true-up is used, it should be implemented with interest.

[70] *New England Power Co.*, Op. No. 231, 31 FERC ¶61,047 (1985)("An elementary proposition of utility law and utility regulation, universally recognized, is that public utilities, in the interest of their customers as in their own interest, should be permitted to charge rates which are

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definition, awards a windfall whenever actual plant costs amount to less than estimates provided. The law does not allow what the Utility Group requests. *See* AS 42.05.441(b).

Second, the Utility Group's proposal for demonstrating DSIC eligibility appears impossible to meet. A utility is required to demonstrate that it "did not over-earn its authorized return on rate base as calculated for the most current twelve month period."[71] The Commission has previously held such a test is nonsensical.[72]

Third, the Utility Group's DSIC formula is unsynchronized. The formula used makes no attempt to update rate base to account for plant retirements or accumulated depreciation accruing since a prior rate case.[73] For large utilities, up to three years of plant retirements and accumulated depreciation can be ignored while new plant additions are added. For small utilities, this lack of balance is exacerbated because DSIC eligibility is not tied to the length of time elapsed since a previous rate case. A small utility can be considered DSIC-eligible even though plant accounts and accumulated depreciation have not been reviewed for many years.[74] To the extent any DSIC

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compensatory for the full cost incurred by alert, efficient, and responsible management. It is equally elementary that customers should not be required to pay more than this cost.")

[71] Order R-11-6(2), App. B at 4.

[72] Order U-90-34(4) at 6 ("[I]n order to test [a utility's] assertion that it did not earn its revenue requirement in the prior years, it would be necessary for Staff to review each of those years and the Commission to resolve disputes for each of those years, essentially holding a complete rate case for each year. Clearly, such a procedure is not feasible.")

[73] Order R-11-6(2), App. B at 4.

[74] Order R-11-6(2), App. A at 2.

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regulation is adopted, its initial use should be tied to a current rate case so all plant accounts are current.[75] It appears illogical to suggest otherwise.

Fourth, the Utility Group's proposed DSIC formula improperly uses a utility's previously approved ROR in setting a surcharge.[76] For a large utility, the ROR used in the surcharge formula can be three years old. For a small utility, it could be significantly older.[77] Alaska Supreme Court case law suggests this result would be improper.[78] The ROR used in the formula should instead be tied to the ROR set in a current rate case establishing an entitlement to first use the surcharge, and it should be

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[75] *See* April 28, 2011 Comments of Pennsylvania's Consumer Advocate, Sonny Popowsky, to the Pennsylvania House Consumer Affairs Committee, a copy of which is attached as Appendix G at 5 ("A major reason that utilities are able to make new plant additions between rate cases without having to increase their rates is that traditional base rate making is a two-way street. That is, between rate cases, while a utility is adding new capital investment to the 'rate base' on which is allowed to earn a return, the utility's existing plant is depreciating, which has the effect of reducing the utility's rate base. In a rate case, the Commission looks at both the additions and the subtractions, and establishes a net rate base on which prospective rates are set. **Under a distribution system improvement charge (DISC) . . . however, the Commission looks only at plant additions, without considering the offsetting plant reductions. The DISC thus becomes a one-way street, rather than a two-way street, and allows rate increases even if the utility's overall plant investment is actually declining over time.**" [Emphasis added].)

[76] A stale ROR can include both an outdated capital structure as well as an outdated return on equity component.

[77] Order R-11-6(2), App. B at 6.

[78] *Glacier State Telephone v. APUC*, 724 P.2d 1187, 1192 (Alaska 1986)("The commission has a duty to set a reasonable rate of return for the utility. 'A rate of return may be reasonable at one time, and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally.' [Citation omitted]. **The APUC was obliged to consider the drop in interest rates in the two years since the tariff was filed; it would have done the public a disservice had it ignored the change.**" [Emphasis added].); *see also* Order U-08-157(10)/U-08-158(1) at 37 and 39 (holding it proper to use more recent data to address the growth rate component in a DCF model, and the risk free rate for a CAPM analysis).

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accompanied by an appropriate reduction to reflect reduced risk. Because surcharge availability reduces utility risk, it makes little sense to ignore a surcharge's risk reducing effect when creating a surcharge formula.[79]

Fifth, the Utility Group's proposal is over-inclusive in the plant allowed for surcharge purposes and because no cap is provided. As proposed, virtually any new plant addition would qualify for surcharge application.[80] This sweeping application is substantially greater than the targeted approach first suggested by the Commission.[81] Because surcharge use is an extreme exception to normal ratemaking, it would appear prudent that a cap be employed as is the case in most jurisdictions,[82] and that the surcharge's allowed scope be narrowly tailored to specifically achieve a legitimate *ratepayer benefit* oriented goal.[83]

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[79] *See* Order U-07-76(8) at 71, 80.

[80] R-11-6(2), App. B at 5 ("To qualify for inclusion in a PRISM, a plant addition must consist primarily of plant dedicated to providing service to customers that replaces existing plant, improves the quality of service, increases reliability or redundancy, or promotes public health or safety.")

[81] *See* Order R-11-6(1), App. B at 1 ("For water utilities eligible, property would be USOA Accounts 309 – supply mains, 311 – pumping equipment, 320 – water treatment equipment, 330 – distribution reservoirs and standpipes, 331 – transmission and distribution mains, 333 – services, 334 – meters and meter installations, 335 – hydrants, 336 – backflow prevention devices, and 339 – other plant and miscellaneous equipment. For wastewater utilities, eligible property would be USOA Accounts 360 to 362 – collection sewers, 363 – services to customers, 364 and 365 – flow measuring, 366 and 367 – refuse services, 370 and 371 – receiving wells and pumping equipment, 374 and 375 – reuse, 380 – treatment and disposal equipment, 381 – plant sewers, and 382 – outfall sewer lines.")

[82] Most jurisdictions apply a 5 to a 7.5 percent cap on plant eligible for surcharges.

[83] *Madigan v. Illinois Commerce Comm'n*, 2011 WL 4580558 at * 7 - 8. ("[R]iders should be closely scrutinized because of the issue of single-issue ratemaking. . . . [B]ecause a rider, by nature, is a method of single-issue ratemaking, it is not allowed absent a showing of exceptional circumstances.")

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CONCLUSION

There is little if any objective evidence supporting a conclusion that DSIC surcharge adoption advances the rate at which service quality or reliability improvements are made or that DSIC use reduces rate case frequency or expense. Nor has research disclosed the existence of any objective evidence supporting a conclusion that DSIC surcharge adoption provides any other ratepayer benefits. Instead, surcharge adoption appears to erode established consumer protections and degrade a commission's ability to ensure rates demanded are reasonable. Because DSIC surcharge adoption should be tied to showing an actual *ratepayer-benefit* link, there is little if any justification for employing this extraordinary regulatory tool.

If the Commission concludes otherwise, DSIC adoption creates numerous challenges. Given the magnitude of the matters to be addressed on a tight timeline, it appears that added Commission resources will be needed if a DSIC regulation is implemented. To do otherwise would amount to a surrender of the Commission's duty to ensure utility plant investments are prudent and rates demanded are reasonable. Public policy cannot support this result.

The Utility Group's proposed regulation is also seriously flawed. Its scope is over-inclusive on items allowed, it fails to provide any cap or other reasonable limit on the amount requested, it permits use of a stale ROR at odds with case law and fails to account for reduced risk in the DSIC formula proposed, it is unsynchronized because it fails to require updated plant accounts and accumulated depreciation, it impermissibly

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allows use of cost estimates without any true-up, it employs an impossible-to-use test for eligibility, and it is structured in a way that will deprive the Commission and any interested person from testing the cost items included in a meaningful way.

Respectfully, the Utility Group's proposal for DSIC regulation adoption should be rejected, and this Docket closed.

DATED this 31st day of May, 2012, at Anchorage, Alaska.

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EXHIBIT
Ruco-5
Official Not'd 4-11-13

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF RIO RICO UTILITIES, INC. FOR A RATE INCREASE.	DOCKET NO. WS-02676A-12-0196
	PROCEDURAL ORDER

BY THE COMMISSION:

On March 1, 2013, Rio Rico Utilities, Inc. ("RRUI" or "Company") filed a Request for Change to Pre-hearing Conference and a Motion to Bifurcate.

On March 7, 2013, the Residential Utility Consumer Office ("RUCO") filed a Response to the Motion to Bifurcate.

On March 8, 2013, Intervenors Santa Cruz Valley Unified School District #23 ("School District") and Santa Cruz County ("County") (collectively "Intervenors") filed a Response to RRUI's Motion to Bifurcate.

On March 11, 2013, RRUI filed a Reply to RUCO's Response and a Reply to the Intervenors' Response/Objection.

On March 12, 2013, Staff filed a Response in Support of Company's Motion to Bifurcate.

The Company requests that the pre-hearing conference on March 21, 201,3 be conducted as a telephonic proceeding. RRUI states that it conferred with the other parties and all are in agreement with the request. No party will be prejudiced and a telephonic proceeding will save all parties time and money, thus the request will be granted.

In addition, RRUI moved to bifurcate this proceeding into two phases, with Phase 1 involving issues relating to establishing the fair value of RRUI's plant and property and determining permanent rates and charges for utility service, and Phase 2 involving consideration of the Company's request

for a Distribution System Improvement Charge ("DSIC") and Collection System Improvement Charge. Pursuant to the request, RRUI proposes that Phase 1 of the hearing be conducted as scheduled on March 27-29, 2013, and that Phase 2 commence 20 days after a final decision by the Commission in the second phase of Arizona Water Company's ("AWC") pending rate case (Docket No. W-01445A-11-0310).

