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BEFORE THE ARIZONA CORPORATION

COMMISSIONERS

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

Arizona Corporation Commission
DOCKETED
JUN 27 2013
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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

DECISION NO. 73938

PHASE 2
OPINION AND ORDER

DATE OF HEARING: April 8 and 11, 2013

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes

APPEARANCES:

Mr. Steven A. Hirsch, BRYAN CAVE LLP, on behalf of Arizona Water Company;

Mr. Timothy J. Sabo, ROSHKA DEWULF & PATTEN, PLC, on behalf of Global Water Utilities;

Mr. Michael T. Hallam, LEWIS AND ROCA LLP, on behalf of EPCOR Water Arizona, Inc.;

Mr. Michael M. Grant, GALLAGHER & KENNEDY, P.A., on behalf of Arizona Investment Council;

Mr. Jay L. Shapiro, FENNEMORE CRAIG, P.C., on behalf of Rio Rico Utilities, Inc. dba Liberty Utilities;

Mr. Garry Hays, LAW OFFICES OF GARRY HAYS, on behalf of the City of Globe;

Mr. Greg Patterson, on behalf of the Water Utilities Association of Arizona;

Mr. Daniel W. Pozefsky, Chief Counsel, on behalf of the Residential Utility Consumer Office; and

Ms. Bridget A. Humphrey and Mr. Wesley Van Cleve, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

Procedural History

On August 5, 2011, Arizona Water Company ("AWC" or "Company") filed with the Arizona Corporation Commission ("Commission") an application requesting adjustments to its rates and charges for utility service provided by its Eastern Group water systems, including its Superstition (Apache Junction, Superior, and Miami); Cochise (Bisbee and Sierra Vista); San Manuel; Oracle; SaddleBrooke Ranch; and Winkelman water systems. AWC also requested several other authorizations in the application.

On February 20, 2013, the Commission issued Decision No. 73736 in Phase 1 of this matter, granting AWC a rate increase for its Eastern Group systems and, among other things, keeping the docket open for purposes of further consideration of AWC's proposed Distribution System Improvement Charge ("DSIC"). Decision No. 73736 also set specific deadlines for: intervention; ruling on intervention requests;[1] commencement of settlement discussions; the latest date for a procedural conference; an update by the Commission's Utilities Division ("Staff") on settlement discussions; and consideration of a "Phase 2" DSIC Recommended Order (June 11 and 12, 2013 Open Meeting).

By Procedural Order issued February 21, 2013, as modified by Procedural Order issued February 25, 2013, this matter was scheduled for hearing commencing April 8, 2013, other procedural deadlines were established, and a procedural conference was scheduled for March 4, 2013.

On March 4, 2013, the procedural conference was conducted as scheduled during which the parties discussed various procedural matters.

On March 21, 2013, a Procedural Order was issued modifying certain filing deadlines established in the procedural schedule.

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[1] In addition to the Residential Utility Consumer Office ("RUCO"), which participated in Phase 1 of the proceeding, intervention in Phase 2 was granted to Rio Rico Utilities, Inc. dba Liberty Utilities ("Liberty Utilities"); EPCOR Water Arizona, Inc. ("EPCOR"); Global Water Utilities ("Global Water"); Arizona Investment Council ("AIC"); the Water Utility Association of Arizona ("WUAA"); and the City of Globe ("Globe").

On April 1, 2013, Staff filed a Settlement Agreement signed by all parties except RUCO and Globe.

On April 2, 2013, RUCO filed a Motion for Clarification or in the Alternative Request to Take Judicial Notice of the Underlying Record. RUCO requested clarification as to whether the Commission intended to leave the record open from Phase 1 of this case.

On April 2, 2013, AWC filed a Joinder in RUCO's Motion for Clarification. AWC agreed with RUCO that the entire underlying record should be held open for citation and reference and that Phase 1 DSIC issues should not be re-litigated at the April 8, 2013 hearing.

On April 2, 2013, testimony in support of the Settlement Agreement was filed by Joel M. Reiker on behalf of AWC; by Steven M. Olea on behalf of Staff; by Greg Sorenson[2] on behalf of Liberty Utilities; by Ron Fleming and Paul Walker on behalf of Global Water; by Thomas M. Broderick on behalf of EPCOR; and by Gary Yaquinto on behalf of AIC.

On April 2, 2013, testimony in opposition to the Settlement Agreement was filed by Patrick J. Quinn and William A. Rigsby on behalf of RUCO.[3]

On April 4, 2013, a Procedural Order was issued stating that the evidentiary record in Phase 1 would be held open and incorporated into the Phase 2 record.

On April 4, 2013, Staff filed a Motion to Strike Portions of the Direct Settlement Testimony of William A. Rigsby.

On April 5, 2013, RUCO filed a Response to Staff's Motion to Strike.[4]

On April 8, 2013, an evidentiary hearing commenced before a duly authorized Administrative Law Judge ("ALJ"). The hearing continued and concluded on April 11, 2013. AWC, RUCO, Liberty Utilities, Global Water, EPCOR, AIC, WUAA, Globe, and Staff appeared through counsel.[5]

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[2] Due to Mr. Sorenson's unavailability, his pre-filed testimony was adopted and sponsored by Christopher D. Krygier at the hearing. (Tr. 195-196.) [All citations are to the Phase 2 record unless otherwise indicated.]

[3] WUAA did not file testimony but its Director, Greg Patterson, filed a letter in the docket on April 2, 2013, expressing support of DSIC mechanisms generally, and for the System Improvement Benefits ("SIB") mechanism specifically, that is part of the Settlement Agreement. Globe did not file testimony and indicated on the first day of the hearing that its position regarding the Settlement Agreement was one of "neutrality." (Tr. 31.)

[4] Staff's Motion to Strike was denied on the first day of the hearing. (Tr. 8-11.)

[5] Although Kathie Wyatt, an AWC customer, was granted intervention in Phase 1, she did not appear or participate in the Phase 1 or Phase 2 hearings.

On April 15, 2013, AWC filed revised SIB Schedules A through D in accordance with Mr. Reiker's testimony at the hearing. (*See* Tr. 214-239.)

On April 29, 2013, post-hearing briefs were filed by AWC, RUCO, EPCOR, AIC, Staff, and jointly by Liberty Utilities and Global Water.

Overview of DSIC Mechanisms

As described in the Phase 1 Order in this proceeding (Decision No. 73736), AWC originally proposed implementation of a DSIC mechanism that would "allow it to recover, through abbreviated proceedings between general rate cases, the costs of the infrastructure necessary to replace its aging infrastructure, thereby ensuring the continued reliability of its service in the Eastern Group." (Decision No. 73736, at 84.) AWC claimed that a substantial investment in replacement of infrastructure was necessary to enable the Company to comply with Commission directives to reduce water losses on various systems to acceptable levels. (*Id.* at 84-85.)

In order to provide a contextual background for the DSIC issue in this Phase 2 Order, and for ease of reference to the Phase 1 record, we are reciting the following description of the parties' arguments and testimony that were set forth in Decision No. 73736.

DSIC Study and Proposed DSIC

As described in Decision No. 73736, AWC's DSIC Study, completed as a compliance item for AWC's prior company-wide rate case[6] and provided in an amended form as an exhibit in this case, asserted that both the United States as a whole, and AWC's Eastern Group in particular, are approaching a crisis because of the need for capital improvements to aging drinking water infrastructure. (*Id.* at 90.) The DSIC Study recounts that the American Society of Civil Engineers has given the country's drinking water system infrastructure a grade of D- and that the United States Environmental Protection Agency ("USEPA") has projected a 20-year capital improvement funding need for U.S. drinking water infrastructure of $334.8 billion and for Arizona drinking water infrastructure of $7.4 billion. (*Id.*)

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[6] *See* Decision No. 71845 (August 25, 2010), at 95.

AWC's Phase 1 Arguments

AWC asserted that the concept of the DSIC grew out of the approaching crisis, first having been approved by the Pennsylvania Public Utility Commission ("PPUC") in 1996 in the face of Philadelphia Suburban Water Company's ("PSWC's") need to replace more than 3,100 miles of transmission and distribution mains, estimated otherwise to take approximately 212 years at PSWC's established infrastructure replacement pace. (*Id.*) The PPUC described the DSIC as a "proposed automatic adjustment clause." (*Id.*) In conceptually approving a DSIC, the PPUC stated:

> [W]ater companies face the daunting challenge of rehabilitating their existing distribution infrastructure before the property reaches the end of its service life to avoid serious public health and safety risks.
>
> In the Commission's judgment, the establishment of a DSIC along the lines proposed by PSWC can substantially aid the water company in meeting these challenges on behalf of the water consuming public. We agree with the company that the establishment of a DSIC would enable the company to address, in an orderly and comprehensive manner, the problems presented by its aging water distribution system, and would have a direct and positive effect upon water quality, water pressure and service reliability. For these reasons, we endorse the concept of using an automatic adjustment clause to address this regulatory problem for the water industry in Pennsylvania and, in particular, the type of DSIC proposed by PSWC.

The PPUC determined that the DSIC was "appropriately limited and narrowly tailored to recover a specific category of utility costs—the incremental fixed costs (depreciation and pre-tax return) associated with nonrevenue producing, nonexpense reducing distribution system improvement projects completed and placed in service between base rate cases" and further that the DSIC would not "'disassemble' the traditional ratemaking process" because it would recover only a narrow subset of total cost of service, would be capped to prevent "long-term evasion" of review of the plant costs recovered in rate base; and would reflect only the costs of used and useful plant placed into service during the three-month period before each DSIC surcharge update. (*Id.* at 91.)

AWC stated that the public utility commissions of California, Connecticut, Delaware, Illinois, Indiana, Missouri, New Hampshire, New Jersey, New York, and Ohio have also adopted DSIC-type mechanisms and that the National Association of Regulatory Utility Commissioners ("NARUC") has endorsed DSIC mechanisms (in 1999) and adopted a resolution identifying DSIC mechanisms as a Regulatory Policy Best Practice (in 2005). (*Id.*) According to AWC, PPUC Commissioners have

characterized the DSIC as an important regulatory tool that includes numerous consumer safeguards and that has resulted in increased infrastructure investment. (*Id.*) Additionally, AWC claimed that both Moody's and Standard & Poors consider DSIC mechanisms to be credit supportive. (*Id.*) AWC also cited a recent survey concluding that two-thirds of American voters would be willing to pay an average of $6.20 more per month toward water system upgrades to ensure long-term access to clean water. (*Id.* at 92.) AWC estimated that the surcharge from its proposed DSIC would be approximately $1.00 per customer per month. (*Id.*)

Decision No. 73736 recounted that, according to AWC, the Commission has never approved a DSIC mechanism, although it has previously adopted a surcharge to provide funding for the replacement of undersized and inadequate water mains in the Town of Paradise Valley, in the form of a Public Safety Surcharge approved for Arizona-American Water Company ("Arizona-American") in Docket No. W-01303A-05-0405. (*Id.*) AWC acknowledged, however, that the Public Safety Surcharge was used to collect funds in advance of construction, whereas the DSIC is more similar to an Arsenic Cost Recovery Mechanism ("ACRM") in that the funds would be collected after construction. (*Id.*)

In Phase 1 of this case, AWC originally proposed a DSIC that would:

- Allow recovery of fixed costs associated with DSIC-eligible utility plant additions (net of retirements) placed in service between rate cases;
- Limit eligible plant additions to the following NARUC Uniform System of Accounts ("USOA") classifications:
  - 343 Transmission and Distribution Mains,
  - 344 Fire Mains,
  - 345 Services,
  - 346 Meters,
  - 347 Meter Installations,
  - 348 Hydrants, and
  - 398 Miscellaneous Equipment (Leak Detection Equipment);
- Require AWC to file with the Commission semi-annual DSIC updates (for step increases) reflecting the eligible plant placed in service during the six-month periods of November 1 through April 30 and May 1 through October 31, with the updates (step increases) to become effective, respectively, on July 1 and January 1;
- Require AWC to file, at least 30 days before the effective date of each DSIC update, supporting data for the update, to include the following for each system affected:
  - A balance sheet;
  - An income statement;
  - An earnings test schedule;
  - A rate review schedule showing the effects of the step increase on the income

statement and earnings test;
  - A revenue requirement schedule showing the calculation of the required increase;
  - A schedule showing the surcharge calculation, which would be broken down 50/50 between monthly fixed surcharge and volumetric surcharge and would be scaled to meter size based on equivalent capacity ratio;
  - A rate base schedule;
  - A Construction Work in Progress ledger showing monthly charges for construction of eligible DSIC facilities;
  - A schedule showing the calculation of the general plant allocation methodology; and
  - A typical bill analysis for 5/8" x ¾" meter customers;
- Require AWC to show the DSIC surcharge as a separate line item on each customer bill and, at least twice each year, to print a message on each customer bill explaining the DSIC surcharge and indicating the progress made in replacing aging infrastructure;
- Cap the DSIC at 7.5 percent of the annual amount billed to customers under otherwise applicable rates and charges;
- Require the DSIC to be reset to zero on the effective date of each new general rate case by including the DSIC-eligible plant in rate base; and
- Prohibit AWC from making a DSIC update filing for any system for which the rate of return earned in the applicable six-month period exceeded the rate of return that would be used to calculate the revenue requirement under the DSIC.[7]

AWC's proposal for the DSIC evolved over the course of the Phase 1 proceeding, with AWC accepting most of Staff's recommendations for any DSIC that would be adopted by the Commission (although Staff in Phase 1 continued to oppose the adoption of any DSIC). (*Id.* at 93.) Ultimately in Phase 1, AWC proposed a DSIC that differed from its original proposal in that the DSIC would:

- Be reviewed and modified annually rather than semi-annually;
- Require a Staff prudency and cost review before any plant costs could be included in the DSIC calculation;
- Require full Commission approval for the initial DSIC to take effect;
- Limit any annual DSIC adjustment to two percent of system revenues;
- Cap the total DSIC surcharge at six percent of system revenues;
- Require a second prudency review before DSIC-related plant costs could be included in rate base during a subsequent permanent rate case; and
- Require a true-up with refund (and interest) payments to ratepayers if it were determined during the subsequent rate case that over-collection had occurred.[8]

AWC contended that applicability of any DSIC or DSIC-like mechanism should not be limited to water systems that have water loss in excess of 10 percent because water loss can be attributable to factors other than failing infrastructure, and a system with significant infrastructure replacement needs can still have water loss lower than 10 percent due to the volume of water sold

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[7] *Id.* at 92-93.
[8] *Id.*

(such as in Superior, which has historically had water loss in excess of 10 percent but did not for the test year due to increased sales, and Apache Junction, which had water loss below 10 percent during the test year but has lost in excess of 200 million gallons of water each year from 1998 through 2009). (*Id.* at 93-94.) AWC also suggested that having excessive water loss as a prerequisite for DSIC eligibility could incentivize companies to ignore increasing water loss so that they could become eligible for DSIC treatment. (*Id.* at 94.)

AWC acknowledged in Phase 1 that its need to replace its aged infrastructure is not due to a legal mandate such as the revised USEPA maximum contaminant level ("MCL") for arsenic, but the Company drew a parallel between the USEPA MCL for arsenic and the Commission's order for AWC to reduce its water loss below 10 percent.[9] (*Id.*) AWC also asserted similarities between the DSIC and the ACRM, after which AWC ultimately modeled its proposed DSIC and without which, according to Mr. Garfield, AWC would not have been able to complete its arsenic remediation infrastructure. (*Id.*)

AWC also conceded that its infrastructure replacement needs have been developing for a long time (for example, in Bisbee, since AWC took over the system approximately 60 years ago) and that AWC has not been "ambushed" by the need to replace its aging infrastructure, but maintains that AWC has been replacing infrastructure as it has been able to do so, limited by its ability to fund capital improvements each year, by the increasing costs of infrastructure (from only $1 per foot to more than $100 per foot), and by considerations of the rate shock that would occur due to the "lumpy" nature of the replacement needs (*i.e.*, much infrastructure to be replaced at a time). (*Id.*) AWC did not argue that its need, as a water utility, to replace mains and other infrastructure is unusual, but did argue that the extent to which it needs to replace its aging infrastructure, i.e., the sheer volume of replacement needed, is extraordinary.[10] (*Id.*) While implementation of a DSIC

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[9] Mr. Garfield acknowledged that the Commission did not order AWC to reduce its water loss to below 10 percent even if it would not be cost-effective to do so. (Phase 1 Tr. at 115-16.)

