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BEFORE THE ARIZONA CORPORATION COMMISSION

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Chairman

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Commissioner

BRENDA BURNS
Commissioner

BOB BURNS
Commissioner

SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE ARIZONA-AMERICAN WATER COMPANY'S APPLICATIONS FOR AN INCREASE IN RATES FOR ITS WATER AND WASTEWATER RATES	DOCKET NO. W-01303A-10-0448 **EPCOR WATER COMPANY'S RESPONSE TO COMMISSION DECISIONS**

EPCOR Water Arizona, Inc. ("EPCOR" or "Company") seeks to address its customers' concerns as promptly as possible and for that reason continues to support the proceeding recommended in the Arizona Corporation Commission ("Commission") Utilities Division Staff's July 8, 2014 Memorandum ("Staff's Memorandum") and ordered by the Commission in Decision No.74589 (the "Decision").[1] As noted in the Decision and Staff's Memorandum, EPCOR's current rates and customer bills comply with approved Commission orders. The rates that are the subject matter of the Agua Fria customer filings are rates that have been authorized by the Commission.

Importantly, this proceeding, which has been initiated by Commission Staff, is a departure from established rate making principles and accounting practices. To comply with the scenario recommended by Commission Staff to provide discussion and analysis to fully deconsolidate will require the re-creation of all accounting books and entries back multiple years to the original establishment of the individual districts. A proper analysis

[1] This decision is a companion decision to Decision No. 74588. Given the limitation of this matter to wastewater rates, EPCOR believes that this matter should proceed in the 09-0343 dockets.

should include not only the Company's investment by individual developments, but also developer contributions for infrastructure to enable service to new customers within the new areas. Established utility accounting practices alone do not provide this type of data segregation, and as such, this exercise has, and will continue to, cause EPCOR to incur significant costs despite EPCOR's compliance with authorized and approved rate designs.

Despite the significant time and expense involved, EPCOR appreciates the opportunity presented by this procedure, which will allow for the examination of the impacts of full consolidation of EPCOR's wastewater districts and the impacts of rate deconsolidation of the Agua Fria Wastewater District. The filing will also address the impact of a "reconsolidation" of the Anthem and Agua Fria Wastewater Districts. Through this filing, EPCOR will address the issues set forth in Decision No.74589, which will provide the parties with an opportunity to examine the various rate design proposals set forth below.

I. This Is a Proceeding under A.R.S. § 40-252 to Examine Wastewater Rate Design.

A.R.S. § 40-252 provides that the Commission "may at any time, upon notice to the corporation affected, and after opportunity to be heard as upon a complaint, rescind, alter or amend any order or decision made by it." In the Decision, the Commission ordered that a proceeding commence to look at rate design for EPCOR's wastewater districts. EPCOR, as the corporation affected by this change, has received notice, as have the parties to the underlying proceeding. As such, the Commission has effectively instituted a proceeding under A.R.S. § 40-252 solely for the purpose of looking at potential revisions to rate design that would result from consolidation or deconsolidation of all or certain of the Company's wastewater districts as noted above. EPCOR is not seeking, and this proceeding should not provide, any change in authorized revenues for EPCOR.

EPCOR concurs with the Commission that this proceeding should focus solely on wastewater rate design, as that is the genesis of the bulk of the complaints filed by the

Company's customers. Agua Fria wastewater rates have the most significant impact on the customers who have filed letters and petitions of concern with the Commission. The increase in Agua Fria wastewater rates has resulted primarily from the deconsolidation of the Anthem and Agua Fria Wastewater Districts as ordered by the Commission in Decision No. 73227. As such, the most expeditious and efficient way to address those customer concerns is to review wastewater rate design as outlined by the Commission as part of a proceeding under A.R.S. § 40-252.

As the Commission has ordered that this proceeding focus solely on wastewater rate design, this A.R.S. § 40-252 proceeding should proceed solely in the 09-0343 docket and should not continue in this docket (i.e., the 10-0448 docket) which involved the Company's water districts. Accordingly, as part of any procedural order following the procedural conference, EPCOR requests that the Administrative Law Judge confirm that this proceeding will proceed solely in the 09-0343 docket.