Staff supports bifurcation and states that it is anticipated that in the AWC DSIC proceeding, the Commission will address the circumstances under which a DSIC can be approved, and the terms of the DSIC, and thus, the outcome of the AWC matter will determine the evidence that will be needed in the RRUI docket. Staff believes it would be more efficient for the Administrative Law Judge ("ALJ") and the parties in the RRUI matter to await the outcome of the AWC case to conduct the hearing on the DSIC. According to Staff, based on the schedule in the AWC case, it is unlikely that a final draft of the settlement and related DSIC in that case will be available prior to the RRUI hearing set to commence on March 27, 2013, and thus, to go ahead with the RRUI hearing on the DSIC would likely mean having to "re-litigate" issues.

RUCO does not oppose bifurcation as long as 1) all parties are allowed to supplement the record on Cost of Equity and any other rate-making element they perceive to be affected by the subsequent granting of a DSIC mechanism; and 2) all testimony submitted to date by all parties relative to the DSIC, Sustainable Water Loss Improvement Program ("SWIP") and System Betterment Cost Recovery ("SBCR") are included in the record.

The Intervenors oppose the Motion to Bifurcate on the grounds that the DSIC is not a stand-alone issue distinct from other rate making issues. They believe that a DSIC mechanism is best addressed during the discussion of depreciation in this case, and further, that if RRUI is granted a DSIC mechanism, it will affect the Company's financial risk and consequently cost of equity. They argue that granting the Motion to Bifurcate could result in piecemeal ratemaking, which violates the principles of *Scates v. Arizona Corporation Commission*, 118 Ariz. 351 (1978).

In addition, the Intervenors argue that the DSIC requested in the AWC case and the RRUI case are not exactly the same. They assert that RRUI assumes that the Commission will approve a DSIC mechanism in the AWC rate case and that a decision in favor of AWC translates to the granting

of a DSIC for RRUI. They argue that bifurcation will add confusion and prejudice the Intervenors because they will have to prepare for a second hearing on new facts and issues, rather than a single hearing. The Intervenors also argue that they are prejudiced by RRUI's shifting positions from SWIP to SBCR to DSIC,[1] and request that they be allowed to present verbal testimony, or be allowed additional time to file written testimony, of their expert on DSIC issues.

RRUI objects to RUCO's condition that the parties be allowed to "re-litigate" the cost of equity or other general rate case issues in Phase 2 on the grounds it would be unfair to the Company, waste time and resources and defeat the purpose of bifurcation, as well as give RUCO and other parties a "second bite at the revenue requirement apple." RRUI argues that when the Commission issued Decision No. 73736 on February 20, 2013, and granted AWC a rate increase and kept the docket open for further consideration of the DSIC, it in effect bifurcated the DSIC issue. RRUI asserts that it is asking for the same treatment.

RRUI argues that because one of the primary goals of Phase 2 in the AWC case is to reach consensus on a DSIC to be used as a template industry wide, resolving the DSIC issue for RRUI without waiting for resolution of the AWC case, risks conflicting resolutions and unnecessary legal confusion. RRUI believes that any decision and policy issued on the DSIC will not impact RRUI's fair value rate case, revenue requirements or just and reasonable rates based on the test year, and that allowing argument on return on equity in the general rate case or other rate case issues established in Phase 1 would jeopardize the Commission's DSIC decision and use of a DSIC in the water and wastewater utility industry.

Staff believes that when the Commission adopted an amendment to the AWC Recommended Opinion and Order ("ROO") to conduct a hearing on the DSIC request, it may have "implicitly determined" that a subsequently adopted DSIC would not have an impact on rates. However, Staff also states that "[e]ven if the hearing on the DSIC issue is conducted after the June 2013 Open

[1] In its direct testimony, RRUI proposed a SWIP based on Staff's position in the AWC rate case. In Staff's direct testimony, Staff recommended an SBCR mechanism in lieu of the SWIP. In rebuttal testimony, RRUI opposed Staff's recommended SBCR and requested a DSIC modeled after the one proposed by AWC. In surrebuttal, Staff opposed the adoption of a DSIC on the grounds it was raised late in the proceeding without any witness-sponsored support for the request. In rejoinder testimony, RRUI advocates for bifurcation and opposes the SBCR as well as RUCO's opposition to a DSIC. In its direct testimony, RUCO opposed the then-proposed SWIP and in surrebuttal testimony opposed a DSIC, or any mechanism designed to recover the cost of routine plant additions between rate cases.

Meeting, it is likely that a ROO on the issue of rates will not be issued and, arguably, could be addressed at the DSIC hearing. At that subsequent hearing, the Administrative Law Judge will also have knowledge of the issue of rates and can take into consideration any impact that a DSIC would have on ratepayers."[2]

RRUI does not oppose RUCO's second condition subject to relevancy and other objections relating to admission into evidence in the Phase 2 proceeding. RRUI asserts that upon Commission approval of a DSIC in the AWC case, the DSIC mechanism would then be used by RRUI, in turn potentially making much of the prior testimony in the Phase 1 proceeding no longer relevant.

RRUI argues that bifurcation of the DSIC issue is not piecemeal ratemaking, and asserts that the Intervenors do not provide any support for the argument that the DSIC is a function of depreciation rates and moreover, that depreciation rates in the underlying rate case have not been disputed. Similarly, RRUI argues that the issue of how the cost of equity will be impacted by a DSIC, SWIP or SBCR was not raised in direct or surrebuttal testimonies. Thus, RRUI believes that the DSIC is a separate and distinct issue that should be resolved in a separate Phase 2 proceeding.

RRUI also argues that the request to present additional rate case testimony should be denied. RRUI notes that when the School District sought intervention after the deadline, the Company did not object based on the School District's agreement not to seek modification of the procedural schedule, including testimony deadlines. RRUI further notes that surrebuttal testimony was due on February 19, 2013, and that the County, which was granted intervention on December 28, 2012, and the School District, which was granted intervention on February 4, 2013, had time to offer surrebuttal testimony, which opportunity neither party took. RRUI argues that to allow the Intervenors' witness to offer verbal testimony at the hearing would substantially harm RRUI, prevent RRUI from conducting discovery and violate the Procedural Orders issued in this case. The Company states it would not object to Intervenors offering the written testimony of their witness according to the procedural schedule in a Phase 2 proceeding relating to the DSIC.

[2] Staff Response at 3.

In the AWC docket the Commission did not adopt AWC's DSIC and held the docket open to allow the parties the opportunity to discuss "AWC's DSIC proposal and other DSIC like proposals Staff may wish to introduce."[3] The Commission ordered the Hearing Division to issue a proposed Order to be considered no later than the Commission's Open Meeting on June 11 and 12, 2013. Thus, at this juncture, the AWC DSIC proceeding is on-going with a hearing currently scheduled to commence on April 8, 2013. RRUI and Staff reference a settlement in that case, but at this time the terms of the specific DSIC being discussed are not public, including whether the proposed DSIC will affect operating expenses or cost of capital. RRUI seems to imply that it is a foregone conclusion that the Commission will adopt a DSIC in the AWC proceeding and that mechanism will apply to RRUI without affecting the revenue requirement. Even if there is a settlement in the AWC docket, it is not certain that whatever DSIC or DSIC-like mechanism being discussed in that proceeding will be adopted and/or apply to RRUI. The DSIC under discussion in that proceeding hasn't even been filed, much less been subjected to the hearing process. Currently, it cannot be determined whether the AWC DSIC will not affect rates or the revenue requirement as the specifics of that DSIC are not known.

Bifurcation of the RRUI proceeding, as proposed by RRUI is not in the public interest given the issues raised by the parties concerning single issue rate making and the potential overlap of a DSIC or DSIC-like mechanism with other rate issues. Although there are assertions that a DSIC is appropriate, there are also assertions that a DSIC is not appropriate and that the return on equity or other expenses that affect rates may be affected by a DSIC. These issues are disputed and have not yet been subject to examination in a hearing.

The AWC rate case presented a unique set of circumstances that resulted in the Commission holding the docket open in order to consider AWC's proposed DSIC and other DSIC-like proposals. The AWC procedural situation should not serve as precedent for how rates should be set in this case, as it is inefficient and raises the specter of single issue ratemaking. Bifurcation as proposed by RRUI hinders the ability of parties to argue their positions as to whether and how a DSIC affects the cost of

[3] Decision No. 73736 at 104.

capital and/or operating expenses, and could adversely affect the Commission's ability to set just and reasonable rates based on all the evidence. Furthermore, treating a decision on DSIC in the AWC rate case as a rulemaking poses due process issues for parties in other cases.

Principles of efficiency and administrative economy support considering RRUI's rate application, including its request for a DSIC, in a single proceeding. Staff makes a good case for continuing the entire proceeding. Staff's Response states that Staff supports bifurcation, but it is unclear whether Staff and RRUI have the same understanding of the meaning of bifurcation.

The proposals in this matter for a DSIC or similar mechanism have evolved substantially from the position first advanced by the Company. The Company now seeks a DSIC as proposed in the AWC proceeding. The Company made this request in its rebuttal testimony, but did not offer testimony describing how such a mechanism would function. At that time, RUCO was opposing any such mechanism and Staff was recommending its SBCR. In surrebuttal testimony, Staff opposed a DSIC. RRUI's decision to change its proposed mechanism and to request to bifurcate a single issue from the usual ratemaking process could not have been anticipated by parties, and due process and the need for a complete evidentiary record require that if the proceeding is to be continued in order to consider the DISC issue, all parties should be permitted to offer additional testimony on the effects of the DSIC.

Given the unique procedural circumstances surrounding the evolution of the Company's request for a DSIC mechanism and uncertainty surrounding any AWC DSIC and its industry-wide effect, there are several options for proceeding in this matter: 1) proceed with the rate case on all issues as currently scheduled; 2) postpone the hearing on all issues until after the Commission's Decision in the AWC DSIC proceeding; or 3) proceed with a process along the lines suggested by RUCO, which would keep the current hearing dates, but also keep the record open to allow the parties to file additional testimony and hearing dates on whether a DSIC is appropriate for RRUI, how such DSIC would function, and any effects of the DSIC on other ratemaking elements. Under either the second or third option, given that the DSIC is a material modification to the application and that it was proposed late in the process, and remains undefined, there is good cause to suspend the time clock under A.A.C. R14-2-103.