[10] When asked what made AWC's situation extraordinary and warranted an adjustor mechanism, Mr. Reiker responded:

> From my perspective, I'm a finance person. The extraordinary nature is the shear [sic] magnitude of the investment. We've put evidence in the record, in Mr. Schneider's direct testimony, of massive amounts of investment that need to occur. That's extraordinary. We can't go out tomorrow and find an insurance company that will loan us $60 million. That's not going to happen.

would not alleviate AWC's need to fund the costs of the infrastructure replacement up front, AWC claimed that the DSIC would enable AWC to seek recovery of those costs in between rate cases and thus would strengthen AWC's ability to obtain the financing necessary to cover those up-front costs. (*Id.* at 95.) Mr. Garfield dismissed RUCO's characterization of the DSIC as an incentive for AWC to replace infrastructure that it is already responsible to replace in order to provide service, asserting that the DSIC is not an incentive, just a means to allow AWC to replace more of the infrastructure that it could not otherwise currently replace. (*Id.*) AWC also asserted in Phase 1 that in the absence of a DSIC, it would take AWC more than several hundred years (longer than the life of new infrastructure) to replace the infrastructure that needs to be replaced. (*Id.*) Mr. Garfield also pointed out in Phase 1 that the approximately $66 million in infrastructure replacements now needed is almost twice as much as the entire arsenic treatment remediation program that AWC had to undertake and for which it was able to obtain authorization of an ACRM. (*Id.*)

AWC acknowledged that it would benefit from a DSIC mechanism, but denied that its desire for a DSIC was motivated by a belief that the DSIC will ensure AWC's long-term profitability. (*Id.*) Mr. Harris testified in Phase 1 that the ACRM has not made AWC profitable, so he is not convinced that a DSIC will either. (*Id.*) According to AWC, ratepayers would be benefitted by DSIC because AWC will be able to accelerate its infrastructure replacement program, thereby improving service, reliability, safety,[11] and, in some cases, flows. (*Id.*) AWC disagreed that ratepayers have experienced any more risk as a result of the ACRM process and does not believe that ratepayers would experience any more risk as a result of the proposed DSIC process. (*Id.*) Mr. Garfield testified that ratepayers will benefit more from the DSIC—and ensuing rate gradualism—than they would from having a utility, "flush with cash," make a $38 million investment in one of AWC's

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(Phase 1 Tr. at 276.) Mr. Reiker also acknowledged, however, that the need to replace the infrastructure was not a surprise, that AWC knew that it was going to have to be done at some point. (*Id.*)

[11] Mr. Garfield testified that AWC's water is safe, but that each main break and disruption causes a breach in the antiseptic barrier protecting the water supply, potentially exposing the water to soil and whatever else is in the environment. (Phase 1 Tr. at 166-67.) Mr. Garfield also testified that main breaks are almost a daily occurrence, something that could be changed through the authorization of a DSIC to allow recovery of the costs of infrastructure replacement. (*Id.* at 168.)

water systems and then file a rate case after the infrastructure is completed, as that would result in a very large increase in rate base and rates. (*Id.* at 95-96)

Although AWC did not factor into its Phase 1 DSIC proposal any reduction in operating expenses to reflect increased operating efficiencies, Mr. Garfield allowed that "there's some room for that to be considered . . . and probably some merit to that,"[12] although he also asserted that no other states have made such reductions in their DSIC mechanisms and suggested that operating and maintenance expenses could actually increase due to the level of replacements. (*Id.* at 96.) AWC characterized as arbitrary and unsupported the 15 percent reduction in operating and maintenance expenses proposed by RUCO in Phase 1 for any approved DSIC, suggesting that any such expense offset should be based on an objective standard such as the amount of main replaced. (*Id.*)

AWC also objected to Staff's proposed Sustainable Water Improvement Program ("SWIP"), presented as an alternative to the DSIC in Phase 1, which would have allowed deferral of costs and applied an Allowance for Funds Used During Construction ("AFUDC") component. (*Id.*) Mr. Garfield stated in Phase 1 that the SWIP would "negate the benefits of a DSIC by not having gradual changes in rates," would effectively raise the costs of the projects,[13] and would result in higher rates and even rate shock. (*Id.*) Mr. Garfield agreed that Staff's original SWIP proposal would subject the deferred amounts to full regulatory scrutiny, but asserted that the SWIP would not be effective:

> Sure, and it wouldn't give the utility any revenues to support – it's like a – it's not even an IOU. It's a promise that at a future proceeding the Commission will review, in a full regulatory rate setting, the investments; were they necessary, was it reasonable, what are the impacts, and that doesn't provide the utility with any revenues prior to a Commission decision after the fact. That would not have worked under an ACRM and it won't work under a DSIC.[14]

Mr. Garfield also disagreed with characterization of a proposed DSIC proceeding as a mini rate case, stating that an ACRM filing is not a mini rate case because more limited supporting data is provided, and there is not as much scrutiny. (*Id.*)

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[12] Mr. Garfield compared an old piece of pipe to a 1962 dump truck, which he believed would require much more maintenance than a 2012 dump truck. (Phase 1 Tr. at 109-10.) But Mr. Garfield could not say how the replacement of infrastructure would impact the cost of operating and maintaining a whole system, particularly a system like Bisbee that needs a great deal of infrastructure replaced. (*Id.* at 109-11.)

[13] According to Mr. Garfield, applying an AFUDC to the capital investments would effectively increase the cost of the projects and thus the rate base, which would result in increased rates. (Phase 1 Tr. at 118.)

[14] Phase 1 Tr. at 118-19.

AWC Phase 1 witness Ms. Ahern asserted that both a DSIC and a sufficient ROE are necessary to enable AWC to improve its cash flow, its creditworthiness, and its ability to improve its retained earnings balance, thereby allowing it to issue less long-term debt than would otherwise be needed. (*Id.* at 97.) Ms. Ahern asserted that AWC would be unable to undertake its infrastructure replacement program unless it gets both a sufficient ROE and the requested DSIC. (*Id.*) According to AWC, the revenues generated by the DSIC would enable AWC to satisfy the interest coverage requirements of its bond indenture and thus to issue long-term debt to fund its infrastructure replacement program, and AWC would not be able to complete the infrastructure replacements needed unless the DSIC is granted because the capital investment necessary cannot be supported fully without a DSIC.[15] (*Id.*)

RUCO's Phase 1 Arguments

RUCO opposed the DSIC because it considers the proposed infrastructure replacement projects to be routine in nature and appropriately recovered through a general rate case; considers the DSIC to be a one-sided mechanism that works to the advantage of only the shareholder; believes that there is no federal or state requirement mandating the infrastructure replacement projects proposed by AWC; believes that AWC has not proven that it cannot ensure safe and reliable water service or cost recovery unless the DSIC is approved; and believes that the DSIC raises "legal concerns." (*Id.*) RUCO's position is that the infrastructure replacements needed should be covered through normal regulatory procedures allowing cost recovery because they are "routine plant improvements" rather than something extraordinary. (*Id.*) RUCO asserted that, unlike with the ACRM, there is no federal or state mandate for the infrastructure improvements to be made, and it is not appropriate to create an exception for regular ratemaking methodologies in the absence of extraordinary circumstances. (*Id.*

[15] Mr. Garfield stated in Phase 1:

> The company is a tightly held company. The stock is tightly held. We are not publicly traded. The investors of the company infused just over $10 million of equity into the company before the end of 2010. Our equity component of our capital structure had dropped from 75 percent to 45 percent, and at a time that we were not recovering our cost of service, we were not making our return, the shareholders are sort of the last one to get paid. The bondholders get paid. They want their interest payment. You have to make the interest payment. So the stockholders wait to see what is left after all of those payments have been made. So to answer your question, $10 million was infused into the company that helped shore up the company's capital structure, but I don't think you can count on the shareholders, if the returns aren't high enough, to continue making those types of infusions of capital to the company.

(Phase 1 Tr. at 153-54.)

at 97-98.) Mr. Rigsby asserted in Phase 1 that the plant degradation "isn't something that just happens overnight," and that AWC can plan for the necessary line replacements and come to the Commission every few years to obtain recovery through the regular ratemaking process. (*Id.* at 98.) Mr. Rigsby also expressed skepticism about AWC's asserted inability to attract the capital needed to make the infrastructure improvements and replacements that AWC has identified as necessary. (*Id.*) In addition, Mr. Rigsby testified that the costs of the repairs and replacements may go down with time, through the development of more cost-effective methodologies. (*Id.*) Mr. Rigsby also claimed that AWC is fortunate in that it is a regulated monopoly that can come to the Commission for a rate increase when needed, rather than a participant in a competitive environment, and that "sometimes you got to do what you got to do; and so it's up to the company's management to take the steps necessary to make sure that the company is a viable entity." (*Id.*) According to RUCO, it would be especially inappropriate to grant a DSIC without taking into account savings in operating expenses that RUCO believes would result from replacing aging plant with new plant. (*Id.*)

RUCO provided in Phase 1 a copy of a June 1999 National Association of State Utility Consumer Advocates ("NASUCA") Resolution "Discouraging State Regulatory Commissions from Adopting Automatic Adjustment Charges for Water Company Infrastructure Costs." (*Id.*) NASUCA "strongly recommended[ed]" that DSIC-type mechanisms not be authorized because NASUCA believes that the DSIC-type mechanisms (1) contradict sound rate of return ratemaking principles, including the matching principle; (2) circumvent regulatory review of rate base items for prudence and reasonableness; (3) create bad public policy by eliminating the incentive to control costs between rate cases and incentivizing increased spending; (4) reduce rate stability and distort proper price signals by causing frequent rate increases; (5) are unnecessary to ensure adequate water quality, pressure, and continuity of service; (6) inappropriately reward water companies that imprudently fall behind in infrastructure improvements; and (7) shift business risk away from water companies and toward consumers. (*Id.*) RUCO also cited a report on cost trackers published in September 2009 by a principal with the National Regulatory Research Institute, which asserted that cost trackers result in higher utility costs and undercut the positive effects of regulatory lag, and April 2009 testimony opposing a DSIC-type mechanism made by the Consumer Advocate for the Commonwealth of

Pennsylvania before the Pennsylvania House Consumer Affairs Committee. (*Id.* at 98-99.) In addition, RUCO stated that the Commission had recently rejected a DSIC-type mechanism for Arizona-American (in Decision No. 72047 (January 6, 2011)) because it would have covered routine investments in plant and thus "d[id] not warrant the extraordinary ratemaking device of an adjuster mechanism." (*Id.* at 99.)

Although RUCO opposes adoption of a DSIC, RUCO asserted in Phase 1 that any DSIC approved by the Commission should:

- Only apply to those Eastern Group systems that have water loss in excess of 10.00 percent—specifically Miami, Oracle/SaddleBrooke Ranch, and Bisbee;
- Be limited to one filing per year;
- Include an Operations & Maintenance ("O&M") expense offset of 15.00 percent, to ensure that ratepayers benefit from reductions in O&M expense resulting from the replacement of aging infrastructure; and
- Be capped at 4.00 percent over three years subject to an annual earnings test.[16]

Mr. Rigsby explained in Phase 1 that the O&M expense offset would be a proxy for his original recommendation that a specified monetary credit be applied to each foot of replacement line recovered through the DSIC, which would be difficult to apply because certain of the plant assets proposed to be included in a DSIC cannot be measured in linear feet. (*Id.*) RUCO asserted that the O&M offset would address RUCO's concerns that ratepayers will not benefit from the DSIC even though replacement of aging infrastructure should result in reduced O&M expenses. (*Id.*)

Staff's Phase 1 Arguments

Staff also opposed AWC's proposed DSIC in Phase 1, for reasons similar to those described by RUCO. Specifically, Staff expressed concern that a DSIC alters the balance of ratemaking lag by reducing lag time for recovery of depreciation and return on plant investments, to the benefit of AWC and the detriment of its ratepayers; that allowing recovery of capital improvement costs between regular rate cases results in less scrutiny of plant investments both as to prudency and the used and usefulness of the plant; and that the DSIC, like the ACRM, may "consume significant regulatory resources" because of the guidelines that will need to be established regarding the capital

[16] Decision No. 73736 at 99.

improvements to which the DSIC would apply, the frequency and limitations on rate modifications, and requirements for customer notice and reporting. (*Id.* at 99-100.) Staff acknowledged that the DSIC would present benefits as well—to AWC in the form of quicker recovery of depreciation and returns on capital improvements as well as improved cash flow, and to ratepayers in the form of gradualism, potentially fewer future rate cases, and improved service and reliability (resulting from AWC's increased replacement of aging and deteriorating plant and reductions in water loss). (*Id.*) Staff also acknowledged that the benefits of the DSIC "may offset any disruption to the balance of regulatory lags and imposition on regulatory resources," but ultimately recommended denial of the DSIC because its particulars and consequences had not been sufficiently resolved and needed further consideration. (*Id.*)

Staff viewed the DSIC as an adjustor mechanism, the use of which should be limited to "extraordinary circumstance[s]," and asserted that AWC's proposed use of the DSIC is for routine expenditures and therefore unjustified. (*Id.*) Staff did not consider AWC's Eastern Group infrastructure replacement needs, even assuming a $67 million cost estimate, to be extraordinary. (*Id.*)

In response to AWC's evidence supporting the DSIC in Phase 1, Staff observed that the DSIC's adoption in only 11 states suggested that its costs outweigh its benefits. (*Id.*) Staff also cited NASUCA's opposition to DSIC-type mechanisms and an advocacy organization's October 2011 "Fact Sheet" describing the DSIC as a "Rip-Off for Consumers."[17] (*Id.*) In addition, Staff pointed out that Arizona water utilities are all obligated to provide safe and reliable drinking water, with or without a DSIC, and that the proposed DSIC raised the element of single issue ratemaking. (*Id.* at 100-101.)

Staff recommended in Phase 1 that instead of approving a DSIC, the Commission could approve a SWIP that would:

- Apply only to the Miami and Bisbee systems;
- Apply only to replacements of transmission and distribution mains;

[17] The "Fact Sheet" was published by Food & Water Watch, a non-profit organization that promotes, among other things, "clean, publicly controlled water." (*See* Phase 1 Ex. S-4 at att. A; Phase 1 Ex. A-37.)

- Allow deferral of depreciation expense on qualified plant for 24 months after placed into service or until rates take effect for which the plant is included in rate base, whichever comes sooner;
- Allow recording and deferral of cost of money using the AFUDC rate on qualified plant for 24 months after placed into service or until rates take effect for which the plant is included in rate base, whichever comes sooner;
- Require full regulatory review of depreciation and cost of money deferrals for compliance with traditional ratemaking conditions (*e.g.*, prudency, used and usefulness, excess capacity) in the rate case following the plant in-service date;
- Require amortization of allowed combined depreciation and cost of money deferrals over a 10-year period;
- Condition depreciation and cost of money deferrals during the amortization period upon (1) AWC's maintenance of records correlating depreciation and cost of money deferrals with associated plant and (2) AWC's demonstrating (during rate cases) that the plant replacements contributed to reduced water loss; and
- Disallow depreciation and cost of money deferrals, wholly or in part, for deficiencies in records or deficiencies in demonstrating reduced water loss tied to plant replacements.[18]

In spite of its primary recommendation in Phase 1 to deny the DSIC and approve the SWIP, Staff also recommended conditions to be imposed for any DSIC that the Commission may decide to approve for AWC's Eastern Group. (*Id.*) Specifically, Staff recommended that:

- The DSIC be limited to Eastern Group subsystems with water loss over 10 percent (i.e., Oracle/SaddleBrooke, Bisbee, and Miami);
- AWC be required to submit quarterly filings for the first year, semi-annual filings thereafter, and cumulative annual reports;
- DSIC charges be revised and become effective on a yearly basis, 30 days after each annual filing;
- Staff be required to review AWC's initial annual filing and to prepare a memorandum and recommended order to be approved by the Commission before the initial DSIC surcharge can be implemented;
- Staff be permitted to review subsequent DSIC filings at Staff's discretion (no later than AWC's next rate case);
- Any over-collections of surcharges (for improperly calculated DSICs after the initial year) be refunded with interest at the weighted average cost of capital ("WACC") authorized in AWC's most recent rate case, with the refund to be implemented as determined by the Commission in a future rate case;
- Each annual increase (initial and subsequent) in DSIC charges be limited to 2 percent of the Commission-authorized revenue by subsystem;
- Cumulative annualized DSIC revenue by subsystem be limited to 6 percent;
- Plant items eligible for the DSIC be restricted to the following NARUC USOA plant accounts:
    - 343—Transmission and Distribution Mains,
    - 344—Fire Mains,

[18] Phase 1 Ex. S-3 at 36.