II. A Full Rate Case Is Not Required

As noted above, EPCOR is in full compliance with Commission decisions relating to its current rates and those Commission-ordered rates are currently being charged. These rates stem from Commission-approved revenue requirements.[2] As a proceeding under A.R.S. § 40-252 to look solely at potential, revenue-neutral revisions to rate design, a full rate case is not required nor warranted, as the Company's authorized revenue requirements cannot and will not be impacted by any modification to rate design.[3]

III. The Company's Proposed Procedural Schedule

As the Commission and the parties are aware, the next and final phase of the three-step deconsolidation phase-in ordered by the Commission in Decision No. 73227 is

[2] As noted below, ultimately a true-up of the rates approved in this proceeding will be necessary to incorporate the final revenue requirement authorized by the Commission for the Mohave Wastewater District in the Company's pending rate case.

[3] Because EPCOR is in compliance with Commission orders and is processing this matter as ordered by the Commission, the costs to process this case will be deferred as authorized by the Commission in the Decision, and EPCOR will seek recovery of those costs in its next rate case.

scheduled to commence on January 1, 2015. To examine and potentially address the impact of that last phase-in, this matter must be given an expedited procedural schedule. Accordingly, EPCOR proposes the following procedural schedule for the processing of this matter:

- On or before **August 25, 2014**: Notice to be provided by the Company to all wastewater customers via mailing and publication. Attached as Exhibit 1 to this filing is a proposed form of notice.
- On or before **September 8, 2014**: Company's Direct Testimony.
- On or before **September 15, 2014**: Intervention deadline.
- On or before **September 26, 2014**: Staff's and Intervenors' Testimony
- On or before **October 10, 2014**: Company's Rebuttal Testimony
- **October 27, 2014**: Hearing commences (parties may provide additional responsive testimony at the hearing)

Given the timing considerations noted, the Company would request that the matter be heard no later than the December 11-12, 2014 Open meeting.

IV. Consolidation/Deconsolidation Scenarios

a. Full Consolidation

EPCOR continues to support full consolidation of its wastewater districts as the best long-term solution to address the concerns raised by its customers, but more importantly as the most equitable approach in the long term for establishing rates to recover the reasonable expenses and capital expenditures that will ultimately impact every district at some point in the future. In the long term, all wastewater customers will benefit from predictable, uniform rate structures, reduced regulatory expenses and increased efficiencies. Moving to a consolidated district with a single rate structure mirrors what consumers experience in most municipal districts and with many large gas and electric utilities. In other words, rates are the same regardless of where a customer lives within a municipal area or within a utility's service territory. As noted by Ms. Diane Smith in her

presentation to the Commission, consolidation provides numerous benefits to customers, including the following:

1. Consolidation would offer and could be a long term solution
2. Lower administrative costs and unified customer accounting and billing systems
3. Reduction in the number of rate cases and associated expenses
4. Elimination of distorted cost allocations among districts in rate filings
5. Standard customer service policies and related service rates and charges
6. Improved rate stability and elimination of rate shock
7. Reduces customer confusion with respect to differing rate schedules among districts, which improves customer service efforts

As noted above, the benefits from full consolidation are many. Most importantly, consolidation offers the best short-term and long-term solutions for the issues that have been raised by the Company's customers. This includes the customers that have raised the issues that led to this proceeding as well as customers in other wastewater districts. In the long term, which is the timeframe that the Commission should examine, all customers will benefit. These customers will benefit as consolidation allows for the ability to make needed capital investments in smaller districts without imposing burdensome rate increases, as those costs are spread over the entire, consolidated entity. Over the long term, every EPCOR wastewater district will require needed improvements, and as systems continue to age, these improvements will be costly. Unlike deconsolidation, in which each district would be required to pay for the entire cost of an improvement within that district regardless of its cost (and the smaller the customer base in the district, the greater the proportionate increase), consolidation allows for that to be spread over a greater number of customers.

Although it is true that the physical infrastructure and treatment plants of certain of the wastewater districts are separate from one another, this should not be determinative in

setting rates. Other major utilities, including electric utilities (Arizona Public Service and Tucson Electric Power), natural gas utilities (Southwest Gas) and telephone utilities (CenturyLink), have unified tariff structures across Arizona even though they serve many different communities. The same is true for large municipal water and wastewater utilities that serve numerous communities within their municipal boundaries (City of Phoenix). For example, if APS constructs a large facility in Phoenix or Flagstaff, the costs of these facilities, while they may not directly benefit the entire service territory, are spread over the entire customer base. This ultimately benefits all customers as infrastructure ultimately ages in all areas and must be replaced. As noted above, rate consolidation would help address the relative imbalance of district-based capital needs and their relative number of customers. Small districts tend to face disproportionally larger rate increases due to necessary capital investments recovered over a smaller customer base as compared to larger districts with more customers. Rate consolidation would lessen the rate shock otherwise associated with capital investments made in small districts.