IT IS THEREFORE ORDERED that the Motion to Bifurcate is denied.

IT IS FURTHER ORDERED that at the March 21, 2013, Pre-hearing Conference, the parties shall be prepared to discuss all three options for proceeding in this matter.

IT IS FURTHER ORDERED that in the event any portion of the proceeding is continued or postponed the time clock under A.A.C. R14-2-103 shall be suspended.

IT IS FURTHER ORDERED that the **pre-hearing conference on March 21, 2013, at 10:00 a.m. shall be conducted as a telephonic proceeding.** The parties should contact the Hearing Division, (602) 542-4250, to obtain the bridge line information.

IT IS FURTHER ORDERED that the Ex Parte Rule (A.A.C. R14-3-113 - Unauthorized Communications) continues to apply to this proceeding and shall remain in effect until the Commission's Decision in this matter is final and non-appealable.

IT IS FURTHER ORDERED that the Presiding Officer may rescind, alter, amend, or waive any portion of this Procedural Order either by subsequent Procedural Order or by ruling at hearing.

DATED this 20th day of March, 2013.

JANE L. RODDA
ADMINISTRATIVE LAW JUDGE

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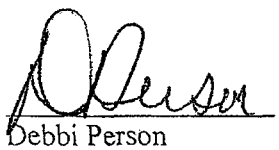
By: 
Debbi Person
Assistant to Jane L. Rodda

RUCO-6

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BEFORE THE ARIZONA CORPORATION C(

COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

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Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF RIO RICO UTILITIES, INC. FOR A RATE INCREASE.

DOCKET NO. WS-02676A-12-0196

STAFF'S RESPONSE IN SUPPORT OF COMPANY'S MOTION TO BIFURCATE

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby responds to the Motion to Bifurcate filed on behalf of Rio Rico Utilities, Inc. ("RRUI" or "Company") and joins in said Motion. A significant issue in this case is the Company's request for a Distribution System Improvement Charge ("DSIC").[1] A DSIC has not previously been approved in Arizona, but is being addressed in Arizona Water Company's pending rate case, Docket No. W-01445A-11-0310 ("Arizona Water"). It is anticipated that the Commission, in that case, will address both the circumstances under which a DSIC can be approved and the terms thereof. Therefore, the outcome of that matter will determine the evidence to be presented and considered in this case. It would be more efficient for the Administrative Law Judge and the parties to await the outcome of the Arizona Water Company case to conduct the hearing on the DSIC in this case, as set forth below.

In Arizona Water, the Company presented extensive evidence and the parties submitted briefs regarding whether a DSIC was warranted. Three active parties, the Company, Commission Staff and the Residential Utility Consumer Office ("RUCO") participated in the hearing, which was held over seven days in May 2012. Briefing was completed on July 11, 2012. A Recommended Opinion and Order ("ROO") was issued January 30, 2013, consisting of 117 pages, with an additional 31 pages of

[1] Several versions of a DSIC-like mechanism have been presented, all of which are variations on a DSIC. For the convenience of the Administrative Law Judge and the parties, such a mechanism will be referred to herein as a "DSIC," and may include any of a variety of DSIC-like mechanisms.

EXHIBIT
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OFFERED 4-11-13

exhibits. That ROO concluded that a DSIC was not appropriate in that case. However, when that matter was heard at Open Meeting on February 12, 2013, several Commissioners expressed an interest in approving a DSIC for Arizona Water and directed that a schedule be set for possible settlement of the DSIC issue as well as for a hearing schedule on that issue. The remaining terms of the ROO, including new rates, were adopted.

The hearing in Arizona Water is set for April 8, 2013, with the remaining procedural schedule is as follows:

Intervention Request Deadline February 20, 2013

Intervention Ruling Deadline February 28, 2013

Earliest Date for Settlement Discussions March 1, 2013

Latest Date for Procedural Conference March 8, 2013

Staff Update on Settlement Discussions April 9 and 10, 2013 (Open Mtg.)

Consideration of DSIC Order June 11 and 12, 2013 (Open Mtg.)

At Open Meeting on February 12, 2013, the Commission further indicated that additional interested parties could intervene in that case. To date those granted intervention include RUCO; Rio Rico Utilities, Inc.; EPCOR Water Arizona, Inc.; the Arizona Investment Council; Global Water; the Water Utility Association of Arizona (WUAA); the City of Globe; and Kathie Wyatt. The parties and interveners, without counsel, met on March 4, 2013, and reportedly agreed to all aspects of a DSIC. The initial draft of that settlement was distributed March 12, 2013 and is being reviewed by counsel for the various parties/interveners.

As we approach the hearing on the Application of RRUI, set for March 27, 28 and 29, 2013, it is unlikely that a final draft of the settlement and related DSIC will be available. Nor, given the procedural schedule in the Arizona Water Company case, will the Commission's decision have been issued. If the hearing in this case addresses RRUI's request for a DSIC, it is likely that the significant of time and effort spent on that issue will become irrelevant, or the issue will need to be re-litigated and any ROO revised when the Commission votes on the Arizona Water case on June 11, 2013.

As to concerns of the interveners in this case regarding the impact of a subsequent DSIC on rates that would be adopted, it should be noted that the Commission, by its February 12, 2013, ruling in Arizona Water, has implicitly determined otherwise. In this case, even if the hearing on the DSIC issue is conducted after the June 2013 Open Meeting, it is likely that a ROO on the issue of rates will not be issued and, arguably, could be addressed at the DSIC hearing. At that subsequent hearing, the Administrative Law Judge will also have knowledge of the issue of rates and can take into consideration any impact that a DSIC would have on ratepayers.

For the foregoing reasons, Staff joins in RRUI's Motion to Bifurcate.

RESPECTFULLY SUBMITTED this 12th day of March, 2013.

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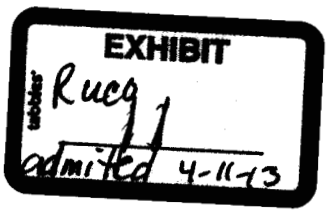
ARIZONA WATER COMPANY

DOCKET NO. W-01445A-11-0310



DIRECT SETTLEMENT TESTIMONY

OF

PATRICK J. QUINN

IN

OPPOSITION TO THE SETTLEMENT AGREEMENT

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 2, 2013

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EXECUTIVE SUMMARY

RUCO Director Patrick J. Quinn recommends that the Arizona Corporation Commission ("ACC" or "Commission") reject the proposed settlement agreement on Arizona Water Company Eastern Group rate case which adopts a System Improvement Betterment ("SIB") mechanism.

INTRODUCTION

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

A. My Name is Patrick J. Quinn. I am the Director of the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. No.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present RUCO's reasons for opposing a System Improvement Benefit mechanism ("SIB") which was developed through a settlement process that was ordered by the Arizona Corporation Commission ("ACC" or "Commission") in Decision No. 73736, dated February 20, 2013. The SIB was adopted in the proposed settlement agreement ("Settlement Agreement") that was filed with the Commission on April 1, 2013. My testimony will address the public interest issues associated with the SIB mechanism and explain why the Settlement Agreement should not be approved by the Commission.

...

Q. Is RUCO a signatory to the Settlement Agreement that is the subject of this phase of the proceeding?

A. No. RUCO is not a signatory to the Settlement Agreement.

Q. Will RUCO offer a witness who will address the specific problems with the SIB mechanism being proposed in this phase of the proceeding?

A. Yes. Those aspects will be addressed by RUCO William A. Rigsby, RUCO's Chief of Accounting and Rates.

Q. How is your testimony organized?

A. My testimony contains two parts, the introduction that I've just presented and a section on the SIB mechanism that has been adopted in the Settlement Agreement.

SYSTEM IMPROVEMENT BETTERMENT MECHANISM

Q. Were you involved in the Settlement Agreement negotiations?

A. Yes.

Q. Did you sign the Settlement Agreement?

A. No.

Q. Why not?

A. While there were many parts of the Settlement Agreement that were well thought out and many compromises where agreed to, in the final document there are still areas that RUCO believes are not fully addressed. There are some protections for the rate payer like a cap on annual SIB charges; however the only real financial benefit for the residential consumer is the efficiency credit equal to 5.00 percent of the SIB surcharge cap. This credit and other benefits were insufficient to offset what the residential consumer would be giving up if RUCO signed the agreement. Therefore I could not sign the Agreement because I believed it was not in the best interest of the residential consumer.

Q. What makes the Settlement Agreement unacceptable?

A. The original idea of a SIB surcharge was to allow a company to recover the cost of replacing fully depreciated facilities between rate cases when those facilities through no fault of the company failed and/or were operating inefficiently. In this Agreement the definition of what facilities would qualify for a SIB surcharge expanded beyond the original intent of the SIB.

There should be language in the Settlement which does not limit the Commission but allows the Commission to consider the circumstances of each case when considering a SIB surcharge. This is important, as now the Agreement creates perverse incentives. For example, under section

6.3, the Agreement provides that all a utility needs to qualify for the SIB is to meet one of the numerous criteria. If a utility has an eight percent water loss, the utility may create circumstances that allow a greater water loss to meet the eligibility. Another example would include the circumstances of this case. In the ROO, the Judge was concerned with the Company's payment of dividends over the years when it could have used the money to address its infrastructure needs. Under the Agreement concerns such as this are not part of the eligibility criteria.

Perhaps RUCO's greatest concern is its belief tha t when a company qualifies for a SIB surcharge that the company shifts risk to the consumer and therefore the authorized return on equity ("ROE") should be adjusted downward. While it was not possible to make the ROE argument in this case, RUCO did not want to limit its ability to argue that in future cases since this Agreement may be used as a template in future filings.