- 345—Services,
- 346—Meters,
- 347—Meter Installations, and
- 348—Hydrants;

- AWC be required to record replacement of plant items in accordance with the NARUC Uniform System of Accounts ("USOA");
- AWC be required to include in each DSIC filing the total amount of plant built during the applicable period, reconciled to the amounts recorded by USOA plant account, along with supporting documentation and any required regulatory permits;
- DSIC revenue be reduced by 10 percent to account for any cost savings (such as reduced operating expenses due to plant improvements);
- DSIC revenue be subjected to an earnings test, performed each time Staff reviews an AWC DSIC filing, to limit DSIC revenue when operating income (rate base x WACC) exceeds authorized WACC, with the earnings test to be:
  - Based on the most recent available operating income adjusted for any operating revenue and expense adjustments adopted in this rate case, and
  - Based on the rate base adopted in this rate case, updated to recognize changes in plant, accumulated depreciation, contributions in aid of construction ("CIAC"), advances in aid of construction ("AIAC"), and accumulated deferred income taxes ("ADIT") through the most recently available financial statements (no less than quarterly);
- AWC be required to notify customers of changes in the DSIC by including appropriate explanatory information on the first bill to be received following any change in the DSIC rate and on the first bill to be received following the effective date of the rates established in this rate case;
- DSIC eligibility be restricted to replacement facility costs (from prescribed USOA accounts) to serve existing customers;
- Plant projects funded through federal, state, and other non-investor sources be ineligible for DSIC treatment;
- The DSIC charge for each customer be calculated as a percentage (carried to two decimal places) of the total amount billed to the customer under AWC's otherwise applicable rates and charges; and
- DSIC charges collected be subject to refund to customers if AWC cannot demonstrate a reduction in water loss.[19]

Staff disagreed in Phase 1 with AWC's characterization of the DSIC as equivalent to an ACRM, not because of distinctions in how the DSIC would operate in practice as compared to an ACRM, but because of the justification for and plant additions that would be supported by the DSIC as opposed to the ACRM. (*Id.* at 103.) Staff witness Mr. Michlik pointed out in Phase 1 that while a water company has no control over the amount of arsenic in its ground water supply, it can impact its

[19] Decision No. 73736 at 101-103.

water loss and, further, that the ACRM was implemented both to address the "extraordinary financial burden" that utilities would face as a result of the new arsenic MCL and the "overwhelming regulatory burden" to the Commission expected to result from receiving many nearly simultaneous urgent filings caused by the arsenic MCL. (*Id.*) Staff also recounted the history of the Commission's adoption of the ACRM, which included numerous meetings over approximately a two-year period. (*Id.*)

Staff witness Mr. Fox testified in Phase 1 concerning the similarities and distinctions among the ACRM, AWC's proposed DSIC, and Staff's recommended SWIP. Mr. Fox observed that Staff's review of ACRM filings generally involves at least three distinct members of Staff, generally takes longer than the originally anticipated 60 days, occasionally takes up to or even more than a year, and is limited to the two steps prescribed for each approved ACRM. (*Id.*) Mr. Fox testified that the DSIC review process would be virtually the same.[20] (*Id.*) Mr. Fox also stated that Staff resources are one reason for Staff's recommendation of a SWIP rather than a DSIC in Phase 1 because Staff currently has very limited personnel available in general and also specifically with any experience reviewing ACRM filings. (*Id.*) Staff believed that the DSIC could result in numerous filings for increases, although it is likely (due to the overall cap proposed in the Phase 1 DSIC proposal) that there would have been only three distinct filings in between rate cases, each resulting in a relatively minimal rate increase. (*Id.* at 103-104.) Additionally, Mr. Fox pointed out in Phase 1 that the DSIC proposal did not require a full permanent rate case application within a specified brief period of time, while the ACRM does. (*Id.* at 104.) Mr. Fox also confirmed that the schedules AWC proposed to include in its DSIC filing are the same schedules required in an ACRM application. (*Id.*) Mr. Fox added that any DSIC should include deduction of ADIT from the cost of plant additions included in the DSIC, something that Staff now believes should have been required for the ACRM. (*Id.*)

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[20] Mr. Fox stated:

> So I think the process is essentially the same. I have an engineer do an evaluation of whether or not the plant went into service and whether it's used and useful. We'll review the supporting documentation, the invoices, the contracts, overheads, et cetera, accumulate the cost, and any - - and, you know, calculate a revenue requirement and use whatever rate design is approved and look at what the impact is on the typical customer and prepare a recommendation, and, of course, if RUCO submits a report, we would include that analysis in preparing our memorandum and recommended opinion and order.

(Phase 1 Tr. at 1456.)

In Phase 1, Mr. Fox explained that if the SWIP were adopted there would have been no rate changes or rate proceedings in between rate cases. (*Id.*) In addition, Mr. Fox stated, recovery under the SWIP would be slightly higher than recovery under the DSIC because the SWIP would have involved AFUDC and the need to compensate AWC for the time value of money.[21] (*Id.*) Staff asserted in Phase 1 that the SWIP would permit AWC to realize all the financial benefits of new plant, such as depreciation, until its next rate case while maintaining balance in regulatory lag and the principles of the historical test year. (*Id.*)

Summary of Settlement Agreement[22]

The signatory parties assert that the Phase 2 settlement process was open, transparent and inclusive of all parties. According to AWC witness Reiker, there were three formal negotiation sessions over a period of weeks involving the Company, Staff, and RUCO, with many of the intervenors attending two of the sessions. (Tr. 48-52.) Staff witness Olea stated that the negotiations were "transparent, professional and open to all parties in this docket. All parties were allowed to openly express their views and opinions on all issues." (Ex. S-1, at 9.) RUCO witness Mr. Quinn agreed that RUCO participated vigorously in the settlement discussions and was given the opportunity to express its views during negotiations, although RUCO ultimately did not sign the Agreement. (Tr. 392-396.)

Key Provisions of SIB Mechanism

The Settlement Agreement includes a number of provisions related to the SIB mechanism and surcharge that the signatory parties claim contains significant compromises compared to AWC's Phase 1 DSIC proposal, as revised during the course of the Phase 1 proceedings.

The Settlement provides, among other things for: Commission pre-approval of SIB-eligible projects; SIB project eligibility criteria; a limit on SIB surcharge recovery to the pre-tax rate of return and depreciation expense associated with SIB-eligible projects; an "efficiency credit" of five percent; a cap on the SIB surcharge of five percent of the Phase 1 revenue requirement; separate line items on customer bills reflecting the SIB surcharge and the efficiency credit; Commission approval of the SIB

[21] The analogy provided was that with the DSIC, a customer would pay a dollar today, versus instead paying a dollar and ten cents a year from today with the SWIP. (*See* Phase 1 Tr. at 1464.)

[22] The Settlement Agreement (admitted at the Phase 2 hearing as Ex. A-1) is attached hereto as "Attachment A."

surcharge prior to implementation and adjustments; a limit of five SIB surcharge filings between general rate cases; an annual true-up of the SIB surcharge; and notice to customers at least 30 days prior to SIB surcharge adjustments. (Ex. A-1.)

SIB Mechanism

As defined in the Settlement, 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." (Ex.A-1, ¶2.3.)

The SIB surcharge would be applicable only for plant replacement investments to provide adequate and reliable service to existing customers and that "are not designed to serve or promote customer growth." (*Id.* at ¶2.1.)

Approval of SIB-Eligible Projects

Under the terms of the Settlement Agreement, all of the SIB-eligible projects must be reviewed by Staff and approved by the Commission prior to being included by AWC in the SIB surcharge. For purposes of eligibility in this case, the specific projects proposed for inclusion in the initial surcharge are described in Exhibit A to the Settlement, which, according to Mr. Reiker, Staff has now reviewed and approved. (Ex. A-2, at 11.) On a going-forward basis, all of the projects must be completed and placed into service prior to being included in the SIB surcharge. (Ex.A-1, ¶2.5.) AWC is also required to file a report with the Commission every six months summarizing the status of all SIB-eligible projects. (*Id.* at ¶4.8.)

Costs Eligible for SIB Recovery

Cost recovery under the SIB mechanism is allowed for the pre-tax return on investment and depreciation expense for projects meeting the SIB-eligible criteria and for depreciation expense associated with those projects, net of associated plant retirements. (*Id.* at ¶3.2.) The Settlement provides that the rate of return, depreciation rates, gross revenue conversion factor and tax multiplier are to be the same as those approved in Phase 1 in Decision No. 73736. (*Id.* at ¶3.2.1, 3.2.2, 3.2.3.)

Efficiency Credit

The Settlement provides that the SIB surcharge will include an "Efficiency Credit" equal to five percent of the SIB revenue requirement. (*Id.* at ¶3.3.)

Surcharge Cap

The Agreement caps the amount that is permitted to be collected annually by each SIB surcharge filing to five percent of the revenue requirement authorized in Decision No. 73736. (*Id.* at ¶3.4.)

Timing of SIB Surcharge Filings

Under the Settlement, AWC: may file up to five SIB surcharge requests between rate case decisions; may make no more than one SIB surcharge filing every 12 months; may not make its initial SIB surcharge filing for the Eastern Group prior to 12 months following the effective date of Decision No. 73736 (*i.e.*, February 20, 2014); must make an annual SIB surcharge filing to true-up its surcharge collections; and must file a rate case application for its Eastern Group no later than August 31, 2016, with a test year ending no later than December 31, 2015, at which time any SIB surcharges then in effect would be reviewed for inclusion in base rates in that proceeding and the surcharge would be reset to zero. (*Id.* at Sections 4.0 and 5.0.)

SIB Rate Design

The Settlement Agreement states that the SIB surcharge will be a fixed monthly charge on customers' bills, with the surcharge and the efficiency credit listed as separate line items. The surcharge will increase proportionately based on customer meter size. (*Id.* at Section 8.0.)

Commission Approval of SIB Surcharge

The Agreement provides that each SIB surcharge filing must be approved by the Commission prior to implementation. Upon filing of the SIB surcharge application, Staff and RUCO would have 30 days to review the filing and dispute and/or file a request for the Commission to alter the surcharge or true-up surcharge/credit.[23] AWC is also required to provide a proposed order with each SIB filing for the Commission's consideration, and if no objection is filed to the SIB surcharge

[23] At the hearing, Mr. Olea clarified that because customer notice is required at least 30 days prior to the effective date of a surcharge adjustment (Ex. A-1, ¶7.2), any customer would have an opportunity to object to the Company's surcharge request prior to the Commission scheduling the matter for consideration at an Open Meeting. (Tr. 310-311.)

request the request shall be placed on an Open Meeting agenda at the earliest practicable date. (*Id.* at Section 9.0.)

Public Notice

Under the terms of the Settlement, at least 30 days prior to a SIB surcharge becoming effective AWC is required to provide public notice to customers in the form of a bill insert or customer letter. The notice must include: the individual surcharge amount by meter size; the individual efficiency credit by meter size; the individual true-up surcharge/credit by meter size; and a summary of the projects included in the current surcharge filing, including a description of each project and its cost. (*Id.* at ¶7.2.)

Positions of the Parties Regarding Settlement Agreement

Arizona Water Company

In Phase 1, AWC asserted that its proposed DSIC is modeled after and would operate in the same manner as an ACRM, which has been accepted by the Commission and others as being consistent with Arizona law. (Phase 1 AWC Br. at 23.) AWC also claimed that the Commission has substantial discretion to adopt ratemaking methodologies and approaches as necessary to address particular issues and that the Commission has used this discretion previously to include CWIP within rate base (to set rates for plant not yet completed at the end of a historical test year) because the public interest is served by rate stability, not by constant rate hearings. (*Id.* at 23-24.) AWC argued that the Court of Appeals' decision in *Scates v. Arizona Corp. Comm'n* acknowledged the Commission's ability to adjust rates outside of a general rate case setting in exceptional circumstances, but expressly did not decide whether the Commission could authorize a partial rate increase without requiring completely new submissions or "whether the Commission could have referred to previous submissions with some updating or whether it could have accepted summary financial information." (Phase 1 AWC Br. at 23-25 (quoting *Scates*, 118 Ariz 531, at 537, 578 P.2d 612, at 618 (App. 1978).) In response to RUCO's arguments in Phase 1, AWC asserted that RUCO had ignored that the DSIC was modeled on the ACRM, which the Commission has determined to be constitutional. AWC also argued that the Arizona Supreme Court in *Arizona Cmty. Action Ass'n v.*

Arizona Corp. Comm'n authorized step increases between rate cases under certain conditions. (Phase 1 AWC Reply Br. at 14-15, *citing Arizona Cmty. Action*, 123 Ariz. 228, 599 P.2d 184 (1979).)

AWC contends in Phase 2 that the SIB is a necessary remedy for the Company's inability to recover its cost of service for the past 16 years, resulting in AWC's shareholders subsidizing the Company's operations by more than $41 million since 1996. (Tr. 63-64.)[24] The Company asserts that its inability to earn authorized returns has undermined the ability to finance critical infrastructure replacement and improvement projects, resulting in detrimental impacts on customers due to frequent line breaks on aging distribution lines. (Phase 1 Tr. 329, 370.)

AWC claims that thousands of breaks occur every year in the Eastern Group systems but current ratemaking policies hinder the Company's ability to make necessary infrastructure replacements and improvements. The Company points out that its Eastern Group contains over 3.5 million lineal feet (600 miles) of water mains and over 33,000 service connections, of which 371,000 lineal feet and 4,915 service connections need to be replaced over the next ten years. (Water Loss Reduction Report, at 7, 18; Phase 1 Exs. A-10, at 8 and A-28, at 35.)

In response to criticisms from RUCO, AWC asserts that although it regularly replaces failing infrastructure, and has a rigorous water loss reduction program, those ongoing efforts are not sufficient to replace the large portions of infrastructure that are at or beyond their useful lives. (Phase 1 Exs. A-9, at 14 and A-28, at 43-49.) According to AWC, the scale of the needed replacement program dwarfs the resources available to the Company, thereby requiring implementation of a ratemaking tool to assist in those efforts. (Phase 1 Exs. 9, at 15-16 and A-29, at FKS-RB8.) The Company argues that RUCO presented no evidence disputing the impending water infrastructure replacement crisis facing the Company; nor did RUCO present any credible evidence that a SIB mechanism is not fully justified under these circumstances.

AWC claims that its infrastructure replacement program would require the expenditure of approximately $67 million over the next ten years, which is nearly twice the amount of capital that was required to comply with the federal arsenic standards. (Phase 1 Exs. A-9, at 14-25, A-10, at 4-5,

[24] Mr. Reiker conceded that AWC paid out to shareholders substantially more than $41 million in dividends over the same period. (Tr.118-119.)

and A-28, at 73, 81.) The Company contends that spending $67 million over the next ten years is an extraordinary expense that it does not have the resources to fund. (Phase 1 Ex. A-9, at 15-16; Phase 1 Tr. at 370.) AWC asserts that its shareholders recently infused over $10 million in equity, that the Company is not able to fund the needed replacements internally, and that its ability to finance those projects through issuance of additional long-term bonds is compromised by the Company's weakened financial state. (Phase 1 Tr. 332, 365-371.)

The Company argues that the SIB mechanism would provide credit support that will assist its efforts to attract capital to finance the infrastructure projects. AWC points out that the water industry is among the most capital intensive industries, and the SIB mechanism will help mitigate regulatory lag and add stability to cash flows, thereby helping to support the Company's credit quality, bond rating, and ability to attract capital. (Phase 1 Ex. A-34, at 21-22, 26; Phase 1 Tr. at 329-332.) AWC also contends that a DSIC-like mechanism, such as the SIB, would be viewed by credit rating agencies as credit supportive. (Phase 1 Ex. A-34, at 22-26.) AWC further claims that the SIB mechanism will help the Company's ability to recover its cost of service and will reduce regulatory lag for the critical replacement projects. (Tr. 64; Ex. A-2, at 22.)

AWC also argues that the SIB mechanism, like the ACRM that was approved previously, would provide significant benefits to customers by allowing the Company to replace and upgrade aging infrastructure while implementing more gradual and smaller rate increases. (Phase 1 Exs. A-5, at 4-5 and A-34, at 26-27.) The Company points out that the SIB-eligible projects would be limited to aging infrastructure used to serve existing customers, and for which there is no disagreement regarding the need for replacement. (Ex. A-1, at Ex. A; Tr. 72-73, 127-128; Phase 1 Exs. A-9, at 17-20 and A-28, FKS-13.)

AWC disputes RUCO's contention that a DSIC, or SIB as is now proposed, would shift risks to ratepayers because, according to the Company, absent approval of a SIB-like mechanism, the continued lag in recovery of infrastructure capital investment would leave the Company unable to recover its cost of service in a timely manner. (Phase 1 Exs. A-5 and A-34, at 6.) AWC contends that an ongoing inability to earn its authorized return on investment would ultimately result in higher rates to customers due to higher borrowing costs and more frequent rate cases. (Phase 1 Ex. A-5, at 6.)

The Company claims that rather than shifting risks to customers, the SIB would more closely align cost recovery with the customers that benefit from the infrastructure replacement projects. AWC also asserts that the SIB mechanism would promote rate stability by imposing more gradual, and smaller rate increases, while at the same time allowing the Company a better opportunity to recover its cost of service, resulting in a healthier company. (Tr. 64-65, 303; Ex. A-2, at 12-13.) AWC claims that RUCO's Director agreed that, overall, rate gradualism and a healthy utility company provide benefits to customers. (Tr. 423, 453-455.)

AWC also opposes RUCO's suggestion that if a DSIC-like or SIB mechanism is approved, the Commission should reduce the Company's return on equity ("ROE"). The Company's witness in Phase 1, Ms. Ahern, testified that it was important for purposes of raising capital that AWC receive a sufficient ROE in conjunction with a DSIC mechanism because even with such a mechanism investors' expected returns are not diminished. (Phase 1 Ex. A-34, at 29; Phase 1 Tr. 997-998.) Ms. Ahern stated that none of the other states that have adopted DSIC-like mechanisms have reduced the utility's ROE as a result. (*Id.*) The Company also cites to Staff witness Mr. Olea's testimony at the hearing that the 10.55 percent ROE authorized by the Commission in Phase 1 should not be reduced as a result of the SIB Settlement Agreement because of the five percent efficiency credit built into the Agreement. (Tr. 272-273, 275-276.) AWC points out that Mr. Olea added that because the SIB-eligible plant is only a small portion of AWC's rate base, the authorized ROE and SIB should be considered separately. (*Id.* at 317-319.) AWC asserts that RUCO did not present evidence as to what an appropriate ROE adjustment should be as a result of a SIB, and presented no studies to support its claim that a ROE adjustment should be made. (Tr. 427, 487-489.)

With respect to the issue of using depreciation expense as an offset to infrastructure replacement costs, AWC claims that the Commission's rules define depreciation expense as allowing for a utility's recovery of the original cost of plant investment, less salvage value. (Arizona Administrative Code ("A.A.C.") R14-2-102(A)(3).) The Company contends that allowed depreciation expense does not provide for extra funds, beyond the return of the capital investment in rate base, to fund plant replacements at many times the cost of the plant being replaced. AWC asserts that the Commission's rules, as well as its historic treatment of depreciation expense, entitle a utility

to recovery *of* its investment (through depreciation) and *on* its investment (through ROE). (AWC Br. at 24-25.)

