Transcript Exhibit(s)

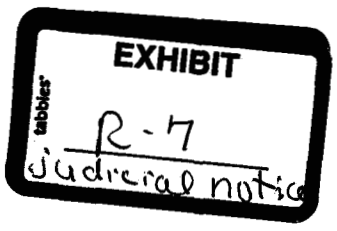
Docket #(s): SW-01428A-13-0042

W-01427A-13-0043

Exhibit #: R7-R10, A1, A2

Part 2 of 6. FOR PART 1 SEE BARCODE 0000151193, FOR PART 3 SEE BARCODE 0000151195, FOR PART 4 SEE BARCODE 0000151196, FOR PART 5 SEE BARCODE 0000151197, FOR PART 6 SEE BARCODE 0000151198

BEFORE THE ARIZONA CORPORATION



COMMISSIONERS

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

Arizona Corporation Commission
DOCKETED
JUN 27 2013
DOCKETED BY NR

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.*)

. . .

[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

. . .

(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 21th day of June 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT

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

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: _____
Name: Gregory S Sorensen
Its: VP & GM

THE WATER UTILITY ASSOCIATION OF ARIZONA

By:_____
Name:_____
Its:_____

ARIZONA INVESTMENT COUNCIL

By:_____
Name:_____
Its:_____

WATER UTILITY OF NORTHERN SCOTTSDALE

By:_____
Name:_____
Its:_____

EPCOR WATER ARIZONA, INC.

By:_____
Name:_____
Its:_____

RIO RICO UTILITIES, INC. dba LIBERTY UTILITIES

By:_____
Name:_____
Its:_____

THE WATER UTILITY ASSOCIATION OF ARIZONA

By:_____
Name:_____
Its:_____

ARIZONA INVESTMENT COUNCIL

By: [signature]
Name: Gary Yaquinto
Its: President + CEO

EXHIBIT A

SUPERSTITION/APACHE JUNCTION

TABLE I (Page 1 of 6)

Information to be included with SIB-Eligible Project Notification

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

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 1 of 6) cont.
Information to be included with SIB-Eligible Project Notification

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

SUPERSTITION/APACHE JUNCTION
TABLE I (Page 2 of 6)
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)	
						11-004			$0	
1	NA									
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	

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.
						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	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.
						11-004			$0	
28	NA					11-004			$0	
31	NA					11-004			$0	
32	343	600	6	DI	84.90	11-004	Broadway Ave.	2014	$50,940	Install approximately 600 LF of 6-inch DI replacement pipe with polywrap, replace 3 service connections, replace 3 meters, and replace 1 fire hydrant along Broadway Avenue from Tomahawk Road to Vista Road. This project will replace approximately 600 LF of 6-inch CA water main installed in 1960 and 1984 along Broadway Avenue. The existing water mains and service connections to be replaced has 7 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

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

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

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

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.
1	345	126	1-inch	Copper	4,077.36	11-004	Peralta Estates Unit 2	2014	$513,747	Replace 126 service connections and replace 126 meters in Peralta Estates Unit Two. The existing water mains have 25 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
2	345	88	1-inch	Copper	4,750.34	11-004	Boise St.	2015	$418,030	Install approximately 1,350 LF of 6-inch DI replacement pipe with polywrap, replace 88 service connections and replace 88 meters between Boise Street and Avalon Street. This project will replace approximately 800 LF of 4-inch CA water main installed in 1970 in an alley between 113th Way and 114th Street. The existing water main and service connections to be replaced have 22 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
3	345	102	1-inch	Copper	3,570.63	11-004	114th St.	2014	$364,204	Install approximately 650 LF of 6-inch DI replacement pipe with polywrap, replace 102 service connections, replace 102 meters and replace 1 fire hydrant between 114th Street and Meridian Road. The existing water mains and service connections to be replaced have 22 recorded leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
4	345	87	1-inch	Copper	3,902.31	11-004	Delaware Dr.	2014	$339,501	Replace 87 service connections and replace 87 meters along Delaware and Lawther Drives. The existing water mains have 22 recorded service line leaks over the last 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.

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

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

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

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

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

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

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

	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (SIB-eligible plant)			PWSID No.	Site (location description)	Replacement Plant		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)	
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	

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

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

DECISION NO. 72029

Docket No. W-01445A-11-0310

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

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

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

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

SUPERSTITION/SUPERIOR

TABLE I (Page 1 of 6)

Information to be included with SIB-Eligible Project Notification

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

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

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

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

	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)	
19	345	25	1-inch	Copper	3,996.17	11-021	Stone Avenue	2013	$99,904	Install approximately 1,350 LF of 6-inch DI replacement pipe with polywrap, replace 25 service connections, replace 25 meters, and replace 3 fire hydrants along Stone Avenue from Kiser Street to Mofatt Street. This project will replace approximately 950 LF of 4-inch CI water main installed in 1937 along Stone Avenue and approximately 400 LF of 2-inch CA water main installed in 1942 along Kiser Street. The existing water mains to be replaced have 14 recorded leaks and over the past 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
34	345	28	1-inch	Copper	4,022.64	11-021	Hill Street	2014	$112,634	Replace 28 service connections along Hill Street from Church Avenue to Terrance Drive. The existing water mains have 7 recorded service line leaks over the past 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
36	345	31	1-inch	Copper	4,958.40	11-021	Garrot Avenue	2015	$153,710	Install approximately 1,250 LF of 6-inch DI replacement pipe with polywrap, replace 31 service connections, and replace 31 meters along Garrot Avenue and Stansberry Avenue. This project will replace approximately 650 LF of 2-inch CA water main installed in 1939 in the alley west of Garrot Avenue and approximately 600 LF of 6-inch CA water main installed in 1930 on Stansberry Avenue. The existing water mains to be replaced have 6 recorded leaks over the past 10 years. This replacement project is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
Subtotal Cost (estimate)									**$366,248**	

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

	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	

SUPERSTITION/SUPERIOR

TABLE 1 (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	

Docket No. W-01445A-11-0310

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

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

72020

SUPERSTITION/MIAMI

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	Replacement Plant 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
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	Replacement Plant 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	

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

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

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

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

Docket No, W-01445A-11-0310

SUPERSTITION/MIAMI
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	Replacement Plant 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.

SUPERSTITION/MIAMI
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
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.
5	NA			04-002			$0	
7	NA			04-002			$0	
8	NA			04-002			$0	
13	NA			04-002			$0	
15	NA			04-002			$0	
16	NA			04-002			$0	
20	348	1	2,321.78	04-002	Central Ave.	2014	$2,2322	Replace 1 fire hydrant along Central Avenue from Braley Street to Monroe Street. This project will replace a fire hydrant installed in 1955 on Central Avenue. The existing hydrant is old and failing requiring replacement. Replacement parts are unavailable for this hydrant. This replacement is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
21	NA			04-002			$0	
22	348	2	2,321.12	04-002	Fredric St.	2015	$4,642	Replace 2 fire hydrants along Fredric Street and Bird Street. This project will replace fire hydrants installed in 1930s on Fredric Street and Bird Street. The existing hydrants are old and failing requiring replacement. Replacement parts are unavailable for these hydrants. This replacement is not being constructed to serve new customers. Project further described and documented in Exhibit FKS-13.
23	NA			04-002			$0	
24	NA			04-002			$0	
26	NA			04-002			$0	

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

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

SUPERSTITION/MIAMI

TABLE I (Page 6 of 6, Summary)

Information to be included with SIB-Eligible Project Notification

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

FALCON VALLEY/ORACLE

TABLE I (Page 1 of 6)

Information to be included with SIB-Eligible Project Notification

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

Docket No, W-01445A-11-0310

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

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

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

	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.

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

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

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

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

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

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

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

	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**	

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

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

COCHISE/BISBEE

TABLE 1 (Page 1 of 6)

Information to be included with SIB-Eligible Project Notification

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

COCHISE/BISBEE

TABLE I (Page 2 of 6)

Information to be included with SIB-Eligible Project Notification

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

COCHISE/BISBEE

TABLE I (Page 2 of 6) cont.

Information to be included with SIB-Eligible Project Notification

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

COCHISE/BISBEE

TABLE I (Page 2 of 6) cont.

Information to be included with SIB-Eligible Project Notification

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

COCHISE/BISBEE

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)	
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 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

	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)	
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**	

COCHISE/BISBEE
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	Replacement Plant 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.

COCHISE/BISBEE

TABLE I (Page 4 of 6) cont.

Information to be included with SIB-Eligible Project Notification

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

COCHISE/BISBEE

TABLE I (Page 5 of 6)

Information to be included with SIB-Eligible Project Notification

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.

COCHISE/BISBEE

TABLE I (Page 5 of 6) cont.

Information to be included with SIB-Eligible Project Notification

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

COCHISE/BISBEE

TABLE I (Page 6 of 6, Summary)

Information to be included with SIB-Eligible Project Notification

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

EXHIBIT B

SIB Schedule B

Line No.		[A]	[B]
			SUPERSTITION
1	CALCULATION OF OVERALL SIB REVENUE TRUE-UP FROM PRIOR 12-MONTH SIBA SURCHARGE PERIOD		
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

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]
1	CALCULATION OF INDIVIDUAL SIB FIXED TRUE-UP SURCHARGE/CREDIT					
2						
3					SIB True-Up Surcharge/(Credit)	
4		No. of		5/8 x 3/4-Inch Equivalent	Fixed	Annual
5		Customers	Meter	Meters	Surcharge /	Revenue by
6	Customer Meter Size	12/31/2012	Multiplier	(C X F)	(Credit)	Meter Size
7						
8						
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	$ -
18						
19	Totals	23,708		30,758		$ 24,436
20						
21						
22						
23						
24	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (p. 1, ln. 14)				$ 24,436	
25						
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
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DECISION NO. 73938

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													

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											

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. 73738	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

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.		[A]	[B]	[C]	[D]	[E]	[F]	[G]
	CALCULATION OF INDIVIDUAL SIB FIXED SURCHARGE AND EFFICIENCY CREDIT							
					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)	-
18								
19	Totals	23,708		30,758		$ 335,722		$ (16,786)
20								
21								
22								
23								
24	Overall SIB Revenue Requirement (p. 1, ln. 32)						$ 335,722	
25								
26	Individual SIB Fixed Surcharge Per 5/8 x 3/4-Inch Equivalent Meter (ln. 24 + col. C, ln. 19 + 12)							$ 0.91
27								
28	Overall SIB Efficiency Credit (p. 1, ln. 36)						$ (16,786)	
29								
30	Individual SIB Fixed Efficiency Credit Per 5/8 x 3/4-Inch Equivalent Meter (ln. 28 + col. C, ln. 19 + 12)							$ (0.05)
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DECISION NO. 73938

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

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)
44				
45				
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DECISION NO. 73938

ATTACHMENT B

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.		[A]	[B]	[C]	[D]	[E]	[F]	[G]
	CALCULATION OF INDIVIDUAL SIB FIXED SURCHARGE AND EFFICIENCY CREDIT							
					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
	5/8 x 3/4-inch	21,521	1	21,521	$ 0.79	$ 204,518	$ (0.04)	(10,225.88)
	1-inch	1,824	2.5	4,559	$ 1.98	$ 43,327	$ (0.10)	(2,166.33)
	1 1/2-inch	-	5	-	$ 3.96	$ -	$ (0.20)	-
	2-inch	285	8	2,278	$ 6.34	$ 21,648	$ (0.32)	(1,082.41)
	3-inch	31	16	492	$ 12.67	$ 4,676	$ (0.63)	(233.78)
	4-inch	21	25	523	$ 19.80	$ 4,969	$ (0.99)	(248.47)
	6-inch	25	50	1,225	$ 39.60	$ 11,641	$ (1.98)	(582.07)
	8-inch	2	80	160	$ 63.35	$ 1,521	$ (3.17)	(76.03)
	10-inch	-	115	-	$ 91.07	$ -	$ (4.55)	-
	Totals	23,708		30,758		$ 292,300		$ (14,615)
	Overall SIB Revenue Requirement (p. 1, ln. 32)						$ 292,300	
	Individual SIB Fixed Surcharge Per 5/8 x 3/4-inch Equivalent Meter (ln. 24 ÷ col. C, ln. 19 ÷ 12)							$ 0.79
	Overall SIB Efficiency Credit (p. 1, ln. 36)						$ (14,615)	
	Individual SIB Fixed Efficiency Credit Per 5/8 x 3/4-inch Equivalent Meter (ln. 28 ÷ col. C, ln. 19 ÷ 12)							$ (0.04)

REDACTED

73938

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)
15			
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ARIZONA WATER COMPANY
Docket No. W-01445A-11-0310
Calculation of Overall SIB True-Up and Individual True-Up Surcharge/Credit
As of December 31, 2012

Line No.		[A]	[B]	[C]	[D]	[E]
1	CALCULATION OF INDIVIDUAL SIB FIXED TRUE-UP SURCHARGE/CREDIT					
2						
3				5/8 x 3/4-inch	SIB True-Up Surcharge/(Credit)	
4		No. of		Equivalent	Fixed	Annual
5		Customers	Meter	Meters	Surcharge /	Revenue by
6	Customer Meter Size	12/31/2012	Multiplier	(C X F)	(Credit)	Meter Size
7						
8						
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)	$ -
18						
19	Totals	23,708		30,758		$ (16,815)
20						
21						
22						
23						
24	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (p. 1, ln. 14)				$ (16,815)	
25						
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)
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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

SUPERSTITION

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
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

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

SIB Schedule D

SUPERSTITION

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

SUPERSTITION

Line No.		[A] Per Decision 73736	[B] Net SIB Step-1 Increase	[C] Net SIB Step-2 Increase	[D] Net SIB Step-3 Increase	[E] Net SIB Step-4 Increase	[F] Net SIB Step-5 Increase	[G] Pro Forma With SIB
1	Total Operating Revenue	$ 17,848,923	$ 318,936	$ -	$ -	$ -	$ -	$ 18,167,859
2								
3	Operating Expenses							
4	Operations & Maintenance	$ 8,057,876	$ -	$ -	$ -	$ -	$ -	$ 8,057,876
5	Depreciation & Amortization	2,671,694	50,400	-	-	-	-	2,722,094
6	Taxes Other than Income	1,049,113	-	-	-	-	-	1,049,113
7	Income Taxes	1,695,023	106,663	-	-	-	-	1,801,686
8	Total Operating Expenses	$ 13,473,706	$ 157,063	$ -	$ -	$ -	$ -	$ 13,630,769
9								
10	Operating Income (ln. 1 - ln. 8)	$ 4,375,217	$ 161,874	$ -	$ -	$ -	$ -	$ 4,537,091
11								
12	Interest Expense							
13	Weighted Avg. Cost of Debt	3.34%	3.34%	3.34%	3.34%	3.34%	3.34%	3.34%
14	Interest Expense (ln. 13 x ln. 19)	$ 1,676,832	$ 65,914	$ -	$ -	$ -	$ -	$ 1,742,746
15								
16	Net Income (ln. 10 - ln. 14)	$ 2,698,385	$ 95,959	$ -	$ -	$ -	$ -	$ 2,794,344
17								
18								
19	Rate Base - O.C.L.D.	$ 50,174,504	$ 1,972,300	$ -	$ -	$ -	$ -	$ 52,146,804
20								
21	Return on Rate Base - O.C.L.D. (ln. 10 + ln. 19)	8.72%	8.21%	0.00%	0.00%	0.00%	0.00%	8.70%
22								
23	Authorized Return on Rate Base	8.72%	8.72%	8.72%	8.72%	8.72%	8.72%	8.72%
24								
25	Capital Structure							
26	Debt %	49.03%	49.03%	49.03%	49.03%	49.03%	49.03%	49.03%
27	Equity %	50.97%	50.97%	50.97%	50.97%	50.97%	50.97%	50.97%
28								
29	Total Equity (ln. 19 x ln. 27)	$ 25,573,945	$ 1,005,281	$ -	$ -	$ -	$ -	$ 26,579,226
30								
31	Authorized Return on Equity	10.55%	10.55%	10.55%	10.55%	10.55%	10.55%	10.55%
32								
33	Return on Equity (Ln. 16 + ln. 29)	10.55%	9.55%	0.00%	0.00%	0.00%	0.00%	10.51%
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DECISION NO. 73938

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

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-11-0310

DIRECT SETTLEMENT TESTIMONY

OF

PATRICK J. QUINN

IN

OPPOSITION TO THE SETTLEMENT AGREEMENT

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 2, 2013

TABLE OF CONTENTS

EXECUTIVE SUMMARY i

INTRODUCTION 1

SYSTEM IMPROVEMENT BETTERMENT MECHANISM 2

EXECUTIVE SUMMARY

RUCO Director Patrick J. Quinn recommends that the Arizona Corporation Commission ("ACC" or "Commission") reject the proposed settlement agreement on Arizona Water Company Eastern Group rate case which adopts a System Improvement Betterment ("SIB") mechanism.

INTRODUCTION

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

A. My Name is Patrick J. Quinn. I am the Director of the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. No.

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

A. The purpose of my testimony is to present RUCO's reasons for opposing a System Improvement Benefit mechanism ("SIB") which was developed through a settlement process that was ordered by the Arizona Corporation Commission ("ACC" or "Commission") in Decision No. 73736, dated February 20, 2013. The SIB was adopted in the proposed settlement agreement ("Settlement Agreement") that was filed with the Commission on April 1, 2013. My testimony will address the public interest issues associated with the SIB mechanism and explain why the Settlement Agreement should not be approved by the Commission.

...

Q. Why not?

A. While there were many parts of the Settlement Agreement that were well thought out and many compromises where agreed to, in the final document there are still areas that RUCO believes are not fully addressed. There are some protections for the rate payer like a cap on annual SIB charges; however the only real financial benefit for the residential consumer is the efficiency credit equal to 5.00 percent of the SIB surcharge cap. This credit and other benefits were insufficient to offset what the residential consumer would be giving up if RUCO signed the agreement. Therefore I could not sign the Agreement because I believed it was not in the best interest of the residential consumer.

Q. What makes the Settlement Agreement unacceptable?

A. The original idea of a SIB surcharge was to allow a company to recover the cost of replacing fully depreciated facilities between rate cases when those facilities through no fault of the company failed and/or were operating inefficiently. In this Agreement the definition of what facilities would qualify for a SIB surcharge expanded beyond the original intent of the SIB.

There should be language in the Settlement which does not limit the Commission but allows the Commission to consider the circumstances of each case when considering a SIB surcharge. This is important, as now the Agreement creates perverse incentives. For example, under section

6.3, the Agreement provides that all a utility needs to qualify for the SIB is to meet one of the numerous criteria. If a utility has an eight percent water loss, the utility may create circumstances that allow a greater water loss to meet the eligibility. Another example would include the circumstances of this case. In the ROO, the Judge was concerned with the Company's payment of dividends over the years when it could have used the money to address its infrastructure needs. Under the Agreement concerns such as this are not part of the eligibility criteria.

Perhaps RUCO's greatest concern is its belief that when a company qualifies for a SIB surcharge that the company shifts risk to the consumer and therefore the authorized return on equity ("ROE") should be adjusted downward. While it was not possible to make the ROE argument in this case, RUCO did not want to limit its ability to argue that in future cases since this Agreement may be used as a template in future filings.

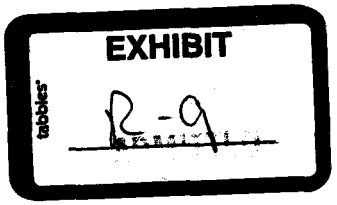
Also RUCO by signing this agreement would have given up its rights to challenge the legality of the SIB mechanism in the future. These were the main reasons RUCO chose not to sign.

Q. Does your silence on any other issues, matters or findings addressed in the testimony of the parties who support the SIB mechanism constitute your acceptance of the Company's positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your testimony on the proposed SIB mechanism?

A. Yes, it does.



ARIZONA WATER COMPANY

DOCKET NO. W-01445A-11-0310

DIRECT SETTLEMENT TESTIMONY

OF

WILLIAM A. RIGSBY

IN

OPPOSITION TO THE SETTLEMENT AGREEMENT

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 2, 2013

TABLE OF CONTENTS

EXECUTIVE SUMMARY i

INTRODUCTION 1

BACKGROUND 2

SYSTEM IMPROVEMENT BETTERMENT MECHANISM 6

EXHIBIT 1 – Staff's Opening Brief Filed on June 26, 2012

EXHIBIT 2 – Staff's Reply/Closing Brief Filed on July 11, 2012

EXHIBIT 3 – RUCO's Opening Brief Filed on June 26, 2012

EXHIBIT 4 – RUCO's Reply Brief Filed on July 11, 2012

EXECUTIVE SUMMARY

RUCO Chief of Accounting and Rates, William Rigsby, recommends that the Arizona Corporation Commission ("ACC" or "Commission") reject the proposed settlement agreement on Arizona Water Company Eastern Group rate case which adopts a System Improvement Betterment ("SIB") mechanism.

INTRODUCTION

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

A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates for the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, I filed direct and surrebuttal testimony presenting RUCO's recommendations on cost of capital and on the Company's request for a Distribution System Improvement Charge ("DSIC") mechanism in Phase 1 of this proceeding.

Q. Is RUCO a signatory to the proposed settlement agreement that is the subject of this phase of the proceeding?

A. No. RUCO is not a signatory to the proposed settlement agreement ("Settlement Agreement").

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's reasons for opposing a System Improvement Benefit mechanism ("SIB") which was developed through a settlement process that was ordered by the Arizona Corporation Commission ("ACC" or "Commission") in Decision No. 73736, dated February 20, 2013. The SIB was adopted in the Settlement Agreement

that was filed with the Commission on April 1, 2013. My testimony will address RUCO's concerns with the proposed SIB and why RUCO believes the Settlement Agreement should not be approved by the Commission.

Q. Will RUCO offer a policy witness who will address the public interest issues in this phase of the proceeding?

A. Yes. The public interest issues in this matter will be addressed by RUCO Director Patrick J. Quinn who is also filing direct testimony on the Settlement Agreement.

Q. How is your testimony organized?

A. My testimony contains three parts: the introduction that I've just presented; a section on the background of this proceeding, and a section on the SIB that has been adopted in the Settlement Agreement.

BACKGROUND

Q. What is the background of this proceeding?

A. On August 5, 2011, AWC filed an application with the Commission requesting a permanent rate increase for the Company's Eastern Group systems. In addition to the requested rate increase, AWC sought approval of a DSIC mechanism that would allow the Company to

implement annual surcharges to recover the costs of specific plant items placed into service between general rate case proceedings.

During what is now being referred to as Phase 1 of this proceeding, expert witnesses for both ACC Staff and RUCO testified against the DSIC mechanism and recommended that the Commission reject it. After weighing the evidence presented in the case, the Administrative Law Judge assigned to hear the matter issued a Recommended Opinion and Order ("ROO") on Wednesday, January 30, 2013. The Administrative Law Judge adopted ACC Staff's and RUCO's positions and recommended that the Commission deny AWC's request for a DSIC.

At the Regular Open Meeting held on Tuesday, February 12, 2013, the Commission voted 5-0 to adopt an amended ROO that approved an increase in rates for AWC's Eastern Group Systems, but left the docket open for the purpose of allowing the Company, ACC Staff, RUCO and other interested parties to engage in settlement discussions for the purpose of developing a DSIC-like mechanism. Decision No. 73736, dated February 20, 2013, ordered a procedural schedule that would result in a tentative vote on a settlement agreement reached by any of the parties to the case.

Settlement talks were conducted on Monday, March 4, 2013 immediately following a Procedural Conference on the Phase 2 procedural schedule and the admission of the City of Globe as an intervenor in the proceeding. Participants in the settlement meetings included AWC, ACC Staff, RUCO, On February 13, 2013, Rio Rico Utilities, Inc. dba Liberty Utilities ("Liberty Utilities"), EPCOR Water Arizona, Inc., Global Water – Palo Verde Utilities Company, Santa Cruz Water Company, Valencia Water Company – Town Division, Valencia Water Company – Greater Buckeye Division, Water Utility of Greater Tonopah, Willow Valley Water Co. and Water Utility of Northern Scottsdale ("collectively the Global Utilities"), the Water Utility Association of Arizona ("WUAA"), whose representative was not in attendance, the Arizona Investment Council ("AIC"), and the City of Globe. At the conclusion of the settlement meeting, an agreement in principle had been reached on the SIB mechanism which was to be reduced to writing and reviewed by settling parties.

After three weeks of revisions to the first draft of the Settlement Agreement, a final draft, which adopts the SIB mechanism, was approved on Monday, March 25, 2013. The signatories to the Settlement Agreement include AWC, ACC Staff, Global Water, EPCOR Water Arizona Inc., Liberty Utilities, WUAA, and AIC. On Monday, April 1, 2013, a copy of the Settlement Agreement was filed with the Commission.

Q. Was RUCO a signatory to the Settlement Agreement?

A. No. RUCO chose not to sign the Settlement Agreement because of its concerns with the SIB mechanism that was developed by the signatories.

Q. Does RUCO believe that the Agreement itself is a good Agreement?

A. Legal and Policy considerations aside, the Agreement viewed alone has a lot of good points. There are still areas that the Agreement does not cover or covers inadequately that RUCO believes must be addressed if the Commission intends to approve a SIB mechanism.

Q. What areas need to be addressed?

A. First, the Settlement Agreement does not exclude improvements for fire flow in the surcharge. The Commission has determined that utilities should not recover improvements for fire flow. (See the Youngtown case – Decision No. 70351, dated May 16, 2008). Under the terms of the Settlement Agreement there is nothing from stopping a utility from running fire flow improvements through the surcharge. It is a contract and there should be a provision which directly addresses this issue so that there is no question in the future.

Second, the eligibility requirements could result in perverse incentives. For example, to be eligible for a SIB, a Company need only experience water loss for the system that exceeds ten percent (Settlement Agreement

Section 6.3.1). A utility that is experiencing only eight or nine percent water loss and does not meet eligibility under the other criteria would have incentive to take action which brings its water loss above the criteria. Inappropriate conduct or malfeasance in that case would be awarded by the approval of a SIB mechanism. There should be language in the Settlement which does not limit the Commission but allows the Commission to consider the circumstances of the case when considering a SIB.

Third, the Settlement Agreement does not address what will happen to the SIB beyond the next general rate case. The understanding is that the Company will have to apply for a new SIB but it is not stated in the Settlement.

Fourth, an earnings test requirement would protect the ratepayers better than a Schedule D filing which would show the impact of the SIB plant on FVRB (Settlement Agreement Section 7.17).

SYSTEM IMPROVEMENT BETTERMENT MECHANISM

Q. Have you reviewed the Settlement Agreement that adopts the SIB mechanism?

A. Yes.

Q. Please describe the SIB mechanism.

A. The SIB mechanism will allow AWC to implement a surcharge on the Company's ratepayers that will allow AWC to recover a return on, and a return of the capital costs of certain eligible utility plant items that are placed into service between general rate case proceedings.

Q. When would the SIB surcharge go into effect?

A. The Settlement Agreement requires ACC Staff to promptly process AWC's request and docket any Staff recommendations to the Commission within thirty days after AWC has filed its request for an SIB surcharge. If there is no objection to AWC's request, the request shall be placed on an open meeting agenda at the earliest practical date for approval by ACC Commissioners. If AWC's SIB filing is approved by the Commissioners, AWC will begin recovering the SIB related costs through a surcharge placed on the Company's ratepayers.

Q. How will the SIB mechanism operate if the Settlement Agreement is approved by the ACC?

A. Under the terms of the Settlement Agreement, AWC will be able to, within twelve months from the date of the ACC's final decision on the Company's general rate case application, file a request with the Commission to implement the SIB surcharge to be collected from AWC's ratepayers. AWC would be able to file for additional SIB surcharges in subsequent

years as long as the surcharges do not exceed a 5 percent cap of total authorized revenues. AWC would be required to file a rate case after five years after the prior rate case in which the SIB mechanism was approved.

Q. What criteria must be met before eligible plant items can be placed into service and be granted cost recovery under the SIB mechanism?

A. Under the terms of the Settlement Agreement, AWC would first have to meet one of the following criteria prior to requesting cost recovery of eligible plant items. The three conditions are as follows:

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

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

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

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

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

   A documented increasing level of repairs to, or failures of, an asset justifying its replacement prior to

reaching the end of its useful service life (e.g. black poly pipe);

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

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

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

Q. What types of plant items would be eligible for cost recovery under the SIB?

A. Distribution system items that must be classified in the following plant categories:

- Transmission and Distribution Mains;
- Fire Mains;
- Services, including Service Connections;
- Valves and Valve Structures;
- Meters and Meter Installations;
- Hydrants

In addition to the plant categories listed above, AWC may also include a request to modify or add projects. The Settlement Agreement contains a provision that allows AWC to provide a proposed order for Commission

consideration that would list such projects. Under the Settlement Agreement, ACC Staff and RUCO would have thirty days to object to the projects that AWC is seeking.

Q. Does RUCO agree with the SIB mechanism?

A. No.

Q. Please explain why RUCO does not agree with the SIB mechanism.

A. RUCO does not agree with the SIB mechanism for several reasons. First, and perhaps most important, the SIB shifts risk from the Company to ratepayers adequate financial consideration to the ratepayers. Second, RUCO believes that the SIB is not legal in Arizona. Third, there are a number of flaws with the SIB as proposed. Fourth, the SIB is not in the public interest.

Q. Please elaborate on each of the four reasons stated above beginning with RUCO's view that the SIB shifts risk from the Company to ratepayers.

A. In RUCO's view, the SIB mechanism reduces regulatory lag for AWC because the Company will not have to wait until new rates go into effect to recover a return on SIB eligible plant or the depreciation expense associated with it. However, any actual cost savings, such as lower operating and maintenance expense, attributable to the new plant are not

captured by the mechanism and flowed through to ratepayers. Unlike a typical adjustor mechanism for purchased fuel or natural gas which operates on a two way street basis by flowing both increases and decreases in costs to ratepayers the SIB operates on a one way street basis and only provides cost recovery to AWC. Ratepayers on the other hand see no actual cost savings that might be realized and will no longer benefit from the rate stability that exists under the present ratemaking procedure.

Q. What is regulatory lag?

A. Regulatory lag is the time that it takes for a utility to recover the costs of plant additions placed into service between general rate case proceedings through new rates.

Q. Please explain how regulatory lag works to the benefit of both utilities, such as AWC, and ratepayers.

A. In my direct testimony I cited a report authored by Ken Costello of the National Regulatory Research Institute who stated that mechanisms such as the proposed SIB "undercut the positive effects of regulatory lag on a utility's costs." According to Mr. Costello, "economic theory predicts that the longer the regulatory lag, the more a utility has to control its costs." Regulatory lag acts as a surrogate for the competitive pressures that force unregulated companies to keep their costs low. Under this scenario, both

utilities and ratepayers see the benefits that come from higher earnings and lower rates.

Q. Doesn't the SIB incorporate a 5.00 percent efficiency credit to recognize the types of cost savings that you noted above?

A. Yes, it does.

Q. Didn't RUCO state in its underlying testimony that it could accept an operations & maintenance expense offset of 15.00 percent?

A. Yes. RUCO did state that. However, that is not what the Settlement Agreement provides and RUCO would also have to consider the terms of any proposal.

Q. Why does RUCO believe that the SIB mechanism is not legal in Arizona?

A. Of course, this question suggests a legal analysis. I am not an attorney and not testifying as one. RUCO presented its legal analysis regarding the Company's proposed DSIC in its Briefs in this docket. While the SIB here is not the same as the Company's proposed DSIC, the underlying legal objections are for the most part the same. The legal points regarding the DSIC, and similarly the SIB, are attached in the relevant portions of RUCO and ACC Staff's Briefs (the relevant excerpts are attached as Exhibits 1 through 4).

Q. From a layman's perspective, can you summarize the legal argument?

A. Again, I would defer to the attorneys for the legal interpretation but the controversy centers on Arizona's fair value requirement and RUCO's belief that the SIB violates the Constitutional requirement of finding fair value when establishing rates. Perhaps Staff, who also believed the Company's proposed DSIC was unconstitutional (See Staff Opening Brief at page 26), summed it up best when it said "The DSIC in this case does far more than simply pass on increasing and decreasing costs to AWC. It allows surcharges based on the cost of the new plant, effectively increasing the fair value rate base without any determination by the Commission of what that fair value is." (Staff Reply Brief at 22).

Q. Does the SIB increase the fair value rate base without any determination by the Commission of what fair value is?

A. Yes. The Company will be able to file for the SIB surcharge no more than five times between rate case decisions (Settlement Agreement, section 4.4). The Commission will ultimately consider and then may approve each surcharge filing. The Commission, however, will not be making a new FVRB finding as part of each surcharge filing.

...

Q. What will be the result of the Commission's findings?

A. Among other things, the result will be rates based on a fair value finding for a period different than the period in which the Company's operating expenses were incurred.

Q. Are there other aspects to the legal argument that you have not discussed?

A. Yes. Again I would refer the reader to the Briefs submitted by both RUCO and ACC Staff on the legality of the DSIC. RUCO believes that the SIB has not overcome the legal hurdles raised by ACC Staff and RUCO in their respective Briefs. While it is true that the SIB mechanism would be authorized by the ACC in a general rate case proceeding, the SIB mechanism would recover new plant placed into service in the years between general rate case proceedings. Because a SIB surcharge could be established within thirty days of the Company's request, the same level of scrutiny that occurs in a general rate case proceeding would not exist to insure that a real finding of fair value is accomplished. Furthermore, the SIB surcharge would represent piecemeal ratemaking since it would only recover capital expenditures associated with the type of plant items that a regulated water utility, such as AWC, would replace under normal circumstances and seek rate base treatment for in a general rate case proceeding.

For a more detailed explanation of why RUCO believes that a DSIC-like mechanism such as the SIB is not legal in Arizona, see the excerpts of RUCO's and ACC Staff's Briefs that are attached as exhibits. While I am not an attorney I cannot vouch for the legal arguments but I provide the exhibits only to present the Commission with a better understanding of RUCO's legal position.

Q. Does RUCO believe that the SIB appears to be a template for future cases?

A. Yes. RUCO believes that the SIB appears to be a template for future rate cases. The circumstances of each case are different and providing specific eligibility requirements is one of the flaws of the Settlement Agreement as it leaves the Commission no flexibility to consider the circumstances of each case.

Q. Please discuss some of the other flaws with the proposed SIB.

A. The 5.00 percent efficiency credit is inadequate to compensate ratepayers for the shift in risk. The Commission awarded AWC a higher cost of common equity because of the infrastructure issue presented in the Company's rate application. Now the Commission is considering a SIB to address the same infrastructure issue. In exchange, the only financial benefit to the Company's ratepayers is the 5.00 percent efficiency credit.

RUCO believes that the Settlement Agreement is woefully inadequate here, at the ratepayer's expense.

In RUCO's view, none of the plant items are extraordinary in nature and none of the plant is being replaced under extraordinary circumstances, such as a government mandate. In addition to the failure of taking into consideration all of the ratemaking elements that are reflected in rates approved by the Commission in a general rate case proceeding, the SIB has been tied to the Commission's policy of keeping water loss under 10.00 percent. While this might seem laudable, given the fact that much of Arizona is in an arid climate, the SIB could have the unintended effect of encouraging utilities to exceed the 10.00 percent threshold just to qualify for a SIB surcharge in order to get faster recovery of routine plant additions. As noted earlier, the short period of time in which the request for a SIB surcharge is filed and the time it is approved circumvents a proper regulatory review for prudence and reasonableness.

The settlement also does not specifically address the issue of fire flow upgrades that have been problematic in the past. Finally, there is no reason to believe that AWC would not be able to ensure safe and reliable water service or achieve cost recovery absent the SIB. Therefore, there is no need for the Commission to adopt a special surcharge for routine plant additions.

Q. Please explain why RUCO believes the SIB mechanism is not in the public interest.

A. My direct testimony contains a resolution adopted by National Association of State Utility Advocates ("NASUCA") in 1999 that states a number of reasons why the SIB mechanism is not in the public interest. In addition to the reasons I've cited in my testimony, NASUCA's Ad Hoc Water Committee stated that rate stability is reduced and proper price signals are distorted by frequent rate increases. According to the NASUCA resolution, no convincing evidence has been shown to support the claim that the frequency of rate case proceedings is reduced by mechanisms such as the SIB. NASUCA's findings are consistent with the recent findings of the Regulatory Affairs and Public Advocacy ("RAPA") section of the Alaska Attorney General's Office. RAPA found that, among other things, that a review of ten states that have implemented some sort of DSIC-type mechanism, there does not appear to be support for the conclusion that DSIC adoption reduces rate case frequency.[1] Furthermore, special incentives are not needed in order ensure adequate water quality, pressure, and a proper reduction of service interruptions. In NASUCA's view, SIB-like mechanisms can inappropriately reward water companies that have imprudently fallen behind in infrastructure improvements. Finally, the NASUCA resolution expressed the belief that it is inappropriate to tilt the regulatory balance against consumers and shift

[1] See RUCO's Closing Brief at 8-10.

business risk away from water companies simply for the purpose of creating an incentive for those companies to fulfill their basic obligation to provide safe and adequate service.

For the various reasons cited above, RUCO believes that the Commission should reject the proposed SIB mechanism.

Q. Does your silence on any other issues, matters or findings addressed in the testimony of the parties who support the SIB mechanism constitute your acceptance of the Company's positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your testimony on the proposed SIB mechanism?

A. Yes, it does.

STATE OF ALASKA

REGULATORY COMMISSION OF ALASKA

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

RUCO - 4

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

COMMENTS OF THE ATTORNEY GENERAL

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

INTRODUCTION

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

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

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

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

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

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

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

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

SUMMARY OF COMMENTS

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

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

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

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

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

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

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

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

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

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

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USE OF DSIC-TYPE SURCHARGES IN OTHER JURISDICTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

WHAT ARE THE CLAIMED PURPOSES OF DSIC SURCHARGES?

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

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

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

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[26] Excluding Maine.

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

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

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

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

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

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

[29] Appendix B.

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

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

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

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

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

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

DO DSIC SURCHARGES REDUCE RATE CASE FREQUENCY?[32]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DO DSIC SURCHARGES IMPROVE QUALITY OF SERVICE?

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

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

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

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

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

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

UTILITY USE OF DSIC SURCHARGES

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

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

[45] *See* Appendix F.

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

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

REGULATORY LAG & REALIZING AUTHORIZED RETURNS

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

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

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[47] Excluding Maine.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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AFFORDABILITY

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

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

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

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

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

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

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

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

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

COMMENTS ON THE UTILITY GROUP'S PROPOSED REGULATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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[79] *See* Order U-07-76(8) at 71, 80.

[80] R-11-6(2), App. B at 5 ("To qualify for inclusion in a PRISM, a plant addition must consist primarily of plant dedicated to providing service to customers that replaces existing plant, improves the quality of service, increases reliability or redundancy, or promotes public health or safety.")

[81] *See* Order R-11-6(1), App. B at 1 ("For water utilities eligible, property would be USOA Accounts 309 – supply mains, 311 – pumping equipment, 320 – water treatment equipment, 330 – distribution reservoirs and standpipes, 331 – transmission and distribution mains, 333 – services, 334 – meters and meter installations, 335 – hydrants, 336 – backflow prevention devices, and 339 – other plant and miscellaneous equipment. For wastewater utilities, eligible property would be USOA Accounts 360 to 362 – collection sewers, 363 – services to customers, 364 and 365 – flow measuring, 366 and 367 – refuse services, 370 and 371 – receiving wells and pumping equipment, 374 and 375 – reuse, 380 – treatment and disposal equipment, 381 – plant sewers, and 382 – outfall sewer lines.")

[82] Most jurisdictions apply a 5 to a 7.5 percent cap on plant eligible for surcharges.

[83] *Madigan v. Illinois Commerce Comm'n*, 2011 WL 4580558 at * 7 - 8. ("[R]iders should be closely scrutinized because of the issue of single-issue ratemaking. . . . [B]ecause a rider, by nature, is a method of single-issue ratemaking, it is not allowed absent a showing of exceptional circumstances.")

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CONCLUSION

There is little if any objective evidence supporting a conclusion that DSIC surcharge adoption advances the rate at which service quality or reliability improvements are made or that DSIC use reduces rate case frequency or expense. Nor has research disclosed the existence of any objective evidence supporting a conclusion that DSIC surcharge adoption provides any other ratepayer benefits. Instead, surcharge adoption appears to erode established consumer protections and degrade a commission's ability to ensure rates demanded are reasonable. Because DSIC surcharge adoption should be tied to showing an actual *ratepayer-benefit* link, there is little if any justification for employing this extraordinary regulatory tool.

If the Commission concludes otherwise, DSIC adoption creates numerous challenges. Given the magnitude of the matters to be addressed on a tight timeline, it appears that added Commission resources will be needed if a DSIC regulation is implemented. To do otherwise would amount to a surrender of the Commission's duty to ensure utility plant investments are prudent and rates demanded are reasonable. Public policy cannot support this result.

The Utility Group's proposed regulation is also seriously flawed. Its scope is over-inclusive on items allowed, it fails to provide any cap or other reasonable limit on the amount requested, it permits use of a stale ROR at odds with case law and fails to account for reduced risk in the DSIC formula proposed, it is unsynchronized because it fails to require updated plant accounts and accumulated depreciation, it impermissibly

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allows use of cost estimates without any true-up, it employs an impossible-to-use test for eligibility, and it is structured in a way that will deprive the Commission and any interested person from testing the cost items included in a meaningful way.

Respectfully, the Utility Group's proposal for DSIC regulation adoption should be rejected, and this Docket closed.

DATED this 31st day of May, 2012, at Anchorage, Alaska.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-01427A-13-____
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-01428A-13-____

DIRECT TESTIMONY OF GREG SORENSEN

February 28, 2013

EXHIBIT
tabbies
A-1
Sorensen

TABLE OF CONTENTS

I. INTRODUCTION AND PURPOSE OF TESTIMONY 1

II. OVERVIEW OF LITCHFIELD PARK SERVICE COMPANY 4

III. SUMMARY OF SIGNIFICANT SYSTEM IMPROVEMENTS AND OTHER CHANGES SINCE THE LAST TEST YEAR 11

A. TOWN WELL RESERVOIR 11

B. PALM VALLEY WATER RECLAMATION FACILITY 12

C. PVWRF EQUALIZATION BASIN – POST TEST YEAR 14

D. OPERATING EXPENSES 15

IV. COMPLIANCE, CONSERVATION, CUSTOMER SERVICE AND CUSTOMER SATISFACTION 16

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I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

A. On behalf of the Applicant Litchfield Park Service Company ("LPSCO" or "Company").

Q. BY WHOM ARE YOU EMPLOYED?

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

Q. I THOUGHT YOU WORKED FOR LIBERTY WATER. HAS THAT CHANGED?

A. Liberty Utilities is the same entity as Liberty Water, the name we operated under in Arizona the past several years. We recently updated the name as our acquisitions in other states include gas and electric utilities in addition to water and sewer. We believed that this name change better reflects who we were becoming as a company. Also, in some states, like Missouri, we will have customers who will be both a water customer and a gas customer. It would have been very confusing for those customers to receive a bill for gas services from Liberty "Water."

This is really just a natural extension of our growth, and an opportunity to bring high quality utility service to new types of customers. I also believe that our continued expansion will provide additional economies of scale, and enable us to continuously improve our service offerings to all our customers, including LPSCO's customers. We have notified Staff and the Commissioners' offices, as well as local politicians of this name change. We also sent communications to our

customers on this subject during the month of June 2012, as well as publicized it in local newspapers.

Q. THANK YOU, PLEASE CONTINUE.

A. Liberty Utilities, like LPSCO and all of the other subsidiary utility providers and service companies, is ultimately owned by Algonquin Power & Utilities Corp., or APUC, a publicly traded member of the Toronto Stock Exchange. Through its distinct operating subsidiaries, APUC owns and operates a diversified portfolio of $0.8 billion of clean renewable electric generation and $1.1 billion sustainable utility distribution businesses in North America. Liberty Utilities, APUC's regulated utility business, provides regulated water, gas and electric utility services to more than 350,000 customers with a portfolio of 26 water, gas and electric utility systems in Arizona, Texas, Missouri, Illinois, Iowa, California, New Hampshire, and Arkansas. Pursuant to previously announced agreements, Liberty Utilities is committed to acquiring certain regulated gas distribution utilities from Atmos Energy Corporation, which serves approximately 60,000 customers in the state of Georgia and 50,000 customers in the state of Massachusetts from The Laclede Group, Inc. Algonquin Power Co. (APCo), APUC's non-regulated electric generation subsidiary, owns or has interests in renewable energy and thermal energy facilities representing more than 1,100 MW of installed capacity. APUC's common shares and convertible debentures are traded on the Toronto Stock Exchange under the symbols AQN and AQN.DB.B. The APUC website is www.AlgonquinPowerandUtilities.com.

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

A. I am currently responsible for Liberty Utilities' water and sewer operations in Texas, Missouri, Illinois, and Arizona.

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

Q. DID YOUR EDUCATION OR PRIOR EMPLOYMENT BACKGROUND PREPARE YOU FOR YOUR ROLE AS VP OF LIBERTY UTILITIES?

A. Yes, significantly. I have a degree in accounting and I worked for Arthur Andersen in public accounting for 5 years, after which I was a Director of Financial Reporting & Analysis, Controller, and VP Finance for Excel Agent Services, an international call center company.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

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

Q. WHAT IS THE PURPOSE OF THIS DIRECT TESTIMONY?

A. To support LPSCO's application for rate relief. Specifically, I will provide background on the Company and its operations. I will also summarize significant capital improvements completed by the Company and other operating cost changes since the last rate case that are now contributing to the need for this rate case. Finally, I will address certain aspects of the relief being requested in this case, including approval of certain changes to our tariff of rates and charges for water and wastewater service.

II. OVERVIEW OF LITCHFIELD PARK SERVICE COMPANY

Q. PLEASE PROVIDE AN OVERVIEW OF LPSCO.

A. The Company provides services to approximately 16,802 water and 16,161 wastewater customers.[1] The Company's service area is located in Maricopa County, Arizona, encompassing the City of Litchfield Park, the City of Goodyear north of I-10, two commercial sites in Avondale including Estrella Mountain Community College, and certain unincorporated portions of Maricopa County. The Company's water and wastewater CC&Ns are primarily geographically the same, but we do have a portion of our sewer CCN that is served by another water provider, Valley Utilities Water Company, in the northeastern section of our CCN, and by EPCOR Aqua Fria district on the far western edge of our CCN.

The LPSCO service area is within the Phoenix Active Management Area, which has been created by the Arizona Groundwater Code. As a result, the Company is subject to certain water conservation requirements imposed by the Third Management Plan, adopted by the Arizona Department of Water Resources in order to reduce groundwater pumping. This area is also located within the Maricopa Association of Governments 208 Planning area, which subjects the location of wastewater treatment facilities to an additional layer of regulation.

In addition to our many residential customers, LPSCO serves a considerable number of commercial customers, a few light industrial and several irrigation customers, including several golf courses. We also provide water and sewer service to a large resort—The Wigwam—located in Litchfield Park. The majority of residential customers are served through ¾ and 1 inch meters. The average

[1] These customer counts differ from the ACC annual report due to the counting of customers versus bills sent out each month. As an example, an HOA may represent 200 customers in our calculations but only one customer in Mr. Bourassa's bill count.

water use for residential customers is approximately 8,827 gallons per month, which is fairly high compared to other Arizona water utilities.

Q. PLEASE DESCRIBE THE COMPANY'S WATER RESOURCES.

A. The Company's water supply is comprised entirely of groundwater pumped from 12 wells. The water from three of these wells is of sufficient quality that it is pumped, chlorinated, and transmitted directly to the distribution system. Eight of the wells pump to two reservoirs (Town Well (6.1MG) and Airline (4.0MG) with an approximate combined capacity of 10.1MG), where the water is blended, chlorinated, and treated for arsenic to meet the MCL. The final well, 20B, is pumped and treated for arsenic at or near the wellsite, and then transmitted into the distribution system.