Also RUCO by signing this agreement would have given up its rights to challenge the legality of the SIB mechanism in the future. These were the main reasons RUCO chose not to sign.

Q. Does your silence on any other issues, matters or findings addressed in the testimony of the parties who support the SIB mechanism constitute your acceptance of the Company's positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your testimony on the proposed SIB mechanism?

A. Yes, it does.

RUCO-12
admitted 4-4-13

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-11-0310

DIRECT SETTLEMENT TESTIMONY

OF

WILLIAM A. RIGSBY

IN

OPPOSITION TO THE SETTLEMENT AGREEMENT

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 2, 2013

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7 EXHIBIT 2 – Staff's Reply/Closing Brief Filed on July 11, 2012

8 EXHIBIT 3 – RUCO's Opening Brief Filed on June 26, 2012

9 EXHIBIT 4 – RUCO's Reply Brief Filed on July 11, 2012

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EXECUTIVE SUMMARY

RUCO Chief of Accounting and Rates, William Rigsby, recommends that the Arizona Corporation Commission ("ACC" or "Commission") reject the proposed settlement agreement on Arizona Water Company Eastern Group rate case which adopts a System Improvement Betterment ("SIB") mechanism.

INTRODUCTION

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

A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates for the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, I filed direct and surrebuttal testimony presenting RUCO's recommendations on cost of capital and on the Company's request for a Distribution System Improvement Charge ("DSIC") mechanism in Phase 1 of this proceeding.

Q. Is RUCO a signatory to the proposed settlement agreement that is the subject of this phase of the proceeding?

A. No. RUCO is not a signatory to the proposed settlement agreement ("Settlement Agreement").

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's reasons for opposing a System Improvement Benefit mechanism ("SIB") which was developed through a settlement process that was ordered by the Arizona Corporation Commission ("ACC" or "Commission") in Decision No. 73736, dated February 20, 2013. The SIB was adopted in the Settlement Agreement

that was filed with the Commission on April 1, 2013. My testimony will address RUCO's concerns with the proposed SIB and why RUCO believes the Settlement Agreement should not be approved by the Commission.

Q. Will RUCO offer a policy witness who will address the public interest issues in this phase of the proceeding?

A. Yes. The public interest issues in this matter will be addressed by RUCO Director Patrick J. Quinn who is also filing direct testimony on the Settlement Agreement.

Q. How is your testimony organized?

A. My testimony contains three parts: the introduction that I've just presented; a section on the background of this proceeding, and a section on the SIB that has been adopted in the Settlement Agreement.

BACKGROUND

Q. What is the background of this proceeding?

A. On August 5, 2011, AWC filed an application with the Commission requesting a permanent rate increase for the Company's Eastern Group systems. In addition to the requested rate increase, AWC sought approval of a DSIC mechanism that would allow the Company to

implement annual surcharges to recover the costs of specific plant items placed into service between general rate case proceedings.

During what is now being referred to as Phase 1 of this proceeding, expert witnesses for both ACC Staff and RUCO testified against the DSIC mechanism and recommended that the Commission reject it. After weighing the evidence presented in the case, the Administrative Law Judge assigned to hear the matter issued a Recommended Opinion and Order ("ROO") on Wednesday, January 30, 2013. The Administrative Law Judge adopted ACC Staff's and RUCO's positions and recommended that the Commission deny AWC's request for a DSIC.

At the Regular Open Meeting held on Tuesday, February 12, 2013, the Commission voted 5-0 to adopt an amended ROO that approved an increase in rates for AWC's Eastern Group Systems, but left the docket open for the purpose of allowing the Company, ACC Staff, RUCO and other interested parties to engage in settlement discussions for the purpose of developing a DSIC-like mechanism. Decision No. 73736, dated February 20, 2013, ordered a procedural schedule that would result in a tentative vote on a settlement agreement reached by any of the parties to the case.

Settlement talks were conducted on Monday, March 4, 2013 immediately following a Procedural Conference on the Phase 2 procedural schedule and the admission of the City of Globe as an intervenor in the proceeding. Participants in the settlement meetings included AWC, ACC Staff, RUCO, On February 13, 2013, Rio Rico Utilities, Inc. dba Liberty Utilities ("Liberty Utilities"), EPCOR Water Arizona, Inc., Global Water – Palo Verde Utilities Company, Santa Cruz Water Company, Valencia Water Company – Town Division, Valencia Water Company – Greater Buckeye Division, Water Utility of Greater Tonopah, Willow Valley Water Co. and Water Utility of Northern Scottsdale ("collectively the Global Utilities"), the Water Utility Association of Arizona ("WUAA"), whose representative was not in attendance, the Arizona Investment Council ("AIC"), and the City of Globe. At the conclusion of the settlement meeting, an agreement in principle had been reached on the SIB mechanism which was to be reduced to writing and reviewed by settling parties.

After three weeks of revisions to the first draft of the Settlement Agreement, a final draft, which adopts the SIB mechanism, was approved on Monday, March 25, 2013. The signatories to the Settlement Agreement include AWC, ACC Staff, Global Water, EPCOR Water Arizona Inc., Liberty Utilities, WUAA, and AIC. On Monday, April 1, 2013, a copy of the Settlement Agreement was filed with the Commission.

Q. Was RUCO a signatory to the Settlement Agreement?

A. No. RUCO chose not to sign the Settlement Agreement because of its concerns with the SIB mechanism that was developed by the signatories.

Q. Does RUCO believe that the Agreement itself is a good Agreement?

A. Legal and Policy considerations aside, the Agreement viewed alone has a lot of good points. There are still areas that the Agreement does not cover or covers inadequately that RUCO believes must be addressed if the Commission intends to approve a SIB mechanism.

Q. What areas need to be addressed?

A. First, the Settlement Agreement does not exclude improvements for fire flow in the surcharge. The Commission has determined that utilities should not recover improvements for fire flow. (See the Youngtown case – Decision No. 70351, dated May 16, 2008). Under the terms of the Settlement Agreement there is nothing from stopping a utility from running fire flow improvements through the surcharge. It is a contract and there should be a provision which directly addresses this issue so that there is no question in the future.

Second, the eligibility requirements could result in perverse incentives. For example, to be eligible for a SIB, a Company need only experience water loss for the system that exceeds ten percent (Settlement Agreement

Section 6.3.1). A utility that is experiencing only eight or nine percent water loss and does not meet eligibility under the other criteria would have incentive to take action which brings its water loss above the criteria. Inappropriate conduct or malfeasance in that case would be awarded by the approval of a SIB mechanism. There should be language in the Settlement which does not limit the Commission but allows the Commission to consider the circumstances of the case when considering a SIB.

Third, the Settlement Agreement does not address what will happen to the SIB beyond the next general rate case. The understanding is that the Company will have to apply for a new SIB but it is not stated in the Settlement.

Fourth, an earnings test requirement would protect the ratepayers better than a Schedule D filing which would show the impact of the SIB plant on FVRB (Settlement Agreement Section 7.17).

SYSTEM IMPROVEMENT BETTERMENT MECHANISM

Q. Have you reviewed the Settlement Agreement that adopts the SIB mechanism?

A. Yes.

Q. Please describe the SIB mechanism.

A. The SIB mechanism will allow AWC to implement a surcharge on the Company's ratepayers that will allow AWC to recover a return on, and a return of the capital costs of certain eligible utility plant items that are placed into service between general rate case proceedings.

Q. When would the SIB surcharge go into effect?

A. The Settlement Agreement requires ACC Staff to promptly process AWC's request and docket any Staff recommendations to the Commission within thirty days after AWC has filed its request for an SIB surcharge. If there is no objection to AWC's request, the request shall be placed on an open meeting agenda at the earliest practical date for approval by ACC Commissioners. If AWC's SIB filing is approved by the Commissioners, AWC will begin recovering the SIB related costs through a surcharge placed on the Company's ratepayers.

Q. How will the SIB mechanism operate if the Settlement Agreement is approved by the ACC?

A. Under the terms of the Settlement Agreement, AWC will be able to, within twelve months from the date of the ACC's final decision on the Company's general rate case application, file a request with the Commission to implement the SIB surcharge to be collected from AWC's ratepayers. AWC would be able to file for additional SIB surcharges in subsequent

years as long as the surcharges do not exceed a 5 percent cap of total authorized revenues. AWC would be required to file a rate case after five years after the prior rate case in which the SIB mechanism was approved.

Q. What criteria must be met before eligible plant items can be placed into service and be granted cost recovery under the SIB mechanism?

A. Under the terms of the Settlement Agreement, AWC would first have to meet one of the following criteria prior to requesting cost recovery of eligible plant items. The three conditions are as follows:

1. Water loss for the system exceeds ten (10) percent, as calculated by the following formula:

   ((Volume of Water Produced – (Volume of Water Sold + Volume of Water Put to Beneficial Use)) / (Volume of Water Produced)) If the Volume of Water Put to Beneficial Use is not metered, it shall be established in a reliable, verifiable manner;

2. Water Utility plant assets have remained in service beyond their useful service lives (based on that system's authorized utility plant depreciation rates) and are in need of replacement due to being worn out or in a deteriorating condition through no fault of the Company; and,

3. Any other engineering, operational or financial justification supporting the need for a plant asset replacement, other than AWC's negligence or improper maintenance, including, but not limited to:

   Any other engineering, operational or financial justification supporting the need for a plant asset replacement, other than utility negligence or improper maintenance, including, but not limited to:

   A documented increasing level of repairs to, or failures of, an asset justifying its replacement prior to

reaching the end of its useful service life (e.g. black poly pipe);

Meter replacements for systems that have implemented a meter testing and maintenance program in compliance with A.A.C. R14-2-408 (E);

Meters replaced in a system for the purpose of complying with the U.S. Environmental Protection Agency's Reduction of Lead in Drinking Water Act of 2010;

Assets that are required to be moved, replaced or abandoned by a governmental agency or political subdivision if AWC can show that it has made a good faith effort to seek reimbursement for all or part of the costs incurred.