Over the next 5 years, EPCOR expects to spend over $9.3 million dollars on regular capital improvements for the wastewater operations in Sun City and approximately $4.9 million in Sun City West to improve lift stations and pumps, and a major force main replacement. EPCOR also anticipates spending approximately $5.3 million in capital improvements for plant facilities and equipment and membrane replacements over that timeframe in the Anthem Wastewater District. Wastewater from the Russell Ranch subdivision is currently treated at the Russell Ranch Water Reclamation Facility ("RRWRF"). RRWRF is an above-ground prefabricated metal treatment plant which is typically designed and constructed to serve as an interim wastewater treatment solution until a permanent in-ground concrete and steel regional water reclamation facility can be brought into service. The Maricopa Association of Governments Regional Wastewater Master Plan has even identified RRWRF as an interim wastewater solution. RRWRF was placed into service in 2004 and currently meets the treatment needs of the existing

residents. However, RRWRF is already showing normal signs of wear and tear typically associated with an above-ground package plant. In order for EPCOR to provide long term wastewater treatment service to the existing and future residents of Russell Ranch, EPCOR must either invest in extensive repairs and upgrades to RRWRF or invest in an alternate solution. Either option will require capital investments in infrastructure beyond the day-to-day operations and maintenance expenses currently associated with RRWRF that will need to be recovered from customers. Consolidation will smooth the rate impacts of these capital expenditures over the entire wastewater customer base. The expenditure amounts in each district will likely continue to increase annually over the longer term as the existing facilities continue to age.

As shown in the data provided as part of this filing, there is no question that certain districts would benefit in the short term from full consolidation and others would experience rate increases. Generally, these differences occur because of the relative size of the customer base in different districts or because the facilities that serve customers in one district are older and therefore cost less when they were installed many years ago, than newer facilities in another district. This, however, provides only a snapshot of the situation at this moment in time. Over a period of years, all facilities will need to be replaced or upgraded as they wear out or as new regulations come into effect. When these new facilities are installed, they will inevitably be more expensive than the ones they replace. Over time, districts that have older and less costly plant will see it replaced or expanded with newer and more costly plant. For example, in the Mohave Wastewater District, the Wishing Well Treatment Plant was expanded in 2008 at a cost of $3.9 million, doubling the Company's investment in plant at a time when there were only 1,200 customers resulting in an increase in rates of 16%. If all of the wastewater districts had been consolidated at that time, the costs could have been spread over all of the company's 53,000 customers instead of the just over the 1,200 customers in the Mohave Wastewater District. Without consolidated rates, the burden for these new more costly facilities will

fall only on the customers in that district, the implication being higher rates and possible rate shock. In other words, just because a particular district has lower rates today does not mean that those rates will remain low in the future.

In addition, when rate cases must inevitably be filed to address these capital improvements and higher costs, the Company will be unified and only one case will need to be filed. As such, the costs of processing the rate case will not only be reduced, but the individual customer cost will be smaller as they will be spread over the entire customer base.

The Decision also asks the Company to address what would occur if certain large improvements were required to serve only a limited area of the Company's service territory. Inevitably, certain districts will require large capital improvements such as the replacement of a wastewater treatment facility that may only benefit a limited area within a utility's service territory. It is this type of occurrence which highlights the benefits of full consolidation. If consolidation is approved, the cost of this type of improvement would be spread over the entire consolidated customer base. As noted above, in the Company's plans to replace a force main that moves wastewater generated only from the Sun City West District along Bell Road to the Northwest Valley Regional Wastewater Treatment Plant. This project is currently being evaluated but early estimates project the cost to be $3 million. Without consolidation this cost would be solely the responsibility of the Sun City West customer base but under full consolidation this cost would be spread over a much larger customer base. This would lead to smaller rate increases.[4] Similarly, just as one area of a consolidated system may need a large improvement one year, another area may need a similar or larger improvement a few years or many years later. Over time, all customers benefit from consolidation, as the rate impacts of these improvements are not as severe.

[4] Although it is possible to create improbable situations in which one particular community might bear the entire cost of an unnecessary improvement, this situation is unlikely.

EPCOR also believes that, particularly with regard to wastewater, the geographical differences in service territory should not be an impediment to consolidation. It is rarely feasible for a large wastewater utility to serve all customers by one treatment plant. For example, the City of Phoenix has three wastewater treatment plants for the treatment of its citizens' wastewater. Ultimately, the benefits of a unified, consolidated rate structure outweigh any issues presented by consolidating geographically distinct service areas. Although cost causation is an important principle in ratemaking, it should not be the only determining factor. Taken to an extreme, each community could be required to pay for and install treatment plants to treat its wastewater. Under true cost causation, that community would bear the entire cost of the improvement. However, this approach eliminates the many efficiencies that arise out of full consolidation both operationally and administratively.