Q. CAN YOU PROVIDE SOME ADDITIONAL DETAIL REGARDING THE IRRIGATION CUSTOMERS?

A. Yes. The Company does supply water to 10 school complexes. The Company also supplies water to the cities of Litchfield Park and Goodyear for use in irrigating medians and common areas, and provides separate irrigation water to a few residential customers who requested a dedicated irrigation line. Other than the Wigwam, there are eight golf courses in our service area, three of which may use effluent for irrigation, with the remainder using their own well water supply. LPSCO does not provide water for landscape irrigation to any golf courses at this time. The Company also serves the Wigwam Resort, although the resort has its own water rights and water source for its golf courses, and immediately prior to the test year eliminated its use of our irrigation water for the Wigwam grounds.

Q. PLEASE DESCRIBE THE COMPANY'S PRIMARY WASTEWATER TREATMENT FACILITIES.

A. The utility has a 4.1 million gallons per day (MGD) wastewater treatment plant, the Palm Valley Water Reclamation Facility or PVWRF, using Sequencing Batch Reactor (SBR) technology. The PVWRF was upgraded during the test year to achieve a capacity rating of 5.1MGD. The facility holds an Aquifer Protection Permit ("APP No. 100310") and Arizona Pollutant Discharge Elimination System Permit ("AZPDES" Permit No. AZ0025712) from Arizona Department of Environmental Quality ("ADEQ"). The plant currently produces A+ effluent and unclassified sludge which is hauled to a landfill. Effluent is sold to local golf courses, construction companies, and farms, with residual unsold effluent discharged to the RID canal and farm fields (when the RID is shut down for two weeks each year for maintenance). The Company also has two lift stations and a combination of gravity and force collection mains.

Q. WHAT WERE THE COMPANY'S AVERAGE DAILY AND PEAK FLOWS DURING THE TEST YEAR AT THE PVWRF?

A. During the test year, PVWRF received and treated wastewater in the following amounts:

- Approximately 3,344,000 gallons per day on an annual average basis;
- A peak monthly flow of approximately 3,540,000 gpd in November 2012; and
- A peak day flow of 4,273,000 gpd during October 2012.

For 2011, the comparable figures were 3,485,000, 3,932,000, and 4,459,000, respectively. Therefore, the plant reached 96% of its rated capacity in 2011, and 86% of its rated capacity in 2012.

Q. CAN THE PVWRF BE EXPANDED FURTHER?

A. Yes, the existing ADEQ permits contemplate a potential expansion to a total of 8.2 MGD.

Q. THANK YOU. WHEN DID LPSCO'S CURRENT RATES GO INTO EFFECT?

A. The Company's current rates were approved in Decision No. 72026 (December 10, 2010) and became effective on December 1, 2010. These rates were based on a test year ending September 30, 2008. The rates approved in that Decision were phased-in over a 12-month period, and the shortfall was accumulated and recovered via a surcharge mechanism over an estimated 18-month period of time. Because the Company is utilizing a test year ending December 31, 2012 in this filing, it will be just over four years between test years.

Q. HAS THE COMPANY EXPERIENCED GROWTH SINCE THE LAST RATE CASE?

A. Yes, there has been low to moderate growth of approximately 3% to 3.5% per year in the system since the last rate case. The service area was affected, like most of Arizona, by the recession after our last test year, although growth appears to have picked back up in the past year or so, but not to the levels we saw in 2001 – 2006. Since the last test year, we have not added any water capacity, but did expand our wastewater treatment capacity at the PVWRF.

Q. WHY IS LPSCO FILING FOR NEW RATES AT THIS TIME?

A. There are several reasons. First, some of our operating expenses have increased, including property taxes and depreciation. Second, the Commission has, in the past, expressed concern that some of Liberty's utilities waited too long to file rate cases, so we are trying to keep rates current and rate hikes manageable by following a fairly regular rate case cycle. Third, during the last rate case, we were

granted an 8.01% ROE, which to my knowledge was the lowest such ROE granted in the nation during that time period, and since Decision No. 72026 none has been lower. In the Company's research it could not find any other ROEs awarded lower than 8.01%.[2]

Q. WHY IS THE 8.01% ROE GRANTED IN THE LAST CASE A PROBLEM FOR THE UTILITY?

A. A return on equity issued by the Commission should represent a rate that is comparable to other similar investments in similar markets. In this case, it should be similar to other ROE's granted, adjusted for financial risk, to utilities throughout the United States. This is because capital markets look to invest in all states, not just Arizona. Therefore, utilities in Arizona must be attractive enough as an investment opportunity to attract capital. Capital doesn't just "show up" because you want it. Capital has to be "earned" or attracted. An 8.01% ROE was not comparable to other similar investments when authorized in December 2010. A low ROE makes it difficult to attract capital and make investments in utility infrastructure. One significant aspect of this case for LPSCO will be to get an ROE granted that is competitive in the US marketplace. Mr. Bourassa explains the Company's ROE request of 10.00% more thoroughly in his testimony.[3]

Q. ANY OTHER REASONS FOR THE RATE CASE?

A. Finally, we have seen an overall decline in water usage per residential customer since the last rate case. This decline was not anticipated in the rate design during the prior case, even though a tiered rate design was implemented to encourage water conservation, going from two to three tiers. I believe this tiered design did help reduce water usage, but that has had a negative impact on the Company's

[2] Indiana PUC Case No. 43114 and 43114-S1, November 20, 2007.

[3] Direct Testimony of Thomas J. Bourassa – Cost of Capital at 1 – 4.

revenue and, in turn, earnings. While this usage decline might have been offset by growth, that growth is not guaranteed to occur, and if it doesn't, it can put the Company in a position where it will be unable to earn its authorized rate of return. Mr. Bourassa addresses this usage decline in detail in his direct testimony.[4]

Q. CAN YOU POINT TO A REASON OR REASONS FOR THIS REVENUE SHORTFALL?

A. As I'm sure will be pointed out, a revenue requirement is an estimated target, not a guarantee, and revenues and expenses can move up or down after a test year. Admittedly, it is hard to express these events in precise numbers. Nevertheless, I believe we have experienced some degree of revenue erosion.

Q. WHAT DO YOU MEAN, MR. SORENSEN?

A. In our last decision, the Commission adopted Staff's rate design, a rate design that put approximately 69% of our revenue recovery in the commodity charge. By relying so heavily on volumetric charges, we were exposed to and did in fact suffer significant revenue erosion. This has helped leave the Company in the position of under-earning on its invested capital as Mr. Bourassa also addresses more completely in his testimony.[5]

Q. DID ANYTHING ELSE COME OUT OF THE PRIOR RATE CASE?

A. Yes, there were two compliance items that LPSCO was required to complete. First, LPSCO was required to file the Company's capitalization policy and update the Commission in its next general rate case.[6] The Company filed its capitalization policy with the Commission on February 7, 2011. Since then, LPSCO and its others sister companies have continued to strengthen internal controls and

[4] Direct Testimony of Thomas J. Bourassa – Rate Base, Income Statement, and Rate Design at 12 – 13.
[5] *Id.*
[6] Decision 72026 at 82:19-23.

processes to assure continued compliance with the policy. Second, LPSCO was authorized to incur long-term debt from the Water Infrastructure Financing Authority (WIFA) to pursue a solar capital project.[7] For business reasons LPSCO has not pursued the project at this time and therefore has not incurred the long-term debt.

Q. ANY OTHER REASON THIS RATE CASE IS IMPORTANT?

A. LPSCO takes great pride in providing important services to the community with its water and wastewater services. We continue to strive to offer customers water service that even with the rate increase costs customers less than one penny per gallon for water that meets or exceeds all state and federal requirements. While no customers are ever excited for rate increases, Liberty Utilities takes seriously the feedback it received from customers and Commissioners during the last rate case; our stakeholders prefer smaller, more gradual rate increases rather than large, infrequent increases. The table below illustrates how drastic the differences are in this rate case compared to LPSCO's prior rate application.

LPSCO	Docket No. 09-0103, et al. Rate Increase Request	Instant Case Rate Increase Request
Water Percent Increase	116%	20%
Water ¾" Customer Impact per month	$23	$5
Wastewater Percentage Increase	79%	7%
Wastewater Flat Customer Impact per month	$22	$3

[7] *Id.* at 82:24-28.

III. SUMMARY OF SIGNIFICANT SYSTEM IMPROVEMENTS AND OTHER CHANGES SINCE THE LAST TEST YEAR

Q. CAN YOU DESCRIBE THE "SUBSTANTIAL INVESTMENT" YOU TESTIFIED HAS BEEN MADE SINCE THE LAST TEST YEAR?

A. Yes. Since the last rate case, LPSCO has replaced the roof on our Town Well Reservoir, expanded the PVWRF from 4.1MGD to 5.1MGD, and continued to invest significant capital into the ongoing maintenance of the water and wastewater systems, including, but not limited to items such as collection and distribution mains, meter replacements, additional safety equipment, pump replacements and betterments, and SCADA improvements and expansion in coverage.

A. TOWN WELL RESERVOIR

Q. YOU MENTIONED THAT THE COMPANY REPLACED THE ROOF ON THIS RESERVOIR. CAN YOU PLEASE EXPLAIN THE PROJECT?

A. Our Town Well Reservoir has approximately 6.1MG of water storage capacity, and was originally constructed in 1966. This represents approximately 60% of the water storage for the LPSCO system. In late 2010, we had some preliminary visual inspections done on the reservoir due to its age. Until we completed the 4MG Airline reservoir in 2008, this was not possible because we couldn't take the Town Well Reservoir out of service and continue to provide water service to our customers.

In early 2011, we had an outside structural engineer inspect the reservoir roof for structural integrity, and that engineer's report said that the 45-year-old roof structure had reached the end of its useful life. It needed to be replaced. The challenge in doing this project was that we can only take the reservoir out of service during our low water use months of November through February. We performed the design and engineering for the project earlier in 2012, and

performed the construction during November and December 2012. The reservoir was back online providing service to customers on December 28, 2012. In addition to the roof replacement, we improved the ventilation, repaired the roof support structure, repaired cracks in the floor structure, and replaced hand rails. The total cost of the project was a little under $1M

Q. DID THIS PROJECT INCREASE CAPACITY OF THE SYSTEM?

A. No, it did not affect the capacity of the system. It was necessary system rehabilitation of an asset that had reached the end of its functional life.

Q. IS THE PROJECT AND THE ASSOCIATED RESERVOIR IN GENERAL PROVIDING SERVICE TO EXISTING CUSTOMERS?

A. Yes. The rehabilitated Town Well Reservoir is now providing service to our customer base, and is used and useful in the provision of service.

B. <u>PALM VALLEY WATER RECLAMATION FACILITY</u>

Q. YOU ALSO REFERENCED THAT THE COMPANY EXPANDED THE PALM VALLEY WATER RECLAMATION FACILITY (PVWRF). CAN YOU PLEASE EXPLAIN THE PROJECT AND THE NEED FOR THIS EXPANSION?

A. As of the end of our last test year, our plant was permitted at 4.1MGD capacity. Since that time, we have operated as high as 3.9MGD during March 2011, exceeding 90% of our plant capacity, and during the test year had a peak month average flow of 3.54MG during November 2012, representing 86% of our rated plant capacity. As such, we needed to expand capacity. We engaged an engineer we'd worked closely with in the past and one who has a history of "value engineering." We worked with the County to arrive at a design that would allow us to expand by 1MGD to 5.1MGD by adding a disk filter, additional UV units, five blowers, a Salnes Unit, replacing the aeration system, and installing floating

decanters in the SBRs, among other system enhancements. The total cost for the project was approximately $5.5M, including permitting, design, construction, and capitalized internal labor and overhead.

Q. HOW WAS THIS EXPANSION FUNDED?

A. The vast majority of the funding for this plant expansion was provided by developers, more specifically by Westcor, which is constructing a regional mall, with expected completion in 2016. In a complaint brought by the developer against LPSCO, the matter was settled before the Commission and Westcor paid LPSCO approximately $4.9M for wastewater treatment capacity for its mall and related projects. These funds are included as AIAC in our application.

Q. WHEN WAS THE PLANT COMPLETED?

A. The plant was substantially complete at the end of December 2012. There were some outstanding punch list items to be completed, and the County will require some post implementation operational data and testing prior to issuing the final AOC. We expect these punch list items will be completed in the second quarter of 2013.

Q. IN YOUR OPINION, IS THIS PLANT PROPERLY INCLUDED IN THE COMPANY'S RATE BASE IN THIS CASE?

A. Yes, given the historical flows of wastewater through the plant and the general planning guidelines of ADEQ, which I understand to be design/planning no later than reaching 80% capacity and construction commencing no later than 90% capacity, combined with a reasonable planning horizon of five years for a wastewater treatment plant, this plant is reasonably considered used and useful in the provision of service to customers and should be included in rate base in this case.

C. PVWRF EQUALIZATION BASIN – POST TEST YEAR

Q. ARE THERE ANY OTHER SIGNIFICANT PROJECTS YOU WOULD LIKE TO DISCUSS?

A. Yes, during the expansion project, we had to drain each of the SBRs to install the floating decanters and aeration systems. This provided us with an opportunity to do a thorough inspection of the SBR tanks for the first time since initial construction in 2002. During one of his inspections, our third party structural engineer noticed some signs of erosion in a connecting "tunnel" between the SBR tank and the equalization basin (EQ Tank). He crawled through that tunnel to further inspect it, and when he reached the opening into the EQ Tank, he noticed that there were visible signs of the concrete ceiling having eroded away, exposing the structural beams to the naked eye. The engineer was able to enter from another location after we lowered the levels of the EQ Tank, and observe more deterioration on the ceiling. However, until all punch list items are competed, the EQ Tank cannot be completely drained and bypassed, allowing the proper, thorough inspection of the EQ Tank that is needed to determine the full extent of the issue. This will be done in March 2013. Once that is done, we will quickly develop the action plan to rehabilitate the ceiling and any structural components that need replacing, and execute that project. We anticipate completing this in the third or fourth quarter of 2013, and are requesting in this application that this project be included as post test year plant. We have used a placeholder cost of $1M for the project in our application in NARUC Account 380 with an associated retirement estimate of $300,000, but until the full extent of the issue is known, a better estimate can't be provided. We will update the parties as the case progresses.

D. OPERATING EXPENSES

Q. HAVE THERE BEEN ANY SIGNIFICANT CHANGES IN OPERATING EXPENSES SINCE THE LAST TEST YEAR?

A. First, property taxes have risen significantly compared with those costs authorized in our last case. Our last case had about $460k included in operating expenses for property taxes, but we incurred $1.2M during the year ended December 31, 2012, an increase of almost $750,000. The property taxes are discussed further in Mr. Krygier's testimony as he proposes an accounting deferral mechanism related to property tax expense going-forward.[8] Second, as discussed earlier in my testimony, LPSCO made significant capital investments and those investments generated during greater depreciation expense than incurred during the Test Year.

Q. WHAT STEPS HAVE BEEN TAKEN TO REDUCE OPERATING COSTS?

A. At Liberty Utilities, we are always conscious of the cost of service we provide to our customers, and we remain constantly aware that our customers will eventually pay for every dollar we incur in operating costs and capital expenditures. As such, we constantly evaluate our operations to see if there are better and/or less expensive ways to do things, without sacrificing quality of service to our customers. Since the last test year, LPSCO made several significant cost savings changes to operations, and I'd like to highlight a couple of those.

First, beginning in mid-2009, LPSCO began injecting low levels of CO2 into the water during the arsenic removal process and installed an in-line PH analyzer, thus allowing us to monitor and adjust the PH levels and thus making our arsenic media more effective. In 2011 we also upsized the bowls on some of our airline wells, increasing pumping capacity at our associated wells. This allowed us more flexibility in utilizing lower cost wells first in delivering water during non-

[8] Direct Testimony of Christopher D. Krygier ("Krygier Dt.") at 16 – 19.

peak periods. These practices allowed the media in the Town Well arsenic treatment facility to be used for a much longer life and reduced the chemical costs for the water utility significantly.

Second, when we replaced the aforementioned pumps, we participated in an APS rebate program that partially paid for these pumps since they were much more efficient than their predecessors. The more efficient pumps reduced our power consumption, which resulted in reduced power costs for the utility when compared with our 2008 authorized costs.

Additionally, we have executed on several other cost savings initiatives, a few of which are briefly mentioned below:

- Expansion of SCADA system, reducing staff hours and overtime;
- Participated in APS Peak Solutions program, receiving a $14k check in 2012 for our ability to reduce power load during certain high-demand times at APS's request; and
- Expanded the operators' roles to include more repair work that previously had been done by outside contractors.

Finally, as I will more fully describe below, we changed our service disconnect program for non-payments. This allowed us to keep bad debt expense as a percent of test year revenues at or below 2008 figures even in a challenging economy, while simultaneously enhancing customer satisfaction, all due to the reduced number of actual disconnects.

IV. COMPLIANCE, CONSERVATION, CUSTOMER SERVICE AND CUSTOMER SATISFACTION

Q. WHAT IS LPSCO'S COMPLIANCE STATUS?

A. To the best of my knowledge, we are in compliance with all ADEQ, ADWR, ADOR, and ACC rules and regulations regarding the provision of water and

wastewater services in the State of Arizona. We take compliance with regulations very seriously and, if ever there is an issue, we will take immediate steps to correct the problem. Liberty Utilities has a strong compliance program led by our Operations staff and reviewed by our Environmental Health and Safety staff. We take our stated Company values of "Care, Quality, Responsibility, Service, Community and Family" very seriously, and regulatory compliance is a key aspect of adherence to those values.

Q. WHAT IS THE LOST AND UNACCOUNTED FOR WATER RATE IN THE LPSCO SYSTEM?

A. For the test year, the water loss rate was 9.2%, which is below the 10% guidance I am familiar with from both ADWR and ACC Staff. While we don't appear to have a water loss "problem," we have a diverse water distribution infrastructure in that many of the mains in the old sections of Litchfield Park are extremely old by Arizona standards, some dating back to the 1920s and 1930s. There are sections of water distribution mains, and sewer collection mains that would benefit from a more structured replacement program as Mr. Krygier will address in his testimony on DSIC/CSIC.[9]

Q. WHAT STEPS HAS THE COMPANY TAKEN TO ADDRESS WATER CONSERVATION SINCE THE LAST RATE CASE?

A. The Company voluntarily committed to 10 ADWR BMP's before the last rate case as well as confirmed that commitment as part of our last rate case. We have complied with both ADWR and ACC requirements regarding those BMPs. Some examples of conservation efforts include the prominent display of conservation brochures and flyers in our customer accessible office, and quarterly

[9] Krygier Dt. at 6 – 15.

conservation based newsletters that are sent to all customers as a bill insert. Customers who receive e-bills are provided a link which directs them to our website in order to view the quarterly conservation newsletter on-line. We also pride ourselves in getting out into the community and meeting with our customers to encourage conservation. Additionally, we offer and promote free landscape audits to our customers where we inspect their timers, landscaping, drop systems, etc. and counsel them on ways to conserve water.

Q. SO THE COMPANY ENGAGES IN COMMUNITY OUTREACH PROGRAMS?

A. Yes, as part of our Company Core Values, we encourage employees to be part of the community in which we serve, and embrace community programs and events that are of interest to them. For example, each year Liberty Water (now Liberty Utilities) sponsors and staffs a water booth at the Litchfield Park/Kiwanis Run, a 1 mile, 5k and 10k race event held each March, where we hand out water to race participants. We also participate in the annual Litchfield Park Splash Bash, the Fall Carnival, and Christmas in the Park celebrations. At the Christmas in the Park celebration, we bring in snow for the local children to play in. At many of the events, we present people with conservation information, and tie it back to the theme by stating that we should conserve water to ensure we always have it in an emergency situation. We do these things not because we have to, but because we believe it provides better overall customer service and satisfaction, and increases the opportunities to gather feedback from our customers about our service and their perceptions. During 2012, in addition to the aforementioned annual events, we held a water conservation workshop, an irrigation workshop, an open house at our wastewater treatment plant, presented to children during their summer break library program, and had a booth at the 25 year anniversary for Litchfield Park.

Finally, community outreach and engaging with our customers is so important we track this as a metric and measure our success against various goals.

Q. HOW DOES THE COMPANY MEASURE CUSTOMER SATISFACTION?

A. We speak with our customers when they call or come into our office, or when our operators have the opportunity to chat with customers while in the field performing their duties, and, as highlighted above, through our involvement in community events. This is our "informal" way of soliciting feedback. We also take a more formalized approach of having a third party (Luth Research of San Diego, CA) conduct an annual customer satisfaction survey each August. This survey randomly selects about 1,000 customers from across our various Liberty utilities, and asks them approximately 22 questions in a 10 to 20 minute phone survey. These results are then analyzed by management, and are turned into an action plan to try to improve areas of need identified by the survey.

This survey was first conducted in August 2009, and each year since. I have attached the section of the 2012 survey related to LPSCO as **Exhibit GS-DT1**. For 2012 the overall satisfaction score was down. We believe that this was very much attributable to the rate increases, including phasing-in of rates and the subsequent/ongoing surcharge our customers experienced in 2011 through mid-2013.

Additionally, we have met each of the past three years with Commission Staff – Consumer Services group, not only to review the survey results, but also share other things we might be doing to provide excellent customer service. During these meetings, we also seek input from Staff as to how they believe we can better improve our service.

Q. CAN YOU PROVIDE AN EXAMPLE OF SOMETHING YOU SHARED WITH STAFF DURING THESE MEETINGS?

A. Certainly. During our 2010 meeting, we mentioned to Staff that we were piloting a program at LPSCO to improve our disconnect process for non-payment of utility service. We explained to Staff that, if successful, this pilot would be rolled-out to our other utilities. Our view was that the worst experience of providing utility service, and being a customer of utility service, was the process of disconnecting utility service for non-payment. This takes a toll on both our employees in the field and the customer service offices, and has a significant impact on the customer whose service is being terminated. So, we decided there must be a better way and set out to improve the process and minimize the number of shutoffs that have to occur.

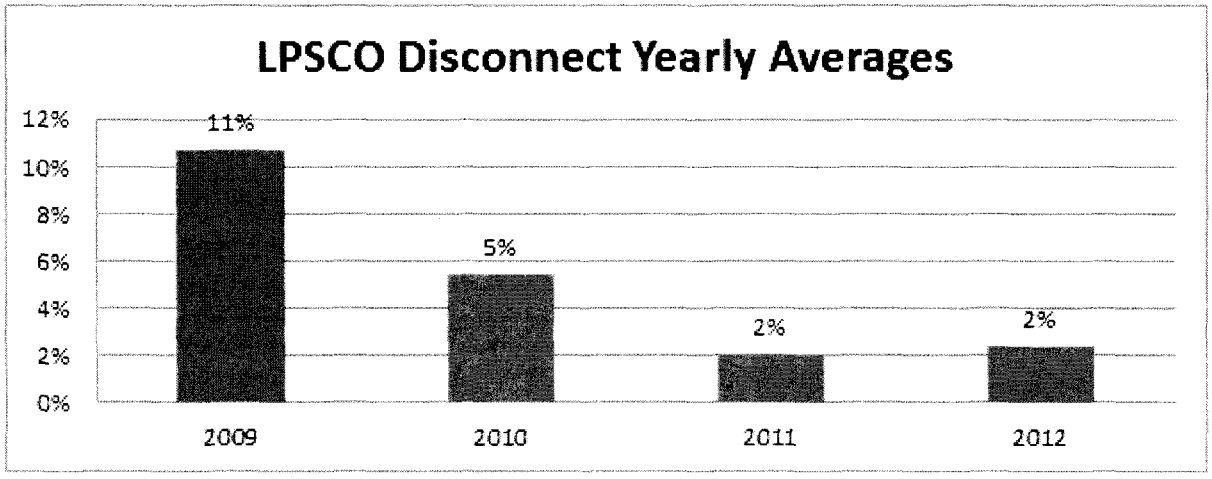
Our course of action was a simple one. We decided that, approximately five days after sending the required disconnect communication to our customers, we would personally call those customers who had not yet responded, as a courtesy, to explain the situation and their options. Also, for those customers we were unable to reach by telephone and resolve the non-payment matter, approximately two days before disconnect we placed door tags at their home as another way of reminding them payment was due and requesting that they contact our customer service representatives prior to the scheduled disconnect date.

Q. WAS THIS SUCCESSFUL?

A. Much more than we ever hoped. Before implementing the test process at LPSCO, we had some concerns about how customers would view our attempts and ultimately whether such simple gestures would really have a significant impact. We weren't sure if they'd view our reminder calls to them as "harassing" collection calls, or as they were intended – a courtesy call to avoid the disconnect from

occurring. Because of concerns such as this, our CSRs were instructed to be very courteous and accommodating in speaking with customers. I believe that because we took this type of approach, the pilot at LPSCO, and ultimately the rollout at our other utilities, was very successful.

Prior to this program commencing in March 2010, the 2009 average percent of disconnect notices that resulted in an actual service disconnection was 11%. After making a few fairly simple, courteous changes to our process, that figure has dropped to right around 2% during the 2012 test year.



Q. WHAT IS YOUR ASSESSMENT OF THESE RESULTS?

A. I find those to be amazing results, and I believe our customers appreciate the courteous, cooperative approach. Nobody wants their water shut off, so we work with customers to minimize the chances of that happening to them. I know that informally our CSRs have received many "thank you" comments and calls for the approach we have taken, and that helps LPSCO to avoid unnecessary negative interactions with our customers.

Finally, if a customer expresses that they are having difficulty in making payments, our CSRs are empowered to establish a work-out plan to catch them up,

and the customer is also made aware of our Low Income Tariff whereby they can receive reduced rates if eligible for the program. The great news is that not only do we provide our customers with improved and kinder service, but in the long run, this approach will reduce bad debt expense in our operating costs, and reduce the overtime our Operators incur as a result of disconnecting and then reconnecting services for non-payment issues.

Q. HOW MANY COMPLAINTS HAS THE COMMISSION RECEIVED FROM LPSCO CUSTOMERS SINCE THE LAST TEST YEAR?

A. We checked with Commission Staff, and during 2009 and 2010, when our last rate case was being prosecuted, we had seven and two complaints, respectively. During 2011 and 2012, we had four and zero complaints, respectively. I believe our Customer Service personnel, as well as the Company as a whole, do a great job of working with our customers, and we strive to maintain a positive working relationship with the Consumer Services department of Commission Staff as well, and appreciate their support in ensuring that our customers are provided excellent service.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

GREG SORENSEN
DIRECT TESTIMONY

FEBRUARY 28, 2013

EXHIBIT GS – DT1

LUTH research

Business Manager: Matthew Garlick

CENTRAL ARIZONA (LPSCO)

Matthew Garlick – Central AZ

LUTH research

OVERALL SERVICES AND COMPANY

Matthew Garlick – Central AZ

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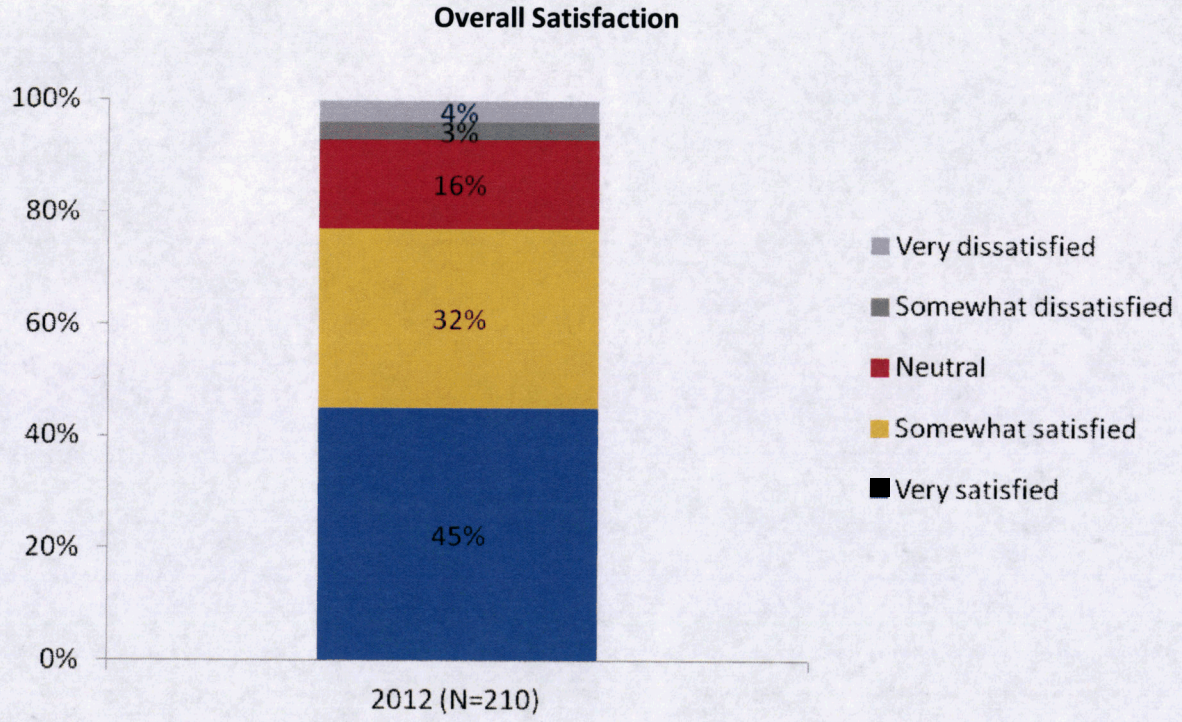
Company Evaluation – Overall Satisfaction with Services

Nearly half (45%) of the Central Arizona consumers were *Very satisfied* with the services they received. An additional 32% indicated that they were *Somewhat satisfied*.

Those who have lived in the area for less than 5 years gave a significantly higher top two box satisfaction score (85% *Very/somewhat satisfied*).



NOTE: New question for 2012, tracking data unavailable.

Q1. On a scale of 1 to 5, where 1 means "very dissatisfied" and 5 means "very satisfied", how satisfied are you with the services you are receiving from Liberty Utilities?

Matthew Garlick – Central AZ

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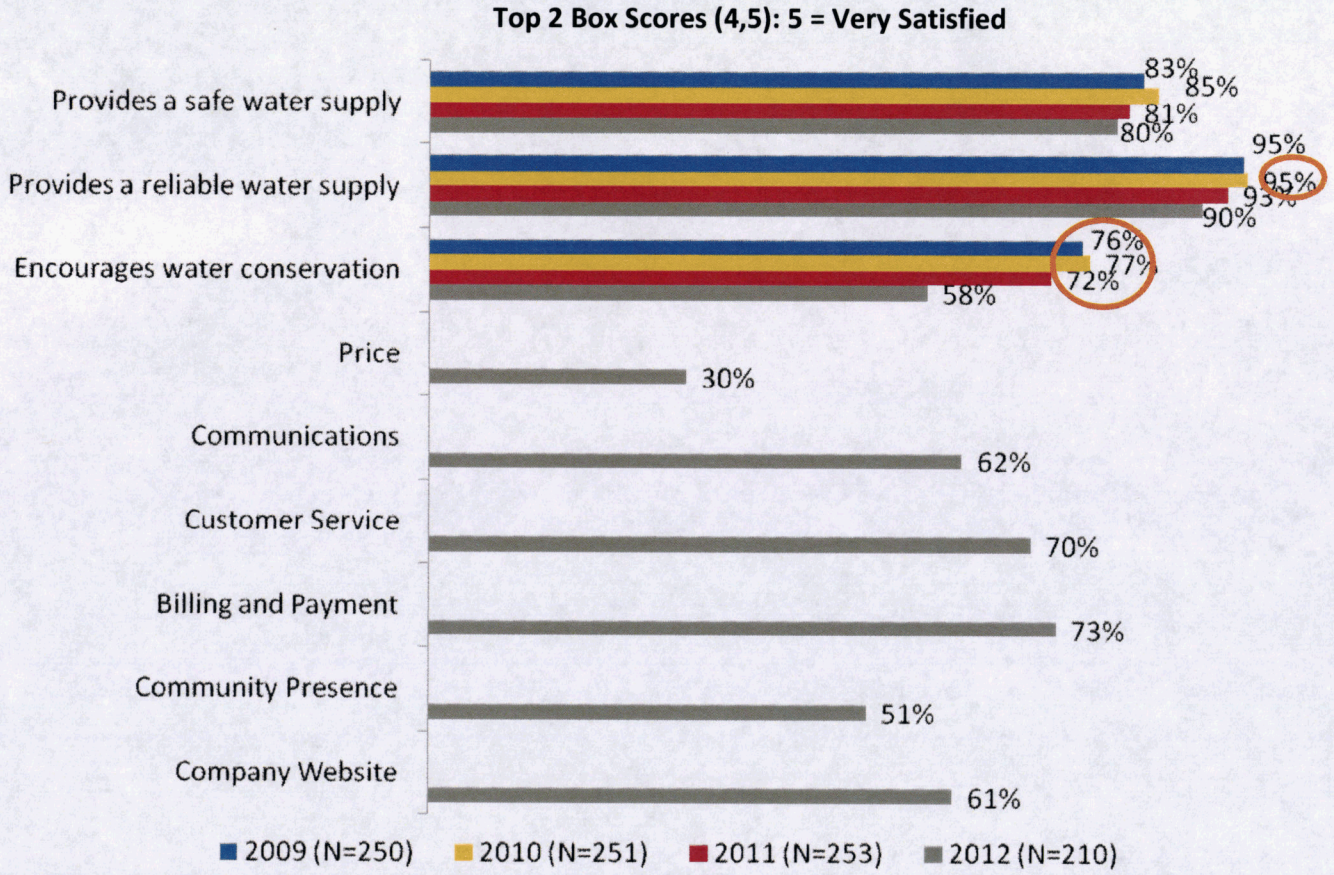
Company Evaluation – Satisfaction

Respondents agreed that their water service facility *Provides a reliable water supply* (90%, top 2 box agree/strongly agree). However, this continued a downward trend and was significantly lower than the 2010 score. More than three-fourths (80%) felt Liberty Utilities *Provides a safe water supply*.

Areas of concern, meaning those factors with the lowest satisfaction scores, were *Price* at 30% and *Community Presence* at 51%.



NOTE: 2012 survey offered 'NA' as a response option, a change from previous years. N/A was not included in the tables.
NOTE: Orange circled data indicates significant increases compared to other year(s).
Q2. Please rate Liberty Utilities in the following areas by using a 5-point scale with 5 being "Very Satisfied" and 1 being "Very Dissatisfied".

Matthew Garlick – Central AZ

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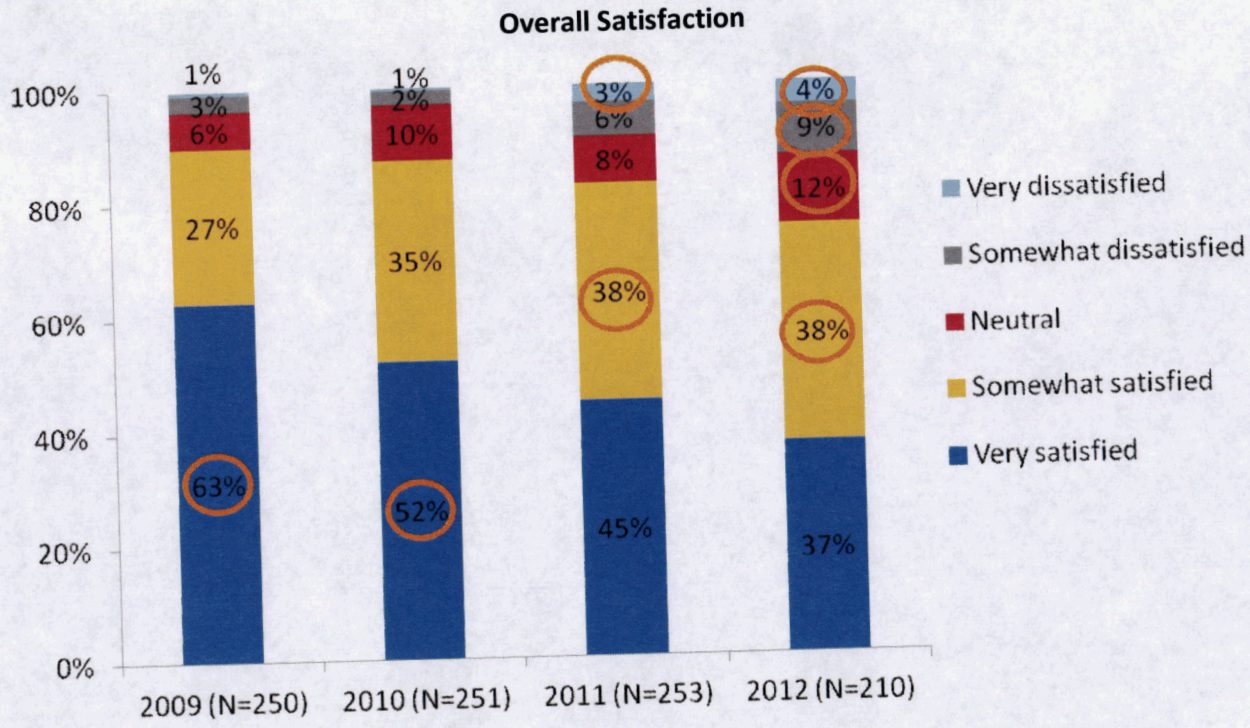
Company Evaluation – Overall Satisfaction

Satisfaction with Liberty Utilities overall was positive with 74% of respondents stating they were *Somewhat/Very satisfied*. However, this was down significantly from 2011 (83%), continuing a negative trend since 2009.

Five year or less residents reported a significantly higher satisfaction score (82%).



NOTE: Orange circled data indicates significant increases compared to other year(s).

Q3. Overall, how satisfied are you with Liberty Utilities?

Matthew Garlick – Central AZ

Company Evaluation – Overall Satisfaction

Those *Somewhat/Very satisfied* with the provider were so because they have *Never had a complaint* (32%) and *Reliable/Receive services paid for* (8%). However, 26% of satisfied respondents stated that they felt the *Cost is too high*. While no significant changes were found from 2011 to 2012, *Reliable/Receive services paid for* and *Service is satisfactory/good/excellent* remain significantly under their levels from 2009.

Not surprisingly, *Cost is too high* (89%) was the main reason why respondents were dissatisfied (*Not satisfied at all/Somewhat dissatisfied*).

Suggestions for Improvements – 2012	2009 Total	2010 Total	2011 Total	2012 Total	Difference from 2011
Why Satisfied	N=225	N=219	N=209	N=156	
Never had a problem/complaint	33%	39%	39%	32%	-7%
Cost is too high/rate increases	6%	14%	18%	26%	7%
Reliable/Receive services paid for/No service interruptions	20%	6%	6%	8%	2%
Service is satisfactory/good/excellent	14%	7%	8%	6%	-2%
Good/friendly/courteous customer service	5%	10%	4%	6%	2%
No problems with billings/payments	2%	0%	2%	5%	3%
Prompt, considerate repair service	4%	2%	2%	5%	3%
Why Not Satisfied	N=9*	N=8*	N=23*	N=28*	
Cost is too high/rate increases	0%	38%	83%	89%	7%
Poor/unfriendly/uncaring customer service	44%	13%	0%	11%	11%
Water is cloudy/contaminated/poor quality/hard	0%	13%	17%	7%	-10%
Billing is confusing/unclear/uninformative	0%	13%	0%	7%	7%
Poor community relations/communication/public relations	0%	0%	0%	4%	4%
Good/friendly/courteous customer service	0%	0%	0%	4%	4%

NOTE: Data in grey shaded cells are significantly higher than 2012.

**Small sample size*

Q3B. Being as specific as possible, why did you say you are [INSERT FROM Q3] with Liberty Utilities?

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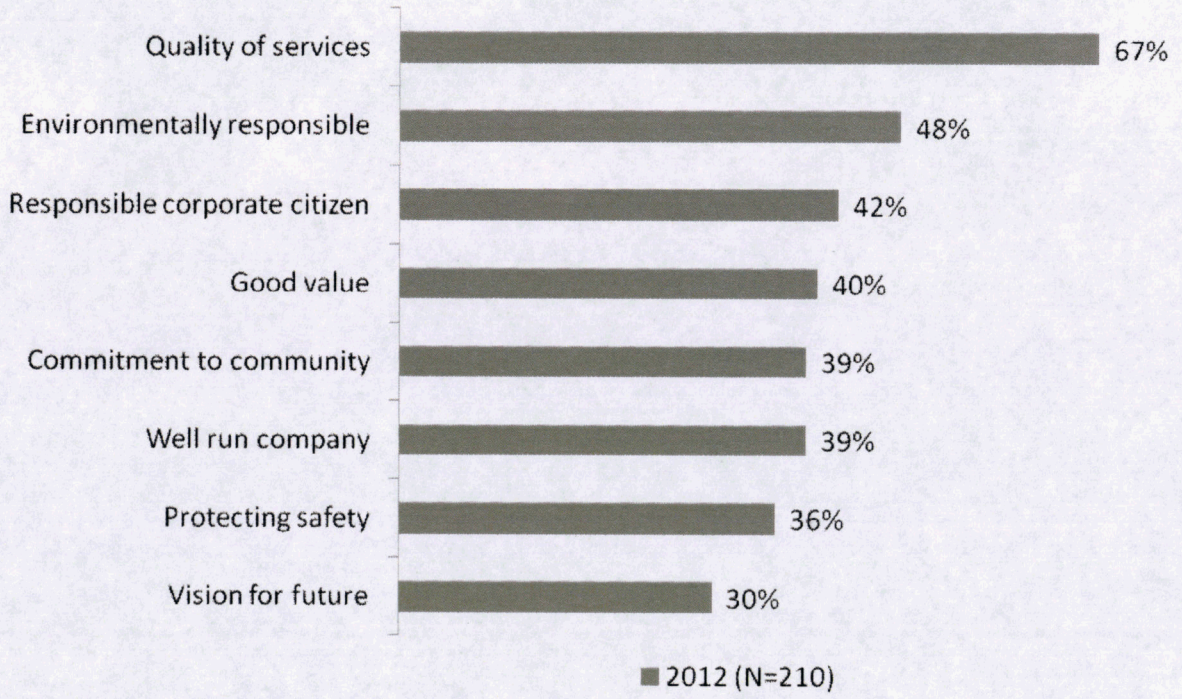
Company Evaluation – Key Indicators

Two thirds (67%) of Central Arizona customers felt positively about the *Quality of services* Liberty Utilities is providing.

Respondent scores indicated that Liberty Utilities should look to improve many aspects of their services, especially in terms of *Vision of future* (30%) and *Protecting safety* (36%).

Top 2 Box Scores (4,5): 5 = Excellent



NOTE: New question for 2012, tracking data unavailable.

Q5A1-8. Based on a scale from 1 to 5 where 1 is "Poor" and 5 is "Excellent", please rate how good a job Liberty Utilities does on each of the following items:

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CUSTOMER SERVICE

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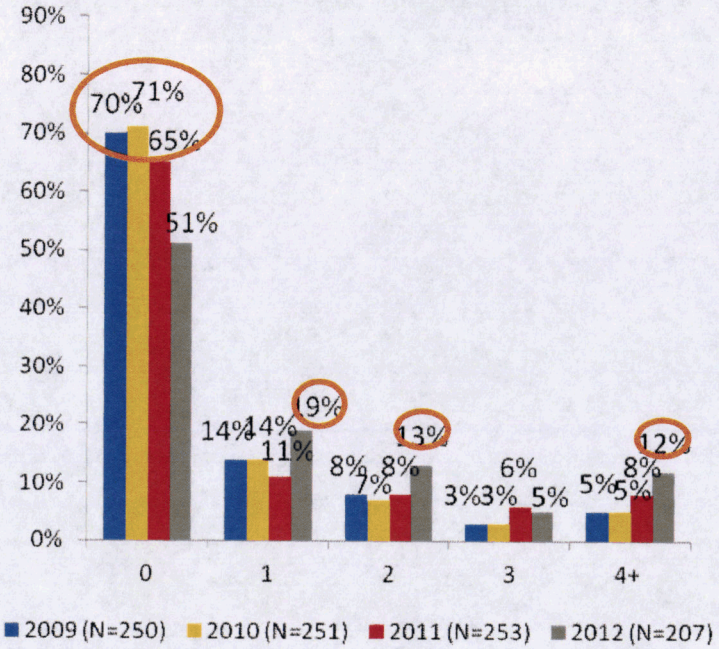
Customer Service – Calls & Visits

Nearly half of respondents (49%) indicated they had called the business office at least once while, which was significantly higher than past years. In terms of visiting the office, only 21% indicated that they had done so at least once.

Among those who had contact, either by phone and/or office visit, the mean number of interactions did not change significantly from 2011 (2.19 calls in 2012 vs. 2.41; 2.28 office visits in 2012 vs. 1.83).

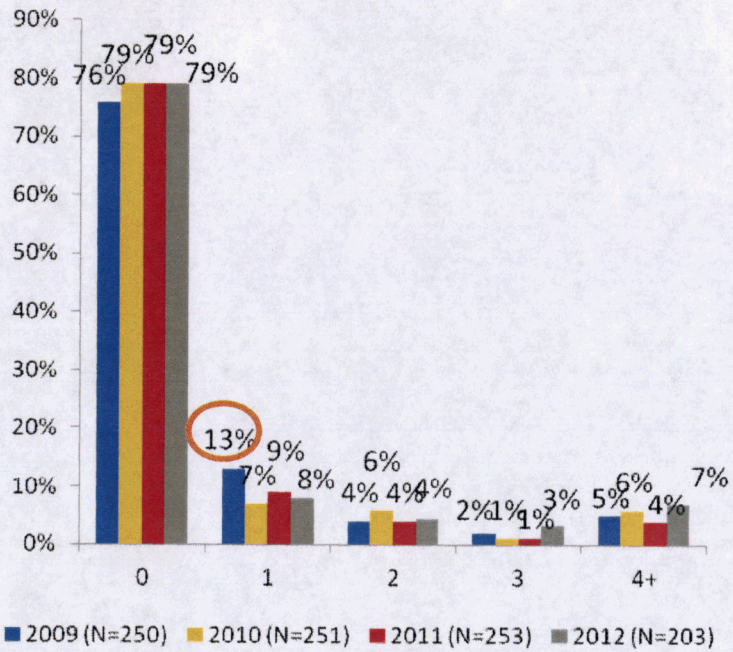
Times Called Business Office

Among Those Who Have Called Within Last Year	2009	2010	2011	2012
	1.97	2.03	2.41	2.19



Times Visited Business Office

Among Those Who Have Visited Within Last Year	2009	2010	2011	2012
	1.79	1.93	1.83	2.28



NOTE: Orange circled data indicates significant increases compared to other year(s).

Q6. To the best of your recollection, how many times have you called *or visited an office of* Liberty Utilities within the last year?