Q. What types of plant items would be eligible for cost recovery under the SIB?

A. Distribution system items that must be classified in the following plant categories:

- Transmission and Distribution Mains;
- Fire Mains;
- Services, including Service Connections;
- Valves and Valve Structures;
- Meters and Meter Installations;
- Hydrants

In addition to the plant categories listed above, AWC may also include a request to modify or add projects. The Settlement Agreement contains a provision that allows AWC to provide a proposed order for Commission

consideration that would list such projects. Under the Settlement Agreement, ACC Staff and RUCO would have thirty days to object to the projects that AWC is seeking.

Q. Does RUCO agree with the SIB mechanism?

A. No.

Q. Please explain why RUCO does not agree with the SIB mechanism.

A. RUCO does not agree with the SIB mechanism for several reasons. First, and perhaps most important, the SIB shifts risk from the Company to ratepayers adequate financial consideration to the ratepayers. Second, RUCO believes that the SIB is not legal in Arizona. Third, there are a number of flaws with the SIB as proposed. Fourth, the SIB is not in the public interest.

Q. Please elaborate on each of the four reasons stated above beginning with RUCO's view that the SIB shifts risk from the Company to ratepayers.

A. In RUCO's view, the SIB mechanism reduces regulatory lag for AWC because the Company will not have to wait until new rates go into effect to recover a return on SIB eligible plant or the depreciation expense associated with it. However, any actual cost savings, such as lower operating and maintenance expense, attributable to the new plant are not

captured by the mechanism and flowed through to ratepayers. Unlike a typical adjustor mechanism for purchased fuel or natural gas which operates on a two way street basis by flowing both increases and decreases in costs to ratepayers the SIB operates on a one way street basis and only provides cost recovery to AWC. Ratepayers on the other hand see no actual cost savings that might be realized and will no longer benefit from the rate stability that exists under the present ratemaking procedure.

Q. What is regulatory lag?

A. Regulatory lag is the time that it takes for a utility to recover the costs of plant additions placed into service between general rate case proceedings through new rates.

Q. Please explain how regulatory lag works to the benefit of both utilities, such as AWC, and ratepayers.

A. In my direct testimony I cited a report authored by Ken Costello of the National Regulatory Research Institute who stated that mechanisms such as the proposed SIB "undercut the positive effects of regulatory lag on a utility's costs." According to Mr. Costello, "economic theory predicts that the longer the regulatory lag, the more a utility has to control its costs." Regulatory lag acts as a surrogate for the competitive pressures that force unregulated companies to keep their costs low. Under this scenario, both

utilities and ratepayers see the benefits that come from higher earnings and lower rates.

Q. Doesn't the SIB incorporate a 5.00 percent efficiency credit to recognize the types of cost savings that you noted above?

A. Yes, it does.

Q. Didn't RUCO state in its underlying testimony that it could accept an operations & maintenance expense offset of 15.00 percent?

A. Yes. RUCO did state that. However, that is not what the Settlement Agreement provides and RUCO would also have to consider the terms of any proposal.

Q. Why does RUCO believe that the SIB mechanism is not legal in Arizona?

A. Of course, this question suggests a legal analysis. I am not an attorney and not testifying as one. RUCO presented its legal analysis regarding the Company's proposed DSIC in its Briefs in this docket. While the SIB here is not the same as the Company's proposed DSIC, the underlying legal objections are for the most part the same. The legal points regarding the DSIC, and similarly the SIB, are attached in the relevant portions of RUCO and ACC Staff's Briefs (the relevant excerpts are attached as Exhibits 1 through 4).

Q. From a layman's perspective, can you summarize the legal argument?

A. Again, I would defer to the attorneys for the legal interpretation but the controversy centers on Arizona's fair value requirement and RUCO's belief that the SIB violates the Constitutional requirement of finding fair value when establishing rates. Perhaps Staff, who also believed the Company's proposed DSIC was unconstitutional (See Staff Opening Brief at page 26), summed it up best when it said "The DSIC in this case does far more than simply pass on increasing and decreasing costs to AWC. It allows surcharges based on the cost of the new plant, effectively increasing the fair value rate base without any determination by the Commission of what that fair value is." (Staff Reply Brief at 22).

Q. Does the SIB increase the fair value rate base without any determination by the Commission of what fair value is?

A. Yes. The Company will be able to file for the SIB surcharge no more than five times between rate case decisions (Settlement Agreement, section 4.4). The Commission will ultimately consider and then may approve each surcharge filing. The Commission, however, will not be making a new FVRB finding as part of each surcharge filing.

...

Q. What will be the result of the Commission's findings?

A. Among other things, the result will be rates based on a fair value finding for a period different than the period in which the Company's operating expenses were incurred.

Q. Are there other aspects to the legal argument that you have not discussed?

A. Yes. Again I would refer the reader to the Briefs submitted by both RUCO and ACC Staff on the legality of the DSIC. RUCO believes that the SIB has not overcome the legal hurdles raised by ACC Staff and RUCO in their respective Briefs. While it is true that the SIB mechanism would be authorized by the ACC in a general rate case proceeding, the SIB mechanism would recover new plant placed into service in the years between general rate case proceedings. Because a SIB surcharge could be established within thirty days of the Company's request, the same level of scrutiny that occurs in a general rate case proceeding would not exist to insure that a real finding of fair value is accomplished. Furthermore, the SIB surcharge would represent piecemeal ratemaking since it would only recover capital expenditures associated with the type of plant items that a regulated water utility, such as AWC, would replace under normal circumstances and seek rate base treatment for in a general rate case proceeding.

For a more detailed explanation of why RUCO believes that a DSIC-like mechanism such as the SIB is not legal in Arizona, see the excerpts of RUCO's and ACC Staff's Briefs that are attached as exhibits. While I am not an attorney I cannot vouch for the legal arguments but I provide the exhibits only to present the Commission with a better understanding of RUCO's legal position.

Q. Does RUCO believe that the SIB appears to be a template for future cases?

A. Yes. RUCO believes that the SIB appears to be a template for future rate cases. The circumstances of each case are different and providing specific eligibility requirements is one of the flaws of the Settlement Agreement as it leaves the Commission no flexibility to consider the circumstances of each case.

Q. Please discuss some of the other flaws with the proposed SIB.

A. The 5.00 percent efficiency credit is inadequate to compensate ratepayers for the shift in risk. The Commission awarded AWC a higher cost of common equity because of the infrastructure issue presented in the Company's rate application. Now the Commission is considering a SIB to address the same infrastructure issue. In exchange, the only financial benefit to the Company's ratepayers is the 5.00 percent efficiency credit.

RUCO believes that the Settlement Agreement is woefully inadequate here, at the ratepayer's expense.

In RUCO's view, none of the plant items are extraordinary in nature and none of the plant is being replaced under extraordinary circumstances, such as a government mandate. In addition to the failure of taking into consideration all of the ratemaking elements that are reflected in rates approved by the Commission in a general rate case proceeding, the SIB has been tied to the Commission's policy of keeping water loss under 10.00 percent. While this might seem laudable, given the fact that much of Arizona is in an arid climate, the SIB could have the unintended effect of encouraging utilities to exceed the 10.00 percent threshold just to qualify for a SIB surcharge in order to get faster recovery of routine plant additions. As noted earlier, the short period of time in which the request for a SIB surcharge is filed and the time it is approved circumvents a proper regulatory review for prudence and reasonableness.

The settlement also does not specifically address the issue of fire flow upgrades that have been problematic in the past. Finally, there is no reason to believe that AWC would not be able to ensure safe and reliable water service or achieve cost recovery absent the SIB. Therefore, there is no need for the Commission to adopt a special surcharge for routine plant additions.

Q. Please explain why RUCO believes the SIB mechanism is not in the public interest.

A. My direct testimony contains a resolution adopted by National Association of State Utility Advocates ("NASUCA") in 1999 that states a number of reasons why the SIB mechanism is not in the public interest. In addition to the reasons I've cited in my testimony, NASUCA's Ad Hoc Water Committee stated that rate stability is reduced and proper price signals are distorted by frequent rate increases. According to the NASUCA resolution, no convincing evidence has been shown to support the claim that the frequency of rate case proceedings is reduced by mechanisms such as the SIB. NASUCA's findings are consistent with the recent findings of the Regulatory Affairs and Public Advocacy ("RAPA") section of the Alaska Attorney General's Office. RAPA found that, among other things, that a review of ten states that have implemented some sort of DSIC-type mechanism, there does not appear to be support for the conclusion that DSIC adoption reduces rate case frequency.[1] Furthermore, special incentives are not needed in order ensure adequate water quality, pressure, and a proper reduction of service interruptions. In NASUCA's view, SIB-like mechanisms can inappropriately reward water companies that have imprudently fallen behind in infrastructure improvements. Finally, the NASUCA resolution expressed the belief that it is inappropriate to tilt the regulatory balance against consumers and shift

[1] See RUCO's Closing Brief at 8-10.

business risk away from water companies simply for the purpose of creating an incentive for those companies to fulfill their basic obligation to provide safe and adequate service.

For the various reasons cited above, RUCO believes that the Commission should reject the proposed SIB mechanism.

Q. Does your silence on any other issues, matters or findings addressed in the testimony of the parties who support the SIB mechanism constitute your acceptance of the Company's positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your testimony on the proposed SIB mechanism?