Regarding the legal arguments associated with the SIB mechanism, AWC argues that although the Arizona Supreme Court requires that a utility's fair value rate base must be utilized when setting rates,[25] the Commission has substantial discretion to adopt methodologies and approaches necessary to address particular issues, such as the impending infrastructure crisis the Company claims is facing Arizona's investor owned water companies. (*Arizona Corp. Comm'n v. Arizona Pub. Serv. Co.*, 113 Ariz. 368, 370, 555 P.2d 326, 328 (1976).) AWC asserts that in *Arizona Public Service*, the Arizona Supreme Court found that the Commission has discretion to consider post-test year events and it is in the public interest to have stability in the rate structure rather than a constant series of rate cases. (*Id.*)

AWC also cites *Arizona Community Action* in support of its contention that approval of the SIB mechanism is within the Commission's ratemaking discretion. In *Arizona Community Action*, the Arizona Supreme Court found that a two-step process for including CWIP in rate base, and increasing rates accordingly, was reasonable. Although the court struck down the Commission's use of the utility's ROE as the sole criterion for adjusting rates, it found that adding CWIP to the determination of fair value was reasonable under constitutional requirements if used only for a limited period of time. (123 Ariz. at 230-231, 599 P.2d at 186-187.)

The Company also argues that the holding in *Scates* supports the Commission's ability to adjust rates outside of a general rate case if exceptional circumstances exist, such as the Company believes are presented in this proceeding. In *Scates*, the Arizona Court of Appeals held that the Commission was required to determine the utility's fair value prior to authorizing adjustments to a telephone provider's charges for all installation, moving and changing of telephones. The court struck down the Commission's approval of rate increases for those charges because the Commission had not inquired as to whether the increased revenues received by the company resulted in a rate of return greater or lesser than the return established during the prior rate case hearing. (*Id.* at 534, 578

[25] *Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145, 151, 294 P.2d 378, 382 (1956).

P.2d at 615.) However, the court in *Scates* stated that there may be exceptional circumstances in which the Commission could authorize partial rate increases without the submission of an entirely new rate case. (*Id.* at 537, 578 P.2d at 618.)

AWC asserts that the SIB mechanism is consistent with the cited court cases because the SIB surcharges would be based on specific, identifiable, quantifiable plant additions that are reviewed by Staff, and approved by the Commission, before they are implemented. The Company also claims that it would be required to file annual summary schedules of infrastructure costs, and how those costs would affect customer rates. AWC argues that the five percent annual revenue cap, the limit of five SIB surcharge filings between rate cases, the requirement to file a rate case within five years to seek recovery of all of the SIB surcharge infrastructure costs, as well as notice requirements and other checks and approvals, are all factors that reflect consistency with the public interest, Arizona laws, and court cases interpreting the Arizona Constitution and applicable statutes. (AWC Br. at 22.)

EPCOR

EPCOR argues that the Commission should adopt the proposed SIB mechanism as set forth in the Settlement Agreement as a means of improving the fairness of water company regulation in Arizona and encouraging water utilities to make necessary replacements of water infrastructure. (EPCOR Ex. 1, at 2-3.) EPCOR witness Mr. Broderick stated that the SIB mechanism would reduce regulatory lag and increase the likelihood that utilities will undertake "earlier, well-paced and necessary improvements" to replace infrastructure in order to maintain or improve service to customers. (*Id.* at 3.)

EPCOR claims that the open and transparent negotiation process that led to the Settlement Agreement, and the diverse interests involved, required compromises that resulted in an agreement that is in the public interest. EPCOR contends that the SIB mechanism provides benefits to utilities and customers alike because it will allow surcharges only for replacement of existing plant and will allow for smaller, more gradual increases for customers, as well as an efficiency credit. (EPCOR Br. at 2.)

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Arizona Investment Council

AIC witness Mr. Yaquinto testified in support of the Settlement Agreement, stating that the SIB mechanism would provide AWC with an important tool for acquiring the capital needed to finance needed repairs to, and replacement of, infrastructure in the Company's aging systems. (AIC Ex. 1, at 4.) He indicated that the SIB surcharge would be permitted only for narrowly defined criteria, but would allow AWC the opportunity for more timely recovery of plant investments thereby reducing regulatory lag that he believes penalizes investors. (*Id.*) Mr. Yaquinto stated that AIC supports SIB-like mechanisms for all water and wastewater companies and, as set forth in the Settlement, the SIB is expected to serve as a template for other companies. (*Id.*)

AIC supports the Settlement Agreement because it believes the SIB mechanism will position AWC to compete for needed capital on better terms and conditions than would otherwise be available to replace critical infrastructure. (*Id.* at 5.) According to AIC, approval of ratemaking mechanisms like the SIB will signal to investors that there is an improved regulatory environment in Arizona, which will further enhance the ability of utilities in Arizona to compete for scarce capital. (*Id.*) Mr. Yaquinto claims that the SIB mechanism will also benefit customers by enabling water companies to make infrastructure improvements to ensure safe and reliable service, and due to efficiencies from those infrastructure investments that will flow to customers through the five percent efficiency credit. (*Id.* at 5-6.) Finally, AIC contends that customers will benefit from the SIB mechanism because there will be smaller rate increases associated with plant investments that will be spread more gradually. (*Id.* at 6.)

Liberty Utilities/Global Water

Liberty Utilities and Global Water (jointly "Liberty/Global")[26] contend that the SIB is in the public interest because it provides a needed mechanism for funding infrastructure replacements for aging facilities. They claim that the level of needed infrastructure investment is substantial and even if AWC and other water utilities were able to raise the necessary capital to fund such projects, the result for customers would be massive and sudden rate increases once those investments are

[26] Liberty/Global filed a joint brief in this case and their arguments in support of the Settlement will therefore be summarized together.

recognized in rate base. Liberty/Global state that the better way to address these infrastructure needs is to adopt a mechanism like the SIB, citing to the testimony of Mr. Olea that companies have to have the funds to provide adequate, safe, and reliable service – and the SIB will provide a better opportunity for the Company to do so. (Tr. 375.) Liberty/Global also refer to Mr. Olea's claim that the SIB will benefit both the Company and customers by having a company that is capable of making necessary replacements and improvements so that customers can receive safe and reliable water service. (*Id.* at 304.)

Liberty/Global contend that a key benefit of the SIB is that smaller, more gradual rate increases are preferable to customers. (Global Ex. 2, at Attach. 2; EPCOR Ex. 1, at 3; RRUI Ex. 1, at 2.) They claim that with more gradual rate increases it is likely that full, contested rate cases seeking large increases will become less frequent, and that gradualism is built into the Settlement by virtue of the five percent annual cap on SIB surcharge increases. (Global Ex. 2, at Attach. 2; Ex. A-1, at ¶3.4.) Another benefit cited by Liberty/Global is the five percent efficiency credit, which they claim has not been adopted in any other state that has approved a DSIC-like mechanism. (Global Ex. 2, at 3-4.) They point to Mr. Olea's testimony that the efficiency credit represents an actual dollar benefit to ratepayers that the Company will never get back. (Tr. 265, 330.) Liberty/Global further contend that the SIB will enhance the Company's financial stability by improving earnings and cash flow, and thereby its ability to raise funds. (Ex. A-2, at 11-12.)

Liberty/Global assert that the Settlement Agreement's indication that it may be used as a template for other companies furthers the public interest by providing uniformity of administration, and potentially reduces Staff's workload in reviewing SIB filings. (Tr. 208, 248.) Liberty/Global claim that the SIB was carefully designed because it is intended to be used as a template that would place more of the burden on utilities, rather than Staff, to allow for quicker processing. (*Id.* at 288, 291-292.)

With respect to the issue of using depreciation expense for infrastructure replacements, Liberty/Global argue that A.R.S. § 40-222 is not a viable alternative to adoption of the SIB. That statute provides, in relevant part, that the Commission may:

> ascertain and fix the proper and adequate rates of depreciation of the several classes of property for each, and each [public service] corporation shall conform its depreciation accounts to the rates so ascertained and fixed, and shall set aside the money so provided for out of earnings and carry such money in a depreciation fund and expend the fund, and the income therefrom, only for the purposes and under rules and regulations, both as to original expenditure and subsequent replacement, as the commission prescribes.

Liberty/Global claim that the first part of the statute, relating to fixing depreciation rates, has been implemented through the Commission's rules and is applied to utilities in Arizona. (A.A.C. R14-2-102.) However, according to Liberty/Global, the second part of the statute, authorizing the Commission to require a depreciation fund, is an "obscure and long-dormant provision" that no witness in any case has advocated be adopted. (Liberty/Global Br. at 7.) They claim that the statute was enacted in 1912, that the Commission has never used the statute, and "if a special, restricted depreciation fund was in the public interest, it would have been used by now." (*Id.*)

Liberty/Global argue that mandating a depreciation fund would result in higher rates because if depreciation funds are restricted to infrastructure replacement, rates would need to be higher to provide sufficient cash flow to the Company. (Tr. 343.) They also claim that because depreciation expense is based on the original cost of the asset, and plant costs increase over time, a depreciation fund would not provide adequate capital to replace assets decades later. (*Id.* at 77, 113-114, 360-362.) Liberty/Global further argue that the statute itself does not allow the Commission to act by ad hoc orders on this issue, but requires action by "rules and regulations." (A.R.S. § 40-222.) Finally, they contend that application of the statute would raise serious constitutional issues, likely sparking litigation, because redirecting depreciation expense to a special restricted fund would not provide the required return *of* the utility's investment, thereby violating the "takings clause" of the United States Constitution, the takings clause of the Arizona Constitution (Article 2, § 17), and Article 15, §§ 3 and 14 of the Arizona Constitution. (Liberty/Global Br. at 7-9.)

With respect to the legal arguments raised by RUCO, Liberty/Global claim that the SIB mechanism was specifically tailored to comply with all applicable legal requirements regarding ratemaking, including the fair value requirement of the Arizona Constitution. They assert that the SIB is a ratemaking adjuster mechanism that is designed to provide for the timely recovery of capital

costs invested for system improvement projects meeting specific defined criteria, within AWC's general rate proceeding. Liberty/Global contend that Arizona law does not prohibit use of a ratemaking adjuster mechanism as long as the mechanism is approved in a rate case and it comports with the fair value requirement in Article 15, § 14 of the Arizona Constitution. They claim that the SIB is nearly identical in nature to the Environmental Improvement Surcharge ("EIS") approved for Arizona Public Service Company ("APS") in Decision No. 73183 (May 24, 2012) pursuant to a settlement agreement in the last APS rate case. Liberty/Global point out that the APS settlement was signed by APS, Staff, RUCO and a number of other parties without challenge to the legality of the EIS. Liberty/Global contend that due to the similarities between the EIS and SIB, the Commission's approval of the EIS effectively approved the legality of the SIB as well. (Liberty/Global Br. at 10-11.)

Liberty/Global dispute RUCO's contention that approval of a DSIC (or SIB) is an extraordinary ratemaking scheme that is legally impermissible. They assert that approval of the SIB would be within the structure of AWC's base rate case, and the Commission has approved many types of adjusters and similar mechanisms in other dockets. Liberty/Global argue that although the SIB does not fall into the category of an automatic adjustment clause for specific expenses such as gas and electric fuel costs, it is intended to recover plant investment costs incurred by the utility for making necessary system improvements and is therefore consistent with the requirements of *Scates*. As described in the *Scates* decision, adjustment clauses are generally acceptable if done within the framework of a utility's rate structure, in accordance with all statutory and constitutional requirements, and are "designed to insure that, through the adoption of a set formula geared to a specific readily identifiable cost, the utility's profit or rate of return does not change." (*Scates, supra*, 118 Ariz. 531, 535, 578 P.2d 612, 616 (App. 1978).) According to Liberty/Global, the SIB satisfies these requirements because the surcharge would apply only to projects meeting specific criteria, and applies a set formula to readily identifiable and defined plant, using the rate of return established in Phase 1, thereby ensuring the Company's authorized rate of return does not change. (Ex. A-1, at ¶¶ 3.0, 3.2, 6.3.)

Liberty/Global assert that even if the Commission were to determine that the SIB is not a ratemaking adjuster mechanism, it is still a lawful surcharge authorizing rate increases based on a determination of AWC's fair value rate base, pursuant to the holding in *Residential Utility Consumer Office v. Arizona Corp. Comm'n*, 199 Ariz. 588, 20 P.3d 1169 (App. 2001) ("*Rio Verde*"). Liberty/Global claim that contrary to RUCO's contention (Tr. 501), the Arizona Constitution does not require that the Commission take all ratemaking elements into consideration as would be done in a general rate case, but rather only requires that the fair value of a utility's property be ascertained when setting rates. (Arizona Constitution, Article 15, § 14.) They contend that once fair value is ascertained, as would be done each time a SIB surcharge adjustment is approved, the Commission has ample discretion to use the fair value in setting rates or adjusting a surcharge.

Liberty/Global dispute RUCO witness Mr. Rigsby's claim that the Commission would not be making a new fair value determination as part of each surcharge filing. (RUCO Ex. 12, at 13.) Liberty/Global point out that the Settlement Agreement requires a FVRB finding for AWC as established in Decision No. 73736, plus the additional SIB plant, along with the rate of return as applied to that FVRB and related revenue. (Tr. 332-333.) Citing *Simms v. Round Valley Light & Power Co.,* 80 Ariz. 145, 294 P.2d 378 (1956), Liberty/Global argue that the SIB fully complies with the fair value standard because the SIB requires a determination of the fair value of the Company's rate base, as well as the SIB plant, at the time the surcharges are proposed. (80 Ariz. 145, 151, 294 P.2d 378, 382.) Liberty/Global assert that all the Constitution requires is that the Commission determine and consider fair value in setting rates, as reinforced in the Arizona Supreme Court's decision in *US West Comm., Inc. v. Arizona Corp. Comm'n,* 201 Ariz. 242, 245-246, 34 P.3d 351, 354-355 (2001) ("*US West II*") and the Court of Appeals' decision in *Phelps Dodge Corp. v. Arizona Elec. Power Co-op., Inc.*, 207 Ariz. 95, 106, 83 P.3d 573, 584 (App. 2004) ("*Phelps Dodge*"). According to Liberty/Global, both *US West II* and *Phelps Dodge* confirm that the Commission has broad discretion in using the fair value determination, as long as the fair value is ascertained as part of the analysis. They claim that the Commission has the discretion to adopt mechanisms necessary to address particular ratemaking issues, including matters subsequent to a historic test year and construction projects contracted and commenced during the test year (*Arizona Public Service, supra,*

at 371, 555 P.2d at 329), as well as construction work in progress that is not yet in service (*Arizona Comty. Action, supra*, at 230, 599 P.2d at 186.) Liberty/Global also point to the Commission's adoption in prior cases of an ACRM, without a legal challenge, that enabled water utilities to comply with federal arsenic standards, as an example of a mechanism that supports approval of the SIB in this case.

Liberty/Global contend that, as a matter of law, the SIB mechanism falls within the Commission's broad discretion and is consistent with relevant court decisions. They assert that the Commission has already determined the fair value of AWC's rate base in Phase 1; that any SIB surcharge will be based on specific infrastructure added to the approved rate base; and that AWC will be required to file annual summary schedules of the actual plant addition costs, along with FVRB information that will enable the Commission to determine, in accordance with *Scates*, how the proposed surcharge would impact the Company's rate of return. Liberty/Global claim that, following that analysis, under the terms of the Settlement, the SIB surcharge would only be permitted to the extent that AWC's return on rate base for a particular system does not exceed the rate of return authorized by Decision No. 73736. (Liberty/Global Br. at 17-18.)

Liberty/Global also argue that the SIB mechanism satisfies all required ratemaking elements under Arizona law because the SIB revenue requirement is based on the established rate of return, as well as the Phase 1 authorized gross revenue conversion factor/tax multiplier and depreciation rates, less the five percent efficiency credit, which thereby effectively reduces the SIB plant return on equity and ensures that AWC's rate of return does not increase. Other requirements cited by Liberty/Global include: the limitation of SIB surcharge filings to once every 12 months, and no more than 5 filings between general rate cases; annual true-up filings; submission of detailed information showing an analysis of the effect of the SIB plant on FVRB, revenue, and the fair value rate of return approved in Decision No. 73736; and a 30-day review period for Staff and RUCO, as well as review and approval by the Commission. (*Id.* at 20-21.) Finally, Liberty/Global contend the EIS approved in the most recent APS rate case, pursuant to a settlement signed by RUCO and a number of other parties, is very similar to the proposed SIB and therefore if the EIS is legal, the SIB must likewise be legal.