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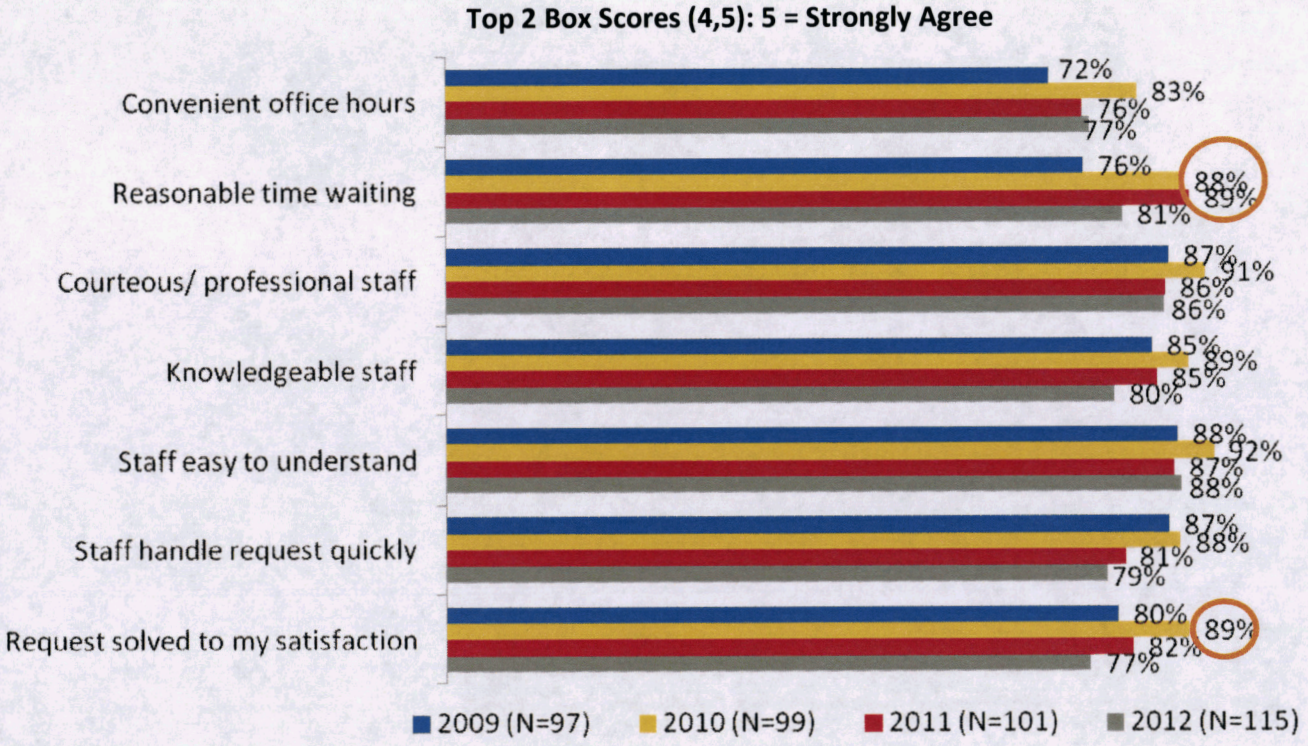
Customer Service – Satisfaction

Among those customers who reported they had contact with customer service in the last year, satisfaction was strong (77%+ top two box scores) and typically on par with 2011 scores. However, the score for *Reasonable time waiting* had fallen significantly in the past year.



NOTE: Orange circled data indicates significant increases compared to other year(s).

Q7a-g. Using a 5-point scale where 5 is Strongly Agree and 1 is Strongly Disagree, please tell me how much you agree or disagree with each of the following statements about Liberty Utilities customer service. If you have called *or visited an office* more than once within the last year, please think only about your last contact with Liberty Utilities.

Matthew Garlick – Central AZ

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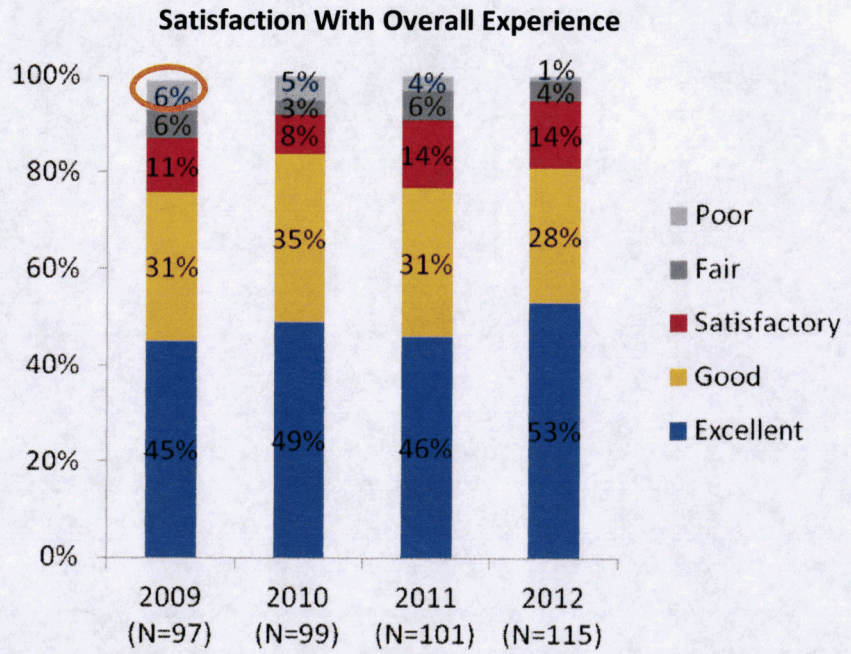
Customer Services – Overall Experience

Most respondents (81%) rated the overall customer service experience as *Good/Excellent*.



NOTE: Orange circled data indicates significant increases compared to other year(s).

Q8. Overall, how would you rate your experience with the customer service you received? If you have called or visited the office more than once in the last year, please think only about your last contact with Liberty Utilities.

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CUSTOMER BILLING

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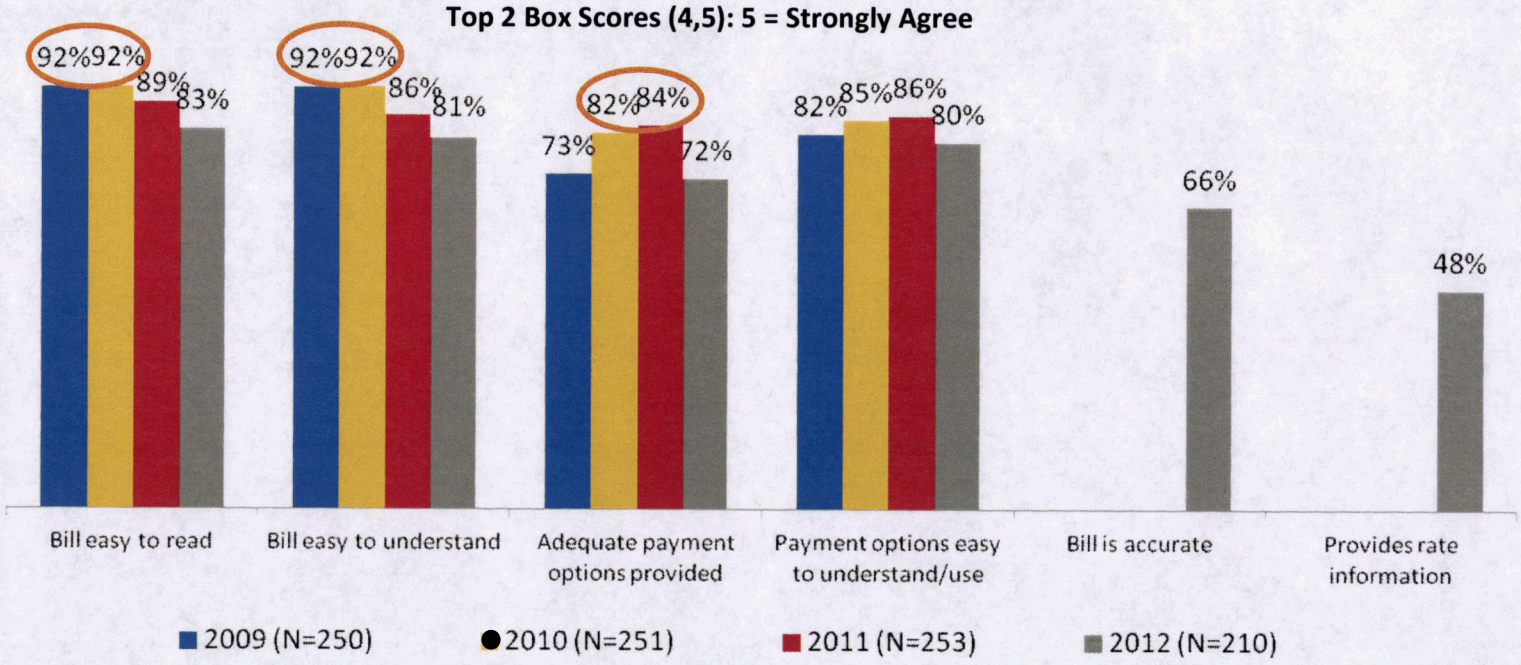
Customer Billing – Satisfaction

Despite slightly lower scores as compared to 2011, customer satisfaction with billing remained relatively strong for *Bill easy to read* (83%) and *Bill easy to understand* (81%). However, satisfaction with *Adequate payment options* (72%) fell significantly.

Less than half (48%) were satisfied with *Provides rate information*.



NOTE: New phrases for 2012, tracking data unavailable.

NOTE: Orange circled data indicates significant increases compared to other year(s).

Q9A-F. Using a 5-point scale where 5 is Strongly Agree and 1 is Strongly Disagree, please tell me how much you agree or disagree with each of the following statements.

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WATER SERVICE METRICS

Matthew Garlick – Central AZ

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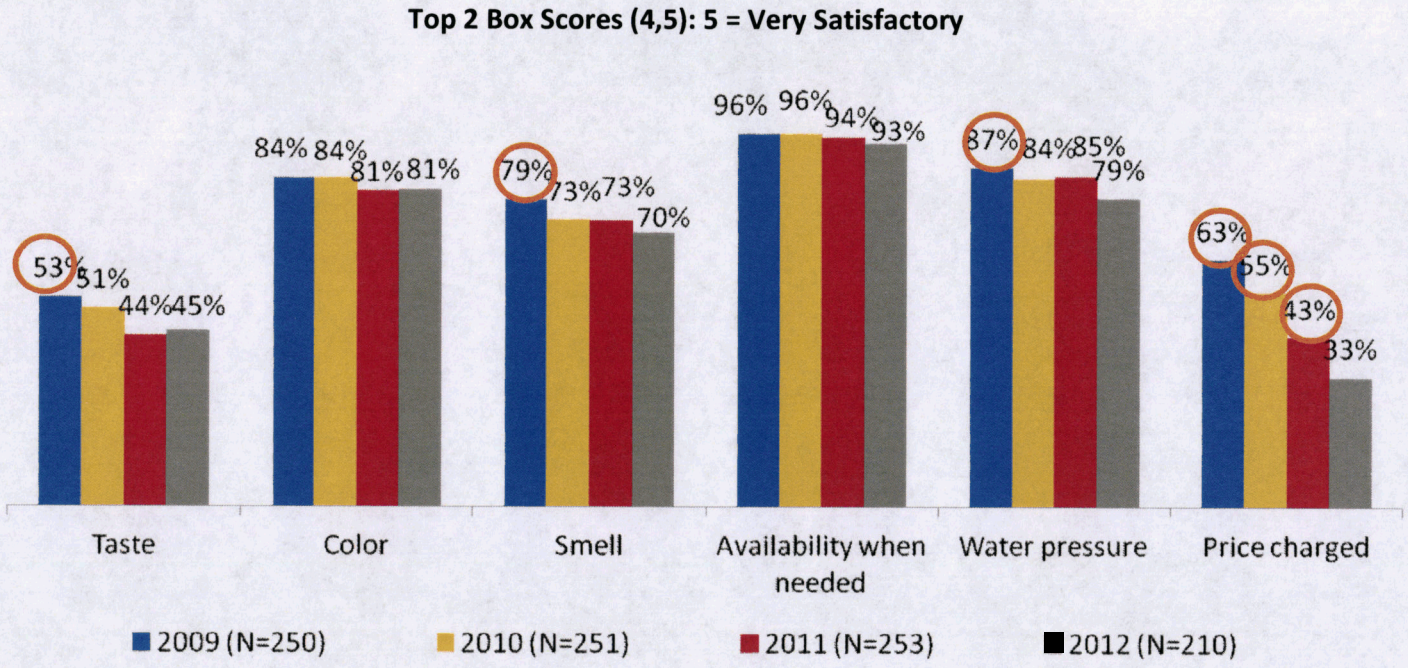
Water Services – Satisfaction

Respondents continued to be most satisfied with the water *Availability when needed*, with 93% giving it a 4 or 5 (where 5 = Very satisfactory). Other highly rated aspects of water service were *Color* (81%) and *Water pressure* (79%).

Results for *Taste, Smell, Water pressure,* and *Price charged* all continued downward trends and were significantly lower than their 2009 scores. *Price charged* (33%) was especially low, down significantly from 2011.



NOTE: Orange circled data indicates significant increases compared to other year(s).

QSOUTH01. Please rate your water services in the following areas by using a 5-point scale with 5 being "Very Satisfactory" and 1 being "Not Satisfactory At All".

Matthew Garlick – Central AZ

LUTH research

Intelligence from knowledge.™

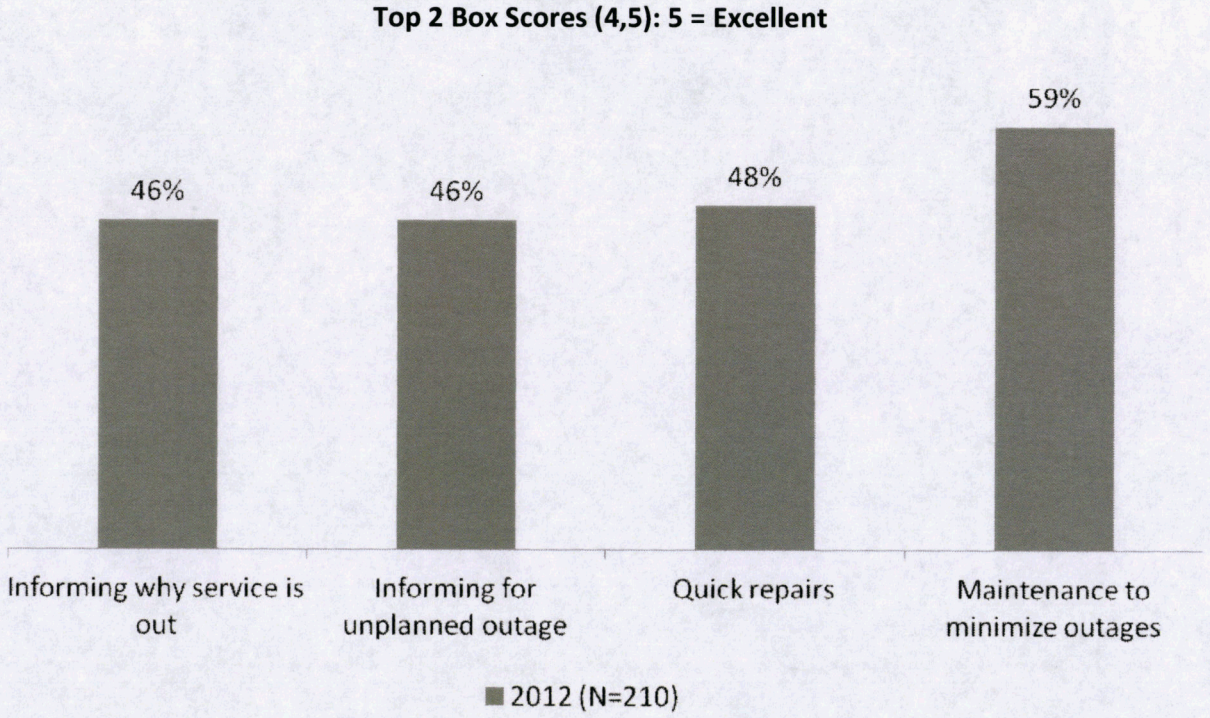
SERVICE OUTAGE

Matthew Garlick – Central AZ

LUTH research
intelligence from knowledge.™

Water Services – Service Outage

While more than half (59%) were satisfied with *Maintenance to minimize outages*, far fewer were satisfied with *Informing why service is out* (46%), *Informing for unplanned outage* (46%), and *Quick repairs* (48%).



NOTE: New question for 2012, tracking data unavailable.

Q10. Thinking about all of your experiences with Liberty Utilities, please rate how good a job they do on each of these items on a scale from 1 to 5, where 1 is "Poor" and 5 is "Excellent".

Matthew Garlick – Central AZ

LUTH research
Intelligence from knowledge.™

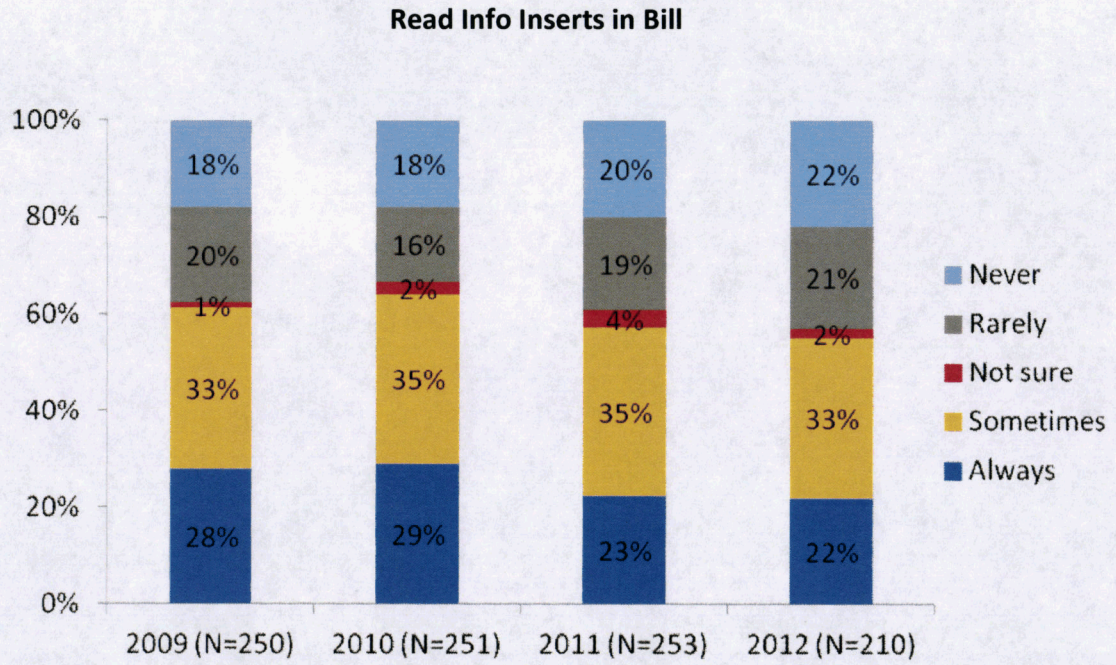
COMMUNICATION

Matthew Garlick – Central AZ

LUTH research
Intelligence from knowledge.™

Customer Billing – Information/Services

Half of respondents (55%) stated they read the information inserts in their bill *Sometimes* or *Always*. A slight downward trend from 2010 can be seen.



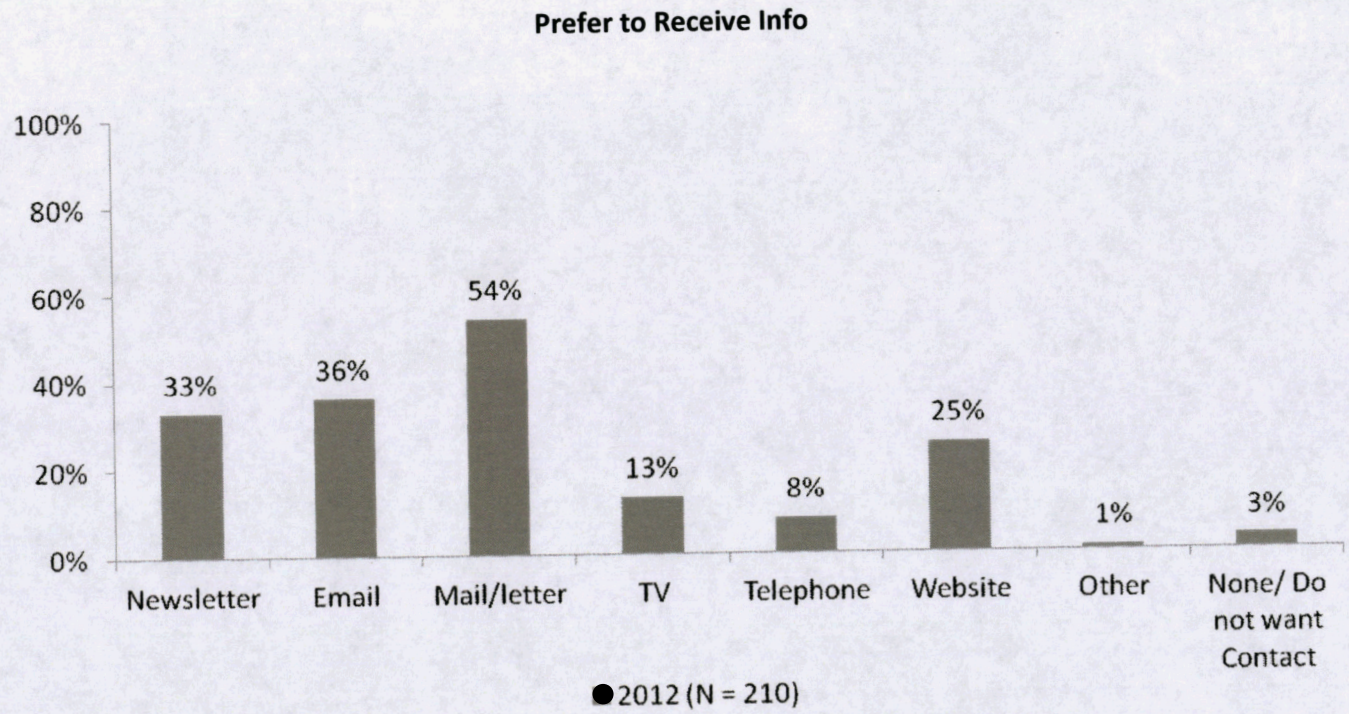
Q11. How often do you read the informational inserts included in your bill?

Matthew Garlick – Central AZ

Customer Billing – Information/Services

Central Arizona respondents would prefer to receive information from Liberty Utilities via *Mail/letter* (54%), *Email* (36%), and *Newsletter* (33%).

While *Mail/letter* was preferred more *by 6+ year residents* (63%), *Email* was cited more by Hispanics (75%), 18-44 years (48%), 45-64 years (39%), and resident 5 years or less (44%).



NOTE: New question for 2012, tracking data unavailable.

Q12. How would you like to receive information from Liberty Utilities? Please select all that apply.

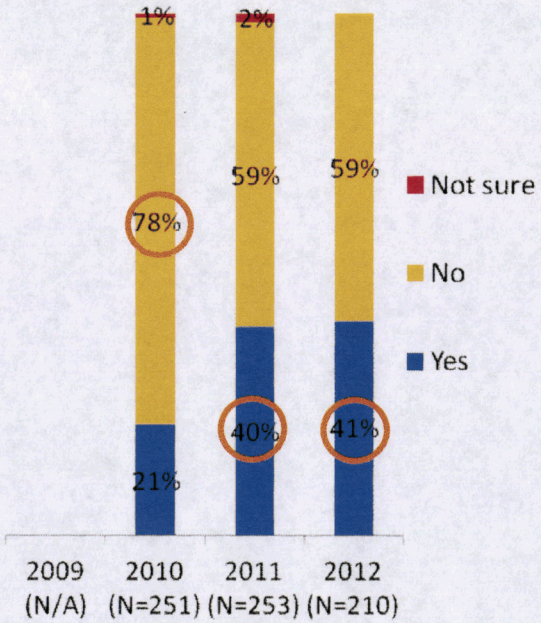
Matthew Garlick – Central AZ

Website – Online Services

More than a third of respondents (41%) in Central Arizona indicated they had accessed the website. Website visitation levels were significantly higher for 18-44 years (63%), 45-64 years (40%), and resident 5 years or less (51%).

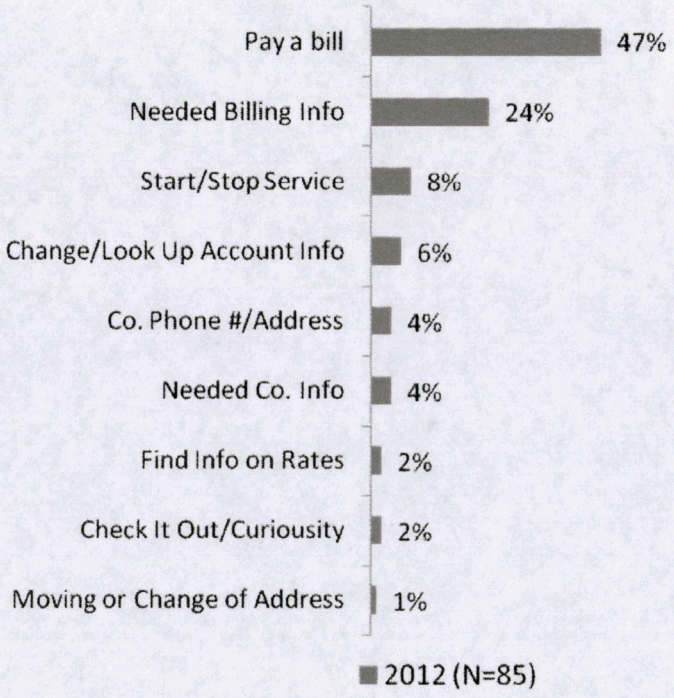
The website was visited primarily to *Pay a bill* (47%), followed distantly by *Needed billing info* (24%).

Accessed Website



NOTE: Orange circled data indicates significant increases compared to other year(s).

Why Visit Website



NOTE: New question for 2012, tracking data unavailable.

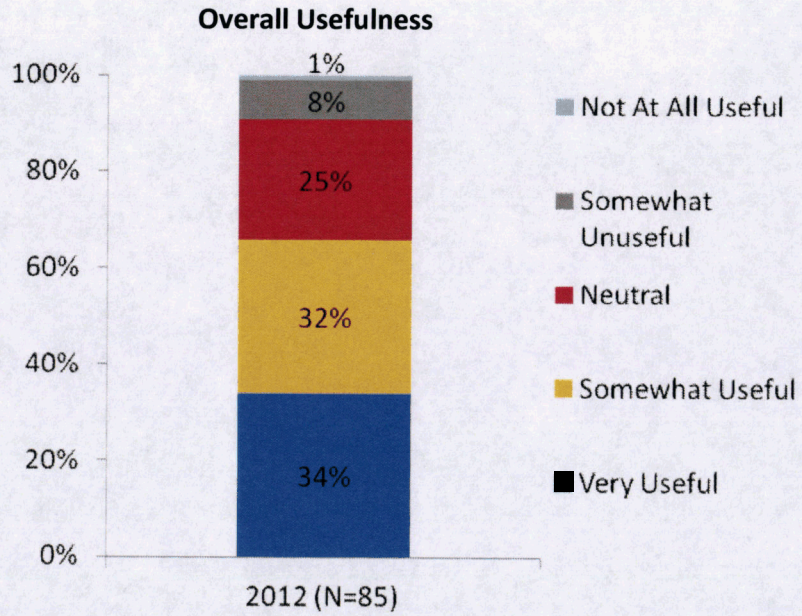
Q13. Have you visited the Liberty Utilities website within the past year?
Q14. For what reasons did you visit the website?

Matthew Garlick – Central AZ

LUTH research
Intelligence from knowledge.™

Website – Overall Usefulness

Two-thirds (66%) of Central Arizona respondents indicated that the website was *Somewhat/Very useful*. There were no significant differences by sub-group.



NOTE: New question for 2012, tracking data unavailable.

Q15. Please rate the usefulness of Liberty Utilities website using a scale from 1 to 5, where 1 is "not at all useful" and 5 is "very useful".

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-01427A-13-_____
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-01428A-13-_____

DIRECT TESTIMONY OF CHRISTOPHER D. KRYGIER

February 28, 2013

EXHIBIT
A-2
ADMITTED

Table of Contents

I. INTRODUCTION AND PURPOSE OF TESTIMONY 1

II. RATE GRADUALISM 4

III. LIBERTY'S POLICY PROPOSALS 6

A. PROPOSAL NUMBER 1 - DSIC AND CSIC 6

B. PROPOSAL NUMBER 2 - PROPERTY TAX ACCOUNTING DEFERRAL 16

C. POLICY PROPOSAL NUMBER 3 - PURCHASED POWER PASS THROUGH ADJUSTMENT MECHANISM ("PPAM") 19

D. PROPOSAL NUMBER 4 – BALANCED RATE DESIGN 22

IV. TARIFF LANGUAGE CLEAN-UP 24

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I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Christopher D. Krygier, and my business address is 12725 W. Indian School Road, Suite D101, Avondale, AZ 85392.

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

A. On behalf of applicant Litchfield Park Service Company, which is generally known as "LPSCO".

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

A. I am employed by Liberty Utilities, which is the parent company for LPSCO, as the Utility Rates and Regulatory Manager. To keep things simple, I will refer to the two entities as Liberty and LPSCO in my testimony.

Q. WHAT ARE YOUR PRINCIPAL RESPONSIBILITIES AS THE UTILITY RATES AND REGULATORY MANAGER?

A. I am responsible for the water and wastewater rate cases and public utility regulation for Liberty's utility holdings in Arizona, Texas, Arkansas and Missouri.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.

A. Before working for Liberty, I was employed by American Water Works, Inc. for approximately six years in a variety of capacities. Generally though, while at American Water, I worked in Financial Planning and Analysis, Rates, Regulatory Compliance and Capital Programs.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. In 2006, I completed my Bachelor of Science in Economics from the W.P. Carey School of Business at Arizona State University. In 2010, I completed my Master of Business Administration with an emphasis in Finance also from ASU.

I also possess several utility related certifications. First, I am a Certified Rate of Return Analyst as designated by the Society of Utility and Regulatory

Financial Analysts. Second, I am a Level 1 Water Treatment Operator as designated by the Arizona Department of Environmental Quality. Third, I am designated a Level 1 Water Distribution Operator by the Arizona Department of Environmental Quality. I also attended the NARUC Water Utility Rate School in 2008 and Center for Public Utilities Rate School in 2012.

Lastly, I am a Certified Management Accountant as designated by the Institute of Management Accountants ("IMA"). The IMA's mission is to provide a forum for research, practice development, education, knowledge sharing, and the advocacy of the highest ethical and best business practices in management accounting and finance.

Q. HAVE YOU TESTIFIED BEFORE THIS OR ANY OTHER PUC?

A. Yes, my written testimony has been filed in Rio Rico Utilities Inc.'s rate case, Docket No. WS-02676A-12-0196, which is now pending before the Arizona Corporation Commission ("ACC" or "Commission"). I also provided written testimony in Docket No. 2010-0313 before the Hawaii Public Utilities Commission on behalf of my previous employer.

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

A. The primary purpose of my testimony is to introduce and discuss four separate proposals that Liberty requests approval of in this LPSCO rate case:

- A Distribution System Improvement Charge ("DSIC") and a Collection System Improvement Charge ("CSIC");
- a Purchased Power Adjustor Mechanism ("PPAM");
- a Property Tax Accounting Deferral; and
- a Balanced Rate Design.

Q. DO THESE PROPOSALS SHARE A COMMON THEME OR GOAL?

A. Yes, absolutely – rate gradualism.

Q. WHAT DO YOU MEAN BY "RATE GRADUALISM", MR. KRYGIER?

A. Rate gradualism is a goal of ratemaking. Rate gradualism focuses on the importance of price stability and minimization of unanticipated, dramatic changes in rates, the latter generally known as "rate shock". Rate gradualism is premised on the notion that customers will benefit from small incremental increases in utility rates by avoiding and minimizing the impacts and economic consequences of periodic but unpredictable large increases in those rates. I will discuss this in more detail in the next section of my testimony before I discuss each of the specific proposals.

Q. HOW DO THE FOUR PROPOSALS YOU ARE MAKING IN THIS CASE HELP PROMOTE RATE GRADUALISM?

A. Approval of the requested ratemaking treatment will result in reasonable rates and a fair opportunity for LPSCO to achieve its authorized rate of return during the period the rates approved in this case will be in effect. Given a fair opportunity to earn our authorized return, customers benefit because we remain financially healthy and incented to invest, yet we should not have to rush in seeking large increases in LPSCO's costs for utility service. I will discuss these benefits in more detail in my discussion of each of the four proposals.

Q. WILL YOU BE ADDRESSING ANY OTHER AREAS?

A. Yes, I will also support LPSCO's request to make minor language modifications to its current water and wastewater tariffs.

II. RATE GRADUALISM

Q. WHERE DID THE IDEA OF RATE GRADUALISM ORIGINATE?

A. It seems to me to be the logical extension of the teachings of James C. Bonbright. Professor Bonbright wrote in "Principles of Public Utility Rates":

> By and large, the task of ratemaking or rate regulation is that of adapting utility rates to a larger economic environment, including a universe of non-utility prices and wages.[1]

In their everyday lives, customers do not generally see large increases in their income (whether from work or from retirement plans, Social Security, etc.) Rather, they see small, incremental changes in their income. The kind of rate gradualism underlying Professor Bonbright's teachings matches utility rate changes to that larger economic reality. In other words, rate gradualism helps customers by allowing them to match gradual increases in water or sewer rates to expected gradual increases in prices and wages. That customers would prefer rate gradualism is not surprising.

Q. DO YOU HAVE ANY EVIDENCE TO SHOW THE PREFERENCE OF CUSTOMERS?

A. A 2012 poll showed that over 89 percent of respondents indicated they prefer smaller, more frequent rate increases instead of larger, less frequent increases.[2] As a simple example, rate gradualism would advocate for annual increases of two percent per year, versus a single rate increase at the end of the second year of six percent. The Commission can also take notice of the fact that it has heard the same thing at countless public meetings where customers state that they are better able to

---

[1] Principles of Public Utility Rates, James C. Bonbright, Columbia University Press (1961), Part One: "Basic Standards of Reasonable Rates," Chapter II: "The Public Interest as the Assumed Goal of Rate Making," Section: "Public-Interest or Social-Welfare Criteria of Reasonable Rates," Paragraph 6, Page 29 of the 1961 edition.

[2] "Poll Results: 9 out of 10 Arizonans Support Shift in Utility Rate Hike Approach", October 3, 2012, copy attached hereto as **Exhibit CDK-DT1**.

adjust to smaller changes in their household budget. Ensuring that utility bills gradually change over time provides customers with the ability to adjust to the bills. This was certainly the message that the Commission sent Liberty in the last LPSCO rate case.

Q. WHAT HAPPENED IN THE LAST RATE CASE?

A. The Commission was very critical of LPSCO for having put too much plant in while staying out too long between rate cases, creating the need for a large increase. In fact, the Commission penalized LPSCO for it by reducing its return on equity at LPSCO's prior rate case: "[o]ur determination of LPSCO's authorized return on equity in this case reflects our concern with the overall magnitude of the requested increase, which is primarily due to the Company's unilateral decision to delay filing a rate application for approximately eight years..."[3]

Q. IS THAT WHY LIBERTY IS NOW ESPOUSING "RATE GRADUALISM"?

A. Not entirely. After Liberty's prior LPSCO rate case, Liberty received significant feedback from customers regarding the rate case process. The overwhelming feedback from customers was that they prefer small, more frequent rate increases rather than large, unpredictable rate increases. This, coupled with the reduced ROE, was certainly a clear reminder that rate gradualism is one of the many factors that should be considered when setting rates for a water or wastewater utility. Under these circumstances and for the reasons stated in my testimony, Liberty supports rate gradualism and the regulatory tools that promote such policy objectives. Liberty views the DSIC mechanism and other proposals set forth in my testimony as critical steps in achieving gradual changes in the Arizona regulated

[3] Decision No. 72026 (December 10, 2010) at 61:10-12.

water/wastewater utility sector that would provide a mutual benefit to utilities, customers, and the Commission.

Q. ANY OTHER REASONS LPSCO IS CONCERNED ABOUT RATE GRADUALISM?

A. Yes. Customer care is a critical component of LPSCO and its parent company's business philosophy. Customers are the central focus of all business operations. Customer care is so important that several of our performance metrics for business success are defined by how Liberty works with customers, such as how quickly our customer service representatives answer phone calls and how many community events we are hosting. Good customer care should try to foresee and eliminate the potential for future rate shock on customers. However, that said, we can only do so much without the regulators. We can only present proposals that foster rate gradualism. It is up to the Commission to approve them.

Q. BESIDES RATE GRADUALISM, WHAT OTHER BENEFITS DO CUSTOMERS DERIVE FROM LPSCO'S POLICY PROPOSALS?

A. LPSCO's customers experience other benefits from the Company's policy proposals. As an example, continuing to replace infrastructure to ensure system reliability is a customer benefit. Additionally, ensuring that water continues to meet or exceed all state and federal mandates is important as customers want to feel confident that water and wastewater services are safe.

III. LIBERTY'S POLICY PROPOSALS

A. Proposal Number 1 - DSIC AND CSIC

Q. IS LPSCO SEEKING APPROVAL OF A DSIC AND A CSIC?

A. Yes. The Distribution System Improvement Charge or DSIC is a surcharge mechanism that promotes rate gradualism by encouraging utilities to replace water infrastructure. DSICs and Collection System Improvement Charge, or CSIC, the

wastewater version, originated in Pennsylvania where aged infrastructure led to increasing operational challenges that impacted system reliability. In turn, the large capital investments needed to repair and replace this aging infrastructure drove more frequent rate cases with larger rate increase requests.

Q. EXCUSE ME MR. KRYGIER, BUT BEFORE WE GO ANY FURTHER, CAN YOU PROVIDE A LAYMAN'S DESCRIPTION OF ONE OF THESE SYSTEM IMPROVEMENT CHARGES?

A. Certainly. In simple terms, under this surcharge mechanism, a return on investment in new plant that occurs between rates cases will be provided through a separate charge on the customer's bill. Now, before that return will be realized, there will be a review process by parties to the case to make sure that the new plant is complete and in service and to verify the cost of the plant. Additionally, only certain types of plant (identified by specific NARUC account) qualify for recovery. Finally, the additional revenue the Company can realize through this charge is capped.

Q. THANK YOU. SO A DSIC IS HOW THE PENNSYLVANIA COMMISSION RESPONDED TO THE PROBLEM OF MORE FREQUENT RATE CASES SEEKING LARGE INCREASES?

A. Yes, by approving a DSIC mechanism that balanced the needs and interests of customers and utility companies.[4] In referring to a DSIC surcharge mechanism, the Chairman of Pennsylvania's PUC testified that "[t]hese surcharges ensure the least possible rate impact on customers by spreading out over time the cost of replacing and enhancing Pennsylvania's utility infrastructure."[5]

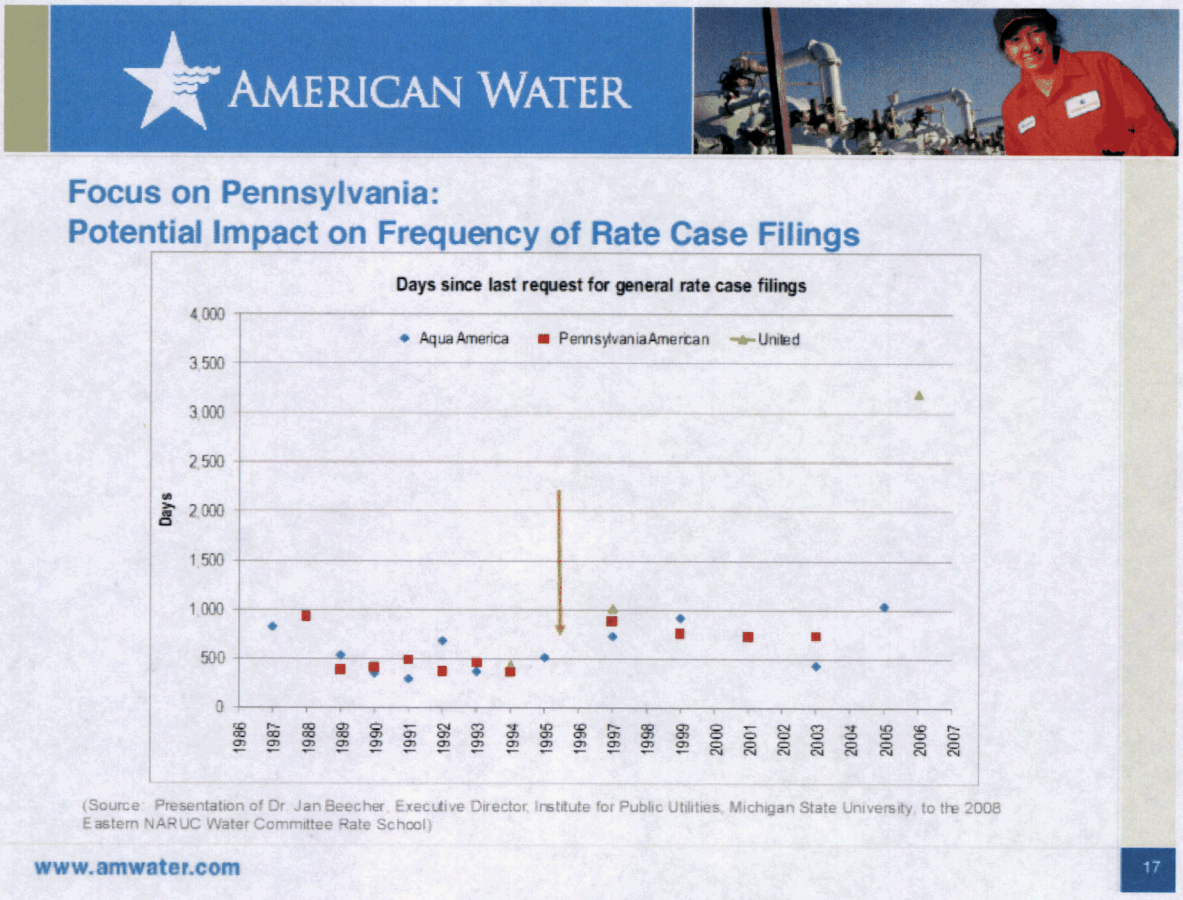
[4] My discussion of the DSIC applies equally to the CSIC so I will not refer to both unless necessary.

[5] Pennsylvania Public Utility Chairman Robert F. Powelson testifying before the Pennsylvania House of Representatives Consumer Affairs Committee. 28 April 2011. (emphasis added).

The DSIC was designed to allow utility customers to have not only the benefits of rate gradualism, but also improved system reliability, which means fewer failures and outages and a decreased risk of water quality issues, while at the same time providing the utilities sufficient rate recovery to make the investments required to ensure the continuous provision of safe, reliable, and adequate water and sewer service.

Q. WAS THE DSIC A SUCCESS?

A. Yes, it was an overwhelming success. As indicated in the graph below, after the DSIC was implemented, rate increase frequency for Pennsylvania's largest water utilities dropped dramatically.



Q. WHY IS LIBERTY SEEKING A DSIC FOR LPSCO IN THIS RATE APPLICATION?

A. For two reasons. The first reason is rate gradualism, which I have discussed in detail above. The DSIC mechanism is a tool that perfectly matches the philosophy that small incremental rate increases are better than irregular large increases.

Second, as outlined in a report by Keogh Engineering Inc. ("Keogh Report"), attached as **Exhibit CDK-DT2**, LPSCO will require substantial capital improvements in the near future, primarily concentrated around pipe replacements. The Keogh Report outlines over $25M of improvements needed to ensure continued system reliability. In turn, these capital improvements will necessitate future rate increase requests. But the DSIC is something we can do now to lessen the amount of future rate increase requests.

Q. MR. KRYGIER, HOW DO YOU RESPOND TO THOSE THAT SAY THIS IS ALL "NON-TRADITIONAL" RATEMAKING?

A. The Commission has approved similar adjustment mechanisms for gas and electric companies. I do not see how something could be traditional for a public service corporation providing electricity but not for one providing water. It is also clear that customers desire utility rates to increase in reasonable levels from year to year. There is nothing more traditional than trying to give ratepayers what they want.

Q. BUT DOESN'T THE COMMISSION NEED MORE ANALYSIS FIRST?

A. No more so than will be done in this case. The Commission has been considering a DSIC-type mechanism since the water workshops in the late 1990's. Staff issued a report examining the issue over thirteen years ago and further Commission study occurred during the 2011 water workshop process. All of the stakeholders - industry, Utilities Division Staff, and RUCO participated and evaluated the merits of DSICs (among other things). Additionally, the Commission just sent Arizona

Water Company's ("AWC") request for a DSIC back for further analysis in a second phase of the proceeding. That case is on a fast track, scheduled to be decided in June 2013, just a few months after we file this case.[6] The time for LPSCO to implement this proven, customer-friendly rate gradualism mechanism is now – before the next construction cycle, before the next EPA-driven water quality standards, and before the next rate case cycle.

Q. YOU TESTIFIED THAT OTHER ARIZONA UTILITIES UTILIZE SIMILAR MECHANISMS TO PROMOTE RATE GRADUALISM. CAN YOU PROVIDE EXAMPLES?

A. The best example is APS, which has at least seven separate DSIC-like surcharge mechanisms. The APS surcharge mechanisms are listed in Table 1.

Table 1			
Company	**Mechanism**	**Date Adopted**	**Description**
APS	Power Supply Adjustor	April 2005	• Recovers cost difference between actual power costs • Includes forward-looking and historical information
APS	Renewable Energy Surcharge	May 2008	• Recovers costs related to renewable initiatives
APS	Demand-Side Management Adjustment Clause	April 2005	• Recovers costs related to energy efficiency and DSM programs
APS	Environmental Improvement Surcharge	July 2007	• Recovers retroactively costs related to environmental upgrades not fully recovered through base rates
APS	Retail Line Extension Fees	February 2008	• Mechanism collects dollars spent for new distribution construction at beginning of project
APS	Transmission Cost Adjustor	April 2005	• Recovers FERC-approved transmission costs related to retail customers
APS	FERC Formula Rates	2008	• Recovers transition costs based on historical costs per FERC Form 1

Similar approaches are in place for, at least, Unisource Energy, Tucson Electric Power, Unisource Gas, and Southwest Gas, among others.

[6] *See* Docket No. W-01445A-11-0310.

Some of these have been in place since 2005. Four of the mechanisms are tied directly to infrastructure-driven costs (renewables, energy efficiency/DSM, environmental improvements, and retail line extensions). As detailed in the report written by Arizonans for Responsible Water Policy, these seven adjustors cover seven percent of total APS revenue.[7]

Q. HAVE THESE ADJUSTERS HAD AN IMPACT ON THE MAGNITUDE OF RATE INCREASES FOR APS?

A. It would appear so. APS's last rate case was filed in 2011 and requested an increase of only 3.3 percent. Water and sewer companies almost never seek such small increases, but then, water and sewer providers have not had similar adjuster mechanisms. Given that the benefits of rate gradualism can flow equally to water companies and our customers, it is hard to see why our industry should not also have these mechanisms in place.

Q. HAS THE COMMISSION APPROVED SEPARATE SURCHARGE MECHANISMS FOR WATER/SEWER UTILITIES?

A. Yes, on a number of occasions. Two notable and recent examples include the Arsenic Cost Recovery Mechanism ("ACRM") Surcharge and the Central Arizona Project ("CAP") Surcharge.

Q. HAVE THE ACRM OR CAP SURCHARGES EVER BEEN A SIGNIFICANT POINT OF CONTENTION FOR CUSTOMERS?

A. Not to my knowledge.

Q. HOW WILL CUSTOMERS BENEFIT FROM A DSIC MECHANISM?

A. The DSIC promotes rate gradualism and helps minimize customer rate shock. DSICs provide a means for the Commission to move Arizona utility rates in line

[7] **Exhibit CDK-DT4.**

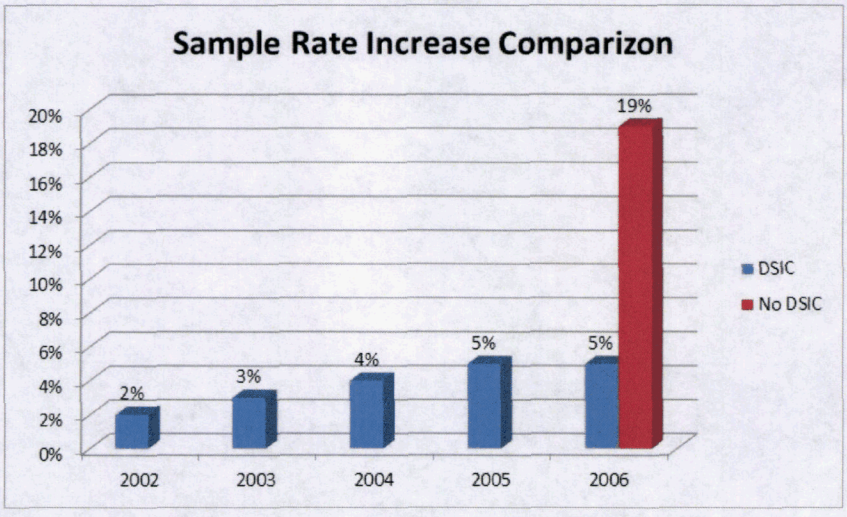
with the larger economic reality. Although most customers are unfamiliar with the intricacies of utility ratemaking, they know that gradualism better matches their reality.