A. Yes, it does.

EXHIBIT 1

ORIGINAL

BEFORE THE ARIZONA CORPORATIO

COMMISSIONERS
GARY PIERCE - Chairman
B0B STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	DOCKET NO. W-01445A-11-0310

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STAFF'S OPENING BRIEF

June 26, 2012

Arizona Corporation Commission
DOCKETED
JUN 26 2012
DOCKETED BY

Bridget Humphrey, Attorney
Wesley C. Van Cleve, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
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a) Maintenance of appropriate supporting records to correlate depreciation and cost of money deferrals with the associated plant;

b) Demonstration during its relevant rate case(s) (see condition No. 7) that the plant replacements contributed to a reduction in water loss; and

c) Whole or partial disallowances for deficiencies in "a" or "b;" and

7. Amortization of the allowed (i.e., net of any disallowances) combined depreciation and cost of money deferrals over 10 years and monthly application of cost of money on allowed amounts not yet recovered. The purpose of this provision is to provide a continuous, 10-year incentive for the Company to reduce its water loss. Thus, the Company must continue to meet conditions "6a" and "6b" in each rate case over the 10-year amortization period to continue recovering the deferral amortizations. Terminates before 24 months if rates become effective that include the qualified plant in rate base in the 24-month period.

The benefit of the SWIP is that it permits the Company to retain all the financial benefits of the new plant, such as depreciation, until the next rate case is filed, without creating an imbalance in the principles of historical test year and regulatory lag.

C. <u>The Commission should deny AWC's proposal to implement a Distribution System Improvement Charge (DSIC) in this case.</u>

1. Constitutionality of the DSIC.

a. DSICs in General.

Arizona's Constitution requires the Commission to determine the fair value of a utility's property in order to set just and reasonable rates.[205] Rates cannot be said to be just and reasonable if they fail to produce a reasonable rate of return or if they produce revenue which exceeds the authorized rate of return.[206] This, of course, is what is evaluated in a full rate case. However, there are clearly circumstances under which rates may be adjusted outside of a rate case. The Commission has long allowed cost adjustor mechanisms which allow utilities to pass on to customers changes in certain specific volatile costs outside of the utility's control, such as purchased power costs. The Commission has also authorized ACRM which allow a utility to recover the costs of added plant required to meet new federal requirements reducing allowed arsenic levels. An ACRM is very limited in terms of the scope of what is included and the duration of the mechanisms. By their nature and the

[205] Ariz. Const. art. 15, §14.
[206] *Scates v. Arizona Corp Comm'n*, 118 Ariz. 531, 535, 578 P.2d 612, 616 (App.1978).

nature of the costs being recovered, they tend to be of short duration. Rather than changing rates, per se, they add costs on to current rates, which does effectively raise rates.[207]

However, rate adjustors outside of a rate case are the exception rather than the rule and very limited in what they can do. The Arizona Court of Appeals has determined that, while exceptional situations may occur which justify a partial rate adjustment without requiring full rate cases, such an adjustment cannot be made without the Commission determining the rate base and considering the overall impact of that adjustment on the rate of return.[208] Therefore, where exceptional circumstances exist, and a mechanism for a future rate adjustment is adopted in the context of a rate case as part of a utility's rate structure and if that mechanism meets the constitutional requirements that rate base is determined and the overall impact on the rate of return prescribed, that mechanism will not violate the Arizona Constitution.

b. AWC's Proposed DSIC.

The question in this case then becomes whether the DSIC as proposed by AWC complies with the constitutional mandates. It is Staff's position that it does not.

i. The DSIC as proposed does not contain sufficient detail to assure that it meets the constitutional requirements.

If the constitutionality of a DSIC depends on its terms, then it is critical that the DSIC provide sufficient information for the Commission to make that decision. As was noted during the hearing herein, 'the devil is in the details.'[209] Yet few details have been provided here. The entire DSIC plan, as set forth by AWC in its DSIC Study filed in the 2008 rate case[210] fits on a single sheet of paper, excluding the list of required schedules. [211] The plan provides only minimal details as to how the DSIC would be implemented. The plan contains no details as to the extent or nature of Staff's evaluation of the new plant, or its prudency. There is no requirement that Staff evaluate the overall impact of the rate increase. The plan does not address any change in operating expenses that may have resulted from the new plant, such as efficiencies in the system. And there is no provision for a

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[207] Tr, 1439-41.
[208] *Scates*, 118 Ariz. at 533, 578 P.2d at 614.
[209] Tr. at 438.
[210] Harris Dir. Test., Ex. A-9, att. A.
[211] Harris Dir. Test., Ex. A-9, att. A at 7-9.

true-up based on prudency or an off-set of savings in operating expenses that resulted from the addition of new plant.

During the hearing, AWC's witnesses testified as to its understanding of some of the facets of the plan which were not included in the version of the AWC DSIC Study. For example, at hearing Mr. Harris testified that it was his understanding that not only would the fixed costs to be recovered be limited to the additions net of retirements which are properly classified in the NARUC Uniform System of Accounts for Class A and B Water Utilities, but that they would also be limited to the projects specified in the AWC DSIC Study.[212] Equally vague is the earnings test mentioned in the AWC DSIC Study.[213] This is critical to crafting a constitutional DSIC. Staff would note that limiting Staff's response time to an annual filing to 30 days would indicate that Staff's is not expected to conduct the thorough analysis discussed in *Scates.*

Other constitutional and statutory concerns exist as well. Due process attaches to an overall assessment of rates,[214] yet no mention of the process for the DSIC is provided. It is unclear whether a hearing is anticipated, a staff report will be filed and a ROO will be written, etc. Without these details the constitutionality of the DSIC cannot be assessed and, as a result, the DSIC must be denied. This would be the first DSIC in Arizona. Before adopting such a unique cost recovery mechanism, a detailed plan must be submitted and reviewed.

ii. The circumstances on which the DSIC are based cannot be considered exceptional.

As noted, other cost recovery mechanisms in use in Arizona all address extraordinary circumstances outside the utility's control, such as the fluctuating cost of natural gas or a federal mandate requiring the addition of massive amounts of plant.[215] This case seeks to recover the cost of replacing aging infrastructure. The most basic laws of science and nature are that materials have a limited life-span. They deteriorate and must be replaced. The Company here knew from the time it entered the market that someday the infrastructure would require replacement. The Company could and should have anticipated this event and prepared for the same, but failed to do so. In fact, the

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[212] Tr. at 430-31.
[213] Harris Dir. Test., Ex. A-9, att. A.
[214] *Mtn States Tel. & Telegraph Co. v. Arizona Corp. Comm'n*, 137 Ariz. 566, 567, 672 P.2d 495, 496 (App.1983).
[215] *Ibid.*

Company has some control over the rate of deterioration, by performing routine repairs and maintenance. By their own admission, they cut maintenance expenses 'to the bone' in 2008.[216] Staff has expressed concern that this has caused a more rapid deterioration of plant.[217] To a significant extent, the circumstances in which AWC now finds itself are of its own making. The customer should not be required to bear the burden of the Company's decisions.

iii. The scope of the DSIC is so broad that the overall impact of the rate adjustment on the rate of return cannot be evaluated without a full rate case.

AWC's proposed DSIC does not merely permit it to recover its costs of replacing infrastructure by passing those costs on to the customer. What the Company has proposed is that, rather than including a mechanism to recover costs, any new plant that is added will be included in rate base and will be used to calculate rates in the future.[218] This is far more comprehensive than simply recovering costs. It is a new determination of rate base and it allows the Company to earn a return on that plant. The adjustor or surcharge will not end, but will continue for the life of the asset in question. Nor will the revenue generated be used to to acquire the added plant or pay the cost of the added plant. The revenue will be treated as income.[219] It is Staff's position that in adding plant to rate base and earning a return thereon rather than simply recovering the costs incurred this DSIC crosses over from the realm of an adjustor mechanism into a rate case.

2. Even if the proposed DSIC does not violate the Arizona constitution, it should not be adopted as it stands.

a. A DSIC Alters balance of regulatory lag and is inconsistent with Arizona's use of a historic test year in setting rates.

Although the Company asserts that a DSIC is not contrary to the concept of regulatory lag,[220] in its discussions of its proposed DSIC it concedes that a DSIC 'mitigates'[221] or 'reduces'[222] regulatory lag and that denying a DSIC will perpetuate the negative impact of regulatory lag.[223]

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[216] Tr. at 133-34.
[217] Michlik Dir. Test., Ex. S-3 at 21-22.
[218] Tr. at 151-53.
[219] *Id.*
[220] Reiker Rebuttal Test., Ex. A-4 at 6.
[221] *Id.*
[222] *Id.*
[223] Test., Ex. A-34, Ex. PMA 9- at 2.

EXHIBIT 2

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BEFORE THE ARIZONA CORPORATION C

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IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	DOCKET NO. W-01445A-11-0310

Arizona Corporation Commission
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STAFF'S REPLY/CLOSING BRIEF

JULY 11, 2012

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AWC also opposes requiring refunds of surcharges in the event water loss is not reduced. What would satisfy the water loss reduction has not been established. However, Staff's assessment thereof would likely take into consideration that a reduction in one section of a system might partially offset incremental losses in another resulting in a net increase in water loss. Should the Company be granted this rare opportunity to effectively increase rates between rate cases, it should be able to assure that the purpose for which the DSIC is required is accomplished. Further, even though recovery of infrastructure costs through the DSIC may be denied if there is no reduction in water loss, the Company would be able to seek recovery of those costs within the context of subsequent rate increase.

Staff continues to support its position in its Opening Brief regarding the conditions to be included in any DSIC. Despite the further clarifications of the mechanics of the DSIC in AWC's brief, some elements require further clarification. First, Staff would be required to review and respond only to the initial filing; remaining filings would be adopted if Staff did not oppose or make other recommendations. However, all annual surcharges would be subject to true-up in the next rate case, where a prudency review would be conducted. Any refunds due to any over-collection due to improperly computed DSICs would not be limited to calculation or accounting-type errors but would include substantive bases such as prudency.