A rate structure indicative of the changes that would result from full consolidation is set forth in Exhibit 2 to this filing.[5] As set forth in that attachment, the Company is proposing a flat usage charge to achieve its authorized revenue requirement. Currently, the Company is charging Commission approved rates that include both a base rate and a volume component in some districts and a flat rate in others. Under this proposal, there would be only a flat rate for all customer classes except for wholesale users and effluent customers, and the wastewater rate would not be tied to water usage. In part, this rate design avoids confusion among residential customers about wastewater rates being tied to usage. The rate structure set forth in Exhibit 2 includes the Company's proposed revenue requirement for its Mohave Wastewater District in the pending rate case in Docket No. WS-01303A-14-0010.[6] As that proceeding progresses, the Company will update the data at appropriate intervals to include current data. Ultimately, a true-up of the rates approved

[5] Given the complexities of consolidating rates for these districts, the Company is continuing to analyze this rate structure and may update the rates and customer classes in its initial direct testimony.
[6] Mohave Wastewater customers will also receive the notice proposed as part of this proceeding.

in this proceeding will be necessary to incorporate the final revenue requirement authorized by the Commission for the Mohave Wastewater District in that proceeding.

b. Further Deconsolidation of Agua Fria Wastewater District

In response to the Commission's directive to discuss and provide analysis demonstrating the rate impacts of full deconsolidation of all systems, the Company would respond that only its Agua Fria Wastewater District would be a candidate for further deconsolidation. The further deconsolidation of the Agua Fria Wastewater District presents a number of challenging and costly issues. Any further deconsolidation would likely occur among Agua Fria Wastewater District's three sub-areas of Verrado, Russell Ranch and Northeast Agua Fria (*i.e.*, Corte Bella, Cross River, Dos Rios, and Coldwater Ranch areas). Further deconsolidation is clearly challenging as each of the affected parties has expressed opinions in prior proceedings. As part of the prior deconsolidation proceeding, Corte Bella opposed deconsolidation of the Anthem-Agua Fria Wastewater District, asserting that deconsolidation is unjust, unreasonable, and unnecessary. During that same proceeding, Russell Ranch stated that it "oppose[d] deconsolidation of the Anthem-Agua Fria Wastewater district, but if deconsolidation is approved, Russell Ranch would also like to become its own stand-alone system." Verrado stated that "because deconsolidation would result in customers paying substantially different rates for the same service from the same utility in the same urban area, the deconsolidation should be rejected."

Further deconsolidation of the Agua Fria Wastewater District requires a separation of the costs of these three sub-areas into separate utility rate bases as all past costs were recorded in the Agua Fria Wastewater District's accounting records and no individual componentization was performed. The same is true for revenues and operating costs. When plant is constructed, all project costs are typically coded to the appropriate operating district along with the NARUC account number. Since the Agua Fria Wastewater District was maintained as a separate operating district for accounting purposes, these capitalized

charges are only identifiable as Agua Fria Wastewater assets. The same is true for operating expenses. This is true of all of the inidividual districts of the Company and for other utilities with multiple operating districts. The Agua Fria Wastewater District certificates of convenience and necessity (CC&Ns) were granted prior to 2001. The development agreements had terms including contributions and advances with associated refunds. In addition, some of the wastewater was treated at the Northwest Valley Water Reclamation Facility which requires allocations of the common plant and operating expenses. In addition, the original accounting occurred under the ownership of Citizens Utilities later sold to American Water and is now under EPCOR's ownership. The accounting has gone through numerous reviews by the Commission Staff over the years and has been found to be in compliance with NARUC accounting which is required by the Commission. To accurately achieve deconsolidation of these districts, EPCOR estimates that it will cost approximately $375,000 to create the internal accounting "break outs" of rate base and expenses for Verrado, Russell Ranch, and Northeast Agua Fria. Subject to future prudency determinations, the additional expenses of this deconsolidation work would be borne by the customers as part of a future rate case. Once these accounting breakouts of rate base, revenues, and expenses were completed, the rate impacts on the residents in each of the impacted communities would need to be determined.