Customers also benefit from the reduced chance of system outages caused by aging mains and pipes. A presentation outlining these risks was presented by Graham Symmonds of Global Water and is attached to my testimony as **Exhibit CDK-DT3**.[8] In sum, a DSIC maintains system reliability by replacing the oldest infrastructure in the water/sewer system sooner. Replacing aged infrastructure means customers will experience continued safe, reliable service.

Finally, healthy utilities with stable rates will better attract capital and be in a better position to provide adequate and reliable service at a reasonable cost.

Q. CAN YOU PROVIDE AN EXAMPLE OF HOW DSIC WILL FACILITATE RATE GRADUALISM?

A. Yes. Displayed below is a generic sample graph contemplating how a mechanism like the requested DSIC can facilitate gradual rate increases over a steady period of time.



[8] DSICs, Water Loss and Human Health, Graham Symmonds, January 2011.

The short columns represent a hypothetical rate increase with a DSIC mechanism in place. As I've discussed, the DSIC surcharge lends itself to small annual increases. The tall column indicates the current world of water utilities, coming in less frequently for larger rate hikes.

Q. HOW WOULD THE PUBLIC INTEREST BE SERVED BY A DSIC MECHANISM?

A. First, preservation of scarce resources. The Commission spends a great amount of time and resources processing and adjudicating water and wastewater rate cases. By reducing the magnitude of rate increases, the complex and contested nature of so many rate cases should decrease, making it easier to set new rates in a predictable manner.

Second, as I have discussed at length already, a DSIC helps avoid rate shock. As stated in the Arizonans for Responsible Water Policy letter:

> These adjustor mechanisms...smooth out rate increases for Arizona's electricity customers and avoid 'rate shock'; and they allow those utilities to better manage their capital costs by engaging in smaller, routine investments rather than packing all such investments into test years.[9]

In fact, the Commission Staff urged adoption of the APS Rate Case Settlement in Docket No. 11-0224 using the exact same reasons:

> APS's customers will have the benefit of rate stability...while also providing the Company with adequate revenue to enable it to provide safe and reliable electric service.[10]

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[9] *See* Arizonans for Responsible Water Policy Reform Letter (filed July 30, 2012 in *ACC Generic Investigation*, Docket No. W-00000C-06-0149) at 3.

[10] *See* Staff's Opening Brief (filed February 29, 2012 in *APS Rate Case*, Docket No. E-01345A-11-0224) at 12:14-16.

Q. YOU MENTIONED THAT THE DSIC IS LIMITED TO CERTAIN NARUC ACCOUNTS. WHICH ONES?

A. Yes. The first step is to determine which NARUC plant accounts qualify for recovery. LPSCO proposes the following NARUC accounts for the water and sewer divisions.

	Water	Sewer
Mains	309, 331	360, 361, 375
Services	333	363, 366
Meters	334	364, 365, 367
Hydrants	335	N/A

Second, the annual recovery cap on each customer bill has to be set. LPSCO proposes an annual cap of 3% of annual revenues. The 3% would be based on authorized revenue from the rate filing and essentially place a limit on the amount of capital investment that could be recovered through a DSIC filing.

Third, the actual paperwork forms to implement a filing have to be created. I will discuss this shortly.

Fourth and finally, annual deadlines for filing need to be established. LPSCO proposes the anniversary date of the latest general rate case.

Q. MR. KRYGIER, YOU HAVE TESTIFIED AT SOME LENGTH CONCERNING THE CUSTOMER BENEFITS OF A DSIC MECHANISM, AND REGARDING THE PUBLIC INTEREST. HOW DOES THE DSIC BENEFIT LPSCO?

A. A DSIC mechanism benefits LPSCO in several ways. First, as I have testified at length, a DSIC mechanism benefits our customers by smoothing out future rate

increase requests. Customers also benefit from a system that remains reliable at reasonable cost. Happy customers are good for business.

Second, LPSCO can implement a gradual capital expense program for needed pipe replacements. Under the normal, build-then-file a rate case approach, Liberty, like all utilities, invests capital in large chunks and then waits a very long time to begin recovery on and of its investment.

Third, LPSCO will have a more fair and adequate opportunity to earn its authorized rate of return. That's good for business too because it allows us to pay a fair return and continue to attract necessary capital. This is why we see a DSIC as a win-win for all stakeholders.

Q. THANK YOU. YOU MENTIONED PAPERWORK INVOLVED WITH A DSIC FILING?

A. Yes, in a white paper entitled "Moving Beyond Rate Shock & Regulatory Lag," Arizonans for Responsible Policy included a sample filing which included 11 schedules that LPSCO would complete in any DSIC filing. Copies of those schedules are attached to my testimony as **Exhibit CDK–DT4.**

Q. DO YOU HAVE ANYTHING ELSE TO ADD REGARDING LIBERTY'S DSIC REQUEST FOR LPSCO?

A. In the simplest terms, for less than a cost of a Big Mac at McDonalds, customers can be ensured safe, reliable service and the avoidance of rate shock; the Commission can reduce the frequency of rate cases, thereby freeing up resources; and LPSCO can continue to replace its oldest infrastructure and promote more gradual rate increases in future rate applications.

B. **Proposal Number 2 - Property Tax Accounting Deferral**

Q. WHAT IS LPSCO PROPOSING IN REGARDS TO PROPERTY TAX REGULATORY ASSET DEFERRALS?

A. LPSCO proposes a regulatory asset or liability to recover or refund property tax rates that are greater than property tax rates experienced in the test year. The creation of a regulatory asset and liability protects customers and the utility by ensuring this volatile cost is neither under-recovered nor over-recovered.

Q. WHY IS LPSCO PROPOSING THE PROPERTY TAX DEFERRAL IN THIS CASE?

A. As evidenced by comparing the property tax expense in this test year versus the prior test year, property taxes increased significantly. This significant increase contributed, in part, to LPSCO not recovering its cost of service during the test year.

Q. HOW DOES A PROPERTY TAX DEFERRAL BENEFIT LIBERTY?

A. The Company will have a greater chance to recover its cost of service.

Q. WHAT ARE THE CUSTOMER BENEFITS OF A PROPERTY TAX ACCOUNTING DEFERRAL?

A. Customers benefit because if the Company experiences a significant increase in property taxes as it has over the past few years, the Company can defer coming in for a rate increase sooner. Said differently, holding all other variables constant (operating expenses, rate base investment, etc.), a customer benefits because the Company can refrain from filing another rate case driven by systematic increases in property tax expense.

Q. HAS THE COMMISSION APPROVED ACCOUNTING DEFERRALS FOR WATER OR SEWER UTILITIES IN THE PAST?

A. Yes, the Commission has authorized numerous such accounting deferrals. A current example is LPSCO's accounting deferral for TCE costs. LPSCO defers these costs on the balance sheet and then requests recovery in subsequent rate cases. Two other examples at many utilities are the deferrals of rate case expense and debt financing costs.

Q. WHY IS A PROPERTY TAX ACCOUNTING DEFERRAL GOOD COMMISSION POLICY?

A. A property tax deferral is another tool in the toolbox to facilitate a utility having the opportunity to recover its cost of service while also protecting customers against more frequent rate cases.

Q. ARE PROPERTY TAXES TYPICALLY REQUIRED TO BE PAID BY UTILITIES?

A. Yes, any utility that owns property is required to pay property taxes. Property taxes are part of the utility ratemaking process in every rate application.

Q. TO WHAT EXTENT CAN UTILITIES CONTROL PROPERTY TAX EXPENSE?

A. Almost none. We could appeal any assessment, a costly and risky undertaking, but beyond that we have little recourse. In the last APS rate case,[11] property taxes were viewed as volatile expenses that put the utility at risk of not recovering its cost of service. In this rate case, as evidenced on LPSCO's E2 schedules attached to Mr. Bourassa's testimony, property tax increased over $740k since the 2008 Test Year.

[11] Docket No. E-01345A-11-0224.

Q. WHAT DID THE COMMISSION DO TO HELP APS MITIGATE THE CHALLENGE OF RISING PROPERTY TAXES?

A. The Commission recognized the challenges experienced by APS and granted APS a property tax deferral account.

Q. WILL LPSCO CONSIDER OTHER OPTIONS BESIDES THE TYPE OF DEFERRAL GRANTED TO APS?

A. Yes, LPSCO would consider another scenario of using a property tax pass through to more closely match the expenses to rate recovery but at this time is proposing the property tax deferral.

Q. HOW DOES THE PROPERTY TAX DEFERRAL WORK?

A. The property tax deferral has three primary conditions. First, LPSCO shall be allowed to defer for future recovery, in accordance with the provisions of Accounting Standards Codification 980 (formerly SFAS No. 71), the amounts of Arizona property tax expense above or below the test year levels ultimately authorized in the instant case.

Q. ABOVE OR BELOW?

A. Yes. There is no reason customers should not experience a decrease if property tax rates go down relative to the test year.

Q. THANK YOU. WHAT IS THE SECOND CONDITION OF THE PROPERTY TAX DEFERRAL?

A. In the next LPSCO general rate case, LPSCO will propose an amortization period to recover or refund the amount of property tax deferral that exists at the time of the next general rate case filing.

Q. WHAT IS THE THIRD CONDITION OF THE PROPERTY TAX DEFERRAL?

A. Staff and parties to future rate proceedings have the right to review the property tax deferrals for reasonableness and prudence.

Q. CAN YOU SUMMARIZE LPSCO'S REQUEST FOR A PROPERTY TAX ACCOUNTING DEFERRAL?

A. LPSCO proposes an accounting deferral to protect customers and the Company from continued increases in property taxes. Suggested ordering language follows:

> It is ordered that LPSCO is authorized to defer as a regulatory asset (liability) on its balance sheet, incremental property tax expense greater (lesser) than the test year level expense authorized for the water and wastewater divisions of the utility. LPSCO shall file for recovery of these regulatory assets (liabilities) on its balance sheet in the next general rate case for each division.
>
> It is further ordered that LPSCO shall annually docket by March 31 an update on the amount of the regulatory asset deferral.

C. Policy Proposal Number 3 - Purchased Power Pass Through Adjustment Mechanism ("PPAM")

Q. WHAT IS A PPAM?

A. A PPAM is another regulatory tool that furthers rate gradualism. It is designed to ensure that utilities have an opportunity to recover the cost of purchased power in rates. It is consistent with the desire to promote rate gradualism voiced by this Commission.

Q. HOW DOES A PPAM BENEFIT CUSTOMERS?

A. By gradually increasing rates as power costs increase rather than piling up large dollar increases and seeking recovery of all costs at once. Purchased power is, along with labor, one of LPSCO's top five largest expense items. However, the

cost is largely outside our control. In fact, to a great degree, the Commission decides what we pay for power as it sets the rates for the power providers, except SRP.

Q. HAS A PPAM EVER BEEN USED BEFORE IN THE STATE OF ARIZONA?

A. Yes, AWC used to have a PPAM for many of its utilities.[12] An example of the PPAM tariff is attached to my testimony as **Exhibit CDK-DT5**. Additionally, APS, Tucson Electric Power, and Unisource Energy have PPAMs. Each company is allowed to flow through increased costs annually. It is interesting to note that electric utilities have been granted this mechanism despite the following facts:

1. They own generating resources that allow them to mitigate the amount, and the time of day/year in which they purchase power;
2. They employ large, professional trading staffs whose sole purpose is to manage these costs; and
3. They actively trade in the power markets as both a buyer and a seller.

Water companies have none of these abilities, resources, staffs, or economic incentives and opportunities. We are captive customers whose rates are set by the Commission. In fact, the Commission approved APS Settlements in the past two rate cases that each included double-digit rate hikes for water pumping tariffs. For the Commission to allow electric utilities to have PPAMs (with the three organizational elements highlighted above) while denying PPAMs for water companies is, with all due respect, simply unfair.

[12] Decision No. 55069 (June 20, 1986).

Q. BUT HAVEN'T STAFF AND RUCO SUCCESSFULLY ARGUED THAT PURCHASED POWER IS NOT SUFFICIENTLY VOLATILE TO WARRANT AN ADJUSTER?

A. That's my understanding. However, and again, respectfully, that argument does not make sense given the Commission's history of adjustor mechanisms for electric utilities. If power is volatile enough for the power company to need an adjuster that adjusts the rates we pay them in the first place, that same volatility is just being passed on to us. We are just asking for the same thing the Commission gives the power companies so we can ameliorate the same impacts.

Q. WELL, WHAT ABOUT THE SINGLE ISSUE RATEMAKING ARGUMENT?

A. I am not a lawyer but if it is legal for the electric providers I can't imagine why it would not be for water and sewer. Besides, we are approving the PPAM in a rate case.

Q. HOW WOULD THE PPAM WORK?

A. Attached to my testimony is **Exhibit CDK-DT6**. This exhibit contains LPSCO's November 2012 Arizona Public Service Company bills and associated tariffs. We propose to provide the Commission with copies of the electric provider tariffs and with our monthly bills. This will allow the Commission to verify our power costs and develop an annualized power expense. If at any point thereafter the electric provider changes our rates, we will provide the Commission with copies of the new tariffs, a demonstration of the change in terms of actual dollars and percentage change, and with pro-forma and actual bills demonstrating the effect of the new tariffed rates. The Commission would then have 30 days to review that filing and adjust the power expense to reflect the new rates. Obviously, the power expense

could increase or decrease based on the new tariffed rates and any conservation or power-shifting measures we have emplaced.

Q. CAN YOU SUMMARIZE LPSCO'S REQUEST REGARDING THE PPAM?

A. Yes. LPSCO requests the ability to implement a PPAM tariff to recover the increasing costs of purchased power in its utility systems.

D. <u>Proposal Number 4 – Balanced Rate Design</u>

Q. WHAT IS LPSCO PROPOSING IN REGARDS TO RATE DESIGN?

A. LPSCO proposes the Commission adopt a balanced rate design to benefit customers and the Company while ultimately achieving rate gradualism. In particular, LPSCO would like the Commission to adopt a fixed charge of approximately 40 percent of the revenue requirement, with the remaining revenue being spread in a more balanced manner across the rate tiers instead of being concentrated in the highest consumption tiers. Finally, the Commission should set a near-term goal through a policy statement of water and sewer utilities fixed charge ratio's reaching the 50 percent threshold of the revenue requirement with a reasonable balance between the volumetric tiers.

Q. WHERE ARE THE SPECIFIC CALCULATIONS YOU PROPOSE?

A. The specifics are covered in Mr. Bourassa's testimony. My discussion focuses on the policy reasons why a balanced rate design is critical.

Q. WHY IS RATE DESIGN SO IMPORTANT?

A. Rate design is an often misunderstood aspect of utility ratemaking. Rate design is the step after a revenue requirement has been determined. Think of the revenue requirement as the total balloon. Rate design is how the air in the balloon is allocated between different customer classes to ensure the utility recovers all of the revenue it is authorized, i.e., rate design. If the balloon doesn't fill up, the utility doesn't recoup all of the revenue it is authorized creating a revenue shortfall.

Q. WHAT RISKS OCCUR IF A UTILITY EXPERIENCES A REVENUE SHORTFALL?

A. If a utility continually under collects the amount of revenue it is authorized, it will have to return to the Commission more often for additional rate increases. The Commission even recognized this in a recent AWC matter.[13] In that case the Commission expressed its understanding "that a consistent pattern of declining usage, and the diminished revenues that follow, could jeopardize AWC's ability to recover its cost of service, which is contrary to the best interests of AWC, AWC's customers, and the Commission."[14]

Q. SO A PROPER RATE DESIGN CAN HELP AVOID A REVENUE SHORTFALL?

A. Exactly.

Q. WHAT HAS THE COMMISSION IMPLEMENTED TO AVOID REVENUE SHORTFALLS FOR UTILITIES IN ARIZONA?

A. A few different tools have been implemented. One tool in use for APS and UNS Gas is an LFCR mechanism. Another tool in use at Southwest Gas is revenue decoupling.

Q. DO OTHER TOOLS EXIST?

A. Yes, another tool is to approve a balanced rate design. By balanced, I mean a rate design structured so the utility will have every reasonable chance to collect the revenue requirement approved by the Commission. The characteristics of a balanced rate design include setting a minimum fixed charge ratio of approximately 50 percent of the total revenue requirement and balancing the remaining 50 percent across the consumption tiers. The 50 percent of the revenue

[13] Decision No. 73736 (February 20, 2013).

[14] *Id.* at 71:3-5.

in the consumption tiers are also vitally important. If not designed reasonably, the revenue balloon won't fill up and the utility under collects its authorized revenue.

Q. CAN YOU SUMMARIZE LPSCO'S REQUEST?

A. The Commission should adopt a policy of fixed charges recovering 40 percent of the revenue requirement with the rest of the tiers being more evenly weighted versus being so dependent on the top tier. Finally, the Commission should set a near-term goal through a policy statement of water and sewer utilities fixed charge ratio's reaching the 50 percent threshold of the revenue requirement with a reasonable balance between the volumetric tiers. To the extent the Commission wants to trade away efficiency in pricing in order to achieve social objectives, it should do so in a more transparent and straightforward manner – by increasing the number of tiers in rate design, and directly changing the low income assistance program.

IV. TARIFF LANGUAGE CLEAN-UP

Q. WHAT IS LPSCO PROPOSING IN THIS CASE REGARDING ITS CURRENT TARIFFS?

A. LPSCO proposes a number of small language and cost "clean-ups" in this rate case to make LPSCO's tariff more consistent with other Liberty owned utility companies.

Q. WHAT ARE THE CHANGES LPSCO PROPOSES?

A. **Exhibit CDK-DT7** is a redlined version of the changes LPSCO proposes. Please note, these changes do not reflect the proposed rates. Please see Mr. Bourassa's H-Schedules. Exhibit CDK-DT7 only reflects the specific tariff language changes the Company proposes.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

CHRISTOPHER D. KRYGIER
DIRECT TESTIMONY

FEBRUARY 28, 2013

EXHIBIT CDK – DT1

ARIZONANS FOR RESPONSIBLE WATER POLICY

October 3, 2012

POLL RESULTS: 9 out of 10 Arizonans Support Shift in Utility Rate Hike Approach

Democrats and Independents More Skeptical about Renewable Energy than Assumed

October 3, 2012

(PHOENIX, AZ) In a statewide survey of more than 4,000 Arizonans; nine out of every ten people surveyed supported the use of small, annual hikes to utility bills instead of larger, but less frequent, rate hikes.

In the survey, people were asked the following question: "When utility bills have to be increased, would you prefer: a) small annual changes, or b) large changes every few years?" Nearly 90% preferred small annual changes. Arizonans for Responsible Water Policy, an Arizona-based trade group representing the companies which provide nearly 900,000 Arizonans water and sewer service, commissioned the poll which was conducted last week.

"A lot has been said about what customers 'really want' from the Corporation Commission," explained Paul Walker, Chairman of Responsible Water. "In the current election, debate after debate centers on the perception that what Arizonans 'want' from the Commission is more solar and wind subsidies. So we evaluated that perspective against our idea; which is that what customers really want is that when rates have to go up customers they have smaller, annual utility rate hikes instead of the current system of large rate hikes every four or five years. The poll results are clear: Arizonans overwhelmingly agree with rate gradualism, and aren't as completely pro-solar as many assumed."

The poll evaluated support for rate gradualism against the most-talked about policy in the race: Solar energy. 4,000 likely voters were asked what they believed about solar energy – surprisingly, only 52% said solar energy is "currently practical and cost-effective," 29% said that solar energy is "not currently practical and cost-effective," and 18% were undecided on solar's merits.

Mr. Walker explained, "what we found is that Arizonans want gradual, manageable changes to their utility bills instead of large, shocking increases every few years. And that view is more widespread and more impactful to people's budgets and their lives than the topic most dominating the debate."

Walker explained the overwhelming results, "The lowest level of support for rate gradualism, in any one county, was 82% support – solar's best result, by county, was 77% support. On average, 89.4% of Arizonans agree with moving toward small, annual changes to utility bills instead of our current approach. Arizonans want a Commission that makes utility rate hikes more manageable – that's the most important issue to our customers."

-30-

Contact Responsible Water: paul@arizonainsight.com

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

CHRISTOPHER D. KRYGIER
DIRECT TESTIMONY

FEBRUARY 28, 2013

EXHIBIT CDK – DT2

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ENGINEERS COST ESTIMATE SUMMARY

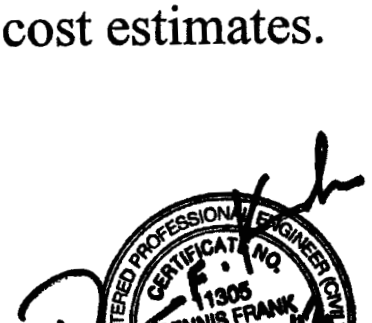
ASSET MANAGEMENT PLAN

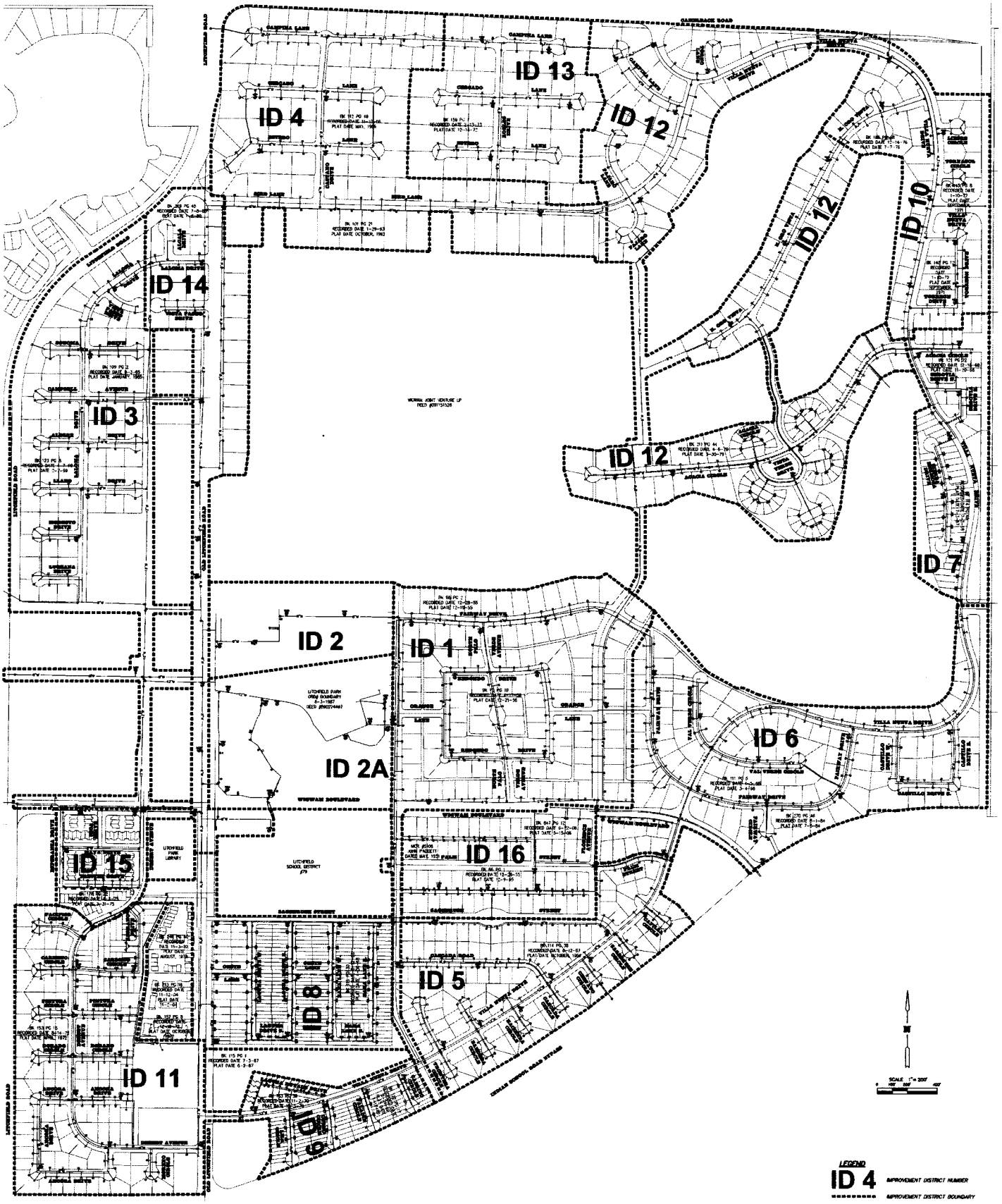
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS.
OLD LITCHFIELD PARK, ARIZONA

Engineers Cost Estimate Summary
Asset Management Plan
Litchfield Park Service Area, Arizona
Vs. Old Litchfield Park, Arizona

Executive Summary:

An Engineers Cost Estimate has been performed analyzing the cost to replace existing water and sewer infrastructure in Old Litchfield Park, Arizona. The analysis is based on the oldest improvements being removed and replaced first and then progresses to the most recent improvements. Current contractors cost were utilized for the cost estimates.




ID 13
ID 4
ID 12
ID 10
ID 14
ID 3
ID 2
ID 1
ID 7
ID 6
ID 2A
ID 15
ID 16
ID 5
ID 8
ID 9
ID 11
LITCHFIELD PARK SERVICE AREA BOUNDARY
WIGWAM BOULEVARD
LITCHFIELD SCHOOL DISTRICT
INDIAN SCHOOL ROAD
LEGEND
ID 4 IMPROVEMENT DISTRICT NUMBER
IMPROVEMENT DISTRICT BOUNDARY
WATER LINE (SIZE AS NOTED ON LINE)
FIRE HYDRANT
WATER SERVICE
VALVE
SCALE 1" = 200'
SHEET 1 OF 1
PREPARED FOR
LIBERTY UTILITIES
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA
WATER
ASSET MANAGEMENT
Keogh Engineering, Inc.
DATE DECEMBER, 2012
JOB NO. 20528
MAP NO. E-20528

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ENGINEERS COST ESTIMATE SUMMARY
ASSET MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

WATER

ID NO.	REPLACEMENT COST
1	$1,361,800.00
2	$293,805.00
2A	$719,886.00
3	$1,907,583.00
4	$1,063,005.00
5	$1,209,436.00
6	$1,597,985.00
7	$455.647.00
8	$1,022,548.00
9	$525,039.00
10	$920,119.00
11	$1,479,202.00
12	$1,920,908.00
13	$554,441.00
14	$1,314,773.00
15	$433,111.00
16	$508,636.00
TOTAL	$17,287,924.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-1 BOOK 66 PAGE 2 RECORDING DATE 12/28/55
BOOK 70 PAGE 10 RECORDING DATE 4/17/56

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	120.0	-0-
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	10850 LF	96.00	$1,041,600.00
12" G.V.B.&C. REMOVE OLD	0	4800.00	-0-
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	11 EA.	2800.000	$30,800.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	10 EA.	3750.00	$37,500.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	112 EA.	800.00	$89,600.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	0	850.00	-0-
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	3 EA.	750.00	$2,250.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	10850	7.00	$75,950.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$84,100.00
		TOTAL	$1,361,800.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-2 LITCHFIELD PARK ORDER# BOUNDARY 8/3/1987
DEED # 890224497

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	330	120.0	$39,600.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1965 LF	96.00	$188,640.00
12" G.V.B.&C. REMOVE OLD	0	4800.00	-0-
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	5 EA.	2800.000	$14,000.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	4 EA.	3750.00	$15,000.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	1 EA.	800.00	$800.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	0	850.00	-0-
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	2 EA.	750.00	$1,500.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	2295	7.00	$16,065.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$18,200.00
		TOTAL	$293,805.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-2A LITCHFIELD PARK ORDER# BOUNDARY 8/3/1987
DEED # 890224497

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1769 LF	120.0	$212,280.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	3191 LF	96.00	$306,336.00
12" G.V.B.&C. REMOVE OLD	0	4800.00	-0-
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	23 EA.	2800.000	$64,400.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	12 EA.	3750.00	$45,000.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	7 EA.	800.00	$5,600.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	0	850.00	-0-
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	9 EA.	750.00	$6,750.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	750.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	4960 LF	7.00	$34,720.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$44,800.00
		TOTAL	$719,886.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-3 BOOK 109 PAGE 2 RECORDING DATE 8/3/65
BOOK 123 PAGE 8 RECORDING DATE 4/7/69

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	5483 LF	120.0	$657,960.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	9214 LF	96.00	$884,544.00
12" G.V.B.&C. REMOVE OLD	8 EA.	4800.00	$38,400.00
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	21 EA.	2800.000	$58,800.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	10 EA.	3750.00	$37,500.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	80 EA.	800.00	$6,400.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	0	850.00	-0-
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	4 EA.	750.00	$3,000.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	14697	7.00	$102,879.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$118,100.00
		TOTAL	$1,907,583.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-4 BOOK 101 PAGE 21 RECORDING DATE 1/29/63
BOOK 112 PAGE 49 RECORDING DATE 11/10/66

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1436 LF	120.0	$172,320.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	6510 LF	96.00	$624,960.00
12" G.V.B.&C. REMOVE OLD	5 EA.	4800.00	$24,000.00
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	12 EA.	2800.000	$33,600.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	6 EA.	3750.00	$22,500.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	76 EA.	800.00	$60,800.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	3 EA.	850.00	$2,550.00
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	1 EA.	750.00	$750.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	7946 LF	7.00	$55,622.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$65,903.00
		TOTAL	$1,063,005.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-5 BOOK 114 PAGE 38 RECORDING DATE 6/12/67

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1643 LF	120.00	$197,160.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	6911 LF	96.00	$663,456.00
12" G.V.B.&C. REMOVE OLD	2 EA.	4800.00	$9,600.00
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	19 EA.	2800.000	$53,200.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	12 EA.	3750.00	$45,000.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	125 EA.	800.00	$100,000.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-
12" CURB STOP WITH FLUSHING	0	850.00	-0-

10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	9 EA.	750.00	$6,750.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	8554 LF	7.00	$59,070.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$75,200.00
		TOTAL	$1,209,436.00

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ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-6 BOOK 111 PAGE 5 RECORDING DATE 4/5/66
BOOK 270 PAGE 46 RECORDING DATE 8/1/84

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	4729 LF	120.00	$567,480.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	6584 LF	96.00	$632,064.00
12" G.V.B.&C. REMOVE OLD	10 EA.	4800.00	$48,000.00
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	13 EA.	2800.000	$36,400.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	12 EA.	3750.00	$45,000.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	110 EA.	800.00	$88,000.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	2 EA.	850.00	$1,700.00
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	1 EA.	750.00	$750.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	11313 LF LF	7.00	$79,191.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$99,400.00
		TOTAL	$1,597,985.00

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ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-7 BOOK 114 PAGE 49 RECORDING DATE 7/3/68
BOOK 121 PAGE 22 RECORDING DATE 12/18/68

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	2008 LF	120.00	$240,960.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	963 LF	96.00	$92,440.00
12" G.V.B.&C. REMOVE OLD	1 EA.	4800.00	$4,800.00
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	3 EA.	2800.000	$8,400.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	6 EA.	3750.00	$22,500.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	55 EA.	800.00	$44,000.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	0	850.00	-0-
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	1 EA.	750.00	$750.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	2971 LF	7.00	$20,797.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$21,000.00
		TOTAL	$455,647.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-8 BOOK 115 PAGE 1 RECORDING DATE 7/3/67
BOOK 119 PAGE 30 RECORDING DATE 8/12/68

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	269 LF	120.00	$32,280.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	6355 LF	96.00	$610,000.00
12" G.V.B.&C. REMOVE OLD	1 EA.	4800.00	$4,800.00
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	23 EA.	2800.000	$64,400.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	16 EA.	3750.00	$60,000.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	174 EA.	800.00	$139,200.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	1 EA.	850.00	$850.00
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	1 EA.	750.00	$750.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	6624 LF	7.00	$46,368.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$63,900.00
		TOTAL	$1,022,548.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-9 BOOK 122 PAGE 17 RECORDING DATE 2/24/69
BOOK 133 PAGE 39 RECORDING DATE 11/2/70

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1286 LF	120.00	$154,320.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	2039 LF	96.00	$195,744.00
12" G.V.B.&C. REMOVE OLD	1 EA.	4800.00	$4,800.00
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	9 EA.	2800.000	$25,200.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	5 EA.	3750.00	$18,750.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	81 EA.	800.00	$64,800.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	1 EA.	850.00	$850.00
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	6 EA.	750.00	$4,500.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	3325 LF	7.00	$23,275.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$32,800.00
		TOTAL	$525,039.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-10 BOOK 145 PAGE 8 RECORDING DATE 1/10/72
BOOK 145 PAGE 12 RECORDING DATE 1/10/72
BOOK 186 PAGE 48 RECORDING DATE 12/14/76

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	2819 LF	120.00	$338,280.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	3699 LF	96.00	$355,104.00
12" G.V.B.&C. REMOVE OLD	4 EA.	4800.00	$19,200.00
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	11 EA.	2800.000	$30,800.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	7 EA.	3750.00	$26,250.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	55 EA.	800.00	$42,400.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	0	850.00	-0-
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	7 EA.	750.00	$5,250.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	6518 LF	7.00	$45,626.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$57,209.00
		TOTAL	$920,119.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-11 BOOK 153 PAGE 15 RECORDING DATE 8/14/72

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	2628 LF	120.00	$315,360.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	7832 LF	96.00	$751,872.00
12" G.V.B.&C. REMOVE OLD	4 EA.	4800.00	$19,200.00
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	22 EA.	2800.000	$61,600.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	12 EA.	3750.00	$45,000.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	145 EA.	800.00	$116,000.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-
12" CURB STOP WITH FLUSHING	0	850.00	-0-

10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	7 EA.	750.00	$5,250.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	10460 LF	7.00	$73,220.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$91,700.00
		TOTAL	$1,479,202.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-12 BOOK 159 PAGE 1 RECORDING DATE 2/13/73
BOOK 186 PAGE 48 RECORDING DATE 12/14/76
BOOK 211 PAGE 44 RECORDING DATE 4/6/79

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1723 LF	120.00	$205,760.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	12829 LF	96.00	$1,231,584.00
12" G.V.B.&C. REMOVE OLD	1 EA.	4800.00	$4,800.00
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	26 EA.	2800.000	$72,800.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	16 EA.	3750.00	$60,000.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	55 EA.	800.00	$117,600.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	0	850.00	-0-
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	10 EA.	750.00	$7,500.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	14,552 LF	7.00	$101,864.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$119,000.00
		TOTAL	$1,920,908.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-13 BOOK 159 PAGE 1 RECORDING DATE 2/13/73

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1170 LF	120.00	$140,400.00
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	2867 LF	96.00	$275,232.00
12" G.V.B.&C. REMOVE OLD	1 EA.	4800.00	$4,800.00
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	7 EA.	2800.000	$19,600.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	5 EA.	3750.00	$18,750.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	41 EA.	800.00	$32,800.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-
12" CURB STOP WITH FLUSHING	0	850.00	-0-

10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	4 EA.	750.00	$3,000.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	4037 LF	7.00	$28,259.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$34,600.00
		TOTAL	$554,441.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-14 BOOK 219 PAGE 45 RECORDING DATE 7/8/86

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	120.00	-0-
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	10891 LF	96.00	$1,045,536.00
12" G.V.B.&C. REMOVE OLD	0	4800.00	-0-
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	20 EA.	2800.000	$56,000.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	9 EA.	3750.00	$33,750.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	25 EA.	800.00	$20,000.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-
12" CURB STOP WITH FLUSHING	0	850.00	-0-

10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	3 EA.	750.00	$2,250.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	10891 LF	7.00	$76,237.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$81,000.00
		TOTAL	$1,314,773.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
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LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-15 BOOK 178 PAGE 22 RECORDING DATE 4/3/75

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	120.00	-0-
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	3387 LF	96.00	$325,152.00
12" G.V.B.&C. REMOVE OLD	0	4800.00	-0-
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	11 EA.	2800.000	$30,800.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	2 EA.	3750.00	$7,500.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	23 EA.	800.00	$18,400.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-
12" CURB STOP WITH FLUSHING	0	850.00	-0-

10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	1 EA.	750.00	$750.00
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	3387 LF	7.00	$23,709.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$26,800.00
		TOTAL	$433,111.00

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21 DECEMBER 2012

ENGINEERS COST ESTIMATE
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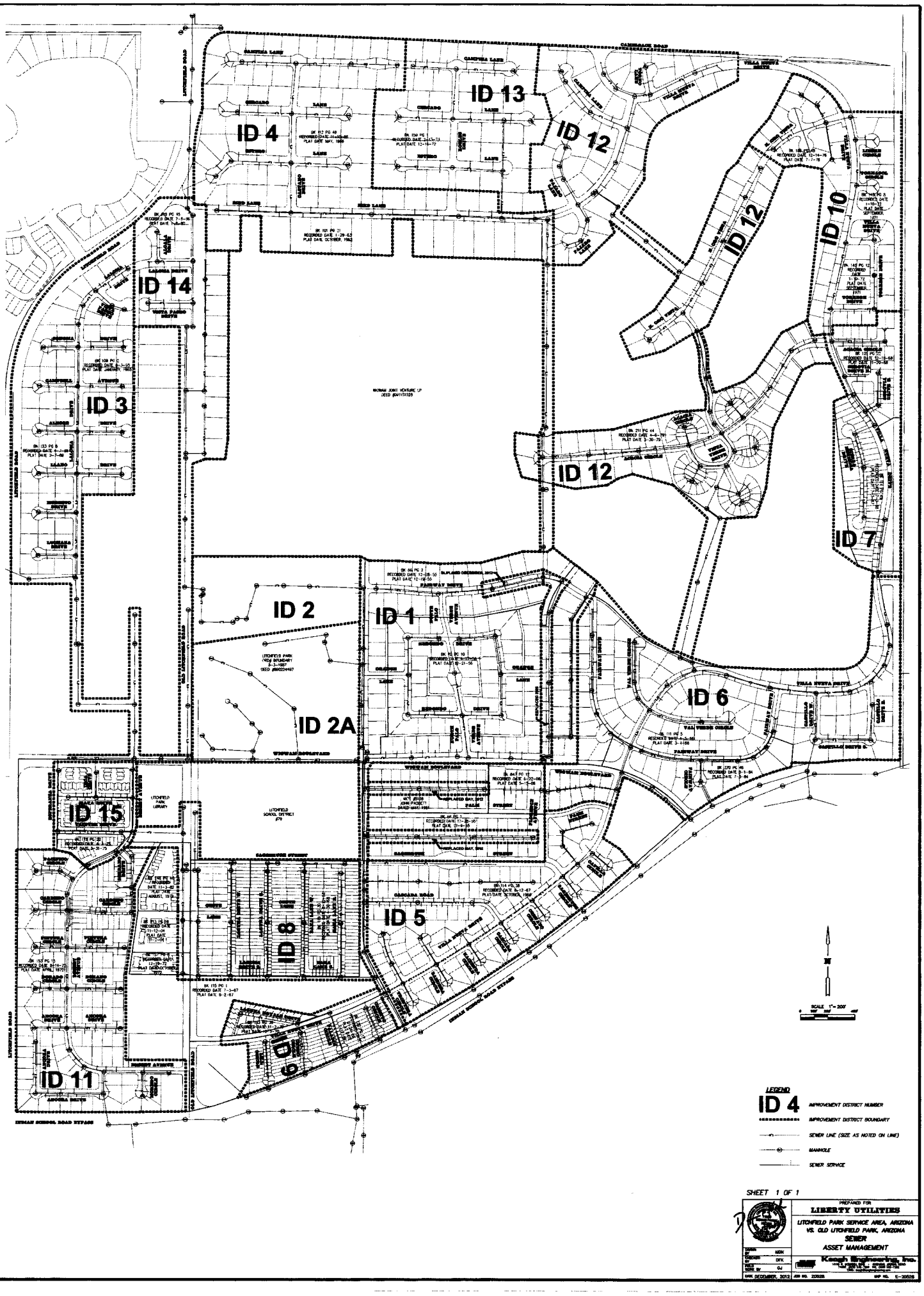
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, AZ

ID-16 MCR#5108 DATE MAY, 1951
BOOK 66 PAGE 1 RECORDING DATE 12/28/55
BOOK 847 PAGE 12 RECORDING DATE 6/22/06

WATER

ITEM	QUANTITY	UNIT	PRICE
12" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	120.00	-0-
10" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	109.00	-0-
8" DIP CL350 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	4562 LF	96.00	$437,952.00
12" G.V.B.&C. REMOVE OLD	0	4800.00	-0-
10" G.V.B.&C. REMOVE OLD	0	3800.00	-0-
8" G.V.B.&C. REMOVE OLD	5 EA.	2800.000	$14,000.00
FIRE HYDRANT ASSEMBLY REMOVE OLD	5 EA.	3750.00	$18,750.00
1" WATER SERVICE REMOVE TO PROPERTY LINE NEW BOX AND METER	62 EA.	800.00	$49,600.00
2" ARR RELEASE VALVE	0	2000.00	-0-
12" PIPE REALIGNMENT	0	6000.00	-0-
10" PIPE REALIGNMENT	0	5000.00	-0-
8" PIPE REALIGNMENT	0	4000.00	-0-

12" CURB STOP WITH FLUSHING	0	850.00	-0-
10" CURB STOP WITH FLUSHING	0	800.00	-0-
8" CURB STOP WITH FLUSHING	0	750.00	-0-
PIPE MAG 390B (CURB STOP WITH FLUSHING)	0	800.00	-0-
ENGINEERING DESIGN STAKING/ INSPECTION	4562 LF	7.00	$31,934.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$36,400.00
		TOTAL	$508,636.00



SHEET 1 OF 1

PREPARED FOR
LIBERTY UTILITIES
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA
SEWER
ASSET MANAGEMENT

DRAWN BY: MRK
CHECKED BY: DFK
FIELD WORK BY: DJ
MAP DECEMBER, 2012
JOB NO. 20928
MAP NO. E-20928

Keogh Engineering, Inc.