Staff

In Phase 1, Staff asserted that the DSIC, as proposed by AWC, did not comply with the Arizona Constitution. (Phase 1 Staff Br. at 26.) Staff stated that the Arizona Constitution requires the Commission to determine the fair value of a utility's property in order to set just and reasonable rates, but allows the Commission to make adjustments to rates outside of a rate case through rate adjustors under very limited circumstances. (*Id.*) Staff added that this authority was limited to exceptional situations and that to remain in compliance with the Arizona Constitution, the Commission is still required to determine fair value and to consider the overall impact of the adjustment on the rate of return. (*Id.* (citing *Scates*, 118 Ariz. at 533.)) Staff also asserted in Phase 1 that AWC had not provided sufficient detail to allow for a determination that the proposed DSIC would meet the constitutional requirements. (*Id.* at 26-27.) For example, Staff expressed doubt in Phase 1 concerning the extent or nature of Staff's evaluation of the new plant and its prudency, Staff's ability to evaluate the overall impact of the rate increase, whether the DSIC would apply only to projects specifically listed in the DSIC Study, and how due process would be ensured. (*Id.*) Staff concluded in Phase 1 that without all of these details, the constitutionality of the DSIC cannot be determined and, thus, the DSIC must be denied.

Staff further asserted in Phase 1 that the scope of the DSIC was so broad that the "DSIC crosses over from the realm of an adjustor mechanism into a rate case." (*Id.* at 28.) Staff claimed in the prior phase that the DSIC would not be used to recover costs, but instead to increase rate base; that the increased rate base would be included for all future calculations of rates; and that the surcharge would continue for the life of the asset in question, with the revenue generated to be treated as income rather than as a separate fund to be used to acquire the plant or pay the cost of the plant. (*Id.*) Staff also argued in Phase 1 that there were no exceptional circumstances that would justify the DSIC because AWC always knew that the infrastructure would need to be replaced someday and could and should have prepared for that day but failed to do so. (*Id.* at 27.)

However, Staff stated in its Phase 1 reply brief that: "Staff does not believe that a DSIC, per se, would violate the Arizona Constitution so long as its methodology meets the constitutional mandate," but that Staff was concerned that the proposed DSIC did not meet the mandate. (Phase 1

Staff Reply Br. at 19.) Staff agreed with AWC's contention that judicial interpretation of the Arizona Constitution is the origin of the requirement for a finding of fair value and the formula for ratemaking in which a rate of return is applied to that fair value. (*Id.* at 19-20 (citing *US West II*, 201 Ariz. 242, 245-46, 34 P.2d 351, 354-355).) Staff acknowledged that exceptions have been created for matters after the historic test year, including construction projects commenced during the test year and CWIP; for interim rates and automatic adjustment clauses; and for the ACRM. (*Id.* at 20-21.) Staff asserted, however, that the DSIC proposed in Phase 1 did not qualify as any of these—that it could not be justified as an interim rate because there was no emergency, and it could not be justified as an adjuster mechanism because it was designed to pass on the cost of new plant rather than changes in specific and segregated costs. (*Id.* at 21-22.) Staff indicated that, unlike an ACRM, the proposed Phase 1 DSIC would apply to more than one plant, would not be limited to only two step increases, and would not impose a requirement for a rate case application to be filed by a specific date with a rate case (including a true-up) to follow. (*Id.* at 22.)

In Phase 2, Staff negotiated and signed the Settlement Agreement that Staff asserts remedies the issues identified by Staff in Phase 1 as being legally problematic. Staff contends that the record supports a finding that AWC's infrastructure replacement needs are extraordinary in scope, and that customers will benefit from timely replacement of aging plant through decreased water losses, fewer outages, and improved quality of service. (Phase 2 Staff Br. at 2.) Staff disputes RUCO's assertion that rate setting methods must be limited to those traditionally employed in general rate cases. Staff points to the ACRM as a mechanism initially employed by the Commission a decade ago, without legal challenge, to address an extraordinary situation presented by more stringent arsenic limits imposed by the USEPA, which adversely affected a number of water companies in Arizona. (*See, e.g.*, Decision No. 66400 (October 14, 2003).)

According to Staff, the SIB mechanism comports with the requirements of the Arizona Constitution because it would require the Commission to ascertain AWC's fair value rate base each time a surcharge adjustment is made. Staff points out that Section 7 of the Settlement specifically requires the Company to provide a schedule (Schedule D) with each adjustment filing that would enable the Commission to update the fair value rate base determined in Phase 1 to reflect additional

SIB-eligible plant, which updated fair value finding would be set forth in a Commission Order approving each surcharge request. Staff asserts that it is not reasonable to suggest that the Commission would not use the updated fair value information "to aid it in the proper discharge of its duties..." as required by the Constitution. (Arizona Constitution, Article 15, § 14.) Staff also notes that the Commission may terminate the SIB at any time. (Ex. A-1, at ¶10.1.)

Staff argues that the Commission has broad discretion in employing appropriate rate setting methodologies. Staff cites *Simms, supra*, wherein the Arizona Supreme Court stated that "[t]the commission in exercising its rate-making power of necessity has a range of legislative discretion and so long as that discretion is not abused, the court cannot substitute its judgment as to what is fair value or a just and reasonable rate." (80 Ariz. 145, 154, 294 P.2d 378, 384, internal citation omitted.) Staff claims that the SIB would allow the Commission to implement a series of step rate increases, only after making an updated fair value finding, as a means of enabling AWC to undertake substantial infrastructure replacements without having to file a series of rate cases – which the courts have found would not be in the public interest. (*Arizona Public Service, supra*, 113 Ariz. 368, 371, 555 P.2d 326, 329.) Staff also cites *Arizona Community Action,* wherein the Arizona Supreme Court upheld the Commission's approval of step increases associated with CWIP additions (although the court rejected using APS' ROE as the sole criterion for triggering an increase). (123 Ariz. 228, 229-231, 599 P.2d 184, 186-187.) In that case, the court stated that it did not find fault with the Commission's attempt to avoid a constant series of extended rate hearings by allowing step increases based on the updated CWIP adjustments. (*Id.* at 230-231, 599 P.2d at 186-187.) Staff contends that the SIB does not suffer from the "sole criterion" deficiency rejected by the court because the SIB does not employ an earnings test, or any other test, that would be subject to control by the Company.

Staff points out that the SIB has a number of protections built in, including that: it was developed within the context of a full AWC rate case; it is limited to replacement projects used to serve existing customers, less retirements; each SIB surcharge would be capped at five percent of the Phase 1 revenue requirement, subject to true-up; AWC is required to file a full rate case by August 31, 2016, thus ensuring that the SIB adjustments will be of limited duration; each step increase will be approved by Commission Order; the SIB may be suspended by the Commission; and the

Commission will make a fair value finding prior to approval of each SIB adjustment, based on detailed schedules verifying the plant additions that are SIB-eligible. (Staff Br. at 6-7.)

Staff disputes RUCO's "single issue ratemaking" arguments, claiming that contrary to RUCO's assertions, the Arizona Constitution does not include that terminology, and under the holding in *Scates* a full rate case is not required for every rate adjustment given the court's statement that "[t]here may well be exceptional situations in which the Commission may authorize partial rate increases without requiring entirely new submissions." (*Scates*, 118 Ariz. at 537, 578 P.2d at 618.) The court in *Scates* stated that it was not deciding "whether the Commission could have referred to previous submissions with some updating or whether it could have accepted summary financial information." (*Id.*) Staff claims that the SIB requires updated information to be submitted by the Company and there is no reason to assume that the Commission would not consider that information in its evaluation of each SIB surcharge filing. Staff points to Mr. Olea's testimony that if objections were filed regarding the specific SIB schedules submitted by the Company, "Staff's expectations would be that the SIB would not go forward and such proceedings as the Commission or Hearing Division may order would ensue...." (Tr. 250.)

Staff also contends that, contrary to RUCO's claims, Staff's position regarding AWC's proposed DSIC in Phase 1 is not inconsistent with its support for the SIB in Phase 2. Staff asserts that its concerns in Phase 1 were that the DSIC provided benefits only to the Company, and that the DSIC lacked certain features that were necessary to comply with Arizona law. Staff claims that those issues are resolved by the Settlement Agreement because the SIB provides for a five percent efficiency credit that directly benefits ratepayers, and the SIB contains elements that comply with Arizona law regarding fair value, step increases, and the corresponding impact on rate of return. (Staff Br. at 9.)

According to Staff, the SIB provides an equitable balance between the interests of the Company and ratepayers because the SIB will enable AWC to attain timely recovery of capital investments for needed repairs and replacements while, at the same time, benefitting customers by: providing better service; imposing a five percent efficiency credit on SIB plant; and providing for smaller and more gradual rate increases. (*Id.* at 10.) With respect to RUCO's suggestion that AWC's

authorized ROE of 10.55 percent should be reduced, Staff contends that RUCO did not present evidence in either Phase 1 or 2 to support its arguments. Staff claims that "as part of a DSIC-type mechanism, the parties and the ALJ could consider an *adjustment* to the ROE set by the Commission." (*Id.* at 11, emphasis original.) However, Staff argues that the 10.55 percent ROE approved in Decision No. 73736 should not be modified in Phase 2 because there is no evidence that AWC's overall risk would be reduced by adoption of the SIB, and the negotiated five percent efficiency credit is effectively a surrogate for a ROE adjustment because it reduces the ROE on SIB-eligible plant by approximately 87 basis points (assuming adoption of AWC's alternative proposal – *See* Tr. 233). (Staff Br. at 12-13.)

RUCO

RUCO argued in Phase 1 that there was no legal basis for the proposed DSIC in Arizona. RUCO stated that the Arizona Constitution generally requires the Commission to ascertain the fair value of a utility's property in Arizona when it engages in ratemaking, but that Arizona courts have allowed for two situations when the Commission may engage in ratemaking without making a fair value finding: (1) when the Commission has established an automatic adjuster mechanism, or (2) when the Commission approves interim rates. (Phase 1 RUCO Br. at 11-13 (citing, *inter alia*, *Scates* and AZ AG Op. 71-17).) RUCO asserted in Phase 1 that the DSIC was not an adjuster mechanism because it was not designed to be used to account for fluctuations in specified operating expenses caused by price volatility, but instead to recover the cost of replacing plant for which there is no allegation of price volatility. (*Id.* at 11-12.) RUCO further argued that the DSIC could not be authorized as an interim rate because AWC did not meet the criteria for obtaining interim rates (as provided in Arizona Attorney General Opinion No. 71-17) and the Company had not requested interim rates. (*Id.* at 13.) RUCO claimed in Phase 1 that the other states that have DSIC-type mechanisms have different laws than Arizona, and that Arizona law protects ratepayers from the piecemeal ratemaking and unfair rates that would result if the DSIC were approved. (*Id.* at 13-14.)

In its Phase 1 reply brief, RUCO addressed AWC's assertion that the DSIC proposed in Phase 1 must be constitutional because the ACRM is constitutional. RUCO claimed that the ACRM resulted from various stakeholders coming together to address a one-time event (the USEPA's

adoption of a more stringent MCL for arsenic) that would impact dozens of Arizona water companies simultaneously; that the ACRM has been and is now treated as an adjuster mechanism, which is one of the limited exceptions to the constitutional fair value requirement as per Arizona case law; that the legality of the ACRM had never been called into question or reviewed by any Arizona court; and that whether the ACRM would satisfy the legal standard for an adjuster mechanism is "questionable and should not be presumed." (Phase 1 RUCO Reply Br. at 2.) RUCO added that the constitutionality of the ACRM was not at issue in this case and was irrelevant in considering the legality of the Phase 1 DSIC. (*Id.* at 2-3.) RUCO reiterated that the Commission must find fair value when setting rates except in limited circumstances, which were not satisfied by the DSIC, and that the proposed DSIC was therefore not authorized under Arizona law. (*Id.* at 5.)

With respect to the Phase 2 Settlement Agreement, RUCO argues that the Agreement and proposed SIB are not in the public interest because they do not provide sufficient benefits and protections for ratepayers. RUCO also reiterates many of the same legal arguments it made in Phase 1 contending that like AWC's proposed DSIC, the SIB would violate Arizona law.

RUCO does not appear to dispute AWC's substantial infrastructure replacement needs; however RUCO contends that those needs have long been known to the Company; that the Commission in Decision No. 73736 granted AWC an increase to its ROE to compensate the Company for those infrastructure needs; that the SIB fails to adequately recognize reduced operating expenses associated with the replacement plant; that ratepayers will pay more in the long run under the SIB; and that the five percent efficiency credit on SIB plant is inadequate compensation for the shifting of risk to ratepayers associated with reduced regulatory lag. (RUCO Br. at 1-3.)

RUCO argues that the SIB is not an adjuster mechanism or an interim rate, which it claims are the only exceptions recognized by the courts to the constitutional requirement of ascertaining and employing a company's fair value rate base in setting rates. RUCO cites the *Scates* and *Rio Verde* decisions by the Court of Appeals to support its contention that adjuster mechanisms may only be used to adjust narrowly defined operating expenses, such as fuel costs, and that an adjuster clause may only be implemented as part of a full rate hearing. (*Scates*, 118 Ariz. 531, 535, 578 P.2d 612, 616; *Rio Verde*, 199 Ariz. 588, 592, 20 P.3d 1169, 1173.) RUCO claims that the proposed SIB

mechanism is not an adjuster mechanism because its purpose is not to make automatic adjustments for fluctuating operating expenses, but instead only serves to increase the Company's rate base and thus its operating income. RUCO asserts that the SIB only allows rates to adjust upwards as a result of permitting recovery of SIB-eligible plant costs, and that the SIB is not the type of adjustment mechanism contemplated by the court in *Scates*.

According to RUCO, the only other exception to a fair value finding in a full rate case is when interim rates are implemented, which would require that the Commission find the existence of an emergency; the posting of a bond by the utility; and an undertaking by the Commission to determine final rates after a valuation of the utility's property. (*Rio Verde, supra*, at 591, 20 P.3d at 1172.) RUCO states that AWC has not asserted that an emergency exists; nor has the Company requested implementation of interim rates. RUCO cites Arizona Attorney General Opinion No. 71-17 which defined an emergency as 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." RUCO claims that AWC has not presented evidence that it would meet any of the criteria to satisfy an emergency finding under that definition.

RUCO asserts that the Arizona Constitution's fair value requirement would not be satisfied if rate increases were granted under the proposed SIB mechanism. According to RUCO, the SIB is not an adjuster mechanism but is simply a method to enable AWC to recover additional revenue based on capital investments made between rate cases. (RUCO Br. at 8.) RUCO contends that there are no exceptional circumstances presented in this case that would warrant approving the SIB. RUCO points to Mr. Olea's testimony at the hearing wherein he stated that the only extraordinary circumstance that developed between Phase 1, when Staff opposed the DSIC, and Phase 2, in which Staff supports the SIB, is the Commission's directive to the parties to negotiate regarding the DSIC issue. (Tr. 301.) RUCO claims that a directive from the Commission is not the type of event that would constitute an extraordinary or exceptional situation.

RUCO argues that the Commission would not be making a new fair value finding each time the Company applies for a surcharge adjustment, citing to Mr. Rigsby's testimony. (RUCO Ex. 12, at 13.) Therefore, RUCO claims, the SIB would not meet the constitutional fair value requirements

under Arizona law. In its brief, RUCO quotes a passage from *Simms*, wherein the Arizona Supreme Court stated:

> It is clear, therefore, that under our constitution as interpreted by this court, the commission is required to find the fair value of the company's property and use such finding as a rate base for the purpose of calculating what are just and reasonable rates....While our constitution does not establish a formula for arriving at fair value, it does require such value to be found and used as the base in fixing rates. The reasonableness and justness of the rates must be related to this finding of fair value.

(*Simms, supra,* 80 Ariz. at 151, 294 P.2d at 382.) RUCO contends that the Schedule D analysis that the Company would be required to file with each SIB adjustment request, and which would show the impact of plant additions on the Company's fair value rate base, revenue, and fair value rate of return established in Decision No. 73736, "does not go far enough." (RUCO Br. at 10.)

Citing the claims made in Mr. Rigsby's testimony (RUCO Ex. 12, at 13-15), RUCO suggests that although the Schedule D analysis was included in order to satisfy *Scates*, "the Commission will not, as required by law, make a meaningful finding of fair value and use that finding as a rate base for the purpose of establishing rates." (RUCO Br. at 11.) RUCO contends that *Scates* requires that all parts of the ratemaking equation must be evaluated – "at least a mini-type rate case" – before rate adjustments could be made, and the SIB is deficient because it examines only one part of the equation. (*Id.*) Therefore, according to RUCO, the SIB would constitute "single issue ratemaking" and would render the fair value requirement "meaningless." (*Id.*)

RUCO asserts that there are a number of other problems with the Settlement Agreement, and the SIB mechanism, including: the five percent efficiency credit is insufficient to compensate ratepayers for shifting of risk; the Settlement does not explain what happens to the SIB after the next rate case; the SIB expands eligibility of recoverable costs to almost every kind of plant; the 10 percent water loss criterion could be gamed and would create an incentive for the Company to neglect certain systems near the 10 percent threshold so that plant replacements would become SIB-eligible; the SIB does not address the relationship between infrastructure replacement needs and use of depreciation expense funds or dividend payouts; the Settlement is unclear as to what will happen if

a party objects to a SIB surcharge filing within the allotted 30-day period; the SIB does not include an earnings test; the SIB could generate revenues by serving new customers, despite language to the contrary in the Settlement; and there is no provision in the Settlement for adjusting the ROE to reflect adoption of the SIB. (RUCO Br. at 13-17.)

RUCO concludes that there are numerous reasons why the Settlement Agreement is not in the public interest. According to RUCO, the SIB is illegal under Arizona law; there is no tying of the SIB and authorized ROE; and the Commission specifically granted AWC a higher ROE in Phase 1 to address the Company's infrastructure needs. RUCO claims that adoption of the Settlement will establish a dangerous precedent and encourage companies to seek both a SIB and higher ROE to address infrastructure needs, resulting effectively in double recovery for the same purposes. Therefore, RUCO requests that the Commission reject the Settlement Agreement. (*Id.* at 18-19.)