The process to segregate all of the construction costs and advances and contributions related to each sub-area within the Agua Fria Wastewater District could take anywhere from six months to one year due to the magnitude of the number of work orders and the number of years of data that are involved. Next, a quantification of the contributions of each of the new "mini-districts" to the overall Agua Fria Wastewater District's authorized revenue requirement would need to be performed. In addition, the authorized revenue requirement from Decision No. 73227 would need to be reconstructed to segregate the plant investment and operating expenses associated with the 32% allocated share of the Northwest Valley Water Reclamation Facility. Additionally, the

impact of the deconsolidation of the sub-area of the Agua Fria Wastewater District that has its wastewater treated at the Northwest Valley Water Reclamation Facility would need to be assessed along with the Sun City West Wastewater investments and operating expenses as those costs would now be apportioned to the Sun City West Wastewater District under a scenario of full deconsolidation.

A high level analysis of the impact of further deconsolidation of the Agua Fria Wastewater District is set forth in Exhibit 3.

c. Re-consolidation of Agua Fria/Anthem Wastewater Districts

The final scenario is the re-consolidation of the Agua Fria and Anthem Wastewater Districts. A reconsolidation of these districts would effectively return wastewater rates in the reconsolidated district to those approved by the Commission in Decision No. 72047. Doing so would increase wastewater rates currently paid by customers in the Anthem Wastewater District and reduce the rates currently paid by Agua Fria customers. Average residential rates for customers using approximately 7,000 gallons of water are currently $106 for Agua Fria customers and $64 for Anthem customers. These average rates will increase January 1, 2015 to $121 for Agua Fria customers and decrease to $56 for Anthem customers. Under the reconsolidation scenario below, average residential customer rates for customers using approximately 7,000 gallons would be approximately $75.

A comparison of the rates for residential customers is set forth in the table below:

District	Current Monthly Usage Charge	Current Volumetric Rate (per 1000 gallons up to 7000 gallons)	Phase 3 Monthly Usage Charge	Phase 3 Volumetric Rate(per 1000 gallons up to 7000)	Re-consolidated Monthly Charge	Re-consolidated Volumetric Rate (per 1000 gallons up to 7000 gallons)
Anthem	$33.28	$4.3587	$30.00	$3.7500	$39.84	$4.9946
Agua Fria	$57.36	$6.9782	$66.12	$7.9700	$39.84	$4.9946

Further analysis of the re-consolidation of these districts is set forth in Exhibit 4.

In this proceeding, the Anthem Community Council claims that de-consolidation of the Anthem/Agua Fria Wastewater District was a settled term as approved by the Commission in Decision No. 72047 (pg. 84). The language incorporated into the Commission's decision provides as follows:

> Good public policy requires the Commission to correctly assign cost responsibility for all ratemaking components in as expeditious a manner as possible, and deconsolidation of Anthem/Agua Fria Wastewater District is consistent with such action. However, the record does not include adequate rate base or operating income information to immediately implement stand-alone rate designs for the resulting Anthem Wastewater district and Agua Fria Wastewater district at this time. Therefore, we will (i) approve the rates adopted herein for Anthem/Agua Fria Wastewater district as a consolidated district on an interim basis, and (ii) order the docket in the instant proceeding to remain open for the sole purpose of considering the design and implementation of stand-alone revenue requirements and rate designs as agreed to in the settlement reached during the Open Meeting for the Anthem Wastewater district and Agua Fria Wastewater district as soon as possible. The Company shall file its initial application no later than April 1, 2011.

Ultimately, the language of the settlement, which was incorporated into an amendment[7] and read into the record at the Open Meeting, speaks for itself, as does the language of the Commission's decision in relation to that settlement.

V. Responses to Customer Complaints

The Decision also orders the Company to respond to the complaints filed by the various customers which prompted this proceeding. As the Company has noted in its prior responses on these issues, it is important to examine these issues in the context of the Commission's prior decisions. To provide historical context for the answers to the questions being asked, EPCOR provides a brief summary of the pertinent rate case proceedings. This context is important because the questions raised by customers relate to existing Commission orders that EPCOR is implementing as required.

The current rates in the Company's Agua Fria Wastewater District arose from two decisions. In Decision No. 72047 (Jan. 6, 2011), the Commission approved a rate increase for the Anthem/Agua Fria Wastewater District. As part of that decision, which resulted in part from a settlement agreement as discussed above, the Commission left open

[7] The written terms of the Settlement became Pierce Amendment No. 2.

the docket to consider de-consolidation of the Anthem/Agua Fria Wastewater District. Following an extensive hearing in which multiple parties participated, including the Russell Ranch Homeowners Association and the Corte Bella Country Club Association, the Commission issued Decision No. 73227 (June 5, 2012), which ordered the de-consolidation of the Anthem/Agua Fria wastewater district into two districts. New rates based on this de-consolidation were ordered to be phased-in over three years, with the final phase beginning on January 1, 2015. As such, EPCOR's next rate case for these districts could not occur until after June 30, 2015, which would be the earliest test year end date (*i.e.*, six months after the commencement of the last phase of these rates). The de-consolidation of these districts and the three year phase-in proposed by the Anthem Community Council was supported by the Residential Utilities Consumer Office. Neither EPCOR nor Commission Staff took a position regarding de-consolidation.