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ENGINEERS COST ESTIMATE SUMMARY
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

SEWER

ID NO.	REPLACEMENT COST
1	$1,181,871.80
2	$ 247,929.15
2A	$ 477,054.15
3	$1,031,274.75
4	$1,082,724.15
5	$ 751,029.30
6	$1,041,964.70
7	$ 334,303.95
8	$ 904,247.50
9	$ 241,551.40
10	$ 429,380.75
11	$ 807,229.80
12	$1,383,339.90
13	$ 395,132.10
14	$ 713,859.25
15	$ 275,814.50
TOTAL	$11,298,777.15

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 1 BOOK 66 PAGE 2 RECORDING DATE 12/28/55
BOOK 70 PAGE 10 RECORDING DATE 4/17/56

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	4322 LF	95.00	$410,590.00
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	5610 LF	71.00	$398,310.00
5' DIA. MANHOLE/REMOVE OLD	21 EA	3800.00	$79,800.00
4' DIA. MANHOLE/REMOVE OLD	17 EA	2900.00	$49,300.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	96 EA	275.00	$26,400.00
AIR TEST SEWER MAIN	9932 LF	0.55	$5,462.60
HYDRO VAC FOR TV INSPECTION	9932 LF	0.55	$5,462.60
HYDRO VAC FOR FINAL	9932 LF	0.55	$5,462.60
8" CLEANOUT	0	1100.00	-0-
SEWER ENCASEMENT	260 LF	35.00	$9,100.00
TEMP. LIFT STATION/PUMPING	9932 LF	5.00	$49,660.00

ENGINEERING DESIGN STAKING/ INSPECTION	9932 LF	7.00	$69,524
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$72,800.00
		TOTAL	$1,181,871.80

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ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 2 LITCHFIELD PARK ORDER # BOUNDARY 8/3/1987
DEED #890224497-1955

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1771 LF	95.00	$168,245.00
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	71.00	-0-
5' DIA. MANHOLE/REMOVE OLD	10 EA	3800.00	$38,000.00
4' DIA. MANHOLE/REMOVE OLD	0	2900.00	-0-
4" SEWER SERVICE REMOVE TO PROPERTY LINE	0	275.00	-0-
AIR TEST SEWER MAIN	1771 LF	0.55	$974.05
HYDRO VAC FOR TV INSPECTION	1771 LF	0.55	$974.05
HYDRO VAC FOR FINAL	1771 LF	0.55	$974.05
8" CLEANOUT	0	1100.00	-0-
SEWER ENCASEMENT	60 LF	35.00	$2,100.00
TEMP. LIFT STATION/PUMPING	1771 LF	5.00	$8,855.00

ENGINEERING DESIGN STAKING/ INSPECTION	1771 LF	7.00	$12,397.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$15,410.00
		TOTAL	$247,929.15

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 2A LITCHFIELD PARK ORDER # BOUNDARY 8/3/1987
DEED# 890224497-1955

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1311 LF	95.00	$124,545.00
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	2960 LF	71.00	$210,160.00
5' DIA. MANHOLE/REMOVE OLD	3 EA	3800.00	$11,400.00
4' DIA. MANHOLE/REMOVE OLD	14 EA	2900.00	$40,600.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	0	275.00	-0-
AIR TEST SEWER MAIN	4271 LF	0.55	$2,349.05
HYDRO VAC FOR TV INSPECTION	4271 LF	0.55	$2,349.05
HYDRO VAC FOR FINAL	4271 LF	0.55	$2,349.05
8" CLEANOUT	0	1100.00	-0-
SEWER ENCASEMENT	80 LF	35.00	$2,800.00
TEMP. LIFT STATION/PUMPING	4271 LF	5.00	$21,355.00

ENGINEERING DESIGN STAKING/ INSPECTION	4271 LF	7.00	$29,897.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$29,250.00
		TOTAL	$477,054.15

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 3 BOOK 109 PAGE 2 RECORDING DATE 8/3/65
BOOK 123 PAGE 8 RECORDING DATE 4/7/69

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	838 LF	95.00	$79,610.00
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	8697 LF	71.00	$617,487.00
5' DIA. MANHOLE/REMOVE OLD	4 EA	3800.00	$15,200.00
4' DIA. MANHOLE/REMOVE OLD	33 EA	2900.00	$95,700.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	71 EA	275.00	$19,525.00
AIR TEST SEWER MAIN	9535 LF	0.55	$5,244.25
HYDRO VAC FOR TV INSPECTION	9535 LF	0.55	$5,244.25
HYDRO VAC FOR FINAL	9535 LF	0.55	$5,244.25
8" CLEANOUT	0	1100.00	-0-
SEWER ENCASEMENT	300 LF	35.00	$10,500.00
TEMP. LIFT STATION/PUMPING	9535 LF	5.00	$47,675.00

ENGINEERING DESIGN STAKING/ INSPECTION	9535 LF	7.00	$66,745.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$63,100.00
		TOTAL	$1,031,274.75

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 4 BOOK 101 PAGE 21 RECORDING DATE 1/29/63
BOOK 112 PAGE 49 RECORDING DATE 11/10/66

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	4894 LF	95.00	$464,930.00
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	4297 LF	71.00	$305,087.00
5' DIA. MANHOLE/REMOVE OLD	15 EA	3800.00	$57,000.00
4' DIA. MANHOLE/REMOVE OLD	11 EA	2900.00	$31,900.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	82 EA	275.00	$22,550.00
AIR TEST SEWER MAIN	9191 LF	0.55	$5,055.05
HYDRO VAC FOR TV INSPECTION	9191 LF	0.55	$5,055.05
HYDRO VAC FOR FINAL	9191 LF	0.55	$5,055.05
8" CLEANOUT	2 EA	1100.00	$2,200.00
SEWER ENCASEMENT	200 LF	35.00	$7,000.00
TEMP. LIFT STATION/PUMPING	9191 LF	5.00	$45,955.00

ENGINEERING DESIGN STAKING/ INSPECTION	9191 LF	7.00	$64,337.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$66,600.00
		TOTAL	$1,082,724.15

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 5 BOOK 114 PAGE 38 RECORDING DATE 6/12/67

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	95.00	-0-
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	6068 LF	71.00	$430,828.00
6" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1094 LF	60.00	$65,640.00
5' DIA. MANHOLE/REMOVE OLD	0	3800.00	-0-
4' DIA. MANHOLE/REMOVE OLD	20 EA	2900.00	$58,000.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	120 EA	275.00	$33,000.00
AIR TEST SEWER MAIN	7162 LF	0.55	$3,939.10
HYDRO VAC FOR TV INSPECTION	7162 LF	0.55	$3,939.10
HYDRO VAC FOR FINAL	7162 LF	0.55	$3,939.10
8" CLEANOUT	8 EA	1100.00	$8,800.00
SEWER ENCASEMENT	320 LF	35.00	$11,200.00

TEMP. LIFT STATION/PUMPING	7162 LF	5.00	$35,810.00
ENGINEERING DESIGN STAKING/ INSPECTION	7162 LF	7.00	$50,134.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$45,800.00
		TOTAL	$751,029.30

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 6 BOOK 111 PAGE 5 RECORDING DATE 4/5/66
BOOK 270 PAGE 46 RECORDING DATE 8/1/84

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	95.00	-0-
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1732	83.00	$143,756.00
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	7766 LF	71.00	$551,386.00
5' DIA. MANHOLE/REMOVE OLD	0	3800.00	-0-
4' DIA. MANHOLE/REMOVE OLD	38 EA	2900.00	$110,200.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	113 EA	275.00	$31,075.00
AIR TEST SEWER MAIN	9498 LF	0.55	$5,223.90
HYDRO VAC FOR TV INSPECTION	9498 LF	0.55	$5,223.90
HYDRO VAC FOR FINAL	9498 LF	0.55	$5,223.90
8" CLEANOUT	4 EA	1100.00	$4,400.00
SEWER ENCASEMENT	220 LF	35.00	$7,700.00
TEMP. LIFT STATION/PUMPING	9498 LF	5.00	$47,490.00

ENGINEERING DESIGN STAKING/ INSPECTION	9498 LF	7.00	$66,486.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$63,800.00
		TOTAL	$1,041,964.70

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 7 BOOK 114 PAGE 49 RECORDING DATE 7/3/68
BOOK 121 PAGE 22 RECORDING DATE 12/18/68

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	95.00	-0-
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	3003 LF	71.00	$213,213.00
5' DIA. MANHOLE/REMOVE OLD	0	3800.00	-0-
4' DIA. MANHOLE/REMOVE OLD	13 EA	2900.00	$37,700.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	64 EA	275.00	$17,600.00
AIR TEST SEWER MAIN	3003 LF	0.55	$1,651.65
HYDRO VAC FOR TV INSPECTION	3003 LF	0.55	$1,651.65
HYDRO VAC FOR FINAL	3003 LF	0.55	$1,651.65
8" CLEANOUT	2 EA	1100.00	$2,200.00
SEWER ENCASEMENT	60 LF	35.00	$2,100.00
TEMP. LIFT STATION/PUMPING	3003 LF	5.00	$15,015.00

ENGINEERING DESIGN STAKING/ INSPECTION	3003 LF	7.00	$21,021.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$20,500.00
		TOTAL	$ 334,303.95

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 8 BOOK 115 PAGE 1 RECORDING DATE 7/3/67
BOOK 119 PAGE 30 RECORDING DATE 8/12/68

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	95.00	-0-
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	8150 LF	71.00	$578,650.00
5' DIA. MANHOLE/REMOVE OLD	0	3800.00	-0-
4' DIA. MANHOLE/REMOVE OLD	30 EA	2900.00	$87,000.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	226 EA	275.00	$62,150.00
AIR TEST SEWER MAIN	8150 LF	0.55	$4,482.50
HYDRO VAC FOR TV INSPECTION	8150 LF	0.55	$4,482.50
HYDRO VAC FOR FINAL	8150 LF	0.55	$4,482.50
8" CLEANOUT	0	1100.00	-0-
SEWER ENCASEMENT	280 LF	35.00	$9,800.00
TEMP. LIFT STATION/PUMPING	8150 LF	5.00	$40,750.00

ENGINEERING DESIGN STAKING/ INSPECTION	8150 LF	7.00	$57,050.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$55,400.00
		TOTAL	$ 904,247.50

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 9 BOOK 122 PAGE 17 RECORDING DATE 2/24/69
BOOK 133 PAGE 39 RECORDING DATE 11/2/70

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	95.00	-0-
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	2096 LF	71.00	$148,816.00
5' DIA. MANHOLE/REMOVE OLD	0	3800.00	-0-
4' DIA. MANHOLE/REMOVE OLD	6 EA	2900.00	$17,400.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	107 EA	275.00	$29,425.00
AIR TEST SEWER MAIN	2096 LF	0.55	$1,152.80
HYDRO VAC FOR TV INSPECTION	2096 LF	0.55	$1,152.80
HYDRO VAC FOR FINAL	2096 LF	0.55	$1,152.80
8" CLEANOUT	1 EA	1100.00	$1,100.00
SEWER ENCASEMENT	40 LF	35.00	$1,400.00
TEMP. LIFT STATION/PUMPING	2096 LF	5.00	$10,480.00

ENGINEERING DESIGN STAKING/ INSPECTION	2096 LF	7.00	$14,672.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$14,800.00
		TOTAL	$ 241,551.40

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ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 10 BOOK 145 PAGE 8 RECORDING DATE 1/10/72
BOOK 145 PAGE 12 RECORDING DATE 1/10/72
BOOK 186 PAGE 48 RECORDING DATE 12/14/76

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	95.00	-0-
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	4055 LF	71.00	$287,905.00
5' DIA. MANHOLE/REMOVE OLD	0	3800.00	-0-
4' DIA. MANHOLE/REMOVE OLD	13 EA	2900.00	$37,700.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	51 EA	275.00	$14,025.00
AIR TEST SEWER MAIN	4055 LF	0.55	$2,230.25
HYDRO VAC FOR TV INSPECTION	4055 LF	0.55	$2,230.25
HYDRO VAC FOR FINAL	4055 LF	0.55	$2,230.25
8" CLEANOUT	3 EA	1100.00	$3,300.00
SEWER ENCASEMENT	140 LF	35.00	$4,900.00
TEMP. LIFT STATION/PUMPING	4055 LF	5.00	$20,275.00

ENGINEERING DESIGN STAKING/ INSPECTION	4055 LF	7.00	$28,385.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$26,200.00
		TOTAL	$ 429,380.75

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 11 BOOK 153 PAGE 10 RECORDING DATE 8/14/72

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	95.00	-0-
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	7372 LF	71.00	$523,412.00
5' DIA. MANHOLE/REMOVE OLD	0	3800.00	-0-
4' DIA. MANHOLE/REMOVE OLD	29 EA	2900.00	$84,100.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	136 EA	275.00	$37,400.00
AIR TEST SEWER MAIN	7372 LF	0.55	$4,054.60
HYDRO VAC FOR TV INSPECTION	7372 LF	0.55	$4,054.60
HYDRO VAC FOR FINAL	7372 LF	0.55	$4,054.60
8" CLEANOUT	4 EA	1100.00	$4,400.00
SEWER ENCASEMENT	240 LF	35.00	$8,400.00.
TEMP. LIFT STATION/PUMPING	7372 LF	5.00	$36,860.00

ENGINEERING DESIGN STAKING/ INSPECTION	7372 LF	7.00	$51,064.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$49,500.00
		TOTAL	$ 807,299.80

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 12 BOOK 159 PAGE 1 RECORDING DATE 2/13/73
BOOK 211 PAGE 44 RECORDING DATE 4/6/79

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	95.00	-0-
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1830	83.00	$151,890.00
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	10756 LF	71.00	$763,676.00
5' DIA. MANHOLE/REMOVE OLD	0	3800.00	-0-
4' DIA. MANHOLE/REMOVE OLD	54 EA	2900.00	$156,600.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	141 EA	275.00	$38,775.00
AIR TEST SEWER MAIN	12586 LF	0.55	$6,922.30
HYDRO VAC FOR TV INSPECTION	12586 LF	0.55	$6,922.30
HYDRO VAC FOR FINAL	12586LF	0.55	$6,922.30
8" CLEANOUT	3 EA	1100.00	$3,300.00
SEWER ENCASEMENT	360 LF	35.00	$12,600.00
TEMP. LIFT STATION/PUMPING	12586 LF	5.00	$62,930.00

ENGINEERING DESIGN STAKING/ INSPECTION	12586 LF	7.00	$62,930.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$84,700.00
		TOTAL	$ 1,383,339.90

KEOGH Keogh Engineering, Inc.
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Civil Engineers | Land Surveyors

20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 13 BOOK 159 PAGE 1 RECORDING DATE 2/13/73

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	95.00	-0-
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	3574 LF	71.00	$253,754.00
5' DIA. MANHOLE/REMOVE OLD	0	3800.00	-0-
4' DIA. MANHOLE/REMOVE OLD	10 EA	2900.00	$29,000.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	37 EA	275.00	$10,175.00
AIR TEST SEWER MAIN	3574 LF	0.55	$1,965.70
HYDRO VAC FOR TV INSPECTION	3574 LF	0.55	$1,965.70
HYDRO VAC FOR FINAL	3574 LF	0.55	$1,965.70
8" CLEANOUT	0	1100.00	-0-
SEWER ENCASEMENT	120 LF	35.00	$4,200.00
TEMP. LIFT STATION/PUMPING	3574 LF	5.00	$17,870.00

ENGINEERING DESIGN STAKING/ INSPECTION	3574 LF	7.00	$25,018.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$24,200.00
		TOTAL	$ 395,132.10

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20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 14 BOOK 219 PAGE 45 RECORDING DATE 7/8/86

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	1917	95.00	$182,115.00
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	4508 LF	71.00	$320,068.00
5' DIA. MANHOLE/REMOVE OLD	6 EA	3800.00	$22,800.00
4' DIA. MANHOLE/REMOVE OLD	15 EA	2900.00	$43,500.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	25 EA	275.00	$6,875.00
AIR TEST SEWER MAIN	6425 LF	0.55	$3,533.75
HYDRO VAC FOR TV INSPECTION	6425 LF	0.55	$3,533.75
HYDRO VAC FOR FINAL	6425 LF	0.55	$3533.75
8" CLEANOUT	2 EA	1100.00	$2,200.00
SEWER ENCASEMENT	140 LF	35.00	$4,900.00
TEMP. LIFT STATION/PUMPING	6425 LF	5.00	$32,125.00

ENGINEERING DESIGN STAKING/ INSPECTION	6425 LF	7.00	$44,975.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$43,700.00
		TOTAL	$ 713,859.25

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Civil Engineers | Land Surveyors

20 DECEMBER 2012

ENGINEERS COST ESTIMATE
ASSETT MANAGEMENT PLAN
LITCHFIELD PARK SERVICE AREA, ARIZONA
VS. OLD LITCHFIELD PARK, ARIZONA

ID- 15 BOOK 178 PAGE 22 RECORDING DATE 4/3/75

SEWER

ITEM	QUANTITY	UNIT	PRICE
12" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	95.00	-0-
10" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	0	83.00	-0-
8" PVC SDR-35 REMOVE OLD PIPE REMOVE ASPHALT/REPLACE	2530 LF	71.00	$179,630.00
5' DIA. MANHOLE/REMOVE OLD	0	3800.00	-0-
4' DIA. MANHOLE/REMOVE OLD	11 EA	2900.00	$31,900.00
4" SEWER SERVICE REMOVE TO PROPERTY LINE	34 EA	275.00	$9,350.00
AIR TEST SEWER MAIN	2530 LF	0.55	$1,391.50
HYDRO VAC FOR TV INSPECTION	2530 LF	0.55	$1,391.50
HYDRO VAC FOR FINAL	2530 LF	0.55	$1,391.50
8" CLEANOUT	0	1100.00	-0-
SEWER ENCASEMENT	100 LF	35.00	$3,500.00
TEMP. LIFT STATION/PUMPING	2530 LF	5.00	$12,650.00

ENGINEERING DESIGN STAKING/ INSPECTION	2530 LF	7.00	$17,710.00
PERMIT/REVIEW FEE (7% CONST.)	LS	LS	$16,900.00
		TOTAL	$ 275,814.50

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

CHRISTOPHER D. KRYGIER
DIRECT TESTIMONY

FEBRUARY 28, 2013

EXHIBIT CDK – DT3

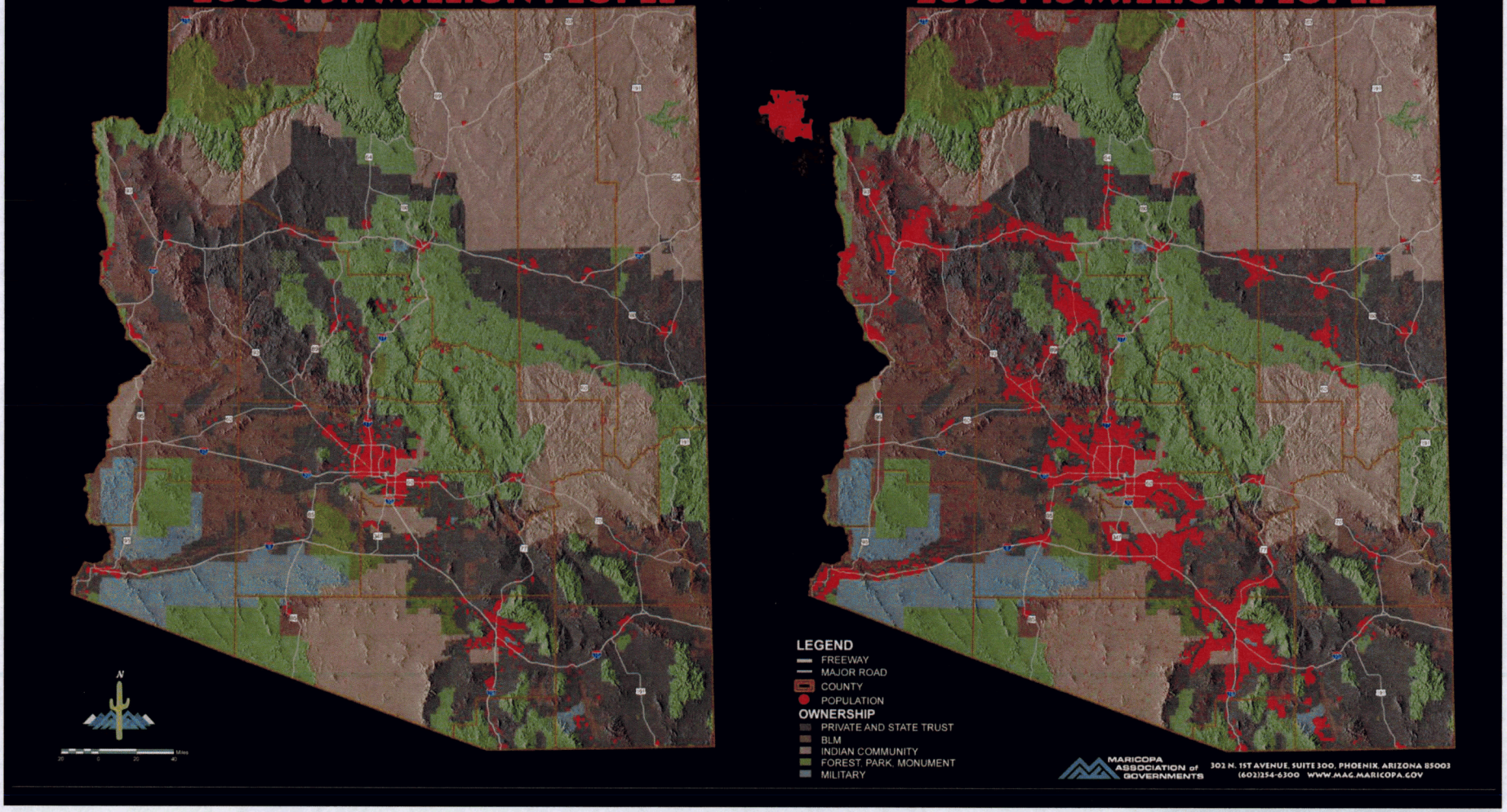
DSICs, Water Loss and Human Health

Graham Symmonds
Global Water

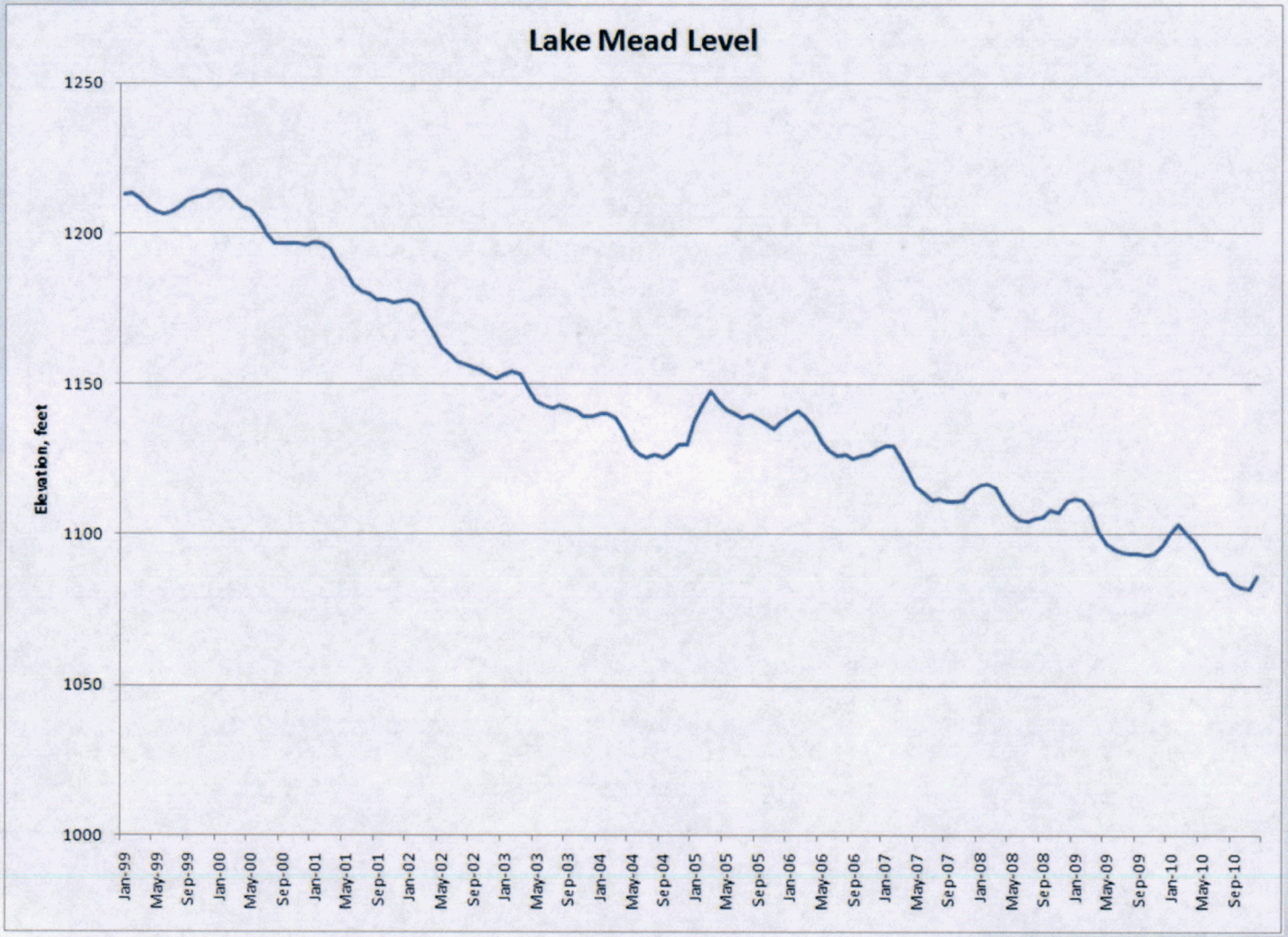
ARIZONA'S FUTURE

2000 : 5.1 MILLION PEOPLE

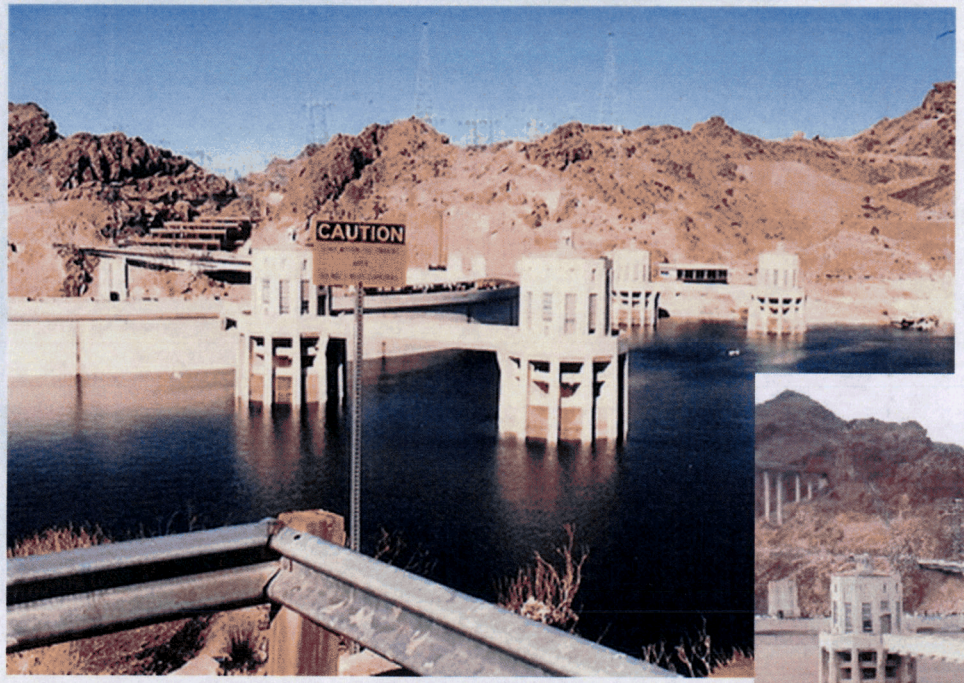
2050 : 16 MILLION PEOPLE

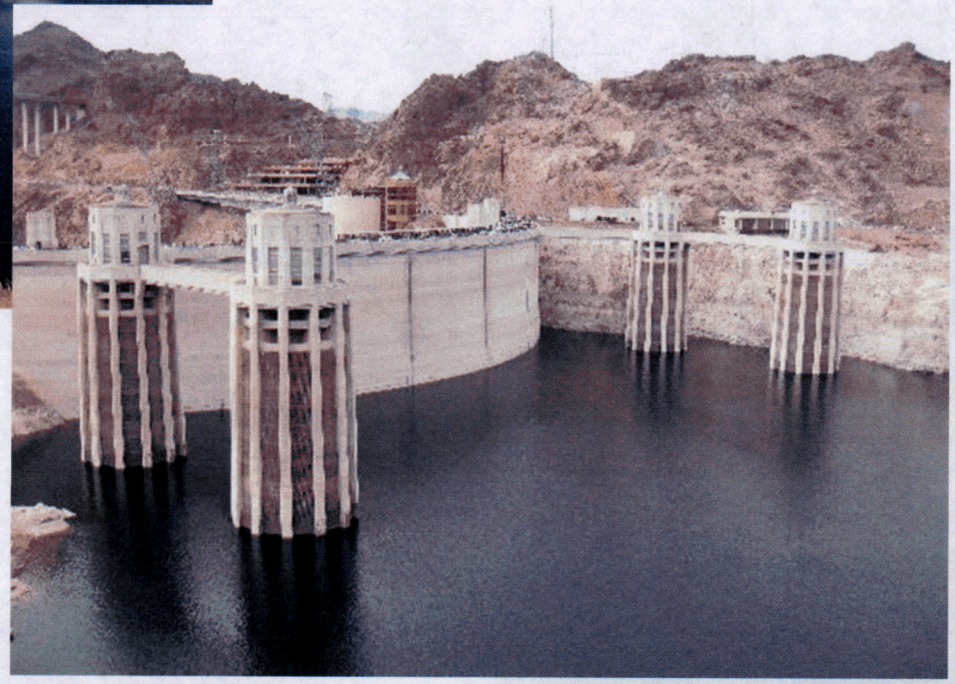


GLOBAL WATER



US Bureau of Reclamation, LAKE MEAD AT HOOVER DAM, ELEVATION (FEET) http://www.usbr.gov/lc/region/g4000/hourly/mead-elv.html accessed 4 Jan 11.


CAUTION



Distribution System Health

- Function of:
  - Age
    - Increasing
  - Water quality
    - pH, hardness, iron, manganese, etc
  - Soil characteristics
    - pH, corrosivity etc
  - Pipe material
    - Wood, cast iron, lead, ductile iron, AC, PVC etc
  - Pressure & Flow
    - High pressure, transients etc

75,000 Sanitary Sewer Overflows

Wastewater Collection Systems

- 3–10 billion gallons of untreated wastewater discharged annually.
- up to 3,700 illnesses annually are due to exposure to recreational water contaminated by sanitary sewer overflows.
- In 1989, sanitary sewer overflows in Cabool, Missouri, contaminated drinking water distribution lines, causing 243 cases of diarrhea and 4 deaths.
- In 1993, direct contact with a discharge of untreated sewage in Ocoee, Florida, resulted in 39 cases of hepatitis A.

USEPA, Addressing the Challenge Through INNOVATION, Office of Research and Development National Risk Management Research Laboratory

240,000 water main breaks
1.7 trillion gallons lost per year

Drinking Water Distribution systems

- The number of breaks increases substantially near the end of the system's service life.
- Large utility breaks in the Midwest increased from 250 per year to 2,200 per year during a 19-year period.
- In 2003, Baltimore, Maryland, reported 1,190 water main breaks (> 3/day).
- National cost of $2.6 billion per year.

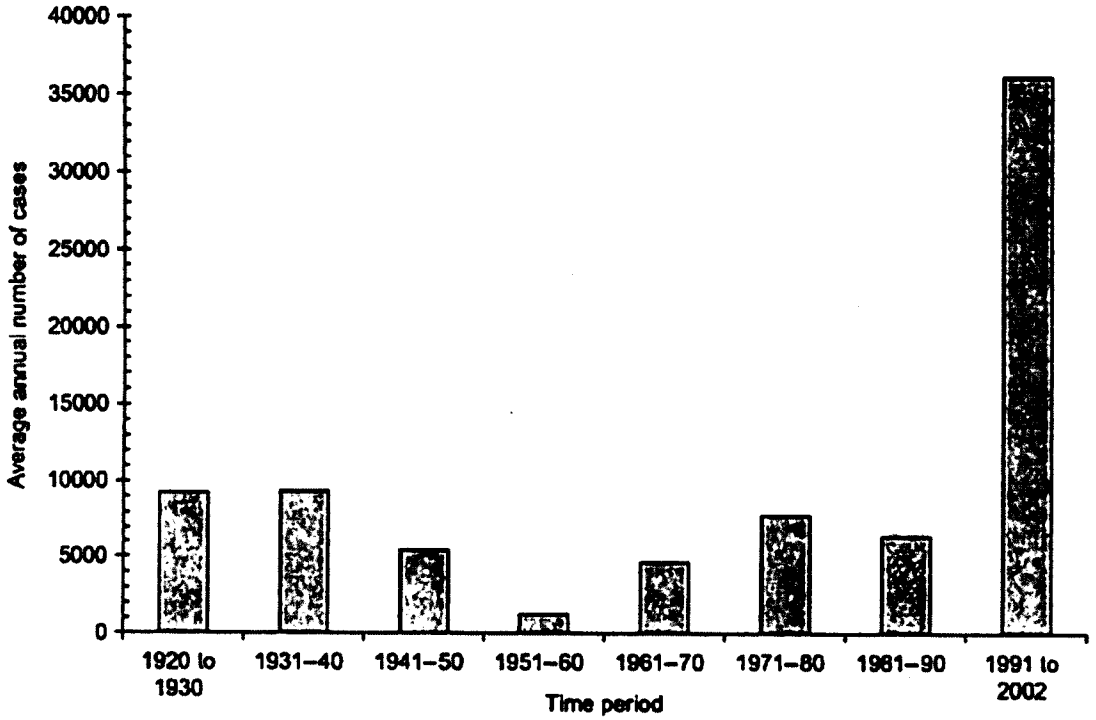
USEPA, Addressing the Challenge Through INNOVATION, Office of Research and Development National Risk Management Research Laboratory

Water Loss

- 1.7 trillion gallons per year (USGS)
  = 5.2 million acre-feet
- Lake Mead holds 28.537 million acre-feet (at elevation 1221.4 ft) (BOR)

Distribution systems lose the equivalent of Lake Mead every 5 years

Water-Borne Disease Outbreaks

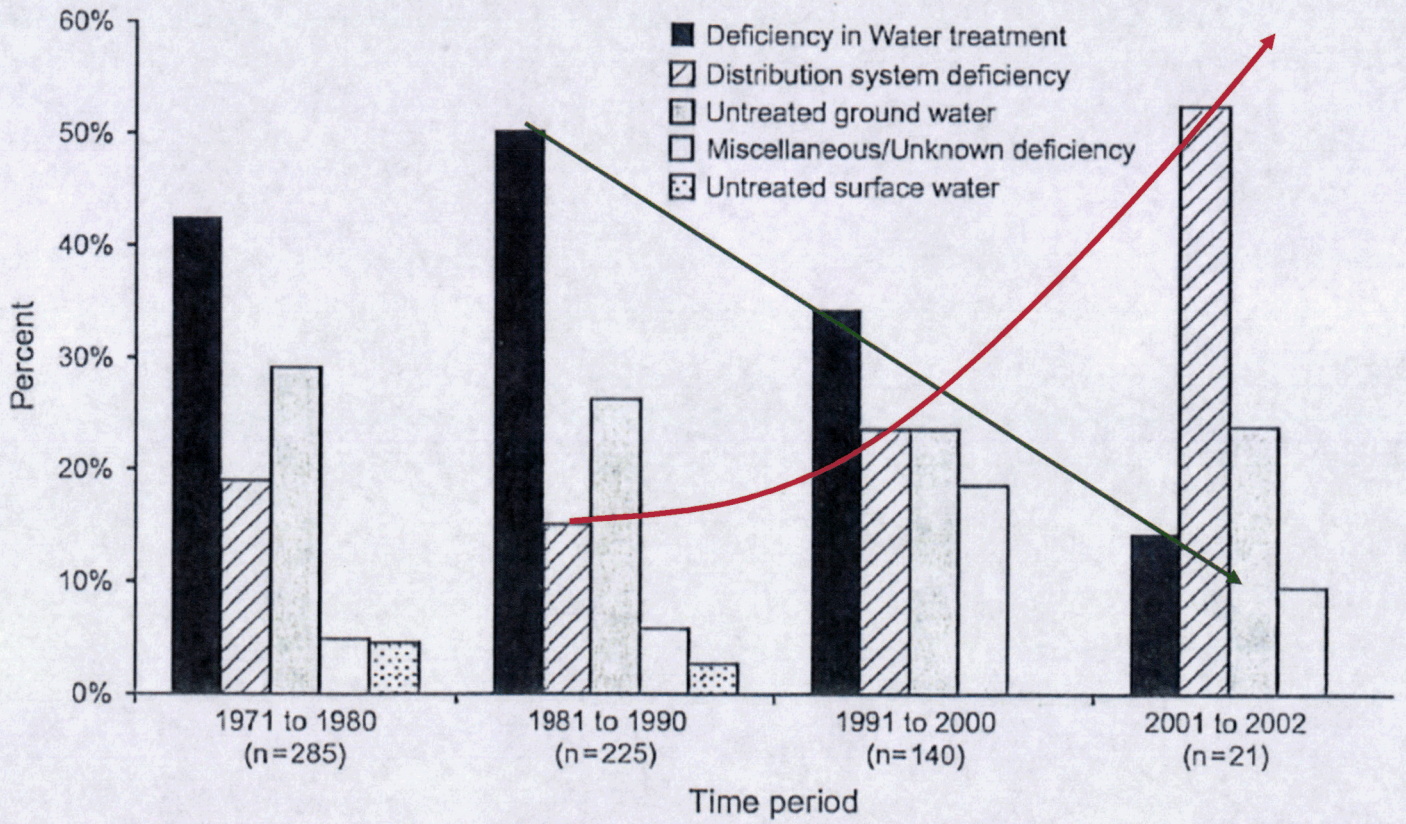


M.F. Craun, et al., Waterborne outbreaks reported in the United States, J. Wat. Health 4(Suppl. 2), 19–30, 2006.

Distribution Systems

- Out of sight, out of mind
- SDWA regulates 91 contaminants
- SDWA is based on regulating water delivered to the distribution system (point of compliance is the EPDS)
  - Only 3 rules require monitoring in the distribution system:
    - LCR
    - TCR
    - D/DBPR

Sources of Water-Borne Disease Outbreaks



M.F. Craun, et al., Waterborne outbreaks reported in the United States, J. Wat. Health 4(Suppl. 2), 19–30, 2006.

Incidents of Water-Borne Disease Outbreaks

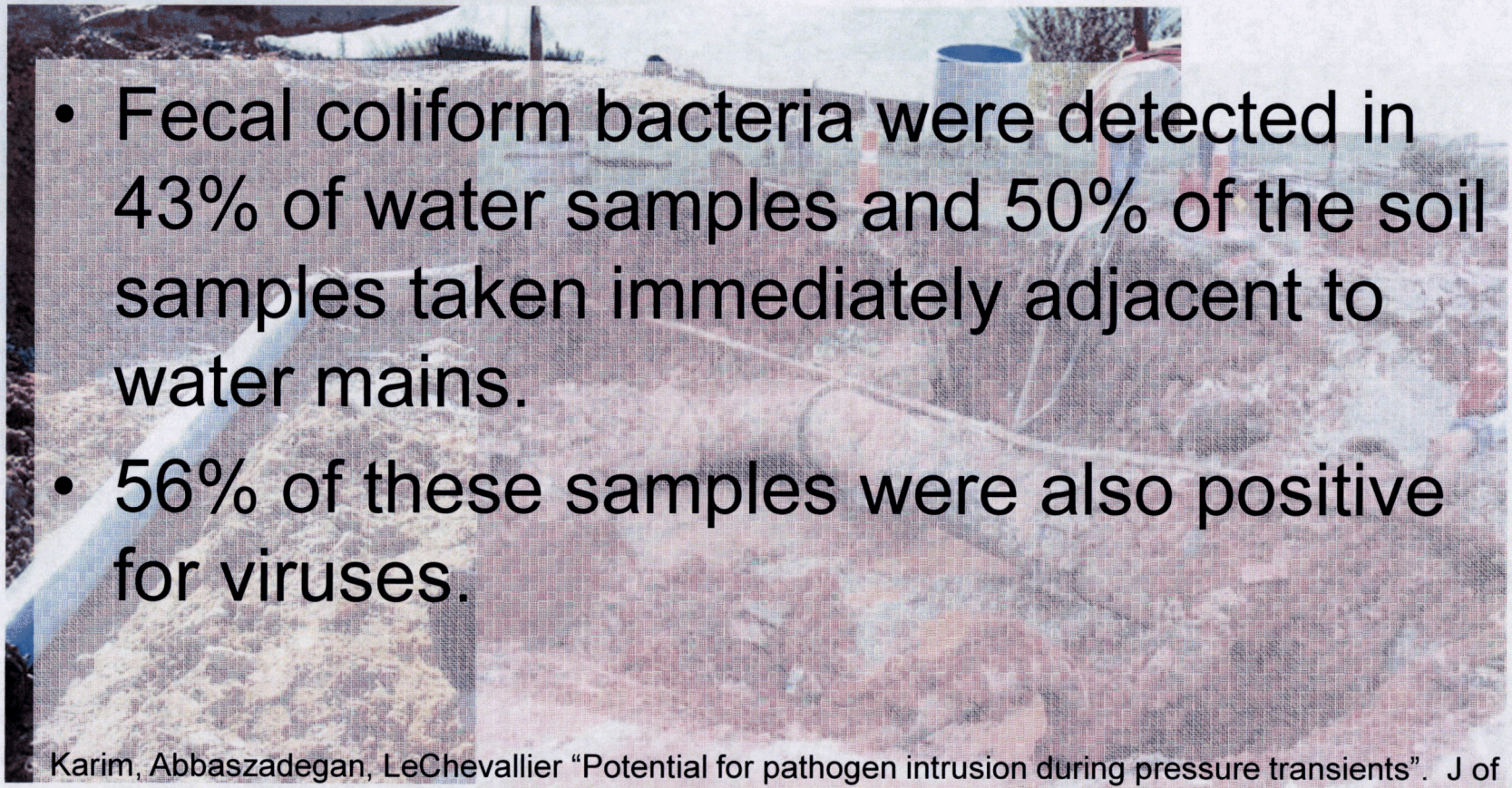
- Very strong association of water-borne disease outbreaks with reporting of loss of pressure at the home tap.
- Most of the reported episodes of pressure loss were associated with disruption of the water supply and are likely to be related to burst water mains.

Paul R. Hunter et al., Self-Reported Diarrhea in a Control Group: A Strong Association with Reporting of Low-Pressure Events in Tap Water, Clinical Infectious Diseases 2005; 40:e32–4

Why?

Why?

Why?



- Fecal coliform bacteria were detected in 43% of water samples and 50% of the soil samples taken immediately adjacent to water mains.
- 56% of these samples were also positive for viruses.

Karim, Abbaszadegan, LeChevallier "Potential for pathogen intrusion during pressure transients". J of American Water Works Association 2003:95:134-46

DSICs

- Provide a regulatory incentive to institute a management program
- Encourages best management practices and collection system/distribution system optimization
- Overall decrease in emergency O&M
- Overall decrease in instantaneous CAPEX

Regulatory Constructs to Ensure Efficiency

- Metrics:
  - Main failures per mile
  - Sewer overflows
  - Water Loss
    - GPHMI
    - Approach UARL
  - Outages
    - SAIDI/SAIFI
    - CAIDI/CAIFI

Regulatory Constructs to Ensure Efficiency

- SAIDI/SAIFI
  - System Average Interruption Duration Index

$$\text{SAIDI} = \frac{\text{sum of all customer interruption durations}}{\text{total number of customers served}}$$

  - System Average Interruption Frequency Index

$$\text{SAIFI} = \frac{\text{total number of customer interruptions}}{\text{total number of customers served}}$$

- CAIDI/CAIFI
  - Customer Average Interruption Duration Index

$$\text{CAIDI} = \frac{\text{sum of all customer interruption durations}}{\text{total number of customer interruptions}} = \frac{\text{SAIDI}}{\text{SAIFI}}$$

  - Customer Average Interruption Frequency Index

$$\text{CAIFI} = \frac{\text{total number of customer interruptions}}{\text{total number of customers who had at least one interruption}}$$


BOIL WATER
ORDER ISSUED

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

CHRISTOPHER D. KRYGIER
DIRECT TESTIMONY

FEBRUARY 28, 2013

EXHIBIT CDK – DT4

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

October 2012

Abstract

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

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

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

Authors

Tom Broderick, Director, Rates, EPCOR Water, 28 years water and electricity regulation and finance

Ron Fleming, V.P., Arizona, Global Water Resources, 8 years in utility operations

Bill Garfield, President, Arizona Water Company, 30 years in utility operations

Joe Harris, V.P. & Treasurer, Arizona Water Company, CPA, 30 years in utility operations

Chris Krygier, Manager, Rates & Regulation, Liberty Utilities, MBA, 5 years in utility operations

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

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

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

Distribution System Improvement Charges

("DSIC")

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

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

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

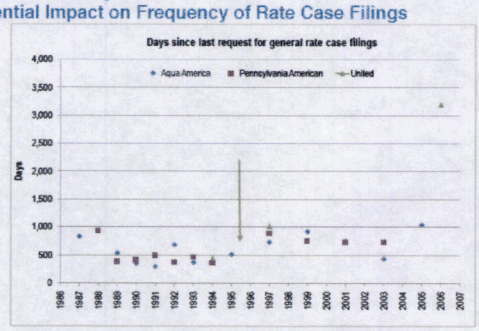
- Reduced rate case frequency and cost,
- Smaller rate hikes and increased rate stability,
- Improved infrastructure, and an
- Improved regulatory climate for investment.

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

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

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

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



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

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

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

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

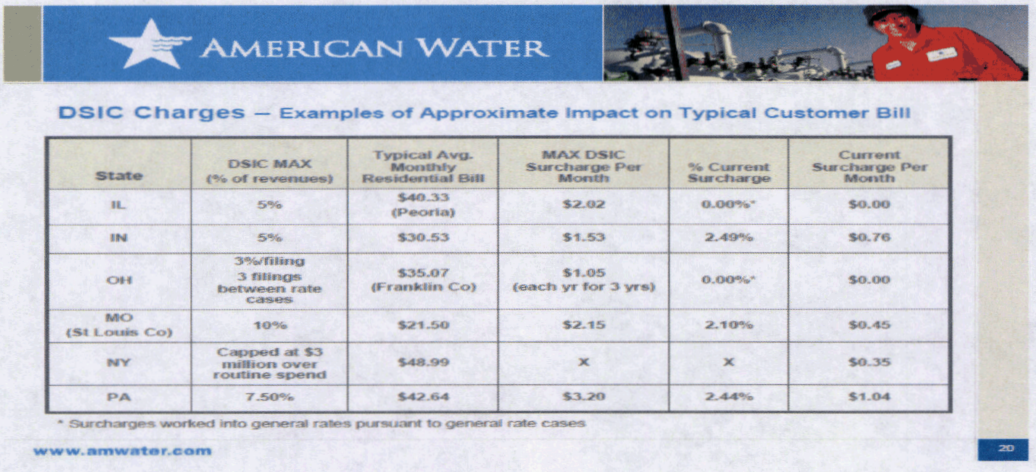
Some argue that regulatory lag is a "benefit" to customers because it provides them the use of infrastructure without them having to pay for that infrastructure. But that is only the 'seen' aspect of the economics of utility investment, the 'unseen' aspect is that there is no such thing as a free lunch: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

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

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

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

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


AMERICAN WATER

DSIC Charges – Examples of Approximate Impact on Typical Customer Bill

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

* Surcharges worked into general rates pursuant to general rate cases

www.amwater.com

20

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

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

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

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

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

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

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

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

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

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

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

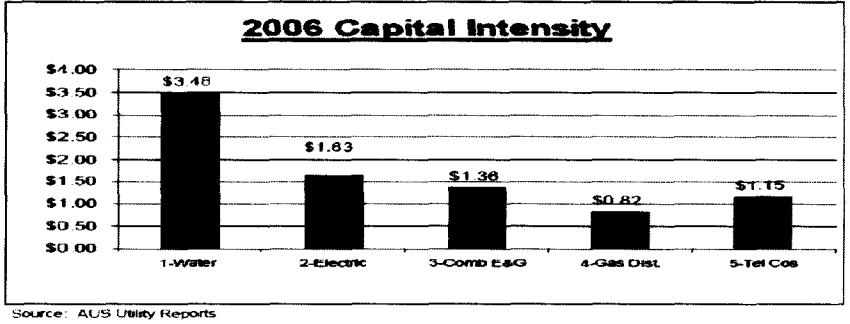
In trying to estimate the "value" of the PSA, there seems to be only one number that is meaningful – APS can pass thru changes in its power and fuel costs of up to $0.004/kWh.[14] APS' retail sales were 28,210,326,000 kWh in 2011.[15]

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

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

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

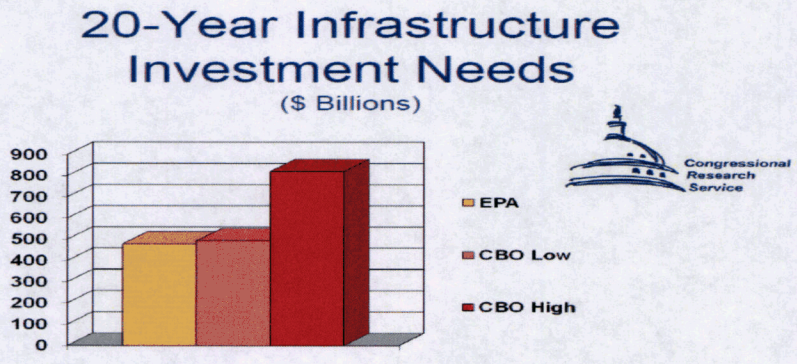
Capital Intensity:
Utility Plant / Operating Revenue



Source: AUS Utility Reports

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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[21] Data provided by Desert Mountain Analytical Services

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

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

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

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

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

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

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

A utility in need of a DSIC is likely riskier.

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

Proposed DSIC Process - Overview.