Discussion

AWC provided compelling evidence in Phase 1 that its Eastern Group systems, most notably the Miami and Bisbee systems, have areas in which the pipes have corroded or otherwise degraded so as to become very fragile and to have leaks and breaks occurring at an excessive rate. In addition, AWC established that the frequency of leaks and breaks in Eastern Group systems is generally increasing. No party has presented evidence effectively refuting AWC's assertion that it needs to begin replacing large amounts of infrastructure in its Eastern Group systems in an attempt to ensure system reliability and reduce excessive water loss. Nor has any party effectively refuted AWC's assertion that its proposed three-year plan is a reasonable and appropriate plan to initiate the replacement of infrastructure on a much larger scale than has historically been performed, or AWC's position that it currently lacks the financial means to complete the infrastructure replacements in the timeframe it is proposing without obtaining additional funding in some manner.

The Commission generally must determine a fair value rate base and apply a rate of return to that rate base when it develops rates. The case law interpreting the Commission's constitutional duties state that the Commission may diverge from this ratemaking method when authorizing interim rates in the event of an emergency (*i.e.*, interim rates), and when the Commission authorizes (in a rate case) an automatic adjuster mechanism to address specific costs occurring subsequent to the rate case.

Scates suggests that there may be exceptional situations that warrant a departure from the usual method. RUCO takes issue with AWC's comparison of its current situation to its need to construct arsenic treatment plants to come into compliance with the USEPA MCL standard for arsenic, and asserted that AWC's current infrastructure replacement needs do not rise to the level of an exceptional situation.

Legal Issues

In both Phase 1 and Phase 2, the parties discussed in their post-hearing briefs the legality of a DSIC (and in Phase 2 the SIB) under Arizona law. Arizona Constitution, Article XV, § 14 provides: "The Corporation Commission shall, to aid it in the proper discharge of its duties, ascertain the fair value of the property within the State of every public service corporation doing business therein . . . ." This language has been interpreted to require the Commission to establish a utility's authorized rates by applying a fair rate of return to the fair value of the utility's property devoted to the public use at the time of the inquiry (or as near as possible thereto), as determined by the Commission based upon all available relevant evidence. (*See, e.g., Arizona Corp. Comm'n v. Arizona Water Co.*, 85 Ariz. 198, 203-04, 335 P.2d 412, 415 (Ariz. 1959)).

The Arizona Supreme Court has clarified that "the Commission in its discretion can consider matters subsequent to the historic year" when establishing fair value rate base in a rate case. (*Arizona Public Service*, 113 Ariz. 368, 371, 555 P.2d 326, 328-29 (1976)), and has specifically approved the portion of a Commission decision that allowed inclusion of CWIP for plant that was under construction during the test year and would go into service within two years after the effective date of a Step II increase, when the step increase methodology had been created in a full permanent rate case that included a determination of fair value. (*Arizona Cmty. Action*, 123 Ariz. 228, 230, 599 P.2d 184, 186.)

In *Arizona Public Service,* the Arizona Supreme Court held that although the Commission must ascertain fair value, it was not prohibited from taking into consideration in its fair value determination the addition of CWIP after the end of the test year. In so finding, the court stated:

> A plant under construction is at least a relevant factor which the Commission could consider in determining fair value. The attorney general's opinion would cut off consideration of any facts subsequent to the historic year. In Simms v. Round Valley, supra, we said: 'Fair value means the value of properties at the time of inquiry (citing cases),' and '(t)his is necessary for the reason that the company is entitled to a reasonable return upon the fair value of its properties at the time the rate is fixed (citing cases).' From the foregoing, it is obvious that the Commission in its discretion can consider matters subsequent to the test year, bearing in mind that all parties are entitled to a reasonable opportunity to rebut evidence presented. Construction projects contracted for and commenced during the historical year may certainly be considered by the Commission upon the cutoff time previously indicated. We would not presume to instruct the Commission as to how it should exercise its legislative functions. However, it appears to be in the public interest to have stability in the rate structure within the bounds of fairness and equity rather than a constant series of rate hearings.

(113 Ariz. at 371, 555 P.2d at 329 (internal citations omitted).) The Arizona Supreme Court reinforced this view in *Arizona Community Action,* by affirming the Commission's decision to allow inclusion of CWIP in APS' rate base within two years of a Step II rate increase. (123 Ariz. 228, 230-231, 599 P. 2d 184, 186-187.) In that case, the court considered whether it was permissible for the Commission to authorize a rate of return based on plant construction in progress but not yet in service, which would result in five percent step increases over a three-year time period (1977-1979). Although the court struck down the tying of step increases solely to APS' return on equity, it found the Commission's inclusion of funds expended on CWIP to be "entirely reasonable." (*Id.*) With respect to the legality of the step increase approved by the Commission, the court stated:

> In view of [*Arizona Public Service*], supra, we find entirely reasonable that portion of the Commission's decision allowing the inclusion of [CWIP] to go on line within two years from the effective date of the Step II increase. Nor do we find fault with the Commission's attempt to comply with our indication in [*Arizona Public Service*], supra, that a constant series of rate hearings are not necessary to protect the public interest. The hearing culminating in the order of August 1, 1977, resulted in a determination of fair value. *The adjustments ordered by the Commission in adding the CWIP to that determination of fair value were adequate to maintain a reasonable compliance with the constitutional requirements if used only for a limited period of time.*

((*Id.*)(emphasis added.)

As a general proposition, we recognize that the courts have consistently required that the Commission find fair value before allowing an adjustment in rates. As indicated above, exceptions to the requirement to base rates on a monopolistic utility's fair value rate base have typically been recognized for interim rate increases when an emergency exists, and for rate increases caused by automatic adjustment clauses, when the automatic adjustment clause itself is created in a permanent rate case that meets all legal requirements and the clause is designed to ensure that the utility's profit or rate of return is unchanged by application of the clause. (*See Rio Verde*, *supra,* 199 Ariz. 588, 20 P.3d 1169; *Scates, supra*, 118 Ariz. 531, 578 P.2d 612; Arizona Attorney General Opinion No. 71-17.)

However, in *Scates,* the Court of Appeals indicated that in exceptional circumstances the Commission may adjust rates outside of a full rate case. Although the court found the Commission did not have authority to allow increases between rate cases to certain of a telephone company's charges without a consideration of the impact on the company's rate of return and financial condition, the court suggested that updated submissions may be permitted to adjust rates between full rate cases. Thus, in *Scates*, the appellate court suggested a third exception to the general rule:

> We do not need to decide in this case whether as a matter of law there must be a de novo compliance with all provisions of the order in connection with every increase in rates. The Commission here not only failed to require any submissions, but also failed to make any examination whatsoever of the company's financial condition, and to make any determination of whether the increase would affect the utility's rate of return. There may well be exceptional situations in which the Commission may authorize partial rate increases without requiring entirely new submissions. We do not decide in this case, for example, whether the Commission could have referred to previous submissions with some updating or whether it could have accepted summary financial information.

(118 Ariz. 531, at 537, 578 P.2d 612, at 618.)

In *Rio Verde,* the Court of Appeals addressed the issue of whether the Commission properly approved a surcharge to recover increased CAP water expenses between rate cases without ascertaining the utility company's fair value. The court, citing *Simms* and *Arizona Public Service*, held that the Arizona Constitution requires the Commission to determine the company's fair value,

and the justness and reasonableness of the rates must be related to this fair value. (199 Ariz. 588, at 591, 20 P.3d 1169, at 1172.)

However, the courts have also consistently upheld the Commission's broad discretion to use fair value in a manner that recognizes changing regulatory circumstances. For example, in *US West II, supra*, the Arizona Supreme Court recognized that although a fair value finding is required under the Constitution, the Commission was not bound by a "rigid formula" in setting just and reasonable rates. (201 Ariz. at 246, 34 P.3d at 355.) Although the court in *US West II* was considering fair value in the context of competitive telecommunications services, and not for a monopoly water company such as AWC, the court's discussion of the fair value requirement is instructive.

> Because neither this court nor the corporation commission possesses the power to ignore plain constitutional language, we hold that a determination of fair value is necessary with respect to a public service corporation. But what is to be done with such a finding? In the past, fair value has been the factor by which a reasonable rate of return was multiplied to yield, with the addition of operating expenses, the total revenue that a corporation could earn. That revenue figure was then used to set rates....But while the constitution clearly requires the Arizona Corporation Commission to perform a fair value determination, only our jurisprudence dictates that this finding be plugged into a rigid formula as part of the rate-setting process. Neither section 3 nor section 14 of the constitution requires the corporation commission to use fair value as the *exclusive* "rate basis."...We still believe that when a monopoly exists, the rate-of-return method is proper. Today, however, we must consider our case law interpreting the constitution against a backdrop of competition. In such a climate, there is no reason to rigidly link the fair value determination to the establishment of rates. We agree that our previous cases establishing fair value as the exclusive rate base are inappropriate for application in a competitive environment.... Thus, fair value, in conjunction with other information, may be used to insure that both the corporation and the consumer are treated fairly. In this and any other fashion that the corporation commission deems appropriate, the fair value determination should be considered. The commission has broad discretion, however, to determine the weight to be given this factor in any particular case.

(*Id.* at 245-246, 34 P.3d at 354-355.)(internal citations omitted, emphasis original.) The Court of Appeals reinforced this finding in *Phelps Dodge,* stating that:

> ...our reading of the court's ruling [in *US West II*]...is consistent with the pronouncement...that the Commission should consider fair value when setting rates within a competitive market, although the Commission has broad discretion in determining the weight to be given that factor in any particular case.

(207 Ariz. 95, at 106, 83 P.3d 573, at 584.)

The Commission has also previously employed mechanisms such as the ACRM to address extraordinary regulatory challenges for which traditional ratemaking methods were deemed inadequate. In Decision No. 66400, in which the Commission first adopted the ACRM, the Commission determined that the proposed ACRM was within the Commission's constitutional and statutory authority and permitted under applicable case law. (*See* Decision No. 66400 at 17, 19-20, 22.) AWC's ACRM included a requirement that the Company file with each adjustment filing:

> (1)the most current balance sheet at the time of the filing; (2) the most current income statement; (3) an earnings test schedule; (4) a rate review schedule (including the incremental and pro forma effects of the proposed increase); (5) a revenue requirement calculation; (6) a surcharge calculation; (7) an adjusted rate base schedule; (8) a CWIP ledger (for each project showing accumulation of charges by month and paid vendor invoices); (9) calculation of the three factor formula; and (10) a typical bill analysis under present and proposed rates.

(Id. at 14.)

The Commission further agreed that the ACRM step increase procedure was based on the approach for CWIP discussed by the Arizona Supreme Court in both *Arizona Public Service* and *Arizona Community Action*. The Commission stated that in both cases the court acknowledged the Commission's authority to consider post-test year matters as long as the Commission complied with its constitutional duty to determine fair value. The Commission also cited *Scates* as supporting the Commission's authority to approve step rate increases, although only in "exceptional situations." The Commission found that the ACRM:

> specifically require[s] that [AWC] file updated financial information to verify the actual expenditures incurred for installing arsenic treatment plant, as well as schedules verifying that the requested step increase will not result in a return in excess of the Company's "fair value" rate

> base return....We disagree with RUCO's contention that inclusion of the recoverable O&M expenses violates the tenets of the *Scates* decision.[27] As the Arizona court explained in that decision, automatic adjustment mechanisms may be approved in the context of a general rate proceeding as long as the expenses are specific and narrowly defined. The modified ACRM proposed by Staff and Arizona Water satisfies the *Arizona Community Action* and *Scates* requirements because it is an automatic adjustment mechanism that is being considered in a rate proceeding which includes a "fair value" analysis of the Company's utility plant. Moreover, the expenses that are eligible for recovery under the ACRM adjustor mechanism are narrowly defined costs that will be incurred by direct payments to third party contactors. We believe these components satisfy the requirements delineated in both the *Scates* and *Arizona Community Action* decisions.[28]

The Commission concluded that approval of step increases under the ACRM, as described in Decision No. 66400, was consistent with the Commission's authority under the Arizona Constitution, ratemaking statutes, and applicable case law. (*Id.* at 22.)

The Commission has also considered infrastructure surcharges in several additional dockets. One of these was the docket cited by AWC in Phase 1 in which the Commission considered, in the context of a permanent rate case for Arizona-American's Paradise Valley Water District, a requested Public Safety Surcharge for investments to improve fire flow facilities.[29] In that docket, the Commission approved, *inter alia*, Staff's alternative Public Safety Surcharge of $1.00 per 1,000 gallons on both second-tier and third-tier residential commodity rates and on second-tier commercial commodity rates, to be used to allow Arizona-American to recover its fire flow project costs, after which time the surcharge would terminate.[30] (Decision No. 68858 at 31-32, 39-40, 44, ex. B.) In the decision, the Commission stated that the fire-safety-related infrastructure improvements were necessary to ensure the public health and safety of ratepayers and that the ratepayers were largely in support of the improvements and willing to pay for them. (*Id.* at 32.) Following the implementation of the new rates and the Public Safety Surcharge, however, the Town of Paradise Valley, several affected resorts, and some homeowners' association members contacted the Commission to express

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[27] RUCO had objected to inclusion of O&M expense adjustments in the ACRM, arguing that *Arizona Community Action* had only authorized rate base updates and that the inclusion of O&M adjustments presented matching problems.
[28] *Id.* at 19-20.
[29] Docket No. W-01303A-05-0405 et al.
[30] Official notice is taken of Decision No. 68858 (July 28, 2006).

concern regarding bill impacts. The Commission subsequently voted to reconsider the issue under A.R.S. § 40-252 and, 11 months after the Public Safety surcharge had been implemented, reset the Public Safety Surcharge to zero, stating that the issue should be addressed in Arizona-American's then-pending permanent rate case.[31] (Decision No. 70488 at 11, 14.)

The Commission also considered an infrastructure improvement surcharge in a permanent rate case for Arizona-American's Sun City Water District.[32] In that case, Arizona-American sought approval of a Fire Flow Cost Recovery Mechanism ("FCRM") that it said would allow it to carry out a fire flow improvement plan created by the Youngtown/Sun City Fire Flow Task Force formed pursuant to an earlier Commission Decision.[33] (Decision No. 70351 (May 16, 2008).) Arizona-American asserted that in the absence of a special funding mechanism, it lacked the financial ability to make the recommended fire flow improvements, which had an estimated cost between $2.6 and $5.1 million. (*Id.* at 5, 23, 24.) After accepting Staff recommendations, Arizona-American proposed that the FCRM be structured like an ACRM, but with multiple phases, each of which would be reviewed for prudency and reasonableness of costs and would necessitate a Commission Order before an increase in the FCRM. (*Id.* at 24-25.) RUCO opposed the FCRM, stating that the proposed fire flow improvements were discretionary and that the FCRM represented single-issue ratemaking and reminding the Commission of the problems experienced with the funding mechanism approved for fire flow improvements in the Paradise Valley District. (*Id.* at 5, 26-27, 28.) Staff supported the FCRM as necessary for public safety, stating that the FCRM should be adopted because the proposed project costs were significant and not a normal system upgrade. (*Id.* at 33.) The Commission denied the FCRM, stating the following:

> Our experience with considering major construction projects outside the context of a rate case teaches us that often substantial unintended adverse consequences can result from implementing surcharges such as the FCRM. Cost recovery mechanisms such as the FCRM should only be implemented in extraordinary circumstances. We do not find that the proposed fire flow improvement project warrants the extraordinary rate making treatment being proposed by the Company, Staff and Youngtown. Consequently, we deny the request to implement the FCRM. Our finding

[31] Official notice is taken of Decision No. 70488 (September 3, 2008).
[32] Docket No. W-01303A-07-0209.
[33] Official notice is taken of Decision No. 70351 (May 16, 2008). The Decision creating the Youngtown/Sun City Fire Flow Task Force was identified as Decision No. 67093 (June 30, 2004). (Decision No. 70351 at 5.)

> on the merits of the FCRM, however, does not affect how the Commission would treat the capital improvements if the Company constructed them voluntarily and seeks their inclusion in rate base in a rate case.[34]

The Commission also considered and denied a request by Global Water to implement a Distributed Energy Recovery Tariff ("DERT") that would operate like an ACRM and allow Global Water to recover the costs of constructing renewable energy facilities built at wastewater facilities, as those renewable energy facilities were completed.[35] (Decision No. 71878 (September 15, 2010)). The initial phase of construction proposed to be covered under the DERT was a photovoltaic installation with an estimated cost of $1.5 to $2.0 million. (*Id.* at 43.) Both RUCO and Staff opposed the DERT, asserting that any such renewable energy plant costs incurred should be recovered through a rate case rather than through a special mechanism such as an ACRM-like surcharge. (*Id.* at 43-45.) The Commission agreed, stating:

> We applaud Applicants' initiatives in conservation and environmental stewardship. We also agree that in some cases, adjustors that support policy objectives are appropriate. However, the proposed plant additions not only are not required to meet government mandated standards, but they are also not essential to the provision of utility service by Applicants, and would come at the expense of increased costs to customers at a time when some customers are already finding it difficult to meet their household expenses. We find that in today's economic climate, the benefits of the proposed adjustor do not outweigh the costs to customers, which costs include having them bear the risk of Applicants' plant investments. The proposed adjustor will therefore not be approved.[36]

The Commission again considered an Infrastructure Improvement Surcharge ("IIS") requested by Arizona-American for its Sun City Water district to replace aging mains, hydrants, meters, tanks, and booster stations.[37] (Decision No. 72047 (January 6, 2011).) Arizona-American acknowledged that the type of plant to be replaced was ordinary, but asserted that the replacement costs were projected to be quite large.[38] (*Id.* at 91.) Staff and RUCO both opposed the IIS, arguing that the use of an adjustor mechanism, an extraordinary ratemaking device, was not warranted. (*Id.* at 91-92.)