Second, a DSIC would not automatically continue in perpetuity. At each future rate case, a determination would be made as to whether the DSIC was still appropriate. If the DSIC does continue, the surcharge would be reset to zero.

E. The DSIC, as Proposed, Violates the Arizona Constitution.

A DSIC-type mechanism has not been addressed judicially in Arizona. However, based upon existing case law, Staff does not believe that a DSIC, per se, would violate the Arizona Constitution so long as its methodology meets the constitutional mandate.[111] Staff is concerned that the DISC as proposed by AWC does not meet that mandate. As AWC states in its Brief, Arizona's Supreme Court has noted, in *U.S. West vs. Arizona Corporation Commission*[112] (U.S.West II), it is judicial

[111] *Arizona Corp. Comm'n v. Arizona Pub. Serv. Co.*, 113 Ariz. 368, 555 P.2d 326 (1976); Arizona Cmt'y Action Ass'n, 123 Ariz. 228, 599 P.2d 184 (1979).

[112] *U.S. West Communications, Inc. v. Arizona Corp. Comm'n*, 201 Ariz. 242, 245-46, 34 P.2d 351, 354-55 2001).

interpretation of Arizona's Constitution that requires that the finding of fair value be used in a formula wherein a rate of return is applied to that fair value to determine rates.[113] As such, the requirement could be judicially modified, which the Court did in that case. That modification does not apply to this matter, however.

U.S. West II was the result of a lawsuit filed by a local non-competitive telephone service provider against the Commission in which U.S. West challenged the Commission's method of setting rates for competitive local exchange carriers (CLECs). The Commission had not determined fair value before setting rates for the reason that the CLECs operated in a competitive rather than monopolistic environment. The Supreme Court determined that the Arizona Constitution made mandatory that the Commission determine fair value for the purpose of setting rates. As it was the judiciary which interpreted that mandate to determine the fair value and calculate a reasonable rate of return thereon, the judiciary could re-evaluate it as well.

In doing so, the Court affirmed that the Constitution mandated the finding of fair value and that "when a monopoly exists, the rate of return method is proper."[114] It is only when the rate case concerns a competitive utility that the rate of reform method is inappropriate.[115] In this case, AWC has monopoly status. Therefore, the rate of return methodology still applies.

At the same time, Arizona case law acknowledges that the Commission has a great deal of discretion in setting rates, and can utilize a variety of methodologies as long as the method used complies with the Constitutional mandate.[116] The Commission can consider matters subsequent to the historic test year,[117] including construction projects contracted for and commenced during the test year[118] and construction work in progress but not yet in service,[119] subject to the constitutional mandate. The Commission may also engage in rate-making without first determining fair value rate base under circumstances limited to interim rates and automatic adjustment clauses.[120] In addition,

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[113] *Id.*
[114] *Id.*, 201 Ariz. at 246, 34 P.2d at 355.
[115] *Id.*
[116] *Arizona Pub. Serv. Co.*, 113 Ariz. at 371, 555 P.2d at 329.
[117] *Id.*
[118] *Id.*
[119] *Arizona Cmt'y Action Ass'n,* 123 Ariz. at 230, 599 P.2d at 186.
[120] *Residential Util. Consumer Office v. Arizona Corp. Comm'n,* 199 Ariz. 588, 20 P.2d 1169 (App. 2011).

with the adoption of new federal drinking water standards for arsenic, which would cause water utilities to construct and operate new arsenic treatment facilities, the Commission approved an Arsenic Cost Recovery Mechanism to enable water utilities to meet its requirements.[121] Such mechanisms are in place throughout Arizona and none has been constitutionally challenged. All of these indicate that a DSIC can be adopted, subject to the constitutional mandate.

In *Arizona Community Action Association v. Arizona Corporation Commission,*[122] where the Court allowed the inclusion of plant under construction, it rejected the utility's methodology used to determine the increase. To the extent that an increase was based solely on the company's common equity falling below a certain level, and given that the company had the ability to influence the return on equity, this methodology would be beneficial only to shareholders and was not constitutional.[123] In *Scates v. Arizona Corp Commission,* the Court determined that the Commission did not have the authority to increase rates without first considering the impact of the overall rate of return on rate base.[124]

The proposed DSIC in this case is neither an interim rate nor an adjustor mechanism. An interim rate is a rate which is authorized pending the establishment of a permanent rate.[125] Interim rates may only be ordered where an emergency exists, the utility posts a bond to assure payment of refunds and where it is followed by a rate case in which fair value will be determined, usually within a specified period of time.[126] While a bond could be required to satisfy that requirement in this case, the other two criteria are not met. There has been no assertion that an emergency exists in this case, nor does it. The deterioration of infrastructure is a slow process and complete or major failures in the system are not imminent; there is no immediate threat to the Company's ability to provide services to the ratepayors. Nor is this a temporary order pending a rate hearing. This is the rate hearing.

Adjustor clauses are initially adopted as a part of a rate case and made part of the overall rate structure.[127] In that respect, the proposed DSIC meets these requirements. However, an adjustor

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[121] Garfield Dir. Test., Ex. A-1at 22.
[122] *Arizona Community Action Ass'n v Arizona Corp. Comm'n* 123 Ariz. 228, 599 P.2d 184(1979).
[123] *Id.* at 231, 599 P.2d at 187.
[124] *Id.*
[125] *Scates v. Arizona Corp Comm'n,* 118 Ariz. 531, 535, 578 P.2d 612, 616 (App. 1978).
[126] *Id.*
[127] *Residential Util. Consumer Office,* 199 Ariz. at 591, 20 P.2d at 1172; *Scates,* 118 Ariz. at 535, 578 P.2d at 616.

clause is designed to allow a utility to increase or decrease rates by passing on to customers increases or decreases in specific and easily segregated costs, such as the cost of fuel or purchased water.[128] Rather than changing the utility's overall rate of return, an adjustor mechanism allows the authorized rate of return to be maintained.[129] The DSIC in this case does far more than simply pass on increasing and decreasing costs to AWC. It allows surcharges based on the cost of new plant, effectively increasing the fair value rate base without any determination by the Commission of what that fair value is.

Although the DSIC is similar to an ACRM, there are distinctions which raise questions about its constitutionality. Both allow a utility to seek periodic rate increases outside of a rate case based on the cost of certain added plant specified in the rate case which authorized the mechanism.[130] Many of the procedures by which the annual increase will be sought are also similar, but are not the subject of constitutionality.

In contrast to the proposed DSIC, an ACRM has been fully developed and was only approved after about two years of study by the various interested parties.[131] An ACRM is more limited in scope than the DSIC: it is in place for one plant only and is limited to two instances in which a surcharge or increase can occur, step one occurring when the plant goes into service and step two at a later date to recover the additional capital expenditures.[132] In addition, when the ACRM is authorized, a specific date for filing a next rate case is set, at which time a true up would occur.[133] These latter two distinctions are most concerning.

Unlike an ACRM, a DSIC allows for more immediate recovery not of a single plant or item, but for on-going infrastructure structure replacement over at least a decade. This is somewhat ameliorated by AWC's agreement that the projects included in a DSIC would be limited to those non-revenue producing projects itemized in the DSIC Study docketed in the 2008 rate case and submitted

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[128] *Id.*
[129] *Id.*
[130] *Id.* at 1173; *Scates,* 118 Ariz. at 535, 578 P.2d at 616.
[131] Ex. A-41.
[132] Tr. at 1423.
[133] *Id.* at 1428-31.

with the Company's pre-filed testimony.[134] Whether this is sufficient to meet the constitutional mandate is unknown.

Also, as noted, the Company would not be required to file a rate case by any specific date under a DSIC. The Company asserts that the maximum annual cap and lifetime maximum cap would incentivize the Company to file a rate case without such a mandate.[135] While Staff agrees to an extent, the possibility remains that, even the though maximum cap is reached, the Company could simply leave the surcharge in place for an extended period of time without a true up for prudency occurring, possibly resulting in over-recovery of costs. Again, whether the Company's proposal for resolving this matter is sufficient cannot yet be determined.

The conditions proposed by Staff would further reduce any risk of violating the Arizona Constitution. For instance, while an ACRM is limited to a single project, it is not entirely clear that the DSIC would be similarly limited. Mr. Fox testified that he understood that a DSIC would be limited to a specific system, rather than to multiple systems,[136] but it is not clear whether the Company agrees. Limiting a DSIC to systems with water loss exceeding 10 per cent would clarify this. In addition, the clarification that a true-up at the next rate case would evaluate all surcharges subsequent to the decision herein, regardless of any annual or interim approvals by the Commission, would help assure the constitutionality of the DSIC.

V. RATE CONSOLIDATION AND RATE DESIGN.

A. Full Consolidation of the SaddleBrooke Ranch and Oracle Systems Would Result in Higher Rates for SaddleBrooke Ranch Customers and Should Be Denied at This Time.

The Company asserts that Staff's argument that consolidation would have adverse impacts on SaddleBrooke Ranch customers is incorrect and that Staff offered no testimony or specifics about any such adverse impacts.[137] Instead, argues the Company, the results of Staff's non-consolidation of SaddleBrooke Ranch would result in a revenue increase for that system of $126,586, or 108.10

[134] *Id.* at 1434.
[135] Harris Dir. Test., Ex. A-9, att. A.
[136] AWC's Cl. Br. at 20.
[137] Tr. at 1450.

EXHIBIT 3

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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONER

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY, AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	Docket No. W-01445A-11-0310

Arizona Corporation Commission
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RUCO'S OPENING BRIEF

INTRODUCTION

The Residential Utility Consumer Office ("RUCO") submits this Brief in response to Arizona Water Company's ("Arizona Water" or "AWC" or the Company") request that the Arizona Corporation Commission ("Commission") authorize a rate increase of $5,198,671 for its Eastern Group.