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

Proposed DSIC and CSIC Process

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

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

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

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

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

Line No.		[A] SYSTEM
1	ASSETS BUILT IN PAST YEAR BY NARUC ACCOUNT	
2	309 SUPPLY MAINS	
3	Project Name & Location	
4	Gross Utility Plant	
5	Less: Accumulated Depreciation	
6	Net Utility Plant	$ -
7	330 DISTRIBUTION AND TRANSMISSION MAINS	
8	Project Name & Location	
9	Gross Utility Plant	
10	Less: Accumulated Depreciation	
11	Net Utility Plant	$ -
12	333 SERVICES	
13	Project Name & Location	
14	Gross Utility Plant	
15	Less: Accumulated Depreciation	
16	Net Utility Plant	$ -
17	334 METERS	
18	Project Name & Location	
19	Gross Utility Plant	
20	Less: Accumulated Depreciation	
21	Net Utility Plant	$ -
	TOTAL DSIC PLANT	$ -
	LESS: ACCUMULATED DEPRECIATION	$ -
22	NET DSIC PLANT	$ -
23	AUTHORIZED WACC, DECISION NO.	
24	DSIC SURCHARGE	$ -
	AUTHORIZED ROE, DECISION NO.	
	EARNED ROE WITH SURCHARGE	

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

1-Balance Sht

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

1-Balance Sht

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

2-Income Stmt

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

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

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

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

4-Rate Review

[A]

DISTRICT A

Line No.		Per Dec. No. XXXXX	12 Mos. Ending 12/31/20X1	DGIC Increase	Adjusted with DGIC
1					
2	REVENUE				
3	Total Operating Revenue	$ -	$ -	$ -	$ -
4					
5	OPERATING EXPENSES:				
6	Operation and Maintenance	-	-	-	-
7	Depreciation	-	-	-	-
8	Taxes Other than Income	-	-	-	-
9	Income Taxes	-	-	-	-
10	Total Operating Expenses	$ -	$ -	$ -	$ -
11					
12	OPERATING INCOME/(LOSS)	$ -	$ -	$ -	$ -
13					
14	RATE BASE - O.C.L.D.	-	-		-
15	(Sch. 7, Ln. 33)				
16					
17	RATE OF RETURN - O.C.L.D.				
18	(Ln. 12 / Ln. 14)				
19					
20	AUTHORIZED RATE OF RETURN				
21	(Decision No. 71845)				
22					
23	OPERATING MARGIN				
24	(Ln. 12 / Ln. 3)				
25					
26	Interest Expense - Net	$ -	$ -	$ -	$ -
27					
28	INEREST COVERAGE				
29	[(Ln. 12 + Ln. 9) / Ln. 26]				
30					
31					
32					
33	Equity Ratio				
34	(Decision 71845)				
35					
36	Allocated Equity	$ -	$ -	$ -	$ -
37	(Ln. 14 x Ln. 33)				
38					
39	RETURN ON EQUITY				
40	[(Ln. 12 - Ln. 26) / Ln. 36]				
41					
42	AUTHORIZED RETURN ON EQUITY				
43	(Decision No. 71845)				
44					
45	THREE FACTOR RATIO	-			
46					
47					
48					
49					
50					
51					
52					
53					
54					
55					

4-Rate Review

ABLE WATER COMPANY
Docket No. W-XXXXX-XX-XXXX
Revenue Requirement
As of December 31, 2XXX

5-Revenue Req

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

5-Revenue Req

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

6-Schg Calc

Line No.		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
					DISTRICT					
3	GROWTH		Customers	M Gallons Sold	M Gallons Sold Per Cust.					
4	12/31/2010 (Year 1)									
5	12/31/2011 (Year 2)									
6	Increase/(Decrease)		-	-	-					
7	Percentage Change									
8	Average M Gallons									

INCREMENTAL FIXED COSTS TO BE RECOVERED PER BILL

	Customers by Meter Size		Est. Average Customers	Basic Service	Meter	Equivalent Meters	Fixed Increment	
Size	12/31/20XX	12/31/20XY	(A + B) / 2	Charge	Multiples	(C X F)	Monthly (G/35 X F)	Annual (C X G) X 12
5/8"						-		
1"						-		
1.5"						-		
2"						-		
3"						-		
4"						-		
6"						-		
8"						-		
10"						-		
Totals						-		$ -

CALCULATION OF SURCHARGE

		Minimum Surcharge (F34)
Total Revenue Requirement of DCIC Eligible Plant Capital Costs	$ -	
100% of Total Revenue Requirement on Line 34 Recoverable through Basic Service Charge		$ -
Equivalent Meters (Col. G, Ln. 26 X 12 Mos.)		-
Increment Per Equivalent 5/8" Meter (Col. G, Ln. 35 / Col. G, Ln. 38)		
Average M Gallons (Col. C, Ln. 8)		
Increment Per M Gallon (Col. H, Ln. 36 / Col. H, Ln. 41)		

6-Schg Calc

ABLE WATER COMPANY — 7-Rate Base
Docket No. W-XXXXX-XX-XXXX
Rate Base
As of December 31, 20XX

Line No.		[A] Per Dec. No.	[B] DISTRICT DSIC Plant Increase	[C] Year End Balance (A + B)	[D] Current Balance 12/31/20XX
1					
2	*DSIC Eligible Plant*	$ -			$ -
3					
4	Other Utility Plant in Service	-	-		-
5	Total Plant in Service	$ -	$ -		$ -
6	(Ln. 2 + Ln. 4)				
7					
8	Accumulated Depreciation	-	-		-
9	Net Utility Plant	$ -	$ -	$ -	$ -
10	(Ln. 5 - Ln. 8)				
11					
12	*Advances*	-	-		-
13					
14	Contributions - Net	-	-		-
15					
16	Deferred Income Tax	-	-		-
17					
18	Customer Deposits	-			-
19					
20	Working Capital Allowance	-	-		-
21	(Per Decision No. _____)				
22					
23	Net Regulatory Asset/(Liability)	-			
24					
25	Total Rate Base	$ -	$ -	$ -	$ -
26	(Ln. 9 - Ln. 12 - Ln. 14 - Ln. 16 + Ln. 18)				
27					
48					
49					
50					
51					
52					
53					
54					
55					

7-Rate Base

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

8-CWIP Lgr

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

9-Three Fac

Line No.	System	20XX Customers	20XX Gross Plant Less Intangibles	20XX Gross Payroll	Ratios Customers	Ratios Gross Plant Less Intangibles	Ratios Gross Payroll	Total
1								
2								-
3								-
4								-
5								-
6								-
7								-
8								-
9								-
10								-
11								-
12								-
13								-
14								-
15								-
16								-
17								-
18								-
19								-
20								
21	Totals	-	$ -	$ -		$ -	$ -	-
22								
23								
24								
25								
26								
27								
28								
29								
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9-Three Fac

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

10-Typical Bill

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

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

CHRISTOPHER D. KRYGIER
DIRECT TESTIMONY

FEBRUARY 28, 2013

EXHIBIT CDK – DT5

WATER RATES

ORIGINAL

ARIZONA WATER COMPANY
Phoenix, Arizona

Filed by:	William M. Garfield	A.C.C. No.	481
Title:	President	Cancelling A.C.C. No.	410
Date of Original Filing:	7-25-83	Tariff or Schedule No.	AM-253
		Filed:	November 30, 2005
		Effective:	For all service rendered on or after December 1, 2005

System: **All Services Areas EXCEPT Apache Junction, Bisbee, Sierra Vista, San Manuel, Oracle, Winkelman, Miami, Superior, Casa Grande, Coolidge, White Tank, Stanfield. Aio**

PURCHASED POWER ADJUSTMENT MECHANISM ("PPAM") TARIFF

Whenever Arizona Water Company's purchased power (electric and/or natural gas) expense in any of its water systems increases or decreases, or will increase or decrease, from the amount adopted by the Arizona Corporation Commission in the Company's last general rate proceeding for that system, the Company may, in accordance with the provisions of this PPAM, file a new schedule with the Commission for that system, setting forth an adjustment per 100 gallons designed to recover such increased or decreased purchased power expense, provided that:

1. The total amount of the increase or decrease in the purchased power expense will be calculated by comparing the Company's normalized cost for power during the test year utilized in its last general rate case with the Company's normalized cost of power for that test year computed at the Company's new increased or decreased cost for power.

2. The total change in power cost will be divided by the total gallonage pumped during the test year to determine the adjusted increase or decrease per 100 gallons.

3. The calculated increase or decrease in rates for the system must amount to at least $0.001 per 100 gallons (rounded up or down from five) before an adjustment can be made.

4. All revised schedules filed with the Arizona Corporation Commission pursuant to the provisions of this PPAM will be accompanied by workpapers prepared by the Company in a format approved by the Utilities Division Staff of the Commission and will be in sufficient detail to enable the Commission to test the accuracy of the Company's calculations.

5. The new schedules filed by the Company under the provisions of this PPAM will become effective either on the date the schedules are approved for filing, if the purchased power expense has already increased, or decreased, or on the date the increased or decreased purchased power expense becomes effective, if it has not yet changed.

6. Illustration of application of the above PPAM, assuming the following test year data:

   A) 4,000,000 H Gallons Pumped
   B) 3,300,000 H Gallons Sold (82.5%)
   C) 700,000 H Gallons Unaccounted For (17.5%)
   D) $100,000 Purchased Power Expense
   E) 1,250,000 KWH

Should Purchased Power Rates increase at a future date such that the new Power Rates x (E) = $125,000, a Purchased Power Expense pass thru calculation would be initiated.

Pass Thru Calculation Steps:

APPROVED FOR FILING
DECISION #: 68302

1) $125,000 - $100,000 = $25,000 Total Purchased Power Increase
2) $25,000 ÷ 4,000,000 H Gallons Pumped = $0.00625/H Gallon
3) Step (2) Rounded Per Provisions of Tariff = $0.006/H Gallon
4) $0.006/H Gallon x Actual Gallons Used Including Gallons In Minimum = PPAM Charge on Bill

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

CHRISTOPHER D. KRYGIER
DIRECT TESTIMONY

FEBRUARY 28, 2013

EXHIBIT CDK – DT6

RATE SCHEDULE E-221
CLASSIFIED SERVICE
WATER PUMPING SERVICE

AVAILABILITY

This rate schedule is available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the sites served.

APPLICATION

This rate schedule is applicable to Standard Offer electric service required for irrigation pumping or for water utilities for pumping potable water to serve the citizens of a city, town, or unincorporated community. Service must be supplied at one point of delivery and measured through one meter. Direct Access customers are not eligible for service under this schedule.

Rate selection is subject to paragraphs 3.2 and 3.3 of the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services.

This schedule is not applicable to breakdown, standby, supplemental, residential or resale service.

TYPE OF SERVICE

The type of service provided under this schedule will be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's site.

RATES

The bill shall be computed at the following rates or minimum rates, whichever is greater, plus any adjustments incorporated in this schedule:

Basic Service Charge:	$ 0.588	per day
Demand Charge:	$ 2.357	per kW
Energy Charge:	$ 0.11228	per kWh for the first 240 kWh, plus
	$ 0.07633	per kWh for the next 275 kWh per kW, plus
	$ 0.06270	per kWh for all additional kWh

MINIMUM

The bill for service under this rate schedule will not be less than $0.558 per day plus $2.357 for each kW of the highest kW established during the 12 months ending with the current month, or the minimum kW specified in the Electric Service Agreement, whichever is greater.

POWER FACTOR

The customer deviation from phase balance shall not be greater than ten percent (10%) at any time. Customers receiving service at voltage levels below 69 kV shall maintain a power factor of 90% lagging but in no event leading unless agreed to by Company. Service voltage levels at 69 kV or above shall maintain a power factor of ± 95% at all times. In situations where Company suspects that a customer's load has a non-confirming power factor, Company may install at its cost, the appropriate metering to monitor such loads. If the customer's power factor is found to be non-conforming, the customer will be required to pay the cost of installation and removal of VAR metering and recording equipment.

POWER FACTOR (cont)

Customers found to have a non-conforming power factor, or other detrimental conditions shall be required to remedy problems, or pay for facilities/equipment that Company must install on its system to correct for problems caused by the customer's load. Until such time as the customer remedies the problem to Company satisfaction, kVA may be substituted for kW in determining the applicable charge for billing purposes for each month in which such failure occurs.

DETERMINATION OF KW

For billing purposes, the kW used in this rate schedule shall be based on the average kW supplied during the 15-minute period of maximum use during the month, as determined from readings of the Company's meter, or at the Company's option, by test.

ADJUSTMENTS

1. The bill is subject to the Renewable Energy Standard as set forth in the Company's Adjustment Schedule REAC-1 pursuant to Arizona Corporation Commission Decision No. 70313.

2. The bill is subject to the Power Supply Adjustment factor as set forth in the Company's Adjustment Schedule PSA-1 pursuant to Arizona Corporation Commission Decision No. 67744, Arizona Corporation Commission Decision No. 69663, Arizona Corporation Commission Decision No. 71448, and 73183.

3. The bill is subject to the Transmission Cost Adjustment factor as set forth in the Company's Adjustment Schedule TCA-1 pursuant to Arizona Corporation Commission Decision No. 67744.

4. The bill is subject to the Environmental Improvement Surcharge as set forth in the Company's Adjustment Schedule EIS pursuant to Arizona Corporation Commission Decision No. 69663 and Arizona Corporation Commission Decision No. 73183.

5. Direct Access customers returning to Standard Offer service may be subject to a Returning Customer Direct Access Charge as set forth in the Company's Adjustment Schedule RCDAC-1 pursuant to Arizona Corporation Commission Decision No. 67744.

6. The bill is subject to the Demand Side Management Adjustment Charge as set forth in the Company's Adjustment Schedule DSMAC-1 pursuant to Arizona Corporation Commission Decision No. 67744, and Arizona Corporation Commission Decision No. 71448.

7. The bill is subject to the Lost Fixed Cost Recovery mechanism as set forth in the Company's Adjustment Schedule LFCR pursuant to Arizona Corporation Commission Decision No. 73183.

8. The bill is subject to the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of APS and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.

CONTRACT PERIOD

The contract period for customers receiving service under this rate schedule will be one (1) year or longer. At the Company's option, the contract period will be three (3) years or longer where additional distribution construction is required to serve the customer.

TERMS AND CONDITIONS

Service under this rate schedule is subject to the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services, which contains provisions that may affect the customer's bill. In addition, service may be subject to special terms and conditions as provided for in a customer contract or service agreement.

RATE SCHEDULE E-32 XS
EXTRA SMALL GENERAL SERVICE (0 kW - 20 kW)

AVAILABILITY

This rate schedule is available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the sites served.

APPLICATION

This rate schedule is applicable to all Standard Offer and Direct Access customers whose Average Monthly Maximum Demand is 20 kW per month or less.

The Company initially will place the Customer on the applicable Rate Schedule E-32 XS, E-32 S, E-32 M, or E-32 L based on the Average Monthly Maximum Demand, as determined by the Company.

The Customer will be billed on Schedule E-32 S or E-32 XS depending on the Monthly Maximum Demand for each billing cycle.

Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by an individual customer contract.

Rate selection is subject to paragraphs 3.2 through 3.5 of the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services.

This schedule is not applicable to breakdown, standby, supplemental, residential or resale service.

TYPE OF SERVICE

The type of service provided under this schedule will be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's site. Three phase service is furnished under the Company's Schedule 3 (Conditions Governing Extensions of Electric Distribution Lines and Services). Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceeds 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP. Service under this schedule is generally provided at secondary voltage or primary voltage when the customer owns the distribution transformer(s).

RATES

The bill shall be computed at the following rates, plus any adjustments incorporated in this rate schedule:

Bundled Standard Offer Service

Basic Service Charge:

For service through Self-Contained Meters:	$	0.672	per day, or
For service through Instrument-Rated Meters:	$	1.324	per day, or
For service at Primary Voltage:	$	3.415	per day

RATES (cont)

Bundled Standard Offer Service (cont)

Energy Charge:

May – October Billing Cycles (Summer)	November – April Billing Cycles (Winter)
For Secondary Service: $0.13537 per kWh for the first 5,000 kWh, plus $0.07427 per kWh for all additional kWh, or	For Secondary Service: $0.11769 per kWh for the first 5,000 kWh, plus $0.05658 per kWh for all additional kWh, or
For Primary Service: $0.13209 per kWh for the first 5,000 kWh, plus $0.07100 per kWh for all additional kWh	For Primary Service: $0.11438 per kWh for the first 5,000 kWh, plus $0.05329 per kWh for all additional kWh

Bundled Standard Offer Service consists of the following Unbundled Components:

Unbundled Standard Offer Service

Customer Accounts Charge:	$ 0.126	per day
Revenue Cycle Service Charges:		
Metering:		
Self-Contained Meters:	$ 0.403	per day, or
Instrument-Rated Meters:	$ 1.055	per day, or
Primary:	$ 3.146	per day

These daily metering charges apply to typical installations. Customers requiring specialized facilities are subject to additional metering charges that reflect the additional cost of the installation, (for example, a customer taking service at 230 kV). Adjustments to unbundled metering components will result in an adjustment to the bundled Basic Service Charge.

Meter Reading:	$ 0.068	per day
Billing:	$ 0.075	per day
System Benefits Charge:	$ 0.00297	per kWh
Transmission Charge:	$ 0.00424	per kWh

RATES (cont)

Unbundled Standard Offer Service (cont)

Delivery Charge:

May – October Billing Cycles (Summer)	November – April Billing Cycles (Winter)
For Secondary Service: $0.04175 per kWh for the first 5,000 kWh, plus $0.01310 per kWh for all additional kWh, or	For Secondary Service: $0.04168 per kWh for the first 5,000 kWh, plus $0.01303 per kWh for all additional kWh, or
For Primary Service: $0.03847 per kWh for the first 5,000 kWh, plus $0.00983 per kWh for all additional kWh	For Primary Service: $0.03837 per kWh for the first 5,000 kWh, plus $0.00974 per kWh for all additional kWh

Generation Charge:

May – October Billing Cycles (Summer)	November – April Billing Cycles (Winter)
$0.08641 per kWh for the first 5,000 kWh, plus $0.05396 per kWh for all additional kWh	$0.06880 per kWh for the first 5,000 kWh, plus $0.03634 per kWh for all additional kWh

DIRECT ACCESS

The bill for Direct Access customers under this rate schedule will consist of the applicable Unbundled Components Customer Accounts Charge, System Benefits Charge, and Delivery Charge, plus any applicable adjustments incorporated in this schedule. Direct Access customers must acquire and pay for generation, transmission, and revenue cycle services from a competitive third party supplier. If any revenue cycle services are not available from a third party supplier and must be obtained from the Company, the applicable Unbundled Components Revenue Cycle Service Charges will be applied to the customer's bill.

POWER FACTOR

The customer deviation from phase balance shall not be greater than ten percent (10%) at any time. Customers receiving service at voltage levels below 69 kV shall maintain a power factor of 90% lagging but in no event leading unless agreed to by Company. Service voltage levels at 69 kV or above shall maintain a power factor of ± 95% at all times. In situations where Company suspects that a customer's load has a non-confirming power factor, Company may install at its cost, the appropriate metering to monitor such loads. If the customer's power factor is found to be non-conforming, the customer will be required to pay the cost of installation and removal of VAR metering and recording equipment. Customers found to have a non-conforming power factor, or other detrimental conditions shall be required to remedy problems, or pay for facilities/equipment that Company must install on its system to correct for problems caused by the customer's load. Until such time as the customer remedies the problem to Company satisfaction, kVA may be substituted for kW in determining the applicable charge for billing purposes for each month in which such failure occurs.

DETERMINATION OF KW

For billing purposes, including determination of Monthly Maximum Demands, the kW used in this rate schedule shall be based on the average kW supplied during the 15-minute period of maximum use during the month as determined from readings of the Company's meter.

The Average Monthly Maximum Demand shall equal the average of the Monthly Maximum Demands for the May through October billing cycles, as determined by the Company. If the Monthly Maximum Demands are not available for all six May through October billing cycles, the Average Monthly Maximum Demand will be based on the available information. For a new customer, the initial Average Monthly Maximum Demand will be based on the estimated maximum kW provided by the Customer and approved by the Company.

ADJUSTMENTS

1 The bill is subject to the Renewable Energy Standard as set forth in the Company's Adjustment Schedule REAC-1 pursuant to Arizona Corporation Commission Decision No. 70313.

2 The bill is subject to the Power Supply Adjustment factor as set forth in the Company's Adjustment Schedule PSA-1 pursuant to Arizona Corporation Commission Decision No. 67744, Arizona Corporation Commission Decision No. 69663, Arizona Corporation Commission Decision No. 71448 and 73183.

3 The bill is subject to the Transmission Cost Adjustment factor as set forth in the Company's Adjustment Schedule TCA-1 pursuant to Arizona Corporation Commission Decision No. 67744.

4. The bill is subject to the Environmental Improvement Surcharge as set forth in the Company's Adjustment Schedule EIS pursuant to Arizona Corporation Commission Decision No. 69663 and Arizona Corporation Commission Decision No. 73183.

5. Direct Access customers returning to Standard Offer service may be subject to a Returning Customer Direct Access Charge as set forth in the Company's Adjustment Schedule RCDAC-1 pursuant to Arizona Corporation Commission Decision No. 67744.

6. The bill is subject to the Demand Side Management Adjustment charge as set forth in the Company's Adjustment Schedule DSMAC-1 pursuant to Arizona Corporation Commission Decision No. 67744 and Arizona Corporation Commission Decision No. 71448.

7. The bill is subject to the Lost Fixed Cost Recovery mechanism as set forth in the Company's Adjustment Schedule LFCR pursuant to Arizona Corporation Commission Decision No. 73183.

8. The bill is subject to the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of APS and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.

CONTRACT PERIOD

For customers with monthly maximum demands up to 20 kW, any applicable contract period will be set forth in the Company's standard agreement for service. At the Company's option, the contract period will be three (3) years or longer where additional distribution construction is required to serve the customer or, if no additional distribution construction is required, the contract period will be one (1) year or longer.

TERMS AND CONDITIONS

Service under this rate schedule is subject to the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services and the Company's Schedule 10, Terms and Conditions for Direct Access. These schedules have provisions that may affect the customer's bill. In addition, service may be subject to special terms and conditions as provided for in a customer contract or service agreement.

RATE SCHEDULE E-32 L
LARGE GENERAL SERVICE (401 kW +)

AVAILABILITY

This rate schedule is available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the sites served.

APPLICATION

This rate schedule is applicable to all Standard Offer and Direct Access customers whose Average Monthly Maximum Demand is greater than 400 kW per month.

The Company will place the Customer on the applicable Rate Schedule E-32 XS, E-32 S, E-32 M, or E-32 L based on the Average Monthly Maximum Demand, as determined by the Company each year. Such placement will occur in the February billing cycle following the annual determination. The Company may also place the Customer on the Applicable Rate Schedule during the year, if the Customer has experienced a significant and permanent change in load as determined by the Company. Such placement will be based on available information.

Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by an individual customer contract.

Rate selection is subject to paragraphs 3.2 through 3.5 of the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services.

This schedule is not applicable to breakdown, standby, supplemental, residential or resale service nor to service for which Rate Schedule E-34 is applicable.

TYPE OF SERVICE

The type of service provided under this schedule will be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's site. Three phase service is furnished under the Company's Schedule 3 (Conditions Governing Extensions of Electric Distribution Lines and Services). Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceeds 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP. Service under this schedule is generally provided at secondary voltage, primary voltage when the customer owns the distribution transformer(s), or transmission voltage.

RATES

The bill shall be computed at the following rates or the minimum rates, whichever is greater, plus any adjustments incorporated in this rate schedule:

Bundled Standard Offer Service

Basic Service Charge:

For service through Self-Contained Meters:	$ 1.068	per day, or
For service through Instrument-Rated Meters:	$ 1.627	per day, or
For service at Primary Voltage:	$ 3.419	per day, or
For service at Transmission Voltage:	$ 22.915	per day

RATES (cont)

Bundled Standard Offer Service (cont)

Demand Charge:

Secondary Service:	$ 21.149	per kW for the first 100 kW, plus
	$ 14.267	per kW for all additional kW, or
Primary Service:	$ 19.091	per kW for the first 100 kW, plus
	$ 13.209	per kW for all additional kW, or
Transmission Service:	$ 14.284	per kW for the first 100 kW, plus
	$ 9.105	per kW for all additional kW.

Energy Charge:

May – October Billing Cycles (Summer)	November – April Billing Cycles (Winter)
$0.05517 per kWh	$0.03804 per kWh

Bundled Standard Offer Service consists of the following Unbundled Components:

Unbundled Standard Offer Service

Customer Accounts Charge:	$ 0.601	per day
Revenue Cycle Service Charges:		
Metering:		
Self-Contained Meters:	$ 0.345	per day, or
Instrument-Rated Meters:	$ 0.904	per day, or
Primary:	$ 2.696	per day, or
Transmission:	$ 22.192	per day

These daily metering charges apply to typical installations. Customers requiring specialized facilities are subject to additional metering charges that reflect the additional cost of the installation, (for example, a customer taking service at 230 kV). Adjustments to unbundled metering components will result in an adjustment to the bundled Basic Service Charge.

Meter Reading:	$ 0.058	per day
Billing:	$ 0.064	per day
System Benefits Charge:	$ 0.00297	per kWh
Transmission Charge:	$ 1.585	per kW

RATES (cont)

Unbundled Standard Offer Service (cont)

Delivery Charge:

Secondary Service:	$ 15.068	per kW for the first 100 kW, plus
	$ 8.186	per kW for all additional kW, plus
	$ 0.00011	per kWh, or
Primary Service:	$ 13.010	per kW for the first 100 kW, plus
	$ 7.128	per kW for all additional kW, plus
	$ 0.00011	per kWh, or
Transmission Service:	$ 8.203	per kW for the first 100 kW, plus
	$ 3.024	per kW for all additional kW, plus
	$ 0.00011	per kWh

Generation Charge:

May – October Billing Cycles (Summer)	November – April Billing Cycles (Winter)
$4.496 per kW, plus $0.05209 per kWh	$4.496 per kW, plus $0.03496 per kWh

DIRECT ACCESS

The bill for Direct Access customers under this rate schedule will consist of the applicable Unbundled Components Customer Accounts Charge, System Benefits Charge, and Delivery Charge, plus any applicable adjustments incorporated in this schedule. Direct Access customers must acquire and pay for generation, transmission, and revenue cycle services from a competitive third party supplier. If any revenue cycle services are not available from a third party supplier and must be obtained from the Company, the applicable Unbundled Components Revenue Cycle Service Charges will be applied to the customer's bill.

MINIMUM

The bill for service under this rate schedule shall not be less than the applicable Bundled Standard Offer Service Basic Service Charge plus the applicable Bundled Standard Offer Service Demand Charge for each kW as determined herein.

POWER FACTOR

The customer deviation from phase balance shall not be greater than ten percent (10%) at any time. Customers receiving service at voltage levels below 69 kV shall maintain a power factor of 90% lagging but in no event leading unless agreed to by Company. Service voltage levels at 69 kV or above shall maintain a power factor of ± 95% at all times. In situations where Company suspects that a customer's load has a non-confirming power factor, Company may install at its cost, the appropriate metering to monitor such loads. If the customer's power factor is found to be non-conforming, the customer will be required to pay the cost of installation and removal of VAR metering and recording equipment.

POWER FACTOR (cont)

Customers found to have a non-conforming power factor, or other detrimental conditions shall be required to remedy problems, or pay for facilities/equipment that Company must install on its system to correct for problems caused by the customer's load. Until such time as the customer remedies the problem to Company satisfaction, kVA may be substituted for kW in determining the applicable charge for billing purposes for each month in which such failure occurs.

DETERMINATION OF KW

For billing purposes, the kW used in this rate schedule shall be the greater of the following:

1. The average kW supplied during the 15-minute period (or other period as specified by an individual customer contract) of maximum use during the month, as determined from readings of the Company's meter.

2. 80% of the highest kW measured during the six (6) summer billing months (May-October) of the twelve (12) months ending with the current month.

3. The minimum kW specified in the agreement for service or individual contract.

For the purpose of placement on this rate, the Average Monthly Maximum Demand shall equal the average of the Monthly Maximum Demands for the May through October billing cycles, as determined by the Company. If the Monthly Maximum Demands are not available for all six May through October billing cycles, the Average Monthly Maximum Demand will be based on the available information. For a new customer, the initial Average Monthly Maximum Demand will be based on the estimated maximum kW provided by the Customer and approved by the Company.

The Monthly Maximum Demand shall be based on the average kW supplied during the 15-minute period of maximum use during the month as determined from readings of the Company's meter.

ADJUSTMENTS

1. The bill is subject to the Renewable Energy Standard as set forth in the Company's Adjustment Schedule REAC-1 pursuant to Arizona Corporation Commission Decision No. 70313.

2. The bill is subject to the Power Supply Adjustment factor as set forth in the Company's Adjustment Schedule PSA-1 pursuant to Arizona Corporation Commission Decision No. 67744, Arizona Corporation Commission Decision No. 69663, Arizona Corporation Commission Decision No. 71448 and 73183.

3. The bill is subject to the Transmission Cost Adjustment factor as set forth in the Company's Adjustment Schedule TCA-1 pursuant to Arizona Corporation Commission Decision No. 67744.

4. The bill is subject to the Environmental Improvement Surcharge as set forth in the Company's Adjustment Schedule EIS pursuant to Arizona Corporation Commission Decision No. 69663 and Arizona Corporation Commission Decision No. 73183.

5. Direct Access customers returning to Standard Offer service may be subject to a Returning Customer Direct Access Charge as set forth in the Company's Adjustment Schedule RCDAC-1 pursuant to Arizona Corporation Commission Decision No. 67744.

ADJUSTMENTS (cont)

6. The bill is subject to the Demand Side Management Adjustment charge as set forth in the Company's Adjustment Schedule DSMAC-1 pursuant to Arizona Corporation Commission Decision No. 67744 and Arizona Corporation Commission Decision No. 71448.

7. The bill is subject to the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of APS and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.

CONTRACT PERIOD

For customers with monthly maximum demands greater than 400 kW, any applicable contract period will be set forth in the Company's standard agreement for service. At the Company's option, the contract period will be three (3) years or longer where additional distribution construction is required to serve the customer or, if no additional distribution construction is required, the contract period will be one (1) year or longer.

TERMS AND CONDITIONS

Service under this rate schedule is subject to the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services and the Company's Schedule 10, Terms and Conditions for Direct Access. These schedules have provisions that may affect the customer's bill. In addition, service may be subject to special terms and conditions as provided for in a customer contract or service agreement.

RATE SCHEDULE E-32 M
MEDIUM GENERAL SERVICE (101 kW - 400 kW)

AVAILABILITY

This rate schedule is available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the sites served.

APPLICATION

This rate schedule is applicable to all Standard Offer and Direct Access customers whose Average Monthly Maximum Demand is greater than 100 kW and less than or equal to 400 kW per month.

The Company will place the Customer on the Applicable Rate Schedule E-32 XS, E-32 S, E-32 M, or E-32 L based on the Average Monthly Maximum Demand, as determined by the Company each year. Such placement will occur in the February billing cycle following the annual determination. The Company may also place the Customer on the Applicable Rate Schedule during the year, if the Customer has experienced a significant and permanent change in load as determined by the Company. Such placement will be based on available information.

Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by an individual customer contract.

Rate selection is subject to paragraphs 3.2 through 3.5 of the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services. This schedule is not applicable to breakdown, standby, supplemental, residential or resale service nor to service for which Rate Schedule E-34 is applicable.

TYPE OF SERVICE

The type of service provided under this schedule will be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's site. Three phase service is furnished under the Company's Schedule 3 (Conditions Governing Extensions of Electric Distribution Lines and Services). Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceeds 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP. Service under this schedule is generally provided at secondary voltage, primary voltage when the customer owns the distribution transformer(s), or transmission voltage.

RATES

The bill shall be computed at the following rates, plus any adjustments incorporated in this rate schedule:

Bundled Standard Offer Service

Basic Service Charge:

For service through Self-Contained Meters:	$ 0.672	per day, or
For service through Instrument-Rated Meters:	$ 1.324	per day, or
For service at Primary Voltage:	$ 3.415	per day, or
For service at Transmission Voltage:	$ 26.163	per day

RATES (cont)

Bundled Standard Offer Service (cont)

Demand Charge:

Secondary Service:	$ 10.235	per kW for the first 100 kW, plus
	$ 5.385	per kW for all additional kW, or
Primary Service:	$ 9.488	per kW for the first 100 kW, plus
	$ 4.695	per kW for all additional kW, or
Transmission Service:	$ 7.368	per kW for the first 100 kW, plus
	$ 2.519	per kW for all additional kW

Energy Charge:

May – October Billing Cycles (Summer)	November – April Billing Cycles (Winter)
$0.09884 per kWh for the first 200 kWh per kW, plus $0.06091 per kWh for all additional kWh	$0.08378 per kWh for the first 200 kWh per kW, plus $0.04586 per kWh for all additional kWh

Bundled Standard Offer Service consists of the following Unbundled Components:

Unbundled Standard Offer Service

Customer Accounts Charge:	$ 0.126	per day
Revenue Cycle Service Charges:		
Metering:		
Self-Contained Meters:	$ 0.403	per day, or
Instrument-Rated Meters:	$ 1.055	per day, or
Primary:	$ 3.146	per day, or
Transmission:	$ 25.894	per day

These daily metering charges apply to typical installations. Customers requiring specialized facilities are subject to additional metering charges that reflect the additional cost of the installation, (for example, a customer taking service at 230 kV). Adjustments to unbundled metering components will result in an adjustment to the bundled Basic Service Charge.

Meter Reading:	$ 0.068	per day
Billing:	$ 0.075	per day
System Benefits Charge:	$ 0.00297	per kWh
Transmission Charge:	$ 1.585	per kW

RATES (cont)

Unbundled Standard Offer Service (cont)

Delivery Charge:

Secondary Service:	$ 8.650	per kW for the first 100 kW, plus
	$ 3.800	per kW for all additional kW, plus
	$ 0.00649	per kWh, or
Primary Service:	$ 7.903	per kW for the first 100 kW, plus
	$ 3.110	per kW for all additional kW, plus
	$ 0.00649	per kWh, or
Transmission Service:	$ 5.783	per kW for the first 100 kW, plus
	$ 0.934	per kW for all additional kW, plus
	$ 0.00649	per kWh

Generation Charge:

May – October Billing Cycles (Summer)	November – April Billing Cycles (Winter)
$0.08938 per kWh for the first 200 kWh per kW, plus $0.05145 per kWh for all additional kWh	$0.07432 per kWh for the first 200 kWh per kW, plus $0.03640 per kWh for all additional kWh

DIRECT ACCESS

The bill for Direct Access customers under this rate schedule will consist of the applicable Unbundled Components Customer Accounts Charge, System Benefits Charge, and Delivery Charge, plus any applicable adjustments incorporated in this schedule. Direct Access customers must acquire and pay for generation, transmission, and revenue cycle services from a competitive third party supplier. If any revenue cycle services are not available from a third party supplier and must be obtained from the Company, the applicable Unbundled Components Revenue Cycle Service Charges will be applied to the customer's bill.

POWER FACTOR

The customer deviation from phase balance shall not be greater than ten percent (10%) at any time. Customers receiving service at voltage levels below 69 kV shall maintain a power factor of 90% lagging but in no event leading unless agreed to by Company. Service voltage levels at 69 kV or above shall maintain a power factor of ± 95% at all times. In situations where Company suspects that a customer's load has a non-confirming power factor, Company may install at its cost, the appropriate metering to monitor such loads. If the customer's power factor is found to be non-conforming, the customer will be required to pay the cost of installation and removal of VAR metering and recording equipment. Customers found to have a non-conforming power factor, or other detrimental conditions shall be required to remedy problems, or pay for facilities/equipment that Company must install on its system to correct for problems caused by the customer's load. Until such time as the customer remedies the problem to Company satisfaction, kVA may be substituted for kW in determining the applicable charge for billing purposes for each month in which such failure occurs.

DETERMINATION OF KW

For billing purposes, including determination of Monthly Maximum Demands, the kW used in this rate schedule shall be based on the average kW supplied during the 15-minute period of maximum use during the month as determined from readings of the Company's meter.

The Average Monthly Maximum Demand shall equal the average of the Monthly Maximum Demands for the May through October billing cycles, as determined by the Company. If the Monthly Maximum Demands are not available for all six May through October billing cycles, the Average Monthly Maximum Demand will be based on the available information. For a new customer, the initial Average Monthly Maximum Demand will be based on the estimated maximum kW provided by the Customer and approved by the Company.

ADJUSTMENTS

1. The bill is subject to the Renewable Energy Standard as set forth in the Company's Adjustment Schedule REAC-1 pursuant to Arizona Corporation Commission Decision No. 70313.

2. The bill is subject to the Power Supply Adjustment factor as set forth in the Company's Adjustment Schedule PSA-1 pursuant to Arizona Corporation Commission Decision No. 67744, Arizona Corporation Commission Decision No. 69663, Arizona Corporation Commission Decision No. 71448 and 73183.

3. The bill is subject to the Transmission Cost Adjustment factor as set forth in the Company's Adjustment Schedule TCA-1 pursuant to Arizona Corporation Commission Decision No. 67744.

4. The bill is subject to the Environmental Improvement Surcharge as set forth in the Company's Adjustment Schedule EIS pursuant to Arizona Corporation Commission Decision No. 69663 and Arizona Corporation Commission Decision No. 73183.

5. Direct Access customers returning to Standard Offer service may be subject to a Returning Customer Direct Access Charge as set forth in the Company's Adjustment Schedule RCDAC-1 pursuant to Arizona Corporation Commission Decision No. 67744.

6. The bill is subject to the Demand Side Management Adjustment charge as set forth in the Company's Adjustment Schedule DSMAC-1 pursuant to Arizona Corporation Commission Decision No. 67744 and Arizona Corporation Commission Decision No. 71448.

7. The bill is subject to the Lost Fixed Cost Recovery mechanism as set forth in the Company's Adjustment Schedule LFCR pursuant to Arizona Corporation Commission Decision No. 73183.

8. The bill is subject to the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of APS and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.

CONTRACT PERIOD

For customers with monthly maximum demands greater than 100 and less than or equal to 400 kW, any applicable contract period will be set forth in the Company's standard agreement for service. At the Company's option, the contract period will be three (3) years or longer where additional distribution construction is required to serve the customer or, if no additional distribution construction is required, the contract period will be one (1) year or longer.

TERMS AND CONDITIONS

Service under this rate schedule is subject to the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services and the Company's Schedule 10, Terms and Conditions for Direct Access. These schedules have provisions that may affect the customer's bill. In addition, service may be subject to special terms and conditions as provided for in a customer contract or service agreement.

RATE SCHEDULE E-32 S
SMALL GENERAL SERVICE (21 kW – 100 kW)

AVAILABILITY

This rate schedule is available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the sites served.

APPLICATION

This rate schedule is applicable to all Standard Offer and Direct Access customers whose Average Monthly Maximum Demand is greater than 20 kW and less than or equal to 100 kW per month.

The Company will place the Customer on the Applicable Rate Schedule E-32 XS, E-32 S, E-32 M, or E-32 L based on the Average Monthly Maximum Demand, as determined by the Company each year. Such placement will occur in the February billing cycle following the annual determination. The Company may also place the Customer on the Applicable Rate Schedule during the year, if the Customer has experienced a significant and permanent change in load as determined by the Company. Such placement will be based on available information.

The Customer will be billed on Schedule E-32 S or E-32 XS depending on the Monthly Maximum Demand for each billing cycle.

Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by an individual customer contract.

Rate selection is subject to paragraphs 3.2 through 3.5 of the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services. This schedule is not applicable to breakdown, standby, supplemental, residential or resale service.

TYPE OF SERVICE

The type of service provided under this schedule will be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's site. Three phase service is furnished under the Company's Schedule 3 (Conditions Governing Extensions of Electric Distribution Lines and Services). Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceeds 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP. Service under this schedule is generally provided at secondary voltage or primary voltage when the customer owns the distribution transformer(s).

RATES

The bill shall be computed at the following rates, plus any adjustments incorporated in this rate schedule:

Bundled Standard Offer Service

Basic Service Charge:

For service through Self-Contained Meters:	$ 0.672	per day, or
For service through Instrument-Rated Meters:	$ 1.324	per day, or
For service at Primary Voltage:	$ 3.415	per day

RATES (cont)

Bundled Standard Offer Service (cont)

Demand Charge:

Secondary Service:	$ 9.828	per kW for the first 100 kW, plus
	$ 5.214	per kW for all additional kW, or
Primary Service:	$ 9.116	per kW for the first 100 kW, plus
	$ 4.502	per kW for all additional kW, or

Energy Charge:

May – October Billing Cycles (Summer)	November – April Billing Cycles (Winter)
$0.10337 per kWh for the first 200 kWh per kW, plus $0.06257 per kWh for all additional kWh	$0.08718 per kWh for the first 200 kWh per kW, plus $0.04638 per kWh for all additional kWh

Bundled Standard Offer Service consists of the following Unbundled Components:

Unbundled Standard Offer Service

Customer Accounts Charge:	$ 0.126	per day
Revenue Cycle Service Charges:		
Metering:		
Self-Contained Meters:	$ 0.403	per day, or
Instrument-Rated Meters:	$ 1.055	per day, or
Primary:	$ 3.146	per day

These daily metering charges apply to typical installations. Customers requiring specialized facilities are subject to additional metering charges that reflect the additional cost of the installation, (for example, a customer taking service at 230 kV). Adjustments to unbundled metering components will result in an adjustment to the bundled Basic Service Charge.

Meter Reading:	$ 0.068	per day
Billing:	$ 0.075	per day
System Benefits Charge:	$ 0.00297	per kWh
Transmission Charge:	$ 1.585	per kW
Delivery Charge:		
Secondary Service:	$ 8.243	per kW for the first 100 kW, plus
	$ 3.629	per kW for all additional kW, plus
	$ 0.00423	per kWh, or

RATES (cont)

Primary Service:	$ 7.531	per kW for the first 100 kW, plus
	$ 2.917	per kW for all additional kW, plus
	$ 0.00423	per kWh

Generation Charge:

May – October Billing Cycles (Summer)	November – April Billing Cycles (Winter)
$0.09617 per kWh for the first 200 kWh per kW, plus $0.05537 per kWh for all additional kWh	$0.07998 per kWh for the first 200 kWh per kW, plus $0.03918 per kWh for all additional kWh

DIRECT ACCESS

The bill for Direct Access customers under this rate schedule will consist of the applicable Unbundled Components Customer Accounts Charge, System Benefits Charge, and Delivery Charge, plus any applicable adjustments incorporated in this schedule. Direct Access customers must acquire and pay for generation, transmission, and revenue cycle services from a competitive third party supplier. If any revenue cycle services are not available from a third party supplier and must be obtained from the Company, the applicable Unbundled Components Revenue Cycle Service Charges will be applied to the customer's bill.

POWER FACTOR

The customer deviation from phase balance shall not be greater than ten percent (10%) at any time. Customers receiving service at voltage levels below 69 kV shall maintain a power factor of 90% lagging but in no event leading unless agreed to by Company. Service voltage levels at 69 kV or above shall maintain a power factor of ± 95% at all times. In situations where Company suspects that a customer's load has a non-confirming power factor, Company may install at its cost, the appropriate metering to monitor such loads. If the customer's power factor is found to be non-conforming, the customer will be required to pay the cost of installation and removal of VAR metering and recording equipment.

Customers found to have a non-conforming power factor, or other detrimental conditions shall be required to remedy problems, or pay for facilities/equipment that Company must install on its system to correct for problems caused by the customer's load. Until such time as the customer remedies the problem to Company satisfaction, kVA may be substituted for kW in determining the applicable charge for billing purposes for each month in which such failure occurs.

DETERMINATION OF KW

For billing purposes, including determination of Monthly Maximum Demands, the kW used in this rate schedule shall be based on the average kW supplied during the 15-minute period of maximum use during the month as determined from readings of the Company's meter.

The Average Monthly Maximum Demand shall equal the average of the Monthly Maximum Demands for the May through October billing cycles, as determined by the Company. If the Monthly Maximum Demands are not available for all six May through October billing cycles, the Average Monthly Maximum Demand will be based on the available information. For a new customer, the initial Average Monthly Maximum Demand will be based on the estimated maximum kW provided by the Customer and approved by the Company.

ADJUSTMENTS

1. The bill is subject to the Renewable Energy Standard as set forth in the Company's Adjustment Schedule REAC-1 pursuant to Arizona Corporation Commission Decision No. 70313.

2. The bill is subject to the Power Supply Adjustment factor as set forth in the Company's Adjustment Schedule PSA-1 pursuant to Arizona Corporation Commission Decision No. 67744, Arizona Corporation Commission Decision No. 69663, Arizona Corporation Commission Decision No. 71448 and 73183.

3. The bill is subject to the Transmission Cost Adjustment factor as set forth in the Company's Adjustment Schedule TCA-1 pursuant to Arizona Corporation Commission Decision No. 67744.

4. The bill is subject to the Environmental Improvement Surcharge as set forth in the Company's Adjustment Schedule EIS pursuant to Arizona Corporation Commission Decision No. 69663 and Arizona Corporation Commission Decision No. 73183.

5. Direct Access customers returning to Standard Offer service may be subject to a Returning Customer Direct Access Charge as set forth in the Company's Adjustment Schedule RCDAC-1 pursuant to Arizona Corporation Commission Decision No. 67744.

6. The bill is subject to the Demand Side Management Adjustment charge as set forth in the Company's Adjustment Schedule DSMAC-1 pursuant to Arizona Corporation Commission Decision No. 67744 and Arizona Corporation Commission Decision No. 71448.

7. The bill is subject to the Lost Fixed Cost Recovery mechanism as set forth in the Company's Adjustment Schedule LFCR pursuant to Arizona Corporation Commission Decision No. 73183.

8. The bill is subject to the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of APS and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.

CONTRACT PERIOD

For customers with monthly maximum demands greater than 20 and less than or equal to 100 kW, any applicable contract period will be set forth in the Company's standard agreement for service. At the Company's option, the contract period will be three (3) years or longer where additional distribution construction is required to serve the customer or, if no additional distribution construction is required, the contract period will be one (1) year or longer.

TERMS AND CONDITIONS

Service under this rate schedule is subject to the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services and the Company's Schedule 10, Terms and Conditions for Direct Access. These schedules have provisions that may affect the customer's bill. In addition, service may be subject to special terms and conditions as provided for in a customer contract or service agreement.

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RECEIVED
NOV 2 8 2012

Your electricity bill

LITCHFIELD PARK SERVICE CO

Bill date: November 21, 2012

Your account number: 342122282

For service at: 19 locations

Questions or Office Locations?
Call 602-371-6767,
Mon - Fri, 7:30am - 5:00pm
Website: aps.com
Para servicio en español llame al:
602-371-6861 (Phoenix)

Summary of what you owe

Amount owing on your previous bill		$141,387.87
Less	Payment made on Nov 5, thank you	-$141,387.87
Less	SurePay discount	-$0.48
Equals	Your balance forward	-$0.48
Plus	Your new charges (details on following pages)	
	Cost of electricity (with taxes and fees)	$115,235.88
Equals	**Total amount due**	**$115,235.40**

We will debit your checking or savings account for $115,235.40 on December 6, 2012.

PO# 13969
Receipt#
22537

Thank you for your consistent and timely payments. We value your business.

8600-200009-EXP001
(1) le-545557-2050-0000 - 1447.84
NOV12

Page 1 of 23 See page 2 for more information.

When paying in person, please bring the bottom portion of your bill.

Matthew Gulick

aps

Your account number
342122282

Bill date
November 21, 2012

Mailing address or phone number change?
Please call 602-371-6767.

You do not need to mail a payment. With SurePay, your payment is automatically deducted from your checking or savings account.

LITCHFIELD PARK SERVICE CO
ATTN: WELL SITE 10AL
STE D101
12725 W INDIAN SCHOOL RD
AVONDALE AZ 85392-9524

X 13 N 1 209

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Things you need to know

Contacting APS

- E-mail us at aps@aps.com
- Call us at:
  602-371-6767 (Phoenix) or 800-253-9407 (Other areas)
  Mon-Fri, 7:30 am - 5:00 pm
- Para servicio en español llame al:
  602-371-6861 (Phoenix) o 1-800-252-9410 (Otras areas)
- Hearing impaired:
  Dial 711 - AZ Relay Service
- By mail: APS, Station 3200, PO Box 53933,
  Phoenix AZ 85072-3933
- Blue Stake - Before you dig, call:
  811 or 800-782-5348 from anywhere within Arizona
- Electrical emergencies other than power outages, call:
  602-258-5483 (Phoenix) or 800-253-9408 (Other areas)

Important billing and collection information

Make checks payable to APS and mail to:
APS, PO Box 2906, Phoenix AZ 85062-2906

Credit and Collections:
602-371-7607 (Phoenix) or 1-800-253-9409 (Other areas)

All bills for utility services are due and payable no later than 15 days from the date of the bill. Any payments not received within this time-frame shall be considered delinquent and are subject to a late payment charge of 1.5% per month.

If your power is shut off for non-payment, you must pay all the delinquent amounts and a deposit or additional deposit before power is restored.

When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic funds transfer from your account or to process the payment as a check transaction. When we process your check electronically you will not receive your check back from your financial institution and funds may be withdrawn from your account on the same day we receive your payment.