With this background and context, EPCOR provides responses to the questions relating to wastewater rates discussed in those complaints:

1. "Why are rates so much higher than the surrounding areas?"

Historically, rates are determined for each utility district based on several factors. The net amount of the utility infrastructure in service, the age and condition of the infrastructure, the amount of infrastructure donated (i.e. contributed) by the developer, the operating expenses to operate all of the plant facilities, and the number of customers in each district are major factors that influence the resulting authorized rates. These factors lead to different revenue requirements for each utility district. Additionally, each utility's revenue requirement may be comprised of different components which are from Commission-approved regulatory assets that reflect the unique operating environments of each entity. Municipal utility rates may be calculated differently than Commission-regulated rates and can also be subsidized by other municipal activities such as property taxes or sales taxes to keep the utility rates artificially low. In other words, it is not a true cost comparison to simply compare municipal and private water utility rates.

Once it has been determined how the revenue requirements of one utility differs from another utility, an examination of the alternative methods of designing rates is necessary along with an understanding of the different processes and procedures followed in setting rates. Accordingly, a comparison of the differences in the rates is complicated and involves a review and examination of many factors. The rate-making process generally followed by a regulator (such as the Commission) attempts to ensure that the rates approved are fair to both the company and the customers.

A chart showing rate comparisons is set forth as Exhibit 5.

2. "Why are customers charged a volume rate based on our water usage when much of the water never goes down the sewer system, but into the ground?"

Wastewater rates are designed to recover the capital costs and operating expenses of the wastewater service and often include a volumetric component with a cap, as well as a monthly minimum charge. The volumetric component is based on the amount of water usage often to provide additional motivation to customers to conserve water and to facilitate the recovery on a measurement basis. EPCOR is not aware of any municipality using meters to measure residential flows that are put back into the wastewater system. Wastewater flow measurement is not very accurate and is costly to install and maintain. Water flows subject to a maximum usage cap can provide an affordable way to bill wastewater volumes without any additional cost. The cap is typically established based on industry experience regarding the quantity of water used within the home and that would be collected through a wastewater utility's collection system for treatment. However, the total cost of service must be recovered through the wastewater rates and if a lower cap is used, the volumetric charge or fixed charges would need to be increased to ensure that the total costs of service are recovered. For example, in the Agua Fria Wastewater District, 59% of the cost of service is collected through the fixed charge and the remaining 41% is collected through the volumetric charge. In the Anthem Wastewater District, 46% of the cost of service is collected through the fixed charge while 54% is collected through the

volumetric charge. The rate design approved in these districts by the Commission includes a volumetric component. As noted above, however, EPCOR's proposal for full consolidation includes a flat rate and does not include a volumetric component for residential customers.

3. "Why are Agua Fria customers charged a higher rate than Sun City when they both use the Northwest treatment plant as does Sun City West and Peoria?"

Wastewater from Sun City is treated at the Tolleson Wastewater Treatment Plant. Wastewater flows from Sun City West and the Northeast Agua Fria customers are treated at the Northwest Valley Water Reclamation Facility. Sun City West and Agua Fria share the capital and operating costs of the Facility, which have been allocated on the basis of the projected residential customers in each area. The total cost of service, however, for each district is different (this includes costs related to the Northwest Valley Water Reclamation Facility and all other costs), and with the larger number of customers in Sun City West, the rates per customer are lower.

4. "There is no substantial reason for the continued consolidation of Corte Bella, Cross River, Dos Rios, and Coldwater Ranch, which is geographically remote and physically unconnected to the Agua Fria District."

The Agua Fria Wastewater District has approximately 5,700 customers of which approximately 2,295 are situated in the Northeast Agua Fria area, which includes Corte Bella, Cross River, Dos Rios, and Coldwater Ranch and other areas. Issues relating to the further deconsolidation of the Agua Fria Wastewater District are discussed above. As the Company has noted, it is the Company's opinion that based on the facts, further deconsolidation will do more harm than good for the Agua Fria Wastewater District as a whole. The Company continues to support full consolidation to address the concerns raised by customers and to achieve equity in the long term. Consolidation increases the Company's ability to respond to environmental and safety mandates more reliably and efficiently by providing less duplicative record-keeping requirements which results in

higher quality operations. It also increases economic and regulatory efficiency and economies of scale that translate into lower costs for customers.