While the Company and RUCO are in agreement on many issues, there still remains in dispute a central issue which was the focus of much of the underlying hearing - the Company's request for a "Distribution System Improvement Charge" or "DSIC". The DSIC is a regulatory mechanism that allows the utility to recover its capital costs associated with non-revenue

C. THERE IS NO LEGAL BASIS FOR THE DSIC IN ARIZONA

The Company requests recovery of routine plant improvements outside of a rate case. Even the Company admits the plant in question is routine. Transcript at 399-400. From the Company's perspective, it appears to be that the amount in question, which is undisputedly large, is not routine. Id. Given that there does not seem to be a dispute that the plant itself is routine, the question becomes whether extraordinary ratemaking to account for otherwise routine plant, even at a high cost, is legally permissible. And if legal, is the DSIC still appropriate under the circumstances of this case?

1. THE DSIC IS NOT AN ADJUSTOR MECHANISM

The Arizona Constitution protects consumers by generally requiring that the Commission only change a utility's rates in conjunction with making a finding of the fair value of the utility's property.[13] However, Arizona's courts recognize that, "in limited circumstances," the Commission may engage in rate making without ascertaining a utility's rate base.[14] One of those circumstances exists where the Commission has established an automatic adjustor mechanism. *Scates v. Arizona Corp. Comm'n*, 118 Ariz. 531, 535, 578 P.2d 612, 616; *Residential Util. Consumer Office v. Arizona Corp. Comm'n ("Rio Verde")*, 199 Ariz. 588, 591 ¶ 11, 20 P.3d 1169, 1172. An automatic adjustor mechanism permits rates to adjust up or down "in relation to fluctuations in certain, narrowly defined, operating expenses." *Scates* at 535, 616. An automatic adjustor permits a utility's rate of return to remain relatively constant despite fluctuations in the relevant expense. An automatic adjustor clause can only be implemented as part of a full rate hearing. *Rio Verde* at 592 ¶ 19, 1173, *citing Scates* at 535, 616.

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[13] Arizona Constitution. Art. XV, § 14; *Simms v. Round Valley Light & Power Company*, 80 Ariz. 145, 151, 294 P.2d 378, 382 (1956); see also *State v. Tucson Gas*, 15 Ariz. 294, 308; 138 P.781, 786 (1914); *Arizona Corporation Commission v. State ex rel. Woods*, 171 Ariz. 286, 295, 830 P.2d 807, 816 (1992).

The Commission has also defined adjustor mechanisms as applying to expenses that routinely fluctuate widely. In a prior decision in which it eliminated APS' fuel and power adjustor, the Commission stated:

> The principle justification for a fuel adjustor is volatility in fuel prices. A fuel adjustor allows the Commission to approve changes in rates for a utility in response to volatile changes in fuel or purchased power prices without having to conduct a rate case. (Decision No. 56450, page 6, April 13, 1989).

The Commission went on to discuss the undesirability of such adjustors because they can cause piecemeal regulation that is inefficient and undesirable. *Id.* at 8. *See also Scates* at 534, 615.

In the subject case, the DSIC clearly is not an adjustor mechanism – its purpose is not to account for fluctuating operating expenses. Its purpose is to allow for recovery of plant costs which increase rate base and thereby increase operating income. Unlike an adjustor, a DSIC does not allow for rates to adjust "in relation to fluctuations in certain, narrowly defined, operating expenses."

Even if one could set aside the argument that Arizona's courts have only recognized adjustors for very limited operating expenses and not for operating income, the DSIC mechanism still would not qualify as an adjustor because the principal justification for the mechanism is not the volatility in the price of the plant. As explained, the concern here is the amount of the investment, and no case law parities the need for an adjustor mechanism with the magnitude of investment in plant. The DSIC is not an adjustor mechanism nor should the exception be expanded in any manner to treat it as such.

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[14] *Residential Utility Consumer Office v. Arizona Corporation Commission*, 199 Ariz. 588, 591 ¶11, 20 P.3d

2. THE COMPANY HAS NOT REQUESTED INTERIM RATES

The only other circumstance where the Commission may engage in rate making without ascertaining a utility's rate base involves requests for interim rates.[15] The Commission's authority to establish interim rates is limited to circumstances in which 1) an emergency exists; 2) a bond is posted guaranteeing a refund if interim rates are higher than final rates determined by the Commission; and 3) the Commission undertakes to determine final rates after making a finding of fair value.[16] The Arizona Attorney General has opined that an emergency exists when "sudden change brings hardship to a company, when a company is insolvent, or when the condition of the company is such that its ability to maintain service pending a formal rate determination is in serious doubt."[17]

The Company has not asserted an emergency nor requested interim rates. Regardless, and perhaps the reason why the Company has not asserted an emergency, is because the Company would not meet the legal criteria – there is no evidence of a sudden change that has brought hardship,[18] no insolvency issue, or evidence that the Company has an inability to maintain service in the interim or long term for that matter.

The provisions of Arizona's Constitution should be liberally construed to carry out the purposes for which they were adopted.[19] Conversely, exceptions to a constitutional requirement should be narrowly construed.[20] Essentially, the Commission should not use the

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1169, 1172 (App. 2001).

[15] *Scates v. Ariz. Corp. Comm'n*, 118 Ariz. 531, 533-35, 578 P.2d 612, 614-16 (App. 1978).

[16] 199 Ariz. at 591, ¶12, citing Scates.

[17] 71-17 Opinion Arizona Attorney General at 50. (1971).

[18] The Company acknowledges that it has operated the Bisbee system for over 60 years and that much of the infrastructure is from the early 1900's. (Tr. At 400-401)

[19] *Laos v. Arnold*, 141 Ariz. 46, 685 P.2d 111 (1984).

[20] See *Spokane & I.E.R. Co. v. U.S.*, 241 U.S. 344, 350, 36 S.Ct. 668, 671 (1916) (an "elementary rule" that exceptions from a general policy embodied in the law should be strictly construed).

"emergency" exception or the adjustor mechanism exception liberally as an excuse to set aside the rule of finding fair value when setting rates.[21]

There is no exception or legal basis to establish a DSIC in Arizona. While other states may have DSICs or similar-type mechanisms, those states have different laws. The Commission cannot, nor should it overlook Arizona's fair value requirement when setting rates. Arizona's fair value requirement protects the ratepayer from "piecemeal" ratemaking which would be the result if the DSIC is approved. It also provides ratepayer's protection from unfair rates.

D. SHOULD THE COMMISSION CONCLUDE THERE IS A LEGAL BASIS FOR THE DSIC, IMPLEMENTATION OF THE DSIC WOULD STILL BE INAPPROPRIATE IN THIS CASE

In addition to those reasons already mentioned, there are many more reasons why the implementation of a DSIC would not be appropriate in Arizona. The National Association of State Utility Advocates ("NASUCA") issued a policy statement in 1991 discouraging state regulatory commissions from adopting DSICs and DSIC-type mechanisms. R-2. NASUCA's policy against such mechanisms includes the following:

- special incentives are not needed to ensure adequate water quality, pressure, and proper reduction of service interruptions,
- DSICs[22] can inappropriately reward water companies that have imprudently fallen behind in their infrastructure improvements

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[21] Arizona case law and the Attorney General Opinion 71-17 set forth the legal parameters within which the Commission should act when considering emergency rate relief.

[22] NASUCA refers to automatic adjustment mechanisms as the means for automatically increasing water rates, in this case the Company is proposing a DSIC as the means for automatically increasing rates – RUCO does not believe a DSIC is an automatic adjustment clause but regardless of the nomenclature the purpose is the same- to increase rates outside of a rate case.

EXHIBIT 4

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IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY, AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	Docket No. W-01445A-11-0310

RUCO'S REPLY BRIEF

The Residential Utility Consumer Office ("RUCO") hereby files its Reply Brief on the matters raised in Arizona Water Company's ("Arizona Water" or "AWC" or the Company") and Staff's Opening Briefs.

I. THE DSIC

RUCO has addressed most of the arguments raised by the Company in support of the DSIC in its Opening Brief. To that extent, RUCO would incorporate by reference those arguments raised in its Opening Brief. RUCO Brief at 2-18. RUCO replies as follows to those points not addressed in RUCO's Opening Brief.

B. The Company's legal analysis is misplaced.

The Company concludes that the DSIC does not violate Arizona's Constitution based on the argument that the Commission has wide discretion when it comes to ratemaking. Company Brief at 23-26. RUCO does not take issue with the Company that the Commission has wide discretion when it comes to ratemaking. That wide discretion, however, is not without limits.

With regard to the specific and limited area of increasing rates outside of a rate case, which is what the DSIC does, the Commission's discretion is very limited. *See Scates, supra.* Arizona's courts recognize that, "in limited circumstances," the Commission may engage in rate making without ascertaining a utility's rate base. *Residential Utility Consumer Office v. Arizona Corporation Commission*, 199 Ariz. 588, 591 ¶11, 20 P.3d 1169, 1172 (App. 2001). The DSIC is not "consistent" with those limited circumstances for all of the reasons stated in RUCO's Opening Brief. See RUCO Opening Brief at 11-14. Arizona, unlike the other states with DSIC's or DSIC-like mechanisms, has a constitutionally mandated fair value requirement. The DSIC does not meet Arizona's fair value requirement nor does it qualify as an exception. There is no legal basis for the DSIC in Arizona.

C. Other argument raised by the Company related to the DSIC.

1. The NASUCA Policy v. NARUC Policy v. The Food and Water Watch Article

The Company argues that Staff and RUCO did not present credible evidence that a DSIC is not justified under the circumstances presented in the case. Company Brief at 12. In support of the Company's argument, the Company claims that NASUCA's Policy is "not relevant" on the issue of whether the DSIC is appropriate and that the Food and Water Watch Article is biased and not authoritative. Company Brief at 13. From the Company's perspective, the NARUC