Utility regulations and rates (Not an APS payment site)

Electricity regulations and rates are approved by:
Arizona Corporation Commission,
1200 W Washington, Phoenix AZ 85007
602-542-4251 (Phoenix) or 1-800-222-7000 (Other areas).
www.cc.state.az.us

X

Row Labels	Sum of Amount
8600-20009-EXP001	1447.84
8600-2-0100-50-5455-0000	47095.84
8600-2-0100-52-5455-0000	24389.46
8600-2-0200-50-5455-0000	134.05
8600-2-0200-52-5455-0000	42146.05
8600-2-0200-54-5455-0000	22.16
Grand Total	115235.40

Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

Summary of charges by service address

Service number	Service address	Total electricity used (kWh)	Billed demand (kW)	Other charges and credits ($)	Total charges ($)
9119S62288	14222 W McDowell Rd Ses #2, Goodyear 3,000 Amp Service	209100	543.0	$0.00	$18,665.45
0548S30283	4091 N Dysart Rd Resv, Avondale Water Plant	124000	454.0	$0.00	$12,071.10
7404S51284	13570 Plaza Cir Bldg Com. Lck, Litchfield Park Litchfield Park Service CO	54600	82.0	$0.00	$4,378.82
2037S50280	3840 N Dysart Rd Well 2, Avondale Litchfield Park Service CO	41813	63.0	$0.00	$3,389.13
8541S91288	6355 N El Mirage Rd Well 4al, Glendale Litchfield Park Service CO	170480	246.0	$0.00	$12,954.32
5157S50286	4307 N 127 Ave Well 4, Litchfield Park Town Well 4	66400	112.0	$0.00	$5,269.04
2126S02286	1530 N Sarival Ave Goodyear Litchfield Park Service CO	3160	83.0	$0.00	$1,447.84
0030S01288	12660 W Indian School Rd Well 6, Litchfield Park Litchfield Pk Service CO	160	130.0	$0.00	$595.56
6474S90288	4832 N Litchfield Knoll E Lift Bldg E, Litchfield Park Litchfield Park Service CO	0	0.0	$0.00	$20.02
2023S62281	6302 N El Mirage Rd Pump, Litchfield Park Airline Reservoier And Pumping	118560	398.0	$0.00	$12,298.34
9074S62282	1952 N Dysart Rd Goodyear Litchfield Park Service CO	1040	112.0	$0.00	$1,606.55
1520S11283	2910 N Bullard Rd Goodyear Litchfield Park Service CO	2	0.0	$0.00	$22.16
6112S91288	6803 N Dysart Rd Goodyear Litchfield Park Service CO	842	6.0	$0.00	$134.05
8413S52285	6024 N El Mirage Rd Litchfield Park Litchfield Park Service CO	1600	90.0	$0.00	$1,317.87
7828S52283	5247 N El Mirage Rd Litchfield Park Litchfield Park Service CO	49840	89.0	$0.00	$4,304.02
2837S50288	4450 N 127 Ave Well 5, Litchfield Park Town Well T 5	29960	119.0	$0.00	$2,992.87
4281S31285	15521 W Minnezona Ave Well, Goodyear Litchfield Park Service CO	109600	162.0	$0.00	$8,781.81
7071S72288	15614 W Charles Blvd Goodyear Well 20b	15720	28.0	$0.00	$1,505.85

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

Summary of charges by service address

Service number	Service address	Total electricity used (kWh)	Billed demand (kW)	Other charges and credits ($)	Total charges ($)
5910S61286	14222 W McDowell Rd Goodyear *Litchfield Park Service CO*	294600	630.0	$0.00	$23,481.08
Total		**1291477**		**$0.00**	**$115,235.88**

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 14222 W McDowell Rd Ses #2

Your service plan: E-32 L
Service number: 9119S62288
DBA: 3,000 Amp Service

Meter number: Q21851
Meter reading cycle: 03

Charges for electricity services

Cost of electricity you used

Customer account charge	$17.43
Delivery service charge	$23.00
Demand charge - delivery	$5,133.20
Environmental benefits surcharge	$629.34
Federal environmental improvement surcharge	$0.00
System benefits charge	$621.03
Power supply adjustment*	-$873.62
Metering*	$26.22
Meter reading*	$1.68
Billing*	$1.86
Generation of electricity*	$7,310.14
Demand charge - generation*	$2,441.33
Federal transmission and ancillary services*	$860.66
Federal transmission cost adjustment*	$440.92
Cost of electricity you used	$16,633.19

Taxes and fees

Regulatory assessment	$32.98
State sales tax	$1,121.97
County sales tax	$119.00
City sales tax	$424.99
Franchise fee	$333.32
Cost of electricity with taxes and fees	$18,665.45

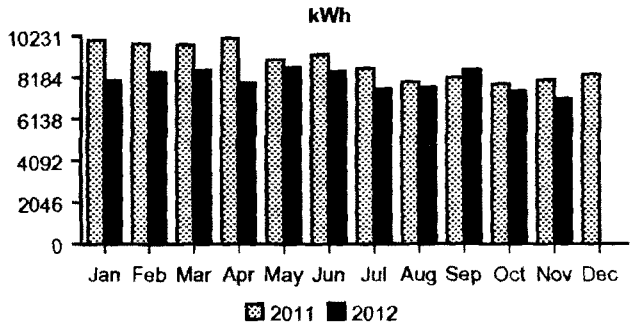
Total charges for electricity services **$18,665.45**

* *These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Meter reading on Nov 3	21499
Meter reading on Oct 5	20802
Read difference is	697
Multiplier applied to the read difference	300
Total electricity you used, in kWh	**209100**
Demand meter reading	1.81
Multiplier applied to the read	300
Your total demand in kW	543.0
Your billed demand in kW	**543.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	29	29	31
Average outdoor temperature	74°	85°	75°
Your total use in kWh	209100	220800	252600
Your billed demand in kW	543.0	567.0	582.0
Your average daily cost	$643.63	$820.22	$680.24

865-41AB Rev. 3-11

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 4091 N Dysart Rd Resv

Your service plan: E-221 Rate
Service number: 0548S30283
DBA: Water Plant

Meter number: Q21889
Meter reading cycle: 17

Charges for electricity services

Cost of electricity you used

Customer account charge	$17.05
Energy charge	$9,473.55
Demand charge	$1,070.08
Environmental benefits surcharge	$543.14
Federal environmental improvement surcharge	$0.00
Power supply adjustment*	-$518.07
Federal transmission cost adjustment*	$368.65
Cost of electricity you used	$10,954.40

Taxes and fees

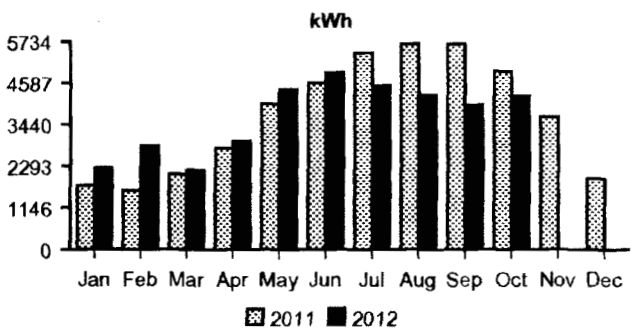
Regulatory assessment	$21.72
State sales tax	$738.91
County sales tax	$78.37
City sales tax	$58.18
Franchise fee	$219.52
Cost of electricity with taxes and fees	$12,071.10

Total charges for electricity services	**$12,071.10**

Amount of electricity you used

Meter reading on Oct 25	16401
Meter reading on Sep 26	15626
Read difference is	775
Multiplier applied to the read difference	160
Total electricity you used, in kWh	**124000**
Demand meter reading	2.84
Multiplier applied to the read	160
Your total demand in kW	454.4
Your billed demand in kW	**454.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	29	30	29
Average outdoor temperature	80°	89°	83°
Your total use in kWh	124000	120800	144000
Your billed demand in kW	454.0	504.0	504.0
Your average daily cost	$416.24	$401.50	$478.80

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 13570 Plaza Cir Bldg Com. Lck

Your service plan: E-221 Rate
Service number: 7404S51284
DBA: Litchfield Park Service CO

Meter number: P60325
Meter reading cycle: 16

Charges for electricity services

Cost of electricity you used

Customer account charge	$16.46
Energy charge	$3,742.68
Demand charge	$193.27
Environmental benefits surcharge	$182.86
Federal environmental improvement surcharge	$0.00
Power supply adjustment*	-$228.12
Federal transmission cost adjustment*	$66.58
Cost of electricity you used	$3,973.73

Taxes and fees

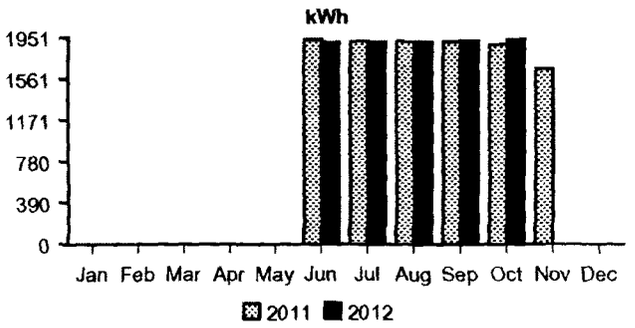
Regulatory assessment	$7.88
State sales tax	$268.04
County sales tax	$28.43
City sales tax	$21.11
Franchise fee	$79.63
Cost of electricity with taxes and fees	$4,378.82

Total charges for electricity services	**$4,378.82**

Amount of electricity you used

Meter reading on Oct 24	42929
Meter reading on Sep 26	41564
Read difference is	1365
Multiplier applied to the read difference	40
Total electricity you used, in kWh	**54600**
Demand meter reading	2.05
Multiplier applied to the read	40
Your total demand in kW	82.0
Your billed demand in kW	**82.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	28	34	28
Average outdoor temperature	77°	88°	79°
Your total use in kWh	54600	65720	53240
Your billed demand in kW	82.0	82.0	81.0
Your average daily cost	$156.38	$149.99	$156.29

865-41A8 Rev. 3-11

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 3840 N Dysart Rd Well 2

Your service plan: E-221 Rate
Service number: 2037S50280
DBA: Litchfield Park Service CO

Meter number: M35902
Meter reading cycle: 16

Charges for electricity services

Cost of electricity you used

Customer account charge	$16.46
Energy charge	$2,869.72
Demand charge	$148.49
Environmental benefits surcharge	$164.46
Federal environmental improvement surcharge	$0.00
Power supply adjustment*	-$174.69
Federal transmission cost adjustment*	$51.16
Cost of electricity you used	$3,075.60

Taxes and fees

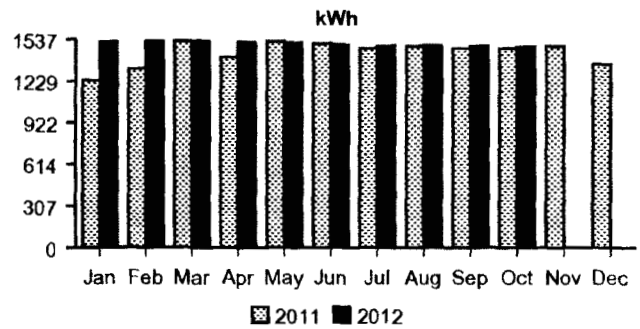
Regulatory assessment	$6.10
State sales tax	$207.46
County sales tax	$22.00
City sales tax	$16.34
Franchise fee	$61.63
Cost of electricity with taxes and fees	$3,389.13

Total charges for electricity services	**$3,389.13**

Amount of electricity you used

Meter reading on Oct 24	26240
Meter reading on Sep 26	84427
Total electricity you used, in kWh	**41813**
Demand meter reading	63.00
Your billed demand in kW	**63.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	28	34	28
Average outdoor temperature	78°	88°	79°
Your total use in kWh	41813	51061	41544
Your billed demand in kW	63.0	63.0	62.0
Your average daily cost	$121.04	$117.33	$129.56

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 6355 N El Mirage Rd Well 4al

Your service plan: E-221 Rate
Service number: 8541S91288
DBA: Litchfield Park Service CO

Meter number: Q21392
Meter reading cycle: 14

Charges for electricity services

Cost of electricity you used

Customer account charge	$17.05
Energy charge	$11,623.06
Demand charge	$579.82
Environmental benefits surcharge	$341.69
Federal environmental improvement surcharge	$0.00
Power supply adjustment*	-$712.27
Federal transmission cost adjustment*	$199.75
Cost of electricity you used	$12,049.10

Taxes and fees

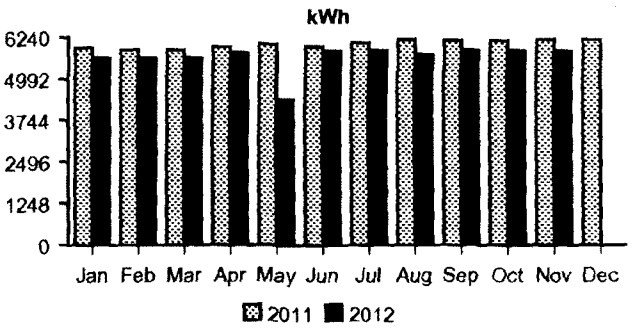
Regulatory assessment	$23.89
State sales tax	$796.82
County sales tax	$84.51
City sales tax	$0.00
Franchise fee	$0.00
Cost of electricity with taxes and fees	$12,954.32

Total charges for electricity services	**$12,954.32**

Amount of electricity you used

Meter reading on Nov 20	56379
Meter reading on Oct 22	54248
Read difference is	2131
Multiplier applied to the read difference	80
Total electricity you used, in kWh	**170480**
Demand meter reading	3.07
Multiplier applied to the read	80
Your total demand in kW	245.6
Your billed demand in kW	**246.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	29	31	29
Average outdoor temperature	67°	80°	68°
Your total use in kWh	170480	182560	180240
Your billed demand in kW	246.0	247.0	262.0
Your average daily cost	$446.70	$442.71	$479.20

865-41AB-Rev. 3-11

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 4307 N 127 Ave Well 4

Your service plan: E-221 Rate
Service number: 5157S50286
DBA: Town Well 4

Meter number: F95302
Meter reading cycle: 16

Charges for electricity services

Cost of electricity you used

Customer account charge	$16.46
Energy charge	$4,594.98
Demand charge	$263.98
Environmental benefits surcharge	$211.91
Federal environmental improvement surcharge	$0.00
Power supply adjustment*	-$277.42
Federal transmission cost adjustment*	$90.94
Cost of electricity you used	$4,900.85

Taxes and fees

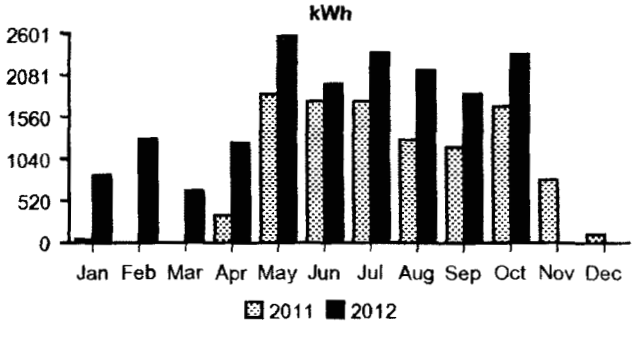
Regulatory assessment	$9.72
State sales tax	$324.10
County sales tax	$34.37
City sales tax	$0.00
Franchise fee	$0.00
Cost of electricity with taxes and fees	$5,269.04

Total charges for electricity services	**$5,269.04**

Amount of electricity you used

Meter reading on Oct 24	76412
Meter reading on Sep 26	74752
Read difference is	1660
Multiplier applied to the read difference	40
Total electricity you used, in kWh	**66400**
Demand meter reading	2.81
Multiplier applied to the read	40
Your total demand in kW	112.4
Your billed demand in kW	**112.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	28	33	30
Average outdoor temperature	77°	88°	79°
Your total use in kWh	66400	61760	51600
Your billed demand in kW	112.0	112.0	112.0
Your average daily cost	$188.18	$150.91	$147.28

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 1530 N Sarival Ave

Your service plan: E-32 XS/S
***Service number*: 2126S02286**
DBA: Litchfield Park Service CO

Meter number: J07928
Meter reading cycle: 03

Charges for electricity services

Cost of electricity you used

Customer account charge	$4.03
Delivery service charge	$13.37
Demand charge - delivery	$684.17
Environmental benefits surcharge	$102.39
Federal environmental improvement surcharge	$0.00
System benefits charge	$9.39
Power supply adjustment*	-$13.20
Metering*	$33.76
Meter reading*	$2.18
Billing*	$2.40
Generation of electricity*	$252.74
Federal transmission and ancillary services*	$131.56
Federal transmission cost adjustment*	$67.40
Cost of electricity you used	$1,290.19

Taxes and fees

Regulatory assessment	$2.56
State sales tax	$87.03
County sales tax	$9.23
City sales tax	$32.97
Franchise fee	$25.86
Cost of electricity with taxes and fees	$1,447.84

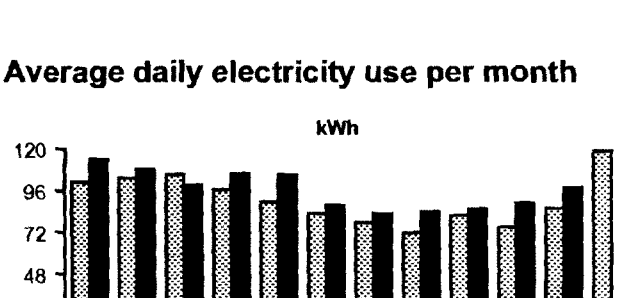
Total charges for electricity services **$1,447.84**

** These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Meter reading on Nov 5	5161
Meter reading on Oct 4	5082
Read difference is	79
Multiplier applied to the read difference	40
Total electricity you used, in kWh	**3160**
Demand meter reading	2.07
Multiplier applied to the read	40
Your total demand in kW	82.8
Your billed demand in kW	**83.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	32	28	28
Average outdoor temperature	74°	85°	74°
Your total use in kWh	3160	2520	2440
Your billed demand in kW	83.0	16.0	22.0
Your average daily cost	$45.24	$15.97	$20.55

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 12660 W Indian School Rd Well 6

Your service plan: E-221 Rate
Service number: 0030S01288
DBA: Litchfield Pk Service CO

Meter number: F95304
Meter reading cycle: 16

Charges for electricity services

Cost of electricity you used

Customer account charge	$0.00
Energy charge	$0.00
Demand charge	$0.00
Environmental benefits surcharge	$127.02
Federal environmental improvement surcharge	$0.00
Power supply adjustment*	-$0.67
Federal transmission cost adjustment*	$105.56
Minimum charge	$322.03
Cost of electricity you used	$553.94

Taxes and fees

Regulatory assessment	$1.10
State sales tax	$36.63
County sales tax	$3.89
City sales tax	$0.00
Franchise fee	$0.00
Cost of electricity with taxes and fees	$595.56

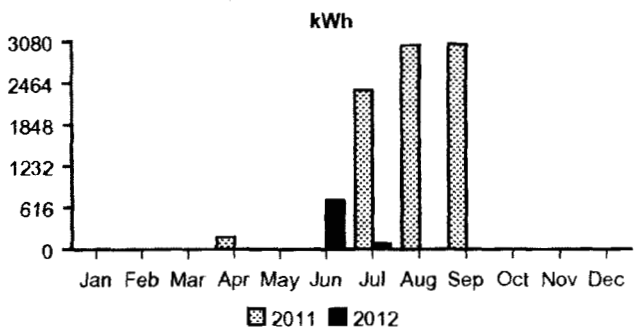
Total charges for electricity services **$595.56**

Amount of electricity you used

Meter reading on Oct 24	953
Meter reading on Sep 26	951
Read difference is	2
Multiplier applied to the read difference	80
Total electricity you used, in kWh	**160**
Demand meter reading	0.00
Multiplier applied to the read	80
Your total demand in kW	0.0
Your billed demand in kW	**130.0**

130 is the highest kW used in the last 12 months

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	28	33	30
Average outdoor temperature	77°	88°	79°
Your total use in kWh	160	160	560
Your billed demand in kW	130.0	130.0	129.0
Your average daily cost	$21.27	$18.13	$19.64

X

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 4832 N Litchfield Knoll E Lift Bldg E

Your service plan: E-32 XS/S
Service number: 6474S90288
DBA: Litchfield Park Service CO

Meter number: P91235
Meter reading cycle: 13

Charges for electricity services

Cost of electricity you used

Customer account charge	$3.40
Delivery service charge	$0.00
Demand charge - delivery	$0.00
Environmental benefits surcharge	$0.00
Federal environmental improvement surcharge	$0.00
System benefits charge	$0.00
Power supply adjustment*	$0.00
Metering*	$10.88
Meter reading*	$1.84
Billing*	$2.03
Generation of electricity*	$0.00
Federal transmission and ancillary services*	$0.00
Federal transmission cost adjustment*	$0.00
Cost of electricity you used	$18.15

Taxes and fees

Regulatory assessment	$0.04
State sales tax	$1.22
County sales tax	$0.13
City sales tax	$0.14
Franchise fee	$0.34
Cost of electricity with taxes and fees	$20.02

Total charges for electricity services **$20.02**

** These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Meter reading on Nov 19	0
Meter reading on Oct 23	0
Total electricity you used, in kWh	**0**
Demand meter reading	0.00
Your billed demand in kW	**0.0**

Comparing your monthly use

	This month	Last month	This month last year
Billing days	27	32	29
Average outdoor temperature	66°	79°	66°
Your total use in kWh	0	0	0
Your billed demand in kW	0.0	0.0	0.0
Your average daily cost	$0.74	$0.74	$0.74

865-41AB Rev. 3-11

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 6302 N El Mirage Rd Pump

Your service plan: E-32 M
Service number: 2023S62281
DBA: Airline Reservoier And Pumping

Meter number: Q21834
Meter reading cycle: 14

Charges for electricity services

Cost of electricity you used

Customer account charge	$3.65
Delivery service charge	$769.45
Demand charge - delivery	$1,997.40
Environmental benefits surcharge	$488.90
Federal environmental improvement surcharge	$0.00
System benefits charge	$352.12
Power supply adjustment*	-$495.34
Metering*	$30.60
Meter reading*	$1.97
Billing*	$2.18
Generation of electricity*	$7,334.02
Federal transmission and ancillary services*	$630.83
Federal transmission cost adjustment*	$323.18
Cost of electricity you used	$11,438.96

Taxes and fees

Regulatory assessment	$22.68
State sales tax	$756.47
County sales tax	$80.23
City sales tax	$0.00
Franchise fee	$0.00
Cost of electricity with taxes and fees	$12,298.34

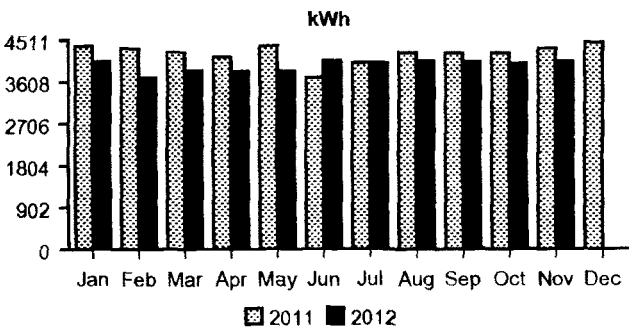
Total charges for electricity services **$12,298.34**

* *These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Meter reading on Nov 20	19724
Meter reading on Oct 22	18983
Read difference is	741
Multiplier applied to the read difference	160
Total electricity you used, in kWh	**118560**
Demand meter reading	2.49
Multiplier applied to the read	160
Your total demand in kW	398.4
Your billed demand in kW	**398.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	29	31	29
Average outdoor temperature	66°	79°	67°
Your total use in kWh	118560	125440	126560
Your billed demand in kW	398.0	291.0	312.0
Your average daily cost	$424.08	$417.51	$380.22

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 1952 N Dysart Rd

Your service plan: E-32 M
Service number: 9074S62282
DBA: Litchfield Park Service CO

Meter number: P60356
Meter reading cycle: 17

Charges for electricity services

Cost of electricity you used

Customer account charge	$3.65
Delivery service charge	$6.75
Demand charge - delivery	$910.60
Environmental benefits surcharge	$115.71
Federal environmental improvement surcharge	$0.00
System benefits charge	$3.09
Power supply adjustment*	-$4.34
Metering*	$30.60
Meter reading*	$1.97
Billing*	$2.18
Generation of electricity*	$92.96
Federal transmission and ancillary services*	$177.52
Federal transmission cost adjustment*	$90.94
Cost of electricity you used	$1,431.63

Taxes and fees

Regulatory assessment	$2.84
State sales tax	$96.57
County sales tax	$10.24
City sales tax	$36.58
Franchise fee	$28.69
Cost of electricity with taxes and fees	$1,606.55

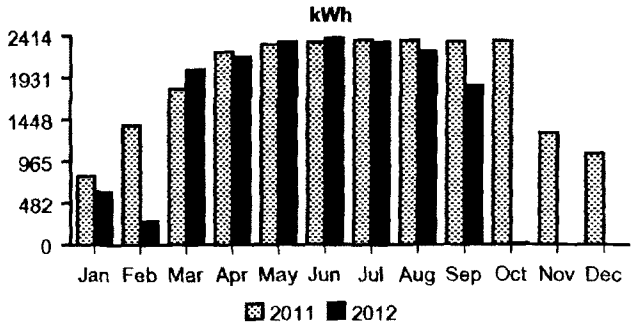
Total charges for electricity services **$1,606.55**

* *These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Meter reading on Oct 25	53718
Meter reading on Sep 26	53692
Read difference is	26
Multiplier applied to the read difference	40
Total electricity you used, in kWh	**1040**
Demand meter reading	2.80
Multiplier applied to the read	40
Your total demand in kW	112.0
Your billed demand in kW	**112.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	29	30	29
Average outdoor temperature	78°	88°	79°
Your total use in kWh	1040	55720	69240
Your billed demand in kW	112.0	111.0	103.0
Your average daily cost	$55.39	$202.99	$235.20

865-41A8 Rev. 3-11

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 2910 N Bullard Rd

Your service plan: E-32 XS/S
Service number: 1520S11283
DBA: Litchfield Park Service CO

Meter number: DC4337
Meter reading cycle: 12

Charges for electricity services

Cost of electricity you used

Customer account charge	$3.65
Delivery service charge	$0.08
Demand charge - delivery	$0.00
Environmental benefits surcharge	$0.02
Federal environmental improvement surcharge	$0.00
System benefits charge	$0.01
Power supply adjustment*	-$0.01
Metering*	$11.69
Meter reading*	$1.97
Billing*	$2.18
Generation of electricity*	$0.14
Federal transmission and ancillary services*	$0.01
Federal transmission cost adjustment*	$0.01
Cost of electricity you used	$19.75

Taxes and fees

Regulatory assessment	$0.04
State sales tax	$1.33
County sales tax	$0.14
City sales tax	$0.50
Franchise fee	$0.40
Cost of electricity with taxes and fees	$22.16

Total charges for electricity services **$22.16**

* *These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Old meter number: M31423

Meter reading on Nov 13	374
Meter reading on Oct 18	372
Electricity you used, in kWh	**2**
Demand meter reading	0.00

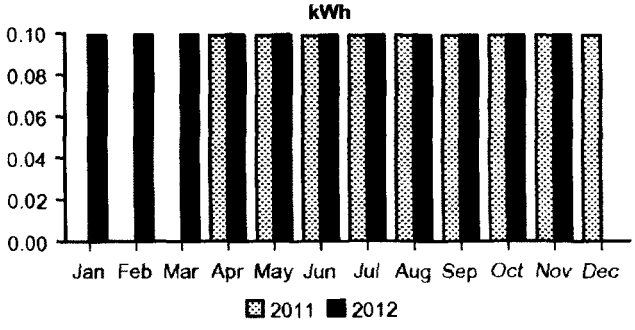
Since your previous read, your meter has been changed

New meter number: DC4337

Meter reading on Nov 16	0
Meter reading on Nov 13	0
Electricity you used, in kWh	**0**
Demand meter reading	0.00

Total electricity you used, in kWh **2**
Your billed demand in kW **0.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	29	29	32
Average outdoor temperature	68°	81°	69°
Your total use in kWh	2	4	3
Your billed demand in kW	0.0	0.0	0.0
Your average daily cost	$0.76	$0.77	$0.76

X

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 6803 N Dysart Rd

Your service plan: E-32 XS/S
Service number: 6112S91288
DBA: Litchfield Park Service CO

Meter number: DC8827
Meter reading cycle: 14

Charges for electricity services

Cost of electricity you used

Customer account charge	$3.53
Delivery service charge	$35.09
Demand charge - delivery	$0.00
Environmental benefits surcharge	$8.15
Federal environmental improvement surcharge	$0.00
System benefits charge	$2.50
Power supply adjustment*	-$3.52
Metering*	$11.26
Meter reading*	$1.90
Billing*	$2.10
Generation of electricity*	$57.93
Federal transmission and ancillary services*	$3.57
Federal transmission cost adjustment*	$2.15
Cost of electricity you used	$124.68

Taxes and fees

Regulatory assessment	$0.25
State sales tax	$8.25
County sales tax	$0.87
City sales tax	$0.00
Franchise fee	$0.00
Cost of electricity with taxes and fees	$134.05

Total charges for electricity services **$134.05**

** These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Old meter number: *F74440*

Meter reading on Nov 13	29812
Meter reading on Oct 23	29172
Electricity you used, in kWh	**640**
Demand meter reading	6.00

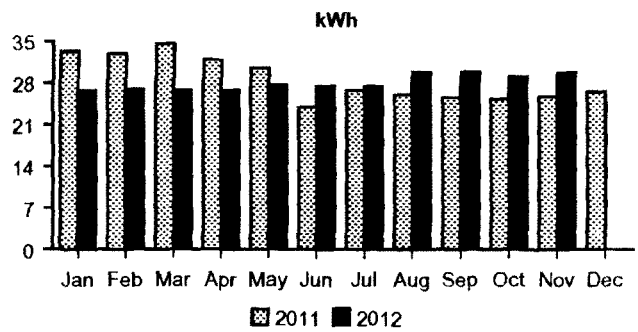
Since your previous read, your meter has been changed

New meter number: DC8827

Meter reading on Nov 20	202
Meter reading on Nov 13	0
Electricity you used, in kWh	**202**
Demand meter reading	2.98

Total electricity you used, in kWh	**842**
Your billed demand in kW	**6.0**

Average daily electricity use per month



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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 6024 N El Mirage Rd

***Your service plan:* E-32 XS/S**
Service number: 8413S52285
DBA: Litchfield Park Service CO

Meter number: CW8997
Meter reading cycle: 14

Charges for electricity services

Cost of electricity you used

Customer account charge	$3.53
Delivery service charge	$6.77
Demand charge - delivery	$741.87
Environmental benefits surcharge	$98.31
Federal environmental improvement surcharge	$0.00
System benefits charge	$4.75
Power supply adjustment*	-$6.69
Metering*	$29.54
Meter reading*	$1.90
Billing*	$2.10
Generation of electricity*	$127.97
Federal transmission and ancillary services*	$142.65
Federal transmission cost adjustment*	$73.08
Cost of electricity you used	$1,225.78

Taxes and fees

Regulatory assessment	$2.43
State sales tax	$81.06
County sales tax	$8.60
City sales tax	$0.00
Franchise fee	$0.00
Cost of electricity with taxes and fees	$1,317.87

Total charges for electricity services **$1,317.87**

** These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Old meter number: U20824

Meter reading on Nov 14	272
Meter reading on Oct 23	255
Read difference is	17
Multiplier applied to the read difference	80
Electricity you used, in kWh	**1360**
Demand meter reading	1.12
Multiplier applied to the read	80
Your total demand in kW	89.6

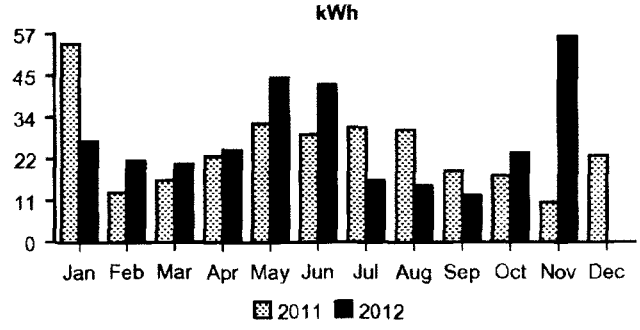
Since your previous read, your meter has been changed

New meter number: CW8997

Meter reading on Nov 20	3
Meter reading on Nov 14	0
Read difference is	3
Multiplier applied to the read difference	80
Electricity you used, in kWh	**240**
Demand meter reading	0.05
Multiplier applied to the read	80
Your total demand in kW	4.0

Total electricity you used, in kWh	**1600**
Your billed demand in kW	**90.0**

Average daily electricity use per month



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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 5247 N El Mirage Rd

Your service plan: E-32 XS/S
Service number: 7828S52283
DBA: Litchfield Park Service CO

Meter number: CW9095
Meter reading cycle: 14

Charges for electricity services

Cost of electricity you used

Customer account charge	$3.53
Delivery service charge	$210.82
Demand charge - delivery	$733.63
Environmental benefits surcharge	$189.64
Federal environmental improvement surcharge	$0.00
System benefits charge	$148.02
Power supply adjustment*	-$208.23
Metering*	$29.54
Meter reading*	$1.90
Billing*	$2.10
Generation of electricity*	$2,678.97
Federal transmission and ancillary services*	$141.07
Federal transmission cost adjustment*	$72.27
Cost of electricity you used	$4,003.26

Taxes and fees

Regulatory assessment	$7.94
State sales tax	$264.74
County sales tax	$28.08
City sales tax	$0.00
Franchise fee	$0.00
Cost of electricity with taxes and fees	$4,304.02

Total charges for electricity services **$4,304.02**

** These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Old meter number: J41766

Meter reading on Nov 14	12520
Meter reading on Oct 23	12021
Read difference is	499
Multiplier applied to the read difference	80
Electricity you used, in kWh	**39920**
Demand meter reading	1.11
Multiplier applied to the read	80
Your total demand in kW	88.8

Since your previous read, your meter has been changed

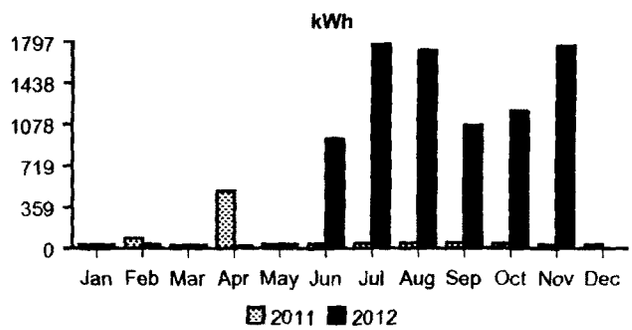
New meter number: CW9095

Meter reading on Nov 20	124
Meter reading on Nov 14	0
Read difference is	124
Multiplier applied to the read difference	80
Electricity you used, in kWh	**9920**
Demand meter reading	1.01
Multiplier applied to the read	80
Your total demand in kW	80.8

Total electricity you used, in kWh	**49840**
Your billed demand in kW	**89.0**

865-41A8 Rev. 3-11

Average daily electricity use per month



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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 4450 N 127 Ave Well 5

Your service plan: E-221 Rate
Service number: 2837S50288
DBA: Town Well T 5

Meter number: F95395
Meter reading cycle: 16

Charges for electricity services

Cost of electricity you used

Customer account charge	$17.64
Energy charge	$2,295.48
Demand charge	$280.48
Environmental benefits surcharge	$218.69
Federal environmental improvement surcharge	$0.00
Power supply adjustment*	-$125.18
Federal transmission cost adjustment*	$96.63
Cost of electricity you used	$2,783.74

Taxes and fees

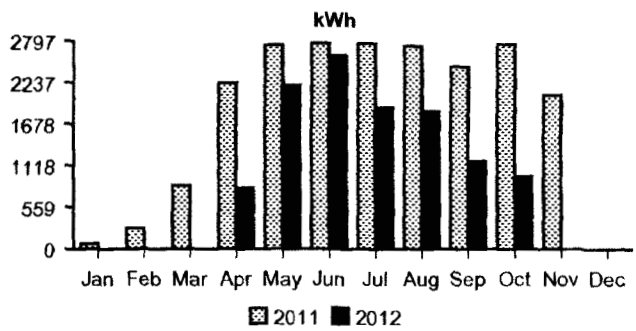
Regulatory assessment	$5.52
State sales tax	$184.09
County sales tax	$19.52
City sales tax	$0.00
Franchise fee	$0.00
Cost of electricity with taxes and fees	$2,992.87

Total charges for electricity services **$2,992.87**

Amount of electricity you used

Meter reading on Oct 25	2796
Meter reading on Sep 25	2047
Read difference is	749
Multiplier applied to the read difference	40
Total electricity you used, in kWh	**29960**
Demand meter reading	2.98
Multiplier applied to the read	40
Your total demand in kW	119.2
Your billed demand in kW	**119.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	30	33	30
Average outdoor temperature	77°	88°	79°
Your total use in kWh	29960	39720	83480
Your billed demand in kW	119.0	119.0	118.0
Your average daily cost	$99.76	$110.69	$228.85

X

Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 15521 W Minnezona Ave Well

Your service plan: E-221 Rate
Service number: 4281S31285
DBA: Litchfield Park Service CO

Meter number: J89002
Meter reading cycle: 12

Charges for electricity services

Cost of electricity you used

Customer account charge	$18.82
Energy charge	$7,491.04
Demand charge	$381.83
Environmental benefits surcharge	$260.34
Federal environmental improvement surcharge	$0.00
Power supply adjustment*	-$457.91
Federal transmission cost adjustment*	$131.54
Cost of electricity you used	$7,825.66

Taxes and fees

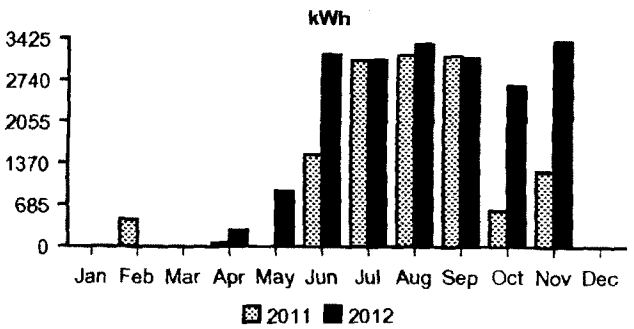
Regulatory assessment	$15.52
State sales tax	$527.87
County sales tax	$55.99
City sales tax	$199.95
Franchise fee	$156.82
Cost of electricity with taxes and fees	$8,781.81

Total charges for electricity services **$8,781.81**

Amount of electricity you used

Meter reading on Nov 19	58470
Meter reading on Oct 18	57100
Read difference is	1370
Multiplier applied to the read difference	80
Total electricity you used, in kWh	**109600**
Demand meter reading	2.02
Multiplier applied to the read	80
Your total demand in kW	161.6
Your billed demand in kW	**162.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	32	28	33
Average outdoor temperature	68°	81°	69°
Your total use in kWh	109600	75200	41760
Your billed demand in kW	162.0	127.0	129.0
Your average daily cost	$274.43	$221.79	$124.22

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Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 15614 W Charles Blvd

Your service plan: E-32 XS/S
Service number: 7071S72288
DBA: Well 20b

Meter number: P22948
Meter reading cycle: 12

Charges for electricity services

Cost of electricity you used

Customer account charge	$4.03
Delivery service charge	$66.50
Demand charge - delivery	$230.80
Environmental benefits surcharge	$130.56
Federal environmental improvement surcharge	$0.00
System benefits charge	$46.69
Power supply adjustment*	-$65.68
Metering*	$12.90
Meter reading*	$2.18
Billing*	$2.40
Generation of electricity*	$844.39
Federal transmission and ancillary services*	$44.38
Federal transmission cost adjustment*	$22.74
Cost of electricity you used	$1,341.89

Taxes and fees

Regulatory assessment	$2.66
State sales tax	$90.52
County sales tax	$9.60
City sales tax	$34.29
Franchise fee	$26.89
Cost of electricity with taxes and fees	$1,505.85

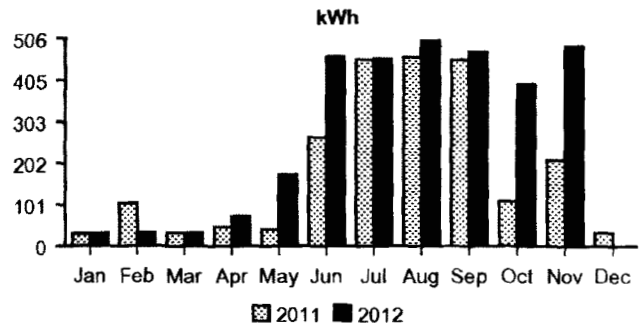
Total charges for electricity services **$1,505.85**

** These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Meter reading on Nov 19	12673
Meter reading on Oct 18	96953
Total electricity you used, in kWh	**15720**
Demand meter reading	28.00
Your billed demand in kW	**28.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	32	28	32
Average outdoor temperature	68°	81°	68°
Your total use in kWh	15720	11168	6890
Your billed demand in kW	28.0	20.0	22.0
Your average daily cost	$47.05	$49.84	$27.94

aps.com

Your electricity bill
November 21, 2012

LITCHFIELD PARK SERVICE CO

Your account number
342122282

New charges for 14222 W McDowell Rd

Your service plan: E-32 L
Service number: 5910S61286
DBA: Litchfield Park Service CO

Meter number: Q21848
Meter reading cycle: 03

Charges for electricity services

Cost of electricity you used

Customer account charge	$17.43
Delivery service charge	$32.41
Demand charge - delivery	$5,845.38
Environmental benefits surcharge	$713.60
Federal environmental improvement surcharge	$0.00
System benefits charge	$874.96
Power supply adjustment*	-$1,230.84
Metering*	$26.22
Meter reading*	$1.68
Billing*	$1.86
Generation of electricity*	$10,299.22
Demand charge - generation*	$2,832.48
Federal transmission and ancillary services*	$998.55
Federal transmission cost adjustment*	$511.56
Cost of electricity you used	$20,924.51

Taxes and fees

Regulatory assessment	$41.49
State sales tax	$1,411.43
County sales tax	$149.70
City sales tax	$534.63
Franchise fee	$419.32
Cost of electricity with taxes and fees	$23,481.08

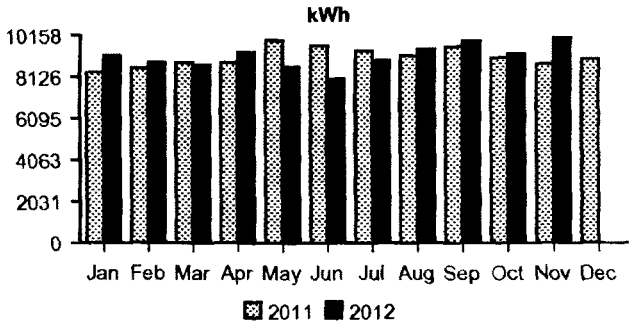
Total charges for electricity services **$23,481.08**

* *These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Meter reading on Nov 3	11318
Meter reading on Oct 5	10827
Read difference is	491
Multiplier applied to the read difference	600
Total electricity you used, in kWh	**294600**
Demand meter reading	1.05
Multiplier applied to the read	600
Your total demand in kW	630.0
Your billed demand in kW	**630.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	29	29	31
Average outdoor temperature	74°	85°	75°
Your total use in kWh	294600	271200	274800
Your billed demand in kW	630.0	600.0	630.0
Your average daily cost	$809.69	$940.16	$736.26

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RECEIVED
JAN 31 2013

aps.com

Your electricity bill

ALGONQUIN WATER SERVICES LLC

Bill date: January 29, 2013

Your account number: 556745281

For service at: 4 locations

Questions or Office Locations?
Call 602-371-6767,
Mon - Fri, 7:30am - 5:00pm
Website: aps.com
Para servicio en español llame al:
602-371-6861 (Phoenix)

Summary of what you owe

Amount owing on your previous bill		$1,426.73
Less	Payment made on Jan 11, thank you	-$1,426.73
Less	SurePay discount	-$0.48
Equals	Your balance forward	-$0.48
Plus	Your new charges (details on following pages)	
	Cost of electricity (with taxes and fees)	$1,661.73
Equals	**Total amount due**	**$1,661.25**

We will debit your checking or savings account for $1,661.25 on February 11, 2013.

Jan 13

Thank you for your consistent and timely payments. We value your business.

8020-0000 ARRay - 24.34

8020 2-000275-7255-0000 -1634.91
Crystal Greene

New Charge on Your Bill Beginning March 2013
In May 2012, the Arizona Corporation Commission (ACC) approved new rates for APS. Because more customers are installing renewable energy systems such as solar and wind, and energy efficiency measures such as compact fluorescent light bulbs and refrigerator recycling, APS is selling less electricity, but fixed costs remain. APS is allowed to implement a new charge to recover a portion of the fixed costs. Fixed costs are for items that are needed regardless of how much electricity is sold, such as power poles, wires and other delivery infrastructure. As a result, the Lost Fixed Cost Recovery (LFCR) charge will begin appearing on your bill in March 2013. For more information, visit aps.com/LFCR.

 See page 2 for more information.

When paying in person, please bring the bottom portion of your bill.

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Your account number **556745281**

Bill date **January 29, 2013**

Mailing address or phone number change?
Please call 602-371-6767.

2659.1.20.5100 1 AV 0.360

You do not need to mail a payment. With SurePay, your payment is automatically deducted from your checking or savings account.

ALGONQUIN WATER SERVICES LLC
STE D101
12725 W INDIAN SCHOOL RD
AVONDALE AZ 85392-9524

☒ 16 N 1 85

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aps

Things you need to know

Contacting APS

- E-mail us at aps@aps.com
- Call us at:
  602-371-6767 (Phoenix) or 800-253-9407 (Other areas)
  Mon-Fri, 7:30 am - 5:00 pm
- Para servicio en español llame al:
  602-371-6861 (Phoenix) o 1-800-252-9410 (Otras areas)
- Hearing impaired:
  Dial 711 - AZ Relay Service
- By mail: APS, Station 3200, PO Box 53933,
  Phoenix AZ 85072-3933
- Blue Stake - Before you dig, call:
  811 or 800-782-5348 from anywhere within Arizona
- Electrical emergencies other than power outages, call:
  602-258-5483 (Phoenix) or 800-253-9408 (Other areas)

Important billing and collection information

Make checks payable to APS and mail to:
APS, PO Box 2906, Phoenix AZ 85062-2906

Credit and Collections:
602-371-7607 (Phoenix) or 1-800-253-9409 (Other areas)

All bills for utility services are due and payable no later than 15 days from the date of the bill. Any payments not received within this time-frame shall be considered delinquent and are subject to a late payment charge of 1.5% per month.

If your power is shut off for non-payment, you must pay all the delinquent amounts and a deposit or additional deposit before power is restored.

When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic funds transfer from your account or to process the payment as a check transaction. When we process your check electronically you will not receive your check back from your financial institution and funds may be withdrawn from your account on the same day we receive your payment.