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[34] Decision No. 70351 at 36.
[35] Official notice is taken of Decision No. 71878 (September 15, 2010).
[36] Decision No. 71878 at 45-46.
[37] Official notice is taken of Decision No. 72047 (January 6, 2011).
[38] The estimated cost of the necessary plant replacements was not included in the Decision, but was asserted in Arizona-American's post-hearing brief to be $7.5 million for the next five years. Official notice is taken of this statement made on page 40 of Arizona-American's post-hearing brief filed in Docket Nos. W-01303A-09-0343 et al. on July 16, 2010.

The Commission denied the IIS, "agree[ing] with RUCO and Staff that the recovery of expenditures for plant additions and improvements does not warrant the extraordinary ratemaking device of an adjustor mechanism." (*Id.* at 92.)

Most recently, however, in Phase 1 of this proceeding, we indicated that due to the evidence presented regarding the substantial infrastructure replacement needs faced by AWC, "we are supportive of the DSIC type mechanism" and kept the record open to allow additional discussions between the parties regarding the DSIC issue. (Decision No. 73736, at 104.) As discussed herein, the Settlement Agreement was the product of those discussions and was opposed only by RUCO.

Conclusion

After reviewing the court decisions interpreting the constitutional requirements imposed on the Commission's ratemaking authority, we believe that the Settlement Agreement, and the SIB mechanism incorporated therein, together with the financial information and analysis required herein, satisfies the fair value concerns addressed by various court decisions. Although RUCO asserts that the Settlement does not require a fair value finding by the Commission when the SIB surcharge is adjusted, the Schedule D information that is required to be filed at the time a surcharge adjustment request is made requires "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." (Ex. A-1 at ¶7.1.7.) Moreover, Mr. Olea testified that any Order would "include a finding of – a determination of fair value or a consideration of fair value." (Tr. 333.)

From a practical perspective, the SIB would operate very similarly to the existing ACRM, with which the Commission now has extensive experience, and which the Commission has determined to be lawful. However, unlike the ACRM, the SIB does not require the Company to include with its surcharge adjustment filings information regarding earnings. We will therefore require AWC to include in each of its surcharge adjustment filings similar financial information required for ACRM adjustments, as described in Decision No. 66400. To the extent that the Settlement Agreement does not require the filing of the following information with each SIB adjustment, AWC shall file the following information: (1) the most current balance sheet at the time of the filing; (2) the most current income statement; (3) an earnings test schedule; (4) a rate review

schedule (including the incremental and pro forma effects of the proposed increase); (5) a revenue requirement calculation; (6) a surcharge calculation; (7) an adjusted rate base schedule; (8) a CWIP ledger (for each project showing accumulation of charges by month and paid vendor invoices); (9) calculation of the three factor formula (as requested by Staff); and (10) a typical bill analysis under present and proposed rates.

The Company shall also be required to perform an earnings test calculation for each initial filing and annual report filing to determine whether the actual rate of return reflected by the operating income for the affected system or division for the relevant 12-month period exceeded the most recently authorized fair value rate of return for the affected system or division, with the earnings test to be: based on the most recent available operating income, adjusted for any operating revenue and expense adjustments adopted in the most recent general rate case; and based on the rate base adopted in the most recent general rate case, updated to recognize changes in plant, accumulated depreciation, contributions in aid of construction, advances in aid of construction, and accumulated deferred income taxes through the most recent available financial statement (quarterly or longer). The earnings test results will be considered in the following manner. If the earnings test calculation described herein shows that the Company will not exceed its authorized rate of return with the implementation of the SIB surcharge, the surcharge for the year may go into effect upon issuance of the surcharge approval order and subject to the conditions described herein. But if the earnings test calculation described herein shows that the Company will exceed its authorized rate of return with the implementation of any part of the SIB surcharge, the surcharge for that year may not go into effect. Lastly, if the earnings test calculation described herein shows that the Company will exceed its authorized rate of return with the implementation of the full surcharge, but a portion of the surcharge may be implemented without exceeding the authorized rate of return, then the surcharge may be authorized up to that amount, again upon issuance of the surcharge approval order and subject to the conditions described herein. We reiterate that the proposed SIB surcharges shall be evaluated by the Commission according to all relevant factors, including the results of the earnings test. In any event, the earnings test shall not impact the approval of the SIB mechanism or the possibility of SIB surcharges in future years where authorized in accordance with the SIB mechanism.

With this additional information, the SIB allows for a consideration of all of AWC's costs at the time a surcharge adjustment is made, and is therefore permissible under *Scates*. The SIB mechanism also addresses the concerns cited in *Scates* in that the SIB: is an adjustment mechanism established within a rate case as part of a company's rate structure;[39] adopts a set formula that would allow only readily identifiable and narrowly defined plant to be recovered through the surcharge; and applies the rate of return authorized in Decision 73736 to SIB plant (less the five percent efficiency credit).

In accordance with the court's holding in *Simms*, which states that the Commission must find and use the fair value of the utility company's property at the time of the inquiry, and the reasonableness and justness of rates established by the Commission "must be related to this finding of fair value" (80 Ariz. at 151, 294 P.2d at 382), the SIB mechanism requires a determination of the Company's fair value rate base, including the SIB plant, at the time the surcharges are proposed and approved.

As discussed above, the applicable court decisions have found that the express language in Article 15, §14 of the Arizona Constitution requires the Commission to ascertain "fair value." The courts have consistently recognized, however, that the Commission has broad discretion in the rate setting formulas and techniques that it employs, and the courts will not disturb the Commission's findings absent an abuse of that discretion. (*See, Simms, supra*, at 154; *Arizona Public Service, supra*, at 370.) A line of decisions establishes that, as long as fair value is determined, the Commission does not abuse its discretion in adopting varying ratemaking mechanisms that allow rate recovery for: post-test year plant (*Arizona Public Service*); CWIP that is not yet in service (*Arizona Community Action*); interim rates or adjuster mechanisms without a fair value finding (*Rio Verde*); and use of fair value as only one factor to be considered in setting rates in a competitive regulatory environment (*US West II; Phelps Dodge*). An examination of these cases suggests that courts have understood that while a fair value determination is always required under the plain constitutional language of Article

[39] The SIB is a different type of adjuster mechanism than has previously been reviewed by the courts because it allows recovery of plant costs associated with AWC's substantial distribution system improvement needs, rather than fuel costs. However, even if the SIB is not considered an "adjustment mechanism" under *Scates*, we believe that it is an exceptional circumstance given the significant capital investment requirements for infrastructure replacements demonstrated by AWC.

15, §14, the Commission must have wide latitude to fashion ratemaking methods necessary to address a number of circumstances that may not have been anticipated when the Arizona Constitution was enacted. As long as the fair value finding is related to the rates set by the Commission, and that "just and reasonable rates" result from the methodologies employed (Article 15, §3), the courts have found that the Commission does not abuse its discretion in regard to its ratemaking powers.

We believe that the SIB mechanism embodied in the Settlement Agreement, together with the additional financial information and analysis required herein, is compliant with the Commission's constitutional requirements, as well as the case law interpreting the Commission's authority and discretion in setting rates. As described in the Settlement Agreement, the SIB surcharge would be based on specific, verified, and in-service plant additions that are reviewed by Staff and approved by the Commission prior to being implemented. AWC would be required to submit annual summary schedules showing the actual cost of the infrastructure, and supporting documentation that will enable Staff and the Commission to determine how the proposed surcharge adjustments would impact the fair value rate of return for each affected system. The SIB mechanism is analogous to the step increases for CWIP plant that the court found to be a reasonable ratemaking device in *Arizona Community Action* (except for tying the increases solely to return on equity). Although the SIB-eligible plant differs from CWIP to the extent that the SIB would not necessarily be under construction during the historical test year in the rate case, the requirement that the SIB plant must be fully constructed, and used in the provision of utility service (with verification that such is the case) prior to inclusion in a surcharge, provides the Commission with an even greater assurance (compared with CWIP) that the SIB plant is used and useful and therefore serves as a proper basis for approving just and reasonable rates. And, by allowing up to five surcharge adjustments between full rate case applications, the SIB takes into account the court's observation in the same case that a constant series of rate hearings is not necessary to protect the public interest. (*Id.* at 230-231, 599 P.2d at 186-187.) By requiring the filing of a full rate case at least every five years (with a review in the subsequent case of all SIB plant that was included in the surcharge during the interim between rate cases), the SIB also addresses the concern that the interim rate adjustments would only be in place for a limited period of time. In addition to the five percent efficiency credit, the SIB mechanism also includes

notice requirements to customers, a review period for Staff and RUCO (and an opportunity for other parties or customers to express opposition (*See* Tr. 310-311)), and an Order by the Commission evaluating and approving the appropriateness of the SIB-eligible plant, including AWC's fair value rate base and rate of return.

Although a DSIC-like mechanism could result in much greater resource demands upon the Commission and Staff than would the current regulatory structure, efforts were made by the parties in structuring the SIB to place more of the informational filing burdens on the Company, thus mitigating many of the resource concerns that had previously existed with the original DSC proposal.

With these provisions and protections, as well as others discussed herein, we find that the Settlement Agreement represents a reasonable compromise of contested issues, is in accord with Arizona law and, as a whole, is consistent with the public interest. The Settlement is therefore approved.[40]

Segregation of Depreciation Expense

As discussed above, the issue of requiring the Company to set aside depreciation expense in a separate fund to finance infrastructure replacements and improvements was raised during the hearing. (*See, e.g.*, Tr. 111-116.) Although we do not concede, as suggested by Liberty/Global, that A.R.S. § 40-222 is legally deficient or that the United States and Arizona Constitutions would prohibit the Commission from acting under that statute or its constitutional authority, we will not require the Company to set aside depreciation expense in a separate fund for infrastructure replacement needs, at this time. However, we may reconsider this issue at a future date.

Return on Equity Adjustment

Another issue raised during the hearing was whether the 10.55 percent ROE authorized in Decision No. 73736 should be modified if a DSIC or DSIC-like mechanism were to be adopted by the Commission. The signatory parties have agreed that the rate of return, and thus the ROE, authorized in Phase 1 (Decision No. 73736) should be applied to the SIB-eligible plant when

[40] As described by Mr. Reiker at the hearing, we will adopt AWC's alternative schedules as the basis for calculating the SIB, as set forth in Ex. A-3 (See. Tr. 232-233). Ex. A-3 is attached as "Attachment B."

calculating the surcharge mechanism.[41] (Ex. A-1, ¶3.2.1.)

RUCO asserted that it was foreclosed in Phase 2 from seeking an adjustment to the Company's ROE if the Company received approval of a DSIC, based on Commissioner statements during the February 12, 2013 Open Meeting in which Phase 1 deliberations occurred resulting in Decision No. 73736. (Tr. 385.) This view was apparently shared by some other parties. (Tr. 174, 270-272; RUCO Exs. 5 and 6.) However, RUCO asserted during the Phase 2 proceeding that if a company is granted a DSIC mechanism the ROE should be adjusted downward to account for the Company's decreased risk (RUCO Ex. 11, at 4). RUCO also argued that the Commission granted AWC a higher ROE in Phase 1 in recognition of the Company's infrastructure replacement needs. (RUCO Ex. 12, at 15.)

We disagree with RUCO. As Mr. Olea testified, the existence or lack of a DSIC does not change the risk of the utility, and therefore the existence or lack of a DSIC should not change the utility's ROE. (Tr. at 275 to 276). As Mr. Olea explained, the efficiency credit is a more appropriate means to provide a financial benefit to the ratepayers. (Tr. at 276 to 277). Moreover, we find RUCO's argument ironic; while today RUCO argues that adding a DSIC reduces risk, we do not recall RUCO ever arguing that the absence of a DSIC results in higher risk. In addition, RUCO's witness Mr. Rigsby conceded that some of the "sample" group of companies used to determine ROE have DSICs. (Tr. at 485). Logically, to the extent (if any) that a DSIC impacts risk, the reduced risk would be reflected in the sample companies used to set the ROE, and we are not persuaded that any adjustment to the ROE is warranted.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. On August 5, 2011, AWC filed with the Commission an application requesting adjustments to its rates and charges for utility service provided by its Eastern Group water systems,

[41] Decision No. 73736 authorized a cost of debt of 6.82 percent and a cost of equity of 10.55 percent which, when applied to a capital structure of 49.03 percent debt and 50.97 percent equity, results in an overall weighted average cost of capital of 8.72 percent. (*Id.* at 60-62.)

including its Superstition (Apache Junction, Superior, and Miami); Cochise (Bisbee and Sierra Vista); San Manuel; Oracle; SaddleBrooke Ranch; and Winkelman water systems. AWC also requested several other authorizations in the application.

2. On February 20, 2013, the Commission issued Decision No. 73736 in Phase 1 of this matter, granting AWC a rate increase for its Eastern Group systems and, among other things, keeping the docket open for purposes of further consideration of AWC's proposed Distribution System Improvement Charge.

3. By Procedural Order issued February 21, 2013, as modified by Procedural Order issued February 25, 2013, this matter was scheduled for hearing commencing April 8, 2013, other procedural deadlines were established, and a procedural conference was scheduled for March 4, 2013.

4. On March 4, 2013, a procedural conference was conducted during which the parties discussed various procedural matters.

5. On March 21, 2013, a Procedural Order was issued modifying certain filing deadlines established in the procedural schedule.

6. On April 1, 2013, Staff filed a Settlement Agreement signed by all parties except RUCO and Globe.

7. On April 2, 2013, RUCO filed a Motion for Clarification or in the Alternative Request to Take Judicial Notice of the Underlying Record. RUCO requested clarification as to whether the Commission intended to leave the record open from Phase 1 of this case.

8. On April 2, 2013, AWC filed a Joinder in RUCO's Motion for Clarification. AWC agreed with RUCO that the entire underlying record should be held open for citation and reference and that DSIC issues should not be re-litigated at the April 8, 2013 hearing.

9. On April 2, 2013, testimony in support of the Settlement Agreement was filed by Joel M. Reiker on behalf of AWC; by Steven M. Olea on behalf of Staff; by Greg Sorenson on behalf of Liberty Utilities; by Ron Fleming and Paul Walker on behalf of Global Water; by Thomas M. Broderick on behalf of EPCOR; and by Gary Yaquinto on behalf of AIC.

10. On April 2, 2013, testimony in opposition to the Settlement Agreement was filed by

Patrick J. Quinn and William A. Rigsby on behalf of RUCO.

11. On April 4, 2013, a Procedural Order was issued stating that the evidentiary record in Phase 1 would be held open and incorporated into the Phase 2 record.

12. On April 8, 2013, an evidentiary hearing commenced before a duly authorized Administrative Law Judge. The hearing continued on April 11, 2013. AWC, RUCO, Liberty Utilities, Global Water, EPCOR, AIC, WUAA, Globe, and Staff appeared through counsel.

13. On April 15, 2013, AWC filed revised SIB Schedules A through D in accordance with Mr. Reiker's testimony at the hearing.

14. On April 29, 2013, post-hearing briefs were filed by AWC, RUCO, EPCOR, AIC, Staff, and jointly by Liberty Utilities and Global Water.

15. The Settlement provides, among other things for: Commission pre-approval of SIB-eligible projects; SIB project eligibility criteria; a limit on SIB surcharge recovery to the pre-tax rate of return and depreciation expense associated with SIB-eligible projects; an "efficiency credit" of five percent; a cap on the SIB surcharge of five percent of the Phase 1 revenue requirement; separate line items on customer bills reflecting the SIB surcharge and the efficiency credit; Commission approval of the SIB surcharge prior to implementation and adjustments; a limit of five SIB surcharge filings between general rate cases; an annual true-up of the SIB surcharge; and notice to customers at least 30 days prior to SIB surcharge adjustments.

16. 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." (Ex.A-1, ¶2.3.)

17. Cost recovery under the SIB mechanism is allowed for the pre-tax return on investment and depreciation expense for projects meeting the SIB-eligible criteria and for depreciation expense associated with those projects, net of associated plant retirements. The rate of return, depreciation rates, gross revenue conversion factor and tax multiplier are to be the same as those approved in Phase 1 by Decision No. 73736.

18. The SIB surcharge will include an "Efficiency Credit" equal to five percent of the SIB revenue requirement.

19. The Agreement caps the amount that is permitted to be collected annually by each SIB surcharge filing to five percent of the revenue requirement authorized in Decision No. 73736.

20. The SIB surcharge will be applicable only for plant replacement investments to provide adequate and reliable service to existing customers and that "are not designed to serve or promote customer growth."