5. "Consolidation of Corte Bella, Cross River, Dos Rios, and Coldwater Ranch in the Agua Fria District is inconsistent with cost of service ratemaking principles (who uses service pays for service) and contrary to good public policy that requires correct assignment of cost responsibilities."

Rates for customers are dependent upon the customer base over which these fixed costs are spread. Privately-owned water/wastewater companies typically serve customers in areas where services were not otherwise available and housing developments were in demand. The rates that are charged to the customers in Corte Bella, Cross River, Dos Rios, and Coldwater Ranch have been authorized by the Commission and are consistent with cost of service ratemaking principles. Unfortunately, with the deconsolidation of the Anthem-Agua Fria Wastewater district, the costs of the Agua Fria Wastewater district have a smaller base over which to be spread. Further deconsolidation of the Agua Fria Wastewater district to remove Corte Bella, Cross River, Dos Rios, Coldwater Ranch, and any other subdivisions located in the northern Agua Fria Wastewater region will only further exacerbate this issue.

6. "Consolidation of Corte Bella, Cross River, Dos Rios, and Coldwater Ranch in the Agua Fria District does not result in just and reasonable rates. Corte Bella, Cross River, Dos Rios, and Coldwater Ranch does not use, nor can it use, the facilities, which resulted in the disparity in rates due to geographical separation, and no interconnection facilities."

It is correct that these developments do not use all of the facilities that are part of the Agua Fria Wastewater District. The same is true for all utilities and the same is true with full consolidation. However, as discussed in other sections of this filing, many utility company rates are consolidated. For instance, electric and gas utility rates are not consolidated on the basis of direct use by customers of generating facilities or source of supply or interconnection of facilities and, in fact, are often geographically separate. For the deconsolidation portion of this response, the rough calculations yield rates in the Verrado area in the range of approximately $121 as compared to the area referred to as

Northeast Agua Fria (including the communities of Corte Bella, Cross River, Dos Rios, and Coldwater Ranch) where the deconsolidated rates would be approximately $114, a difference of only $7 per month. EPCOR believes that full consolidation will result in just and reasonable rates.

7. Anthem has been deconsolidated. The factors are identical. As a matter of fairness, Corte Bella, Cross River, Dos Rios, and Coldwater Ranch must be deconsolidated.

EPCOR respectfully disagrees that the factors are identical. First, Corte Bella, Cross River, Dos Rios, and Coldwater Ranch are not merely seeking to deconsolidate from Agua Fria Wastewater District. Rather, Corte Bella, Cross River, Dos Rios, and Coldwater Ranch are asking to consolidate with Sun City West Wastewater District. Second, it is important to note that Anthem Wastewater has approximately 8,800 customers compared to the 5,700 customers in the Agua Fria Wastewater District (Corte Bella, Cross River, Dos Rios, and Coldwater Ranch have even less than the Agua Fria Wastewater District at 2,295).

8. Responses to March 7, 2014 Corte Bella Community Letters.

As noted in the Decision, a second set of letters came from the Corte Bella community on March 7, 2014. With regard to wastewater, this letter made certain statements in relation to deconsolidation of the Agua Fria Wastewater District. The issues raised in that letter are primarily position statements by the customers. To the extent EPCOR has a response to those statements, they are set forth above as part of this filing.

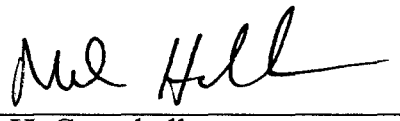
9. Response to June 7, 2014 Letter.

Similarly, the Decision notes a June 7, 2014 letter which requests certain revisions to the current rate structure, including a deferral of the volume charge until after 10,000 gallons of usage or a wastewater charge based on 30 percent of the water used. As noted above, EPCOR's proposal for full consolidation includes a flat rate for wastewater service and no longer proposes a volumetric charge. It is important, however, to note, that any rate design changes must achieve the authorized revenue requirement to cover the

approved costs. As a result, the type of changes proposed in the June 7th letter would not likely change the total bill for a customer, as the rate must still be designed to recover the revenue requirement.

RESPECTFULLY SUBMITTED this 8th day of August, 2014.