Utility regulations and rates (Not an APS payment site)

Electricity regulations and rates are approved by:
Arizona Corporation Commission,
1200 W. Washington, Phoenix AZ 85007
602-542-4251 (Phoenix) or 1-800-222-7000 (Other areas).
www.cc.state.az.us

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Your electricity bill
January 29, 2013

ALGONQUIN WATER SERVICES LLC

Your account number
556745281

Summary of charges by service address

Service number	Service address	Total electricity used (kWh)	Billed demand (kW)	Other charges and credits ($)	Total charges ($)
5613S52285	5049 N 191 Dr Litchfield Park Algonquin Water Services LLC	9	0.0	$0.00	$24.34
6674S02281	12725 W Indian School Rd Ste D103, Avondale Algonquin Water Services LLC	5200	17.0	$0.00	$729.29
7784S02286	12725 W Indian School Rd Ste D101, Avondale Algonquin Water Services LLC	3169	12.0	$0.00	$461.33
1183S02288	12725 W Indian School Rd Ste D104, Avondale Algonquin Water Services LLC	3064	18.0	$0.00	$446.77
Total		**11442**		**$0.00**	**$1,661.73**

aps

Your electricity bill
January 29, 2013

ALGONQUIN WATER SERVICES LLC

Your account number
556745281

New charges for 5049 N 191 Dr

Your service plan: E-32 XS/S
***Service number*: 5613S52285**
DBA: Algonquin Water Services LLC

Meter number: DC4288
Meter reading cycle: 09

Charges for electricity services

Cost of electricity you used

Customer account charge	$4.03
Delivery service charge	$0.38
Demand charge - delivery	$0.00
Environmental benefits surcharge	$0.08
System benefits charge	$0.03
Power supply adjustment*	-$0.04
Metering*	$12.90
Meter reading*	$2.18
Billing*	$2.40
Generation of electricity*	$0.62
Federal transmission and ancillary services*	$0.04
Federal transmission cost adjustment*	$0.02
Cost of electricity you used	$22.64

Taxes and fees

Regulatory assessment	$0.04
State sales tax	$1.50
County sales tax	$0.16
City sales tax	$0.00
Franchise fee	$0.00
Cost of electricity with taxes and fees	$24.34

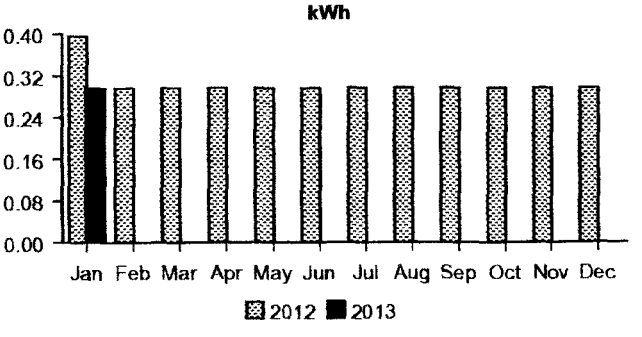
Total charges for electricity services **$24.34**

** These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Meter reading on Jan 15	21
Meter reading on Dec 14	12
Total electricity you used, in kWh	**9**
Demand meter reading	*0.01*
Your billed demand in kW	**0.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	32	31	33
Average outdoor temperature	47°	60°	53°
Your total use in kWh	9	9	12
Your billed demand in kW	0.0	0.0	0.0
Your average daily cost	$0.76	$0.76	$0.77

aps.com

Your electricity bill
January 29, 2013

ALGONQUIN WATER SERVICES LLC

Your account number
556745281

New charges for 12725 W Indian School Rd Ste D103

Your service plan: E-32 XS/S
Service number: 6674S02281
DBA: Algonquin Water Services LLC

Meter number: DA0269
Meter reading cycle: 16

Charges for electricity services

Cost of electricity you used

Customer account charge	$3.78
Delivery service charge	$211.01
Demand charge - delivery	$0.00
Environmental benefits surcharge	$50.33
System benefits charge	$15.44
Power supply adjustment*	-$21.73
Metering*	$12.09
Meter reading*	$2.04
Billing*	$2.25
Generation of electricity*	$351.27
Federal transmission and ancillary services*	$22.05
Federal transmission cost adjustment*	$13.26
Cost of electricity you used	$661.79

Taxes and fees

Regulatory assessment	$1.31
State sales tax	$44.64
County sales tax	$4.73
City sales tax	$3.56
Franchise fee	$13.26
Cost of electricity with taxes and fees	$729.29

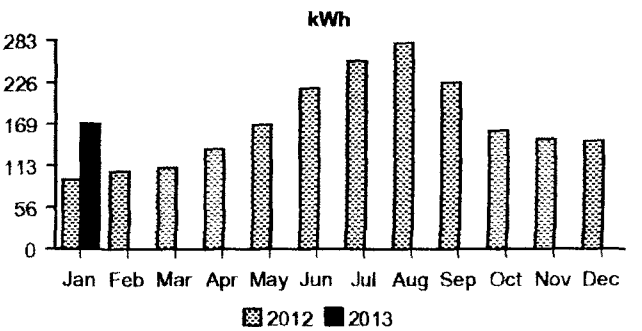
Total charges for electricity services **$729.29**

* *These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Meter reading on Jan 25	18111
Meter reading on Dec 26	12911
Total electricity you used, in kWh	**5200**
Demand meter reading	17.00
Your billed demand in kW	**17.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	30	30	33
Average outdoor temperature	52°	59°	56°
Your total use in kWh	5200	4473	3182
Your billed demand in kW	17.0	17.0	15.0
Your average daily cost	$24.30	$21.39	$13.92

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Your electricity bill
January 29, 2013

ALGONQUIN WATER SERVICES LLC

Your account number
556745281

New charges for 12725 W Indian School Rd Ste D101

Your service plan: E-32 XS/S
Service number: 7784S02286
DBA: Algonquin Water Services LLC

Meter number: DA0270
Meter reading cycle: 16

Charges for electricity services

Cost of electricity you used

Customer account charge	$3.78
Delivery service charge	$132.08
Demand charge - delivery	$0.00
Environmental benefits surcharge	$30.67
System benefits charge	$9.41
Power supply adjustment*	-$13.24
Metering*	$12.09
Meter reading*	$2.04
Billing*	$2.25
Generation of electricity*	$218.03
Federal transmission and ancillary services*	$13.44
Federal transmission cost adjustment*	$8.08
Cost of electricity you used	$418.63

Taxes and fees

Regulatory assessment	$0.83
State sales tax	$28.24
County sales tax	$2.99
City sales tax	$2.25
Franchise fee	$8.39
Cost of electricity with taxes and fees	$461.33

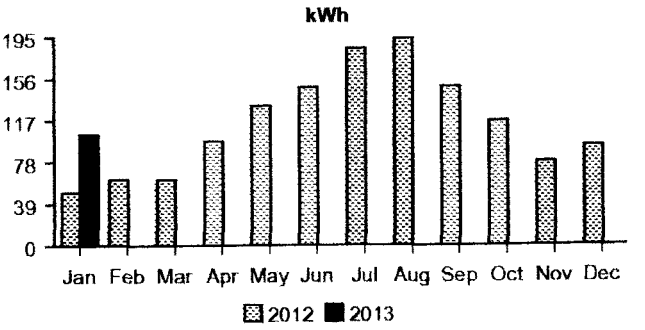
Total charges for electricity services **$461.33**

** These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Meter reading on Jan 25	11088
Meter reading on Dec 26	7919
Total electricity you used, in kWh	**3169**
Demand meter reading	12.48
Your billed demand in kW	**12.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	30	30	33
Average outdoor temperature	52°	59°	56°
Your total use in kWh	3169	2849	1700
Your billed demand in kW	12.0	13.0	12.0
Your average daily cost	$15.37	$13.89	$7.78

aps.com

Your electricity bill
January 29, 2013

ALGONQUIN WATER SERVICES LLC

Your account number
556745281

New charges for 12725 W Indian School Rd Ste D104

Your service plan: E-32 XS/S
Service number: 1183S02288
DBA: Algonquin Water Services LLC

Meter number: DA0271
Meter reading cycle: 16

Charges for electricity services

Cost of electricity you used

Customer account charge	$3.78
Delivery service charge	$127.71
Demand charge - delivery	$0.00
Environmental benefits surcharge	$29.65
System benefits charge	$9.10
Power supply adjustment*	-$12.80
Metering*	$12.09
Meter reading*	$2.04
Billing*	$2.25
Generation of electricity*	$210.80
Federal transmission and ancillary services*	$12.99
Federal transmission cost adjustment*	$7.81
Cost of electricity you used	$405.42

Taxes and fees

Regulatory assessment	$0.80
State sales tax	$27.35
County sales tax	$2.90
City sales tax	$2.18
Franchise fee	$8.12
Cost of electricity with taxes and fees	$446.77

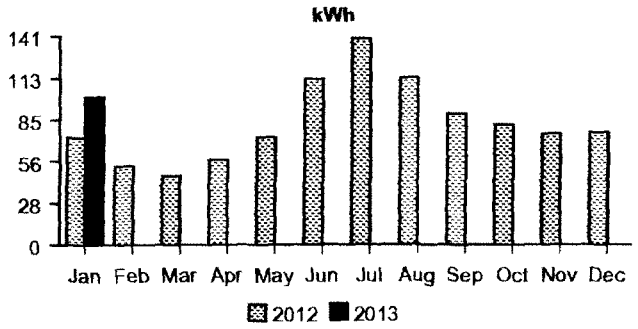
Total charges for electricity services **$446.77**

** These services are currently provided by APS but may be provided by a competitive supplier.*

Amount of electricity you used

Meter reading on Jan 25	9786
Meter reading on Dec 26	6722
Total electricity you used, in kWh	**3064**
Demand meter reading	17.82
Your billed demand in kW	**18.0**

Average daily electricity use per month



Comparing your monthly use

	This month	Last month	This month last year
Billing days	30	30	33
Average outdoor temperature	52°	59°	56°
Your total use in kWh	3064	2327	2452
Your billed demand in kW	18.0	10.0	12.0
Your average daily cost	$14.89	$11.48	$10.90

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

CHRISTOPHER D. KRYGIER
DIRECT TESTIMONY

FEBRUARY 28, 2013

EXHIBIT CDK – DT7

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES FOR WATER SERVICE

I. RATES – General Residential, Commercial, Industrial, and Irrigation Service

Originally in Decision No. 72026, dated December 10, 2010, and again in Decision No. 72682, dated November 17, 2011, the Commission authorized the following rates and charges to become effective December 1, 2011:

A. Monthly Usage Charge ~~– 100 Percent Phase In (Phase 3)~~

Meter Size Inches	Minimum Charge Per Month
5/8" x 3/4" Meter – All Classes	$ 10.20
3/4" Meter – All Classes	10.20
1" Meter – Residential	22.95
1" Meter – All Classes but Residential	25.50
1 1/2" Meter – All Classes	51.00
2" Meter – All Classes	81.60
3" Meter – All Classes	163.20
4" Meter – All Classes	255.00
6" Meter – All Classes	510.00
8" Meter (Bulk Resale Only)	501.00
8" Meter – All Classes	841.50
10" Meter – All Classes	1,173.00
12" Meter – All Classes but Irrigation	2,193.00
12" Meter – Irrigation	2,193.00

ISSUED BY:

Christopher D. Krygier, Utility Rates and Regulatory Manager
Litchfield Park Service Company dba Liberty Utilities
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

Applies to all **WATER** service areas
PART ONE
STATEMENT OF CHARGES FOR WATER SERVICE

B. Commodity Rates ~~100 Percent Phase In (Phase 3)~~

The rate for use in addition to the minimum stated above shall be at the following rates per 1,000 gallons:

Meter Size	Consumption	Rate
5/8" x 3/4" Meter (Residential)	0 to 3,000	$1.00
	3,001 to 9,000	1.91
	Over 9,000	3.03
3/4" Meter (Residential)	0 to 3,000	1.00
	3,001 to 9,000	1.91
	Over 9,000	3.03
1" Meter (Residential)	0 to 5,000	1.00
	5,001 to 20,000	1.91
	Over 20,000	3.03
5/8" x 3/4" and 3/4" Meter (Commercial, Industrial, Irrigation)	0 to 9,000	1.91
	Over 9,000	3.03
1" Meter (Commercial, Industrial, Irrigation)	0 to 20,000	1.91
	Over 20,000	3.03
1 1/2" Meter (Residential, Commercial, Industrial, Irrigation)	0 to 40,000	1.91
	Over 40,000	3.03
2" Meter (Residential, Commercial, Industrial, Irrigation)	0 to 60,000	1.91
	Over 60,000	3.03

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES FOR WATER SERVICE

Section I.B continued ~~—100 Percent Phase In (Phase 3)~~

Meter Size	**Consumption**	**Rate**
3" Meter (Residential, Commercial, Industrial, Irrigation)	0 to 120,000	$1.91
	Over 120,000	3.03
4" Meter (Residential, Commercial, Industrial, Irrigation)	0 to 180,000	1.91
	Over 180,000	3.03
6" Meter (Residential, Commercial, Industrial, Irrigation)	0 to 360,000	1.91
	Over 360,000	3.03
8" Meter (Residential, Commercial, Industrial, Irrigation)	0 to 650,000	1.91
	Over 650,000	3.03
8" Meter (Bulk Resale Only)	All Gallons	1.50
10" Meter (Residential, Commercial, Industrial, Irrigation)	0 to 940,000	1.91
	Over 940,000	3.03
12" Meter (Residential, Commercial, Industrial, Irrigation)	0 to 1,200,000	1.91
	Over 1,200,000	3.03
Construction Water*	All Gallons	3.03
Fire Services		Note 1

*There is no monthly minimum for hydrant meters.

Note 1 – 2% of the equivalent monthly meter size or $10 whichever is greater for all meter sizes

ISSUED BY:

Christopher D. Krygier, Utility Rates and Regulatory Manager
Litchfield Park Service Company dba Liberty Utilities
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES FOR WATER SERVICE

C. Service Line and Meter Installation Charges

(Refundable Pursuant to A.A.C. R14-2-405)

Meter Size	Line	Meter	Total
5/8 x 3/4" Meter	At Cost~~$385.00~~	At Cost~~$135.00~~	~~$520.00~~At Cost
3/4" Meter	~~385.00~~At Cost	~~215.00~~At Cost	~~600.00~~At Cost
1" Meter	~~435.00~~At Cost	~~255.00~~At Cost	~~690.00~~At Cost
1 1/2" Meter	At Cost~~470.00~~	At Cost~~465.00~~	At Cost~~935.00~~
2" Turbine Meter	At Cost ~~630.00~~	At Cost~~965.00~~	At Cost ~~1,595.00~~
2" Compound Meter	At Cost ~~630.00~~	At Cost ~~1,690.00~~	At Cost~~2,320.00~~
3" Turbine Meter	At Cost ~~805.00~~	At Cost ~~1,470.00~~	At Cost~~2,275.00~~
3" Compound Meter	At Cost ~~845.00~~	At Cost ~~2,265.00~~	At Cost~~3,110.00~~
4" Turbine Meter	At Cost~~1,170.00~~	At Cost~~2,350.00~~	At Cost~~3,520.00~~
4"Compound Meter	At Cost~~1,230.00~~	At Cost~~3,245.00~~	At Cost~~4,475.00~~
6" Turbine Meter	At Cost~~1,730.00~~	At Cost ~~4,545.00~~	At Cost~~6,275.00~~
6"Compound Meter	At Cost~~1,770.00~~	At Cost ~~6,280.00~~	At Cost~~8,050.00~~

8" Meter & Larger	At Cost	At Cost	At Cost

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PART ONE

STATEMENT OF CHARGES FOR WATER SERVICE

D. Service Charges

Service	Charge
Establishment (a)	$20.00
Establishment (After Hours) (a)	40.00
Re-Establishment of Service (a)	(b)
Reconnection (Regular Hours) (a)	$50.00
Reconnection (After Hours) (a)	65.00
Meter Test (if correct) (c)	25.00
Meter Re-Read (if correct)	5.00
Fire Hydrant Meter Relocation	$50.00 ~~/ hour~~
Fire Hydrant Meter Repairs (g)	At Cost
NSF Check	25.00
Deferred Payment, Per Month	1.50%
Late Charge	(d)
Service Calls, Per Hour / After Hours (e)	$40.00
Deposit Requirement	(f)
Deposit Interest	3.50%

(a) Service charges for customers taking both water and sewer services are not duplicative.
(b) Minimum charge times number of months disconnected.
(c) $25.00 plus cost of test.
(d) Greater of $5.00 or 1.50% of unpaid balance.
(e) No charge for service calls during normal working hours.
(f) Per Rule R14-2-403(B):
Residential – two times the average bill;
Commercial – two and one-half times the average bill.

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PART ONE

STATEMENT OF CHARGES FOR WATER SERVICE

Section I.D continued

*Hydrant Meter Deposit	
~~5/8 x 3/4" Meter~~	~~$ 135.00~~
~~3/4" Meter~~	~~215.00~~
~~1" Meter~~	~~255.00~~
~~1 1/2" Meter~~	~~465.00~~
~~2" Turbine Meter~~	~~965.00~~
~~2" Compound Meter~~	~~1,690.00~~
~~3" Turbine Meter~~ Fire Hydrant Water Meter	~~1,470.00~~ At Cost
~~3" Compound Meter~~	~~2,265.00~~
~~4" Turbine Meter~~	~~2,350.00~~
~~4" Compound Meter~~	~~3,245.00~~
~~6" Turbine Meter~~	~~4,545.00~~
~~6" Compound Meter~~	~~6,280.00~~
~~8" Meter & Larger~~	~~At Cost~~
Any other size besides 3"	At Cost

* Shall have a non-interest bearing deposit of the amount indicated, refundable in its entirety upon return of the meter in good condition and payment of final bill.

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Applies to all **WATER** service areas
PART ONE
STATEMENT OF CHARGES FOR WATER SERVICE

II. TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, franchise, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-409(D)(5).

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Applies to all **WATER** service areas
PART ONE
STATEMENT OF CHARGES FOR WATER SERVICE

III. PERMITTED COSTS

A. Costs shall be verified by invoice.

B. For services that are provided by the Company at cost, costs shall include labor, materials, other charges incurred, and overhead not to exceed 10%. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.

C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.

D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the provision of the service or after the Company's receipt of invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date. However, if the actual cost is more than five percent (5%) greater than the total amount paid, the customer will only be required to pay five percent (5%) more than the total amount paid, unless the Company can demonstrate that the increased costs were beyond its control and could not be foreseen at the time the estimate for the total amount paid was made.

E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.

F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by the Company as a result of any tariff or contract for water facilities under which the Customer advances or contributes funds or facilities to the Company.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS FOR WATER SERVICE

CROSS-CONNECTION OR BACKFLOW TARIFF

PURPOSE:

The purpose of this tariff is to protect Litchfield Park Service Company (the "Company") water from the possibility of contamination caused by backflow of contaminants that may be present on the customer's premises by requiring the installation and periodic testing of backflow-prevention assemblies pursuant to the provisions of the Arizona Administrative Code ("A.A.C.") R14-2-405.B.6. and A.A.C. R18-4-215.

REQUIREMENTS:

In compliance with the Rules and Regulations of the Arizona Corporation Commission ("Commission") and the Arizona Department of Environmental Quality ("ADEQ"), specifically A.A.C. R14-2-405.B.6 and A.A.C. R18-4-215 relating to backflow prevention:

1. The Company may require a customer to pay for and have installed, and to maintain, test and repair a backflow-prevention assembly if A.A.C. R18-4-215.B or C applies.

2. A backflow-prevention assembly required to be installed by the customer under Paragraph 1 of this tariff shall comply with the requirements set forth in A.A.C. R18-4-215.D and E.

3. Subject to the provisions of A.A.C. R14-2-407 and 410, and in accordance with Paragraphs 1 and 7 of this tariff, the Company may terminate service or deny service to a customer who fails to install a backflow-prevention assembly as required by this tariff.

4. The Company shall give any existing customer who is required to install a backflow-prevention assembly written notice of said requirement. If A.A.C. R14-2-410.B.1.a is **not** applicable, the customer shall be given thirty (30) days from the time such written notice is received in which to comply with this notice. If the customer can show good cause as to why he cannot install the backflow-prevention assembly within thirty (30) days, the Company or Commission Staff may suspend this requirement for a reasonable period of time.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS FOR WATER SERVICE

5. Testing shall be in conformance with the requirements of A.A.C. R18-4-215.F. The Company ~~may~~ will require the customer to pay to have the backflow-prevention assembly tested as long as the Company does not require an unreasonable number of tests.

6. The customer shall provide the Company with records of installation and testing. For each backflow-prevention assembly, these records shall include:

   a. assembly identification number and description;
   b. location;
   c. date(s) of test(s);
   d. description of repairs and recommendations for repairs made by tester;
   e. tester's name and certificate number; and
   f. tester's field test kit certification documentation.

7. In the event the backflow-prevention assembly does not function properly or fails any test, and an obvious hazard as contemplated under A.A.C. R14-2-410.B.1.a. exists, the Company may terminate service immediately and without notice. The backflow-prevention assembly shall be repaired or replaced by the customer and retested.

8. In the event the backflow-prevention assembly does not function properly or fails any test, or in the event that a customer fails to comply with the testing requirement, and A.A.C. R14-2-410.B.1.a. is **not** applicable, the backflow-prevention assembly shall be repaired or replaced within fourteen (14) days of the initial discovery of the deficiency in the assembly or its function. Failure to remedy the deficiency of dysfunction of the assembly, or failure to retest, shall be grounds for termination of water service in accordance with A.A.C. R14-2-410.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS FOR WATER SERVICE

I. INTERRUPTIBLE SERVICE; COMPANY'S LIABILITY LIMITATIONS

The Company will supply only such water at such pressures as may be available from time to time as a result of the normal operation of its water system. The Company will maintain a minimum water pressure of 20 p.s.i., at point of connection and will not guarantee a specific gallons per minute flow rate at any public fire hydrants or fire sprinkler service. In the event service is interrupted, irregular or defective, or fails from causes beyond the Company's control or through ordinary negligence of its employees or agents, the Company will not be liable for any injuries or damages arising therefrom.

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Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS FOR WATER SERVICE

II. RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-401 through A.A.C. R14-2-411 will be controlling of Company procedures, unless specific Commission Order(s) provide otherwise.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS FOR WATER SERVICE

III. CURTAILMENT PLAN

ADEQ Public Water System Number: 07-046

Litchfield Park Service Company ("Company") is authorized to curtail water service to all customers, residential and commercial, within its certified area under the following terms and conditions:

Stage 1 Exists When:

Company is able to maintain water storage in the system at 100 percent of demand and there are no known problems with its well production or water storage in the system.

Restrictions: Under Stage 1, Company is deemed to be operating normally and no curtailment is necessary.

Notice Requirements: Under Stage 1, no notice is necessary.

Stage 2 Exists When:

a. Company's water storage or well production has been less than 80 percent of demand for at least 48 consecutive hours, and

b. Company has identified issues such as steadily declining water table, an increased draw-down threatening pump operations, poor water production, or electrical/ mechanical equipment failures, etc., creating a reasonable belief the Company will be unable to meet anticipated water demands in the system.

Restrictions: Under Stage 2, the Company may request the customers to voluntarily employ water conservation measures to reduce water consumption by approximately 50 percent. Outside watering should be limited to essential water, dividing outside watering on some uniform basis (such as even and odd days) and eliminating outside watering on weekends and holidays.

Notice Requirements: Under Stage 2, the Company is required to notify customers by delivering written notice door to door at each service address, or by United States first class mail to the billing address or, at the Company's option both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS FOR WATER SERVICE

Stage 3 Exists When:

a. Company's total water storage or well production has been less than 50 percent of demand for at least 24 consecutive hours, and

b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, poor water production, or electrical/ mechanical equipment failure, etc., creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 3, the Company shall request the customer to voluntarily employ water conservation measures to reduce daily consumption by approximately 50 percent. All outside watering should be eliminated, except livestock and indoor water conservation techniques should be employed whenever possible.

Notice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.

2. Beginning with Stage 3, Company shall post at least two (2) signs showing the curtailment stage. Signs shall be posted at noticeable locations, like at the well sites and at the entrance to the major subdivision served by the Company.

3. Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering Stage 3.

Once Stage 3 has been reached, the Company must begin to augment the supply of water by either hauling or through an emergency interconnect with an approved water supply in an attempt to maintain the curtailment at a level no higher than stage three until a permanent solution has been implemented.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS FOR WATER SERVICE

Stage 4 Exists When:

a. Company's total water storage or well production has been less than 25 percent of demand for at least 12 consecutive hours, and

b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, poor water production, or electrical/ mechanical equipment failure, etc., creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 4, Company shall inform the customers of a mandatory restriction to employee water conservation measures to reduce daily consumption. Failure to comply will result in customer disconnection. The following uses of water shall be prohibited:

- Irrigation of outdoor lawns, trees, shrubs, or any plant life is prohibited
- Washing of any vehicle is prohibited
- The use of water for dust control or any outdoor cleaning uses is prohibited
- The use of drip or misting systems of any kind is prohibited
- The filling of any swimming pool, spas, fountains or ornamental pools is prohibited
- Restaurant patrons shall be served water only upon request
- Any other water intensive activity is prohibited

Notice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.

2. Company shall post at least two (2) signs showing curtailment stage. Signs shall be posted at noticeable locations like at the well sites and at the entrance to the major subdivision served by the Company.

3. Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering Stage 4.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS FOR WATER SERVICE

Customers who fail to comply with cessation of the above Restrictions will be given a written notice to end all outdoor use. Failure to comply within two (2) working days of receipt of the notice will result in temporary loss of service until an agreement can be made to end unauthorized use of outdoor water. To restore service, the customer shall be required to pay all authorized reconnection fees. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

Once Stage 4 has been reached, the Company must augment the supply of water by hauling or through an emergency interconnect from an approved supply in an attempt to maintain the supply until a permanent solution has been implemented.

Note: If the Company loses all production and has no storage facilities, the Company must rely on emergency hauling or must otherwise provide emergency drinking water for its customers.

Applies to all **WASTEWATER** service areas
PART THREE
STATEMENT OF CHARGES FOR WASTEWATER SERVICE

I. RATES

Originally in Decision No. 72026, dated December 10, 2010, and again in Decision No. 72682, dated November 17, 2011, the Commission authorized the following rates and charges to become effective December 1, 2011:

A. Monthly Usage Charge – ~~100 Percent Phase In (Phase 3)~~

Meter Size Inches	Minimum Charge Per Month
Residential – Per Unit / Per Month	$38.99
Multiple Unit Service – Per Unit / Month	36.19
Small Commercial[1]	65.93
Regular Domestic[2]	36.91
Restaurants, Motels, Grocery, DC	36.91
Wigwam Resort / Room	36.91
Wigwam Resort / Main	1,433.30
Elementary School	974.64
Middle & High School	1,146.64
Community College	1,777.29
Effluent Sales[3]	Market

[1] Small Commercial is a wastewater commercial customer that averages a maximum of 10,000 gallons of water usage per month.
[2] Regular Domestic is a wastewater commercial customer that averages a minimum of 10,000 gallons of water usage per month.
[3] Market Rate – maximum effluent rate shall not exceed $430 per acre foot based on a potable water rate of $1.32 per thousand gallons and shall not be less than $0.17 per thousand gallons.

Applies to all **WASTEWATER** service areas

PART THREE

STATEMENT OF CHARGES FOR WASTEWATER SERVICE

B. Commodity Charge ~~100 Percent Phase In (Phase 3)~~

(per 1,000 gallons of water)	
Regular Domestic	$3.22
Restaurants, Motels, Grocery, DC	4.30

ISSUED BY:

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Applies to all **WASTEWATER** service areas

PART THREE

STATEMENT OF CHARGES FOR WASTEWATER SERVICE

C. Service Charges

Service	Charge
Establishment (a)	$20.00
Establishment (After Hours) (a)	40.00
Re-Establishment of Service (a)	(b)
Reconnection (Regular Hours) (a)	~~$50.00~~(h)
~~Reconnection (After Hours) (a), (h)~~	~~65.00~~
NSF Check	25.00
Deferred Payment, Per Month	1.50%
Late Charge	(c)
Service Calls, Per Hour / After Hours (d)	$40.00
Deposit Requirement	(e)
Deposit Interest	3.50%
Service Lateral Connection Charge – All Sizes	(f)
Main Extension Tariff	(g)

(a) Service charges for customers taking both water and sewer services are not duplicative.
(b) Minimum charge times number of months disconnected.
(c) Greater of $5.00 or 1.50% of unpaid balance.
(d) No charge for service calls during normal working hours.
(e) Per Rule R14-2-603(B):
Residential – two times the average bill;
Non-Residential – two and one-half times the average bill.
(f) At cost. Customer/Developer shall install or cause to be installed all Service Laterals as a non-refundable contribution-in-aid of construction.
(g) ~~All Main Extensions shall be completed at cost and shall be treated as non-refundable contribution-in-aid of construction.~~

ISSUED BY:

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(h) Actual cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.

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Applies to all **WASTEWATER** service areas

PART THREE

STATEMENT OF CHARGES FOR WASTEWATER SERVICE

II. TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, franchise, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).

Applies to all **WASTEWATER** service areas

PART THREE

STATEMENT OF CHARGES FOR WASTEWATER SERVICE

III. PERMITTED COSTS

A. Costs shall be verified by invoice.

B. For services that are provided by the Company at cost, costs shall include labor, materials, other charges incurred, and overhead. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.

C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.

D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date.

E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.

F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by the Company as a result of any tariff or contract for wastewater facilities under which the Customer advances or contributes funds or facilities to the Company.

Applies to all **WASTEWATER** service areas

PART FOUR

STATEMENT OF TERMS AND CONDITIONS FOR WASTEWATER SERVICE

I. CUSTOMER DISCHARGE TO SYSTEM

A. Service Subject to Regulation

The Company provides wastewater service using treatment and collection facilities that are regulated by numerous county, state and federal Statutes and Regulations. Those Regulations include limitations as to domestic strength wastewater and the type of wastewater that may be discharged into the system by any person directly or indirectly connected to the plant.

B. Waste Limitations

The Company has established the permissible limits of concentration as domestic strength wastewater and will limit concentration for various specific substances, materials, waters, or wastes that can be accepted in the sewer system, and to specify those substances, materials, waters, or wastes that are prohibited from entering the sewer system. Each permissible limit so established shall be placed on file in the business office of the Company, with a copy filed with the Commission. No person shall discharge, or cause to be discharged, any new sources of inflow including, but not limited to, storm water, surface water, groundwater, roof runoffs, subsurface drainage, cooling water, or polluted industrial process waters into the sanitary sewer. The Company will require an affidavit from all commercial and industrial customers, and their professional engineer, stating that the wastewater discharged to the system does not exceed domestic strength.

C. Inspection and Right of Entry

Every facility that is involved directly or indirectly with the discharge of wastewater to the Treatment Plant may be inspected by the Company as it deems necessary. These facilities shall include but not be limited to sewer; sewage pumping plants; all processes; devices and connection sewer; and all similar sewerage facilities. Inspections may be made to determine that such facilities are maintained and operated properly and are adequate to meet the provisions of these rules. Inspections may include the collection of samples. Authorized personnel of the Company shall be provided immediate access to all of the above facilities or to other facilities directly or indirectly connected to the Treatment Plant at all reasonable times including those occasioned by emergency conditions. Any permanent or temporary obstruction to easy access to the user's facility to be inspected shall promptly be removed by the facility user or owner at

Applies to all **WASTEWATER** service areas

PART FOUR

STATEMENT OF TERMS AND CONDITIONS FOR WASTEWATER SERVICE

the written or verbal request of the Company and shall not be replaced. No person shall interfere with, delay, resist or refuse entrance to an authorized Company representative attempting to inspect any facility involved directly or indirectly with a discharge of wastewater to the Treatment Plant. Adequate identification shall be provided by the Company for all inspectors and other authorized personnel and these persons shall identify themselves when entering any property for inspection purposes or when inspecting the work of any contractor.

All transient motor homes, travel trailers and other units containing holding tanks must arrive at the Company's service area in an empty condition. Inspection will be required of said units prior to their being allowed to hookup to the wastewater system.

D. Termination of Water Service for Violation of Wastewater Rules and Regulations

The Company is authorized to discontinue water service to any person connected to both its water and sewer systems who violates the Company's wastewater terms and conditions as set forth in this PART FOUR or in any way creates a public health hazard or the likelihood of such a public health hazard. This termination authority does not apply to non-payment for water or wastewater services.

Applies to all **WASTEWATER** service areas

PART FOUR

STATEMENT OF TERMS AND CONDITIONS FOR WASTEWATER SERVICE

II. RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-601 through A.A.C. R14-2-609 will be controlling of Company procedures, unless specifically approved tariffs or Commission Order(s) provide otherwise.

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Applies to all **WATER** and **WASTEWATER** service areas

PART FIVE

ALTERNATE RATES FOR WATER AND WASTEWATER (ARWW)

DOMESTIC SERVICE – SINGLE FAMILY ACCOMMODATION

APPLICABILITY

Applicable to residential water and wastewater service for domestic use rendered to low-income households where the customer meets all the program qualifications and special conditions of this rate schedule.

TERRITORY

Within all customer service areas served by Litchfield Park Service Company ("LPSCO").

RATES

Fifteen percent (15%) discount applied to the regular filed tariff.

PROGRAM QUALIFICATIONS

1. The LPSCO bill must be in your name and the address must be your primary residence or you must be a tenant receiving water service by a sub-metered system.
2. You may not be claimed as a dependent on another person's tax return.
3. You must reapply each time you move residences.
4. You must renew your application once every two (2) years, or sooner, if requested.
5. You must recertify each year by submitting a declaration attesting to your continuing eligibility, and provide one of the following items as proof of eligibility: 1) copy of tax return from prior year; or 2) copy of W2 form from prior year; or 3) copy of welfare / food stamp cards.
6. You must notify LPSCO within thirty (30) days if you become ineligible for ARWW.
7. Your total gross annual income of all persons living in your household cannot exceed the income levels below:

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Applies to all **WATER** and **WASTEWATER** service areas

PART FIVE
ALTERNATE RATES FOR WATER AND WASTEWATER (ARWW)
DOMESTIC SERVICE – SINGLE FAMILY ACCOMMODATION

Effective December 1, 2010

No. of Person in Household	Total Gross Annual Income
1	$16,245
2	$21,855
3	$27,465
4	$33,075
5	$38,685
6	$44,295

For each additional person residing in the household, add $5,610

For the purpose of the program the "gross household income" means all money and non cash benefits, available for living expenses, from all sources, both taxable and non taxable, before deductions for all people who live in your home. This includes, but is not limited to:

Wages or salaries
Interest or dividends from:
Savings account, stocks or bonds
Unemployment benefits
TANF (AFDC)
Pensions
Gifts
Social Security, SSI, SSP
Scholarships, grants, or other aid used for living expenses
Disability payments
Food Stamps
Insurance settlements
Rental or royalty income
Profit from self-employment (IRS form Schedule C, Line 29)
Worker's Compensation
Child Support
Spousal Support

ISSUED BY:

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Applies to all **WATER** and **WASTEWATER** service areas

PART FIVE
ALTERNATE RATES FOR WATER AND WASTEWATER (ARWW)
DOMESTIC SERVICE – SINGLE FAMILY ACCOMMODATION

SPECIAL CONDITIONS

1. Application: An application on a form authorized by the Commission is required for each request for service under this schedule. A customer must reapply every two (2) years.

2. Recertification: A customer enrolled in the ARWW program must, each year, recertify by submitting a declaration attesting to continuing eligibility, and provide one of the following items as proof of eligibility: 1) copy of tax return from prior year; or 2) copy of W2 form from prior year; or 3) copy of welfare / food stamp cards.

3. Commencement of Rate: Eligible customers whose applications have been approved shall be billed on this schedule commencing with the next regularly scheduled billing period that follows receipt of application by LPSCO.

4. Verification: Information provided by the applicant is subject to verification by LPSCO. Refusal or failure of a customer to provide documentation of eligibility acceptable to LPSCO, upon request by LPSCO, shall result in removal from this rate schedule.

5. Notice from Customer: It is the customer's responsibility to notify LPSCO if there is a change of eligibility status.

6. Rebilling: Customers may be re-billed retroactively for periods of ineligibility under the applicable rate schedule.

7. Master-metered: A reduction will be calculated in the bill of master-metered customers, who have sub-metered tenants that meet the income eligibility criteria, so an equivalent discount (15%) can be passed through to eligible customer(s).

8. Participation Cap: The ARWW program is limited to 5,000 water division customers and 5,000 wastewater division customers. Applications will be reviewed and approved on a first come, first served basis. Applicants will be placed on a waiting list if the participation cap has been met.

Application for
Alternate Rates for Water and Wastewater (ARWW)

To qualify for Liberty Water ARWW please check (✓) all that apply:

- ☐ I am a Liberty Water residential customer and the Liberty Water account is in my name.
- ☐ I am a sub-metered tenant within the Liberty Water service area.
- ☐ My household income is at or below the income level in the listing below.

Household Size	Total Gross Annual Income from All Sources
1	$16,245
2	$21,855
3	$27,465
4	$33,075
5	$38,685
6	$44,295

For each additional person residing in the household, add $5,610.

The definition of "gross household income" (before taxes) is all money and non cash benefits available for living expenses from all sources, both taxable and non taxable, before deductions, including expenses, for all people who live in your home. **This includes, but is not limited to the following (please check (✓) all that apply):**

- ☐ Wages, salaries or profit from self-employment
- ☐ Disability and/or Workers' Compensation payments
- ☐ Insurance and/or legal settlements
- ☐ Pensions
- ☐ Spousal and/or child support
- ☐ Scholarships, grants, or other aid used for living
- ☐ Interest/dividends from: savings, stocks, bonds, or retirement accounts
- ☐ Social Security, SSI or SSP
- ☐ Food Stamps
- ☐ TANF (AFDC)
- ☐ Veterans Affairs benefits
- ☐ Unemployment benefits
- ☐ Rental and/or royalty income
- ☐ Cash, gifts and/or other income

Please print the following information. **Incomplete information will delay your discount.** The name used to apply for the discount **must** be the same as the name on the Liberty Water statement.

PLEASE PRINT LEGIBLY		
Liberty Water Account Number (As shown on statement)		
Total No. of persons living in household:	Household's Total Gross Annual Income: $	Contact Phone Number
Name as shown on Liberty Water statement		
Liberty Water Service Address		
City	State	Zip Code

Please attach one of the items listed as proof of income for eligibility verification: Copy of tax return from prior year, or copy of W2 from prior year, or copy of welfare / food stamp cards.

By signing below, I certify under penalty of perjury that this information is true and correct under the laws of the State of Arizona. I will provide proof of income and I will notify Liberty Water of any changes that affect my eligibility. I understand that if I receive the discount without meeting the qualifications for it, I may be required to pay back the discount I received.

_____ _____
Customer Signature Date

Note: An Application for ARWW must be submitted every two years. A Declaration of Eligibility must be submitted annually for verification. Please allow 30-45 days for processing.

Office Use Only: Date Verified _____ Verified By _____ Expires _____

ISSUED BY:

Christopher D. Krygier, Utility Rates and Regulatory Manager
Litchfield Park Service Company dba Liberty Utilities
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

Declaration of Eligibility
Alternate Rates for Water and Wastewater (ARWW)

To recertify enrollment in the ARWW Program please fill out the following attesting to continuing eligibility:

PLEASE PRINT LEGIBLY		
Name as shown on Liberty Water statement		
Liberty Water Account Number (As shown on statement)		
Liberty Water Service Address		
City	State	Zip Code
Contact Phone Number	Work Phone Number	

I,

_____,
Your Name (Please Print)

Last submitted an Application for Alternative Rates (ARWW) on _____
(dd/mm/yyyy)

and hereby confirm my eligibility for the year ending _____.
(dd/mm/yyyy)

Please attach one of the items listed below as proof of income for eligibility verification:

Copy of tax return from prior year,
or copy of W2 form from prior year,
or copy of welfare / food stamp cards.

By signing below, I certify under penalty of perjury that this information is true and correct under the laws of the State of Arizona. I will provide proof of income and I will notify Liberty Water of any changes that affect my eligibility. I understand that if I receive the discount without meeting the qualifications for it, I may be required to pay back the discount I received.

_____ _____
Customer Signature Date

Note: An Application for ARWW must be submitted every two years. A Declaration of Eligibility must be submitted annually for verification.

Liberty Water Alternate Rates for Water and Wastewater (ARWW)

Applicability

Applicable to residential water and wastewater service for domestic use rendered to low-income households where the customer meets all the Program Qualifications and Special Conditions of this rate schedule.

Territory

Within all customer service areas served by Litchfield Park Service Company dba Liberty Water.

Discount

Fifteen percent (15%) discount applied to the regular filed tariff. The discount will be applied to the customer's total bill before any adjustments and application of any other taxes, credit, penalties or fees.

Program Qualifications

- The Liberty Water account must be in your name and the address must be your primary residence in our service area or you must be a tenant receiving water service by a sub-metered system.
- You may not be claimed as a dependent on another person's tax return.
- You must reapply each time you move residences.
- You must renew your application once every two (2) years or sooner if requested.
- You must recertify each year by submitting a declaration attesting to your continuing eligibility, and provide one of the following items as proof of eligibility: 1) copy of tax return from prior year; or 2) copy of W2 form from prior year; or 3) copy of welfare/food stamp cards.
- You must notify Liberty Water within thirty (30) days if you become ineligible for ARWW.
- Your total gross annual income of all persons living in your household cannot exceed the income levels provided on the application.

Special Conditions

- You must fill out and sign the ARWW Application completely. Incomplete information will delay your discount. You must reapply every two (2) years.
- You must recertify your enrollment in the ARWW annually by submitting a Declaration of Eligibility and providing one of the following items as proof of eligibility: 1) copy of tax return from prior year; or 2) copy of W2 form from prior year; or 3) copy of welfare/food stamp cards.
- Customers shall be billed on this schedule commencing with the next regularly scheduled billing period that follows the receipt and approval of the application by Liberty Water.
- Documentation of your gross annual income must be provided to Liberty Water for verification of eligibility for ARWW. Refusal or failure to provide documentation of acceptable eligibility to Liberty Water shall result in removal from this rate schedule.
- It is the customer's responsibility to notify Liberty Water if there is a change in eligibility status.
- You may be re-billed for any periods of ineligibility under the applicable rate schedule.
- Master-metered customers who have sub-metered tenants will receive a reduction in the billing. Sub-metered tenants must qualify and meet the income eligibility criteria so an equivalent discount (15%) can be passed through to eligible customer(s).
- The ARWW program is limited to 5,000 water division customers and 5,000 wastewater division customers.

How to Submit Completed ARWW Application and/or Declaration of Eligibility

Mail, Fax or Email your ARWW Application and Declaration of Eligibility to:
Liberty Water (Litchfield Park Service Company)
12725 W. Indian School Rd. Ste. D101
Avondale, AZ 85392
Fax: 623-935-1020
Email: customerserviceavondale@libertywater.com

PART SIX
HOOK-UP FEE TARIFF

WATER HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to Litchfield Park Service Company - Water Division (the "Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement entered into after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means Litchfield Park Service Company – Water Division.

"Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities necessary to the Company to serve new service connections within a development, or installs such water facilities necessary to serve new service connections and transfers ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Off-site facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential, commercial, industrial or other uses, regardless of meter size.

III. Water Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

OFF-SITE WATER HOOK-UP FEE TABLE		
Meter Size	Size Factor	Total Fee(a)
5/8" x 3/4"	1	$1,800
3/4"	1.5	$2,700
1"	2.5	$4,500
1-1/2"	5	$9,000
2"	8	$14,400
3"	16	$28,800
4"	25	$45,000
6" ~~or larger~~	50	$90,000
8"	~~X~~-80	$144,000
10"	~~X~~-115	$310,500
12"	~~X~~-215	$967,500
Larger than 12" Applicable Rate With Corresponding Size Factor		

(A) For "Active Adult" communities with demonstrated age-restricted zoning and/or CCRs providing for age-restricted living, the Total Fee shall be Two-Thirds (2/3) of the Total Fee shown above, based on an ERU factor of 190 gallons per day~~.~~, domestic only

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge) except non-residential use.

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of Off-site Facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs. The Company shall record amounts collected under the tariff as CIAC; however, such amounts shall not be deducted from rate base until such amounts have been expended for plant.

(C) Time of Payment:

~~1)~~ For those requiring a Main Extension Agreement: In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Main Extension Agreement, whereby the Applicant, Developer or Builder agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the Hook-Up Fees required hereunder shall be made by the Applicant, Developer or Builder ~~no later than within 15~~

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Litchfield Park Service Company dba Liberty Utilities
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Avondale, AZ 85392

~~calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M)at the time of execution of the agreement.~~at the time of execution of the agreement, but no later than 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M). In no event will service be established without full payment of the Hook-Up Fees (see E. below).

~~2)~~

For those connecting to an existing main: In the event that the Applicant, Developer or Builder for service is not required to enter into a Main Extension Agreement, the Hook-Up Fee charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or actually provide water service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision/Development Projects: In the event that the Applicant, Developer or Builder is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its reasonable discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's, Developer's or Builder's construction schedule and water service requirements. In the alternative, the Applicant, Developer, or Builder shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as Hook-Up Fees pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January to Docket Control for the prior twelve (12) month period, beginning January 2012, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

PART SIX
HOOK-UP FEE TARIFF

WASTEWATER HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site facilities hook-up fees payable to Litchfield Park Service Company – Wastewater Division (the "Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide wastewater treatment and disposal facilities among all new service laterals. These charges are applicable to all new service laterals undertaken via Collection Main Extension Agreements, or requests for service not requiring a Collection Main Extension Agreement, entered into after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission's ("Commission") rules and regulations governing sewer utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builders of new residential subdivisions, and industrial or commercial properties.

"Company" means Litchfield Park Service Company – Wastewater Division.

"Collection Main Extension Agreement" means an agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of wastewater facilities necessary to serve new service laterals, or install wastewater facilities to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as "Wastewater Facilities Agreement."

"Off-site Facilities" means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include lift stations, force mains, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and benefit the entire wastewater system.

"Service Lateral" means and includes all service laterals for single-family residential, commercial, industrial or other uses.

III. Wastewater Hook-up Fee

For each new residential service lateral, the Company shall collect a Hook-Up Fee of $1,800 based on the Equivalent Residential Unit ("ERU") of 320 gallons per day. Commercial and industrial applicants shall pay based on the total ERUs of their development calculated by dividing the estimated total daily wastewater capacity usage needed for service using standard engineering standards and criteria by the ERU factor of 320 gallons per day. For "Active Adult" communities with demonstrated age-restricted zoning and/or CCRs providing for age-restricted living, the Hook-Up Fee shall be $1,070, based on an ERU factor of 190 gallons per day.

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of Off-site Facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs. The Company shall record amounts collected under the tariff as CIAC; however, such amounts shall not be deducted from rate base until such amounts have been expended for plant.

(C) Time of Payment:

(1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Collection Main Extension Agreement, payment of the fees required hereunder shall be made by the Applicant, Developer or Builder at time of execution of the Main Extension Agreement.~~within 15 days of execution of a Main Extension Agreementat the time of execution of the agreement.~~

(2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Collection Main Extension Agreement, the Hook-Up Fee charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) Off-Site Facilities Construction by Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff,

Developer or Builder shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or actually provide wastewater service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company connect service or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant, Developer or Builder is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its reasonable discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's, Developer's or Builder's construction schedule and water service requirements. In the alternative, the Applicant, Developer, or Builder shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate account and bear interest and shall be used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(I) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January to Docket Control for the prior twelve (12) month period, beginning January 2012, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and an itemization of all facilities that have been installed using the tariff funds during the 12 month period.

TABLE OF CONTENTS

Sheet No.

PART ONE STATEMENT OF CHARGES FOR WATER SERVICE 1
I. RATES – General Residential, Commercial, Industrial, and Irrigation Service 1
A. Monthly Usage Charge – 100 Percent Phase In (Phase 3) 1
B. Commodity Rates – 100 Percent Phase In (Phase 3) 2
C. Service Line and Meter Installation Charges ..... 4~~4~~
D. Service Charges ..... 6~~65~~
II. TAXES AND ASSESSMENTS ..... 7~~7~~
III. PERMITTED COSTS ..... 8~~8~~

PART TWO STATEMENT OF TERMS AND CONDITIONS FOR WATER SERVICE ..... 9~~9~~
CROSS-CONNECTION OR BACKFLOW TARIFF 9
I. INTERRUPTIBLE SERVICE; COMPANY'S LIABILITY LIMITATIONS ..... 11~~11~~
II. RULES AND REGULATIONS ..... 12~~12~~
III. CURTAILMENT PLAN ..... 13~~13~~

PART THREE STATEMENT OF CHARGES FOR WASTEWATER SERVICE ..... 17~~17~~
I. RATES ..... 17~~17~~
A. Monthly Usage Charge – 100 Percent Phase In (Phase 3) ..... 17~~17~~
B. Commodity Charge – 100 Percent Phase In (Phase 3) ..... 18~~1918~~
C. Service Charges ..... 19~~19~~
II. TAXES AND ASSESSMENTS 20
III. PERMITTED COSTS ..... 21~~21~~

PART FOUR STATEMENT OF TERMS AND CONDITIONS FOR WASTEWATER SERVICE ..... 22~~22~~
I. CUSTOMER DISCHARGE TO SYSTEM ..... 22~~22~~
A. Service Subject to Regulation ..... 22~~22~~

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Avondale, AZ 85392

B. Waste Limitations ..... 22~~22~~
C. Inspection and Right of Entry ..... 22~~22~~
D. Termination of Water Service for Violation of Wastewater Rules and Regulations ..... 23~~23~~
II. RULES AND REGULATIONS ..... 24~~24~~

PART FIVE ALTERNATE RATES FOR WATER AND WASTEWATER (ARWW) DOMESTIC SERVICE – SINGLE FAMILY ACCOMMODATION ..... 25~~25~~

PART SIX HOOK UP FEE TARIFF 31

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