21. Under the Settlement, AWC: may file up to five SIB surcharge requests between rate case decisions; may make no more than one SIB surcharge filing every 12 months; may not make its initial SIB surcharge filing for the Eastern Group prior to 12 months following the effective date of Decision No. 73736 (*i.e.*, February 20, 2014); must make an annual SIB surcharge filing to true-up its surcharge collections; and must file a rate case application for its Eastern Group no later than August 31, 2016, with a test year ending no later than December 31, 2015, at which time any SIB surcharges then in effect would be included in base rates in that proceeding and the surcharge would be reset to zero.

22. The SIB surcharge will be a fixed monthly charge on customers' bills, with the surcharge and the efficiency credit listed as separate line items. The surcharge will increase proportionately based on customer meter size.

23. Each SIB surcharge filing must be approved by the Commission prior to implementation. Upon filing of the SIB surcharge application, Staff and RUCO would have 30 days to review the filing and dispute and/or file a request for the Commission to alter the surcharge or true-up surcharge/credit. Although AWC is also required to provide a proposed order with each SIB filing for the Commission's consideration, and if no objection is filed to the SIB surcharge request the request shall be placed on an Open Meeting agenda at the earliest practicable date, in order to protect the public interest we believe that Staff should prepare its own Staff Report and Proposed Order for the Commission's consideration.

24. At least 30 days prior to a SIB surcharge becoming effective AWC is required to provide public notice to customers in the form of a bill insert or customer letter. The notice must

include: the individual surcharge amount by meter size; the individual efficiency credit by meter size; the individual true-up surcharge/credit by meter size; and a summary of the projects included in the current surcharge filing, including a description of each project and its cost.

25. The Settlement Agreement, with the modifications discussed above regarding financial information filing requirements, represents a reasonable compromise of contested issues, is in accord with Arizona law and, as a whole, is consistent with the public interest.

CONCLUSIONS OF LAW

1. AWC is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, and 40-367.

2. The Commission has jurisdiction over AWC and the subject matter of the application.

3. Notice of the proceeding was provided in accordance with the law.

4. The SIB mechanism embodied in the Settlement Agreement is compliant with the Commission's constitutional requirements, as well as the case law interpreting the Commission's authority and discretion in setting rates. The Commission has the constitutional ratemaking authority to approve adjustment mechanisms in a general rate case.

5. The Settlement Agreement, and the SIB mechanism incorporated therein, with the modifications discussed above, satisfies the fair value concerns addressed by various court decisions.

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ORDER

IT IS THEREFORE ORDERED the Settlement Agreement filed on April 1, 2013, and the SIB mechanism incorporated therein, with the modifications discussed above, are reasonable and in the public interest, and shall be approved, as discussed herein.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 27th day of June 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT Brenda Burns

DISSENT _____

SERVICE LIST FOR: ARIZONA WATER COMPANY – PHASE 2 - DSIC

DOCKET NO.: W-01445A-11-0310

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ATTACHMENT A

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

DECISION NO. 73938

N-1

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 & Gen

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	

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

Project No.	NARUC Acct No. (SIB-eligible plant) 343 T&D 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	343	1,350	6	DI	88.81	11-004	Boise St.	2015	$119,894	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	343	650	6	DI	88.81	11-004	114th St.	2014	$57,727	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	NA					11-004			$0	
6	NA					11-004			$0	

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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 1956 along Boise Street and approximately 300 LF of 2-inch PVC water main installed in 1968 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**	

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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	

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SUPERSTITION/APACHE JUNCTION
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.
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 1 (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**	

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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**	

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SUPERSTITION/APACHE JUNCTION
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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**

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SUPERSTITION/SUPERIOR

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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**	

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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.	345 Services	Quantity	Diameter	Material	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.
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**	

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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)	
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**	

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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.
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	

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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**

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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.
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
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Information to be included with SIB-Eligible Project Notification

Project No.	NARUC Acct No. (SIB-eligible plant) 343 T&D 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.
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	

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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**	

SUPERSTITION/MIAMI
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.
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
TABLE I (Page 4 of 6) cont.
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
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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.
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**	

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SUPERSTITION/MIAMI

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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

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.
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	

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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	

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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)	
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.

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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**	

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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.
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**	

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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)	
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	

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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**

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COCHISE/BISBEE

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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		
Project No.	343 T&D Mains	Pipe length	Diameter	Material	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.
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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COCHISE/BISBEE

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 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**	

COCHISE/BISBEE
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.

COCHISE/BISBEE
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**	

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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.
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.

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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

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.
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.

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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**	

DECISION NO. 73938

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**

DECISION NO. 73938

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.		[A]	[B]
1	CALCULATION OF OVERALL SIB REVENUE TRUE-UP FROM PRIOR 12-MONTH SIBA SURCHARGE PERIOD		
		SUPERSTITION	
2	Overall SIB Revenue Requirement from Prior 12-Month SIB Surcharge Period	$ 335,722	
3	Overall SIB Efficiency Credit from Prior 12-Month SIB Surcharge Period	$ (16,786)	
4	Total SIB Revenue Requirement Net of Efficiency Credit - Prior 12-Month SIB Surcharge Period		$ 318,936
5	Total SIB Surcharge Revenues from Prior 12-Month SIB Surcharge Period	$ 310,000	
6	Total SIB Efficiency Credit Refunds from Prior 12-Month SIB Surcharge Period	$ (15,500)	
7	Total SIB Surcharge Revenues Net of Efficiency Credit from Prior 12-Month SIB Surcharge Period		$ 294,500
8	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (ln. 6 - ln. 12)		24,436

DECISION NO. 73938

Docket No. W-01445A-11-0310

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

Line No.		[A]	[B]	[C]	[D]	[E]
	CALCULATION OF INDIVIDUAL SIB FIXED TRUE-UP SURCHARGE/CREDIT					
					SIB True-Up Surcharge/(Credit)	
	Customer Meter Size	No. of Customers 12/31/2012	Meter Multiplier	5/8 x 3/4-inch Equivalent Meters (C X F)	Fixed 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

DECISION NO. 73938

Docket No. W-01445A-11-0310

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													

EXHIBIT C

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													

DECISION NO. 73938

Docket No. W-01445A-11-0310

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 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												

SIB PLANT TABLE II (Page 5 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.	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											

Docket No. W-01445A-11-0310

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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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DECISION NO. 73938

Docket No. W-01445A-11-0310

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

Line No.	CALCULATION OF INDIVIDUAL SIB FIXED SURCHARGE AND EFFICIENCY CREDIT	[A]	[B]	[C]	[D]	[E]	[F]	[G]
					SIB Surcharge		SIB Efficiency Credit	
	Customer Meter Size	No. of Customers 12/31/2012	Meter Multiplier	5/8 x 3/4-inch Equivalent Meters (C X F)	Individual Fixed Surcharge	Annual Revenue by Meter Size	Individual Fixed 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)	-
19	Totals	23,708		30,758		$ 335,722		$ (16,786)

24	Overall SIB Revenue Requirement (p. 1, ln. 32)	$ 335,722
26	Individual SIB Fixed Surcharge Per 5/8 x 3/4-inch Equivalent Meter (ln. 24 ÷ col. C, ln. 19 ÷ 12)	$ 0.91
28	Overall SIB Efficiency Credit (p. 1, ln. 36)	$ (16,786)
30	Individual SIB Fixed Efficiency Credit Per 5/8 x 3/4-inch Equivalent Meter (ln. 28 ÷ col. C, ln. 19 ÷ 12)	$ (0.05)

DECISION NO. 73938

Docket No. W-01445A-11-0310

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								
2	-	$ 22.26	$ 0.91	$ (0.05)	$ 0.07	$ 23.19	$ 0.93	4.2%
3	1,000	23.89	0.91	(0.05)	0.07	24.82	0.93	3.9%
4	2,000	25.53	0.91	(0.05)	0.07	26.46	0.93	3.6%
5	3,000	27.16	0.91	(0.05)	0.07	28.09	0.93	3.4%
6	4,000	30.49	0.91	(0.05)	0.07	31.42	0.93	3.1%
7	5,000	33.82	0.91	(0.05)	0.07	34.75	0.93	2.8%
8	6,000	37.14	0.91	(0.05)	0.07	38.07	0.93	2.5%
9	7,000	40.47	0.91	(0.05)	0.07	41.40	0.93	2.3%
10	8,000	43.80	0.91	(0.05)	0.07	44.73	0.93	2.1%
11	9,000	47.12	0.91	(0.05)	0.07	48.05	0.93	2.0%
12	10,000	50.45	0.91	(0.05)	0.07	51.38	0.93	1.8%
13	11,000	55.25	0.91	(0.05)	0.07	56.18	0.93	1.7%
14	12,000	60.05	0.91	(0.05)	0.07	60.98	0.93	1.5%
15	13,000	64.84	0.91	(0.05)	0.07	65.77	0.93	1.4%
16	14,000	69.64	0.91	(0.05)	0.07	70.57	0.93	1.3%
17	15,000	74.44	0.91	(0.05)	0.07	75.37	0.93	1.2%
18	20,000	98.42	0.91	(0.05)	0.07	99.35	0.93	0.9%
19	25,000	122.41	0.91	(0.05)	0.07	123.34	0.93	0.8%
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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DECISION NO. 73938

Docket No. W-01445A-11-0310

EXHIBIT F

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)
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ATTACHMENT B

Docket No. W-01445A-11-0310

DECISION NO. 73938

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

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	$ 0.79	$ 204,518	$ (0.04)	(10,225.88)
10	1-inch	1,824	2.5	4,559	$ 1.98	$ 43,327	$ (0.10)	(2,166.33)
11	1 1/2-inch	-	5	-	$ 3.96	$ -	$ (0.20)	-
12	2-inch	285	8	2,278	$ 6.34	$ 21,648	$ (0.32)	(1,082.41)
13	3-inch	31	16	492	$ 12.67	$ 4,676	$ (0.63)	(233.78)
14	4-inch	21	25	523	$ 19.80	$ 4,969	$ (0.99)	(248.47)
15	6-inch	25	50	1,225	$ 39.60	$ 11,641	$ (1.98)	(582.07)
16	8-inch	2	80	160	$ 63.35	$ 1,521	$ (3.17)	(76.03)
17	10-inch	-	115	-	$ 91.07	$ -	$ (4.55)	-
19	Totals	23,708		30,758		$ 292,300		$ (14,615)

24	Overall SIB Revenue Requirement (p. 1, ln. 32)	$ 292,300
26	Individual SIB Fixed Surcharge Per 5/8 x 3/4-inch Equivalent Meter (ln. 24 ÷ col. C, ln. 19 ÷ 12)	$ 0.79
28	Overall SIB Efficiency Credit (p. 1, ln. 36)	$ (14,615)
30	Individual SIB Fixed Efficiency Credit Per 5/8 x 3/4-inch Equivalent Meter (ln. 28 ÷ col. C, ln. 19 ÷ 12)	$ (0.04)

DECISION NO. 73938

Docket No. W-01445A-11-0310

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	$ 292,300	
3			
4	Overall SIB Efficiency Credit from Prior 12-Month SIB Surcharge Period	$ (14,615)	
5			
6	Total SIB Revenue Requirement Net of Efficiency Credit - Prior 12-Month SIB Surcharge Period		$ 277,685
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)		(16,815)
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DECISION NO. 73938

Docket No. W-01445A-11-0310

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

Line No.	CALCULATION OF INDIVIDUAL SIB FIXED TRUE-UP SURCHARGE/CREDIT	[A]	[B]	[C]	[D]	[E]
					SIB True-Up Surcharge/(Credit)	
	Customer Meter Size	No. of Customers 12/31/2012	Meter Multiplier	5/8 x 3/4-inch Equivalent Meters (C X F)	Fixed Surcharge / (Credit)	Annual Revenue by Meter Size
9	5/8 x 3/4-inch	21,521	1	21,521	$ (0.05)	$ (11,766)
10	1-inch	1,824	2.5	4,559	$ (0.11)	$ (2,493)
11	1 1/2-inch	-	5	-	$ (0.23)	$ -
12	2-inch	285	8	2,278	$ (0.36)	$ (1,245)
13	3-inch	31	16	492	$ (0.73)	$ (269)
14	4-inch	21	25	523	$ (1.14)	$ (286)
15	6-inch	25	50	1,225	$ (2.28)	$ (670)
16	8-inch	2	80	160	$ (3.64)	$ (87)
17	10-inch	-	115	-	$ (5.24)	$ -
19	Totals	23,708		30,758		$ (16,815)
24	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (p. 1, ln. 14)				$ (16,815)	
26	Individual SIB Fixed True-Up Surcharge/(Credit) Per 5/8 x 3/4-inch Equivalent Meter (ln. 24 ÷ col. C, ln. 19 ÷ 12)					(0.05)

DECISION NO. 73938

Docket No. W-01445A-11-0310

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								
2	-	$ 22.26	$ 0.79	$ (0.04)	$ (0.05)	$ 22.97	$ 0.71	3.2%
3	1,000	23.89	0.79	(0.04)	(0.05)	24.60	0.71	3.0%
4	2,000	25.53	0.79	(0.04)	(0.05)	26.23	0.71	2.8%
5	3,000	27.16	0.79	(0.04)	(0.05)	27.87	0.71	2.6%
6	4,000	30.49	0.79	(0.04)	(0.05)	31.20	0.71	2.3%
7	5,000	33.82	0.79	(0.04)	(0.05)	34.52	0.71	2.1%
8	6,000	37.14	0.79	(0.04)	(0.05)	37.85	0.71	1.9%
9	7,000	40.47	0.79	(0.04)	(0.05)	41.18	0.71	1.7%
10	8,000	43.80	0.79	(0.04)	(0.05)	44.50	0.71	1.6%
11	9,000	47.12	0.79	(0.04)	(0.05)	47.83	0.71	1.5%
12	10,000	50.45	0.79	(0.04)	(0.05)	51.16	0.71	1.4%
13	11,000	55.25	0.79	(0.04)	(0.05)	55.95	0.71	1.3%
14	12,000	60.05	0.79	(0.04)	(0.05)	60.75	0.71	1.2%
15	13,000	64.84	0.79	(0.04)	(0.05)	65.55	0.71	1.1%
16	14,000	69.64	0.79	(0.04)	(0.05)	70.35	0.71	1.0%
17	15,000	74.44	0.79	(0.04)	(0.05)	75.14	0.71	0.9%
18	20,000	98.42	0.79	(0.04)	(0.05)	99.13	0.71	0.7%
19	25,000	122.41	0.79	(0.04)	(0.05)	123.11	0.71	0.6%
20								
21								
22				-				
23								
24	Residential Bill at Average Consumption of 6,300 Gallons	$ 38.14	$ 0.79	$ (0.04)	$ (0.05)	$ 38.85	$ 0.71	1.9%
25								
26								
27	Basic Service Charge	$ 22.26	$ 0.79	$ (0.04)	$ (0.05)	$ 22.97	$ 0.71	3.2%
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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DECISION NO. 73938

Docket No. W-01445A-11-0310

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%
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DECISION NO. 73938

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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	$ 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%
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DECISION NO. 73938

Docket No. W-01445A-11-0310

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

BRENDA BURNS
COMMISSIONER

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ARIZONA CORPORATION COMMISSION

June 17, 2013

RE: Arizona Water Company (Rates Phase 2) Docket No. W-01445A-11-0310

Dissent by Commissioner Brenda Burns

Decision #73736 did not grant DSIC. Instead, the Decision stated:

> [W]e conclude that the Eastern Group, due to the age of some of its systems and the resulting increased need for infrastructure replacement and improvement, necessitates a somewhat higher COE (page 61, lines 15-17)

However, this Decision allows for a different mechanism to fund that infrastructure replacement and improvement (SIB) and preserves the same ROE from Decision #73736, thereby authorizing double recovery.

In this case:

AWC proposed a cost of common equity of 12.5%
RUCO proposed a cost of common equity of 9.4%
Staff proposed a cost of common equity of 9.4%

Decisions, since 2010, have granted the following ROEs, for Class A and Class B companies (not including this AWC case):

Class A: 9.37% (average, of seven companies)
Class A: 9.50% (median)

Class B: 9.52% (average, of six companies)
Class B: 9.50% (median)

The results, reflected above, are remarkably consistent. Therefore, if we had awarded 10.0% to AWC, in this Decision, we still would have granted an ROE that is fifty basis points higher than recent history's median. It must also be noted that current interest rates have been at historic lows. On top of that, we awarded SIB.

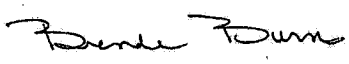
During my tenure, I have been receptive to and advocated for crucial water reforms. This Commission, over the last two-plus years, has done an admirable job of meeting the challenges

of adopting new policies by doing so in a prudent and cogent manner. Due to years of workshops, meetings with stakeholders, evidence presented in various rate cases and discussions in Open Meetings I have been persuaded that a DSIC-like mechanism is a reform proposal worth executing. I believe, when appropriate, a properly implemented DSIC/SIB mechanism can help ensure infrastructure integrity, provide stability for a water company and lessen rate shock for customers.

If AWC had originally been awarded a 10.0% ROE, in tandem with this Commission's first ever DSIC-like mechanism, as suggested by the ROO, it would have been a fair outcome. The AWC ratepayers should not be asked to pay for an elevated ROE while also being the test case for a newly approved SIB.

This Decision is not in the best interest of the ratepayers and now potentially exposes the Commission to litigation that could jeopardize the worthy features of SIB. I would hate to see a lot of good work, performed by stakeholders and ACC staff, fall by the wayside because of this action. For the reasons stated above, I must dissent.

Sincerely,



Brenda Burns
Commissioner