LEWIS ROCA ROTHGERBER LLP



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ORIGINAL and thirteen (13) copies
of the foregoing filed
this 8th day of August, 2014, with:

The Arizona Corporation Commission
Utilities Division – Docket Control
1200 W. Washington Street
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered
this 8th day of August, 2014, to:

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EXHIBIT 1

PUBLIC NOTICE TO ALL WASTEWATER CUSTOMERS OF EPCOR WATER ARIZONA, INC. OF A HEARING ON RATE CONSOLIDATION/DECONSOLIDATION PROPOSALS FOR POSSIBLE RATE CHANGES FOR UTILITY SERVICE IN ALL OF ITS ARIZONA WASTEWATER DISTRICTS.
DOCKET NOS. W-01303A-09-0343 AND SW-01303A-09-0343

Summary

In Decision No. 74588, the Arizona Corporation Commission ordered EPCOR Water Arizona, Inc. (the "Company") to provide information relating to the rate impacts of consolidation and deconsolidation of the Company's wastewater districts. As ordered by the Commission, the Company made that filing on August 8, 2014, in the above-referenced dockets. To allow for the consideration of revenue neutral consolidation/deconsolidation of the Company's wastewater districts only, prior Commission decisions have been re-opened pursuant to A.R.S §40-252 and a hearing will be held to address the parties' proposals. **A decision in this matter may impact the rates of every wastewater customer of the Company – either as an increase or decrease.** The Commission will determine the appropriate relief to be granted (if any) based on the evidence presented by the parties. The Commission is not bound by the proposals made by Commission Staff, the Company, or any of the intervenors.

Rate Consolidation/Deconsolidation

Currently, the Company's rates are unique for each of its Arizona wastewater districts and the existing rates reflect the differing cost to serve each geographic area. Alternatively, rate consolidation is the process of combining two or more districts for the purpose of averaging the differing rates into a single rate for comparable customers (i.e., residential customers). Therefore, under consolidation, instead of charging a different rate to customers in different wastewater districts, all comparable customers would pay the same rate. Deconsolidation would potentially create additional wastewater districts based on additional geographic areas of service and rates would be set based on the cost to serve that specific area.

How You Can View or Obtain a Copy of the Company's August 8, 2014 Filing

Copies of the Commission-ordered filing made by the Company are available from EPCOR Water Arizona, Inc., 2355 W. Pinnacle Peak Road, Suite 300, Phoenix, AZ 85027, on the Company's website at www.epcor.com and at the Commission's Docket Control Center, 1200 W. Washington Street, Phoenix, Arizona, for public inspection during regular business hours and on the internet via the Commission's website (www.azcc.gov) using the eDocket function.

Arizona Corporation Commission Public Hearing Information

As part of this proceeding, the Company's direct testimony will be due _____, **2014.** Responsive testimony of the intervenors, including Commission Staff, will be due _____, **2014**. The Commission will hold a hearing on this matter beginning _____, **2014**, at 10:00 a.m. in Hearing Room No. _, at the Commission's offices, 1200 W. Washington Street, Phoenix, Arizona, 85007.

An interested person may participate in this matter by (1) providing written or oral public comment; or (2) filing for intervention and becoming a formal party to the proceeding.

How to Make Public Comment

Oral public comments will be taken on the first day of the hearing. Written public comments may be submitted by mailing a letter referencing Docket Nos. W-01303A-09-0343 and SW-01303A-09-0343 to Arizona Corporation Commission, Consumer Services, 1200 W. Washington Street, Phoenix, Arizona 85007. You may also file written comments electronically by going to the following link:
http://www.azcc.gov/Divisions/Utilities/forms/PublicCommentForm2013PDFEmail.pdf
If you require assistance, you may contact the Commission's Consumer Services Section at 602-542-4251 or 1-800-222-7000.

If you do not intervene, you will receive no further notice of the proceedings in this docket. **However, all documents filed in this docket are available online** (usually within 24 hours after docketing) at the

Commission's website www.azcc.gov using the eDocket function, located at the bottom of the website homepage. RSS feeds are also available through eDocket.

About Intervention

You do not need to intervene if you want to appear at the hearing and provide public comment, or if you want to file written comments in the record of the case.

Any person or entity entitled by law to intervene and having a direct and substantial interest in the matter will be permitted to intervene. The granting of intervention entitles a party to present sworn evidence at hearing and to cross examine other parties' witnesses. **If you wish to intervene, you must file an original and 13 copies of a written motion to intervene with the Commission's Docket Control Center no later than _____, 2014, and send a copy of the motion to the Company or its counsel and to all parties of record.** Contact information for the Company and parties of record may be obtained using the Commission's eDocket Function referencing Docket No. W-01303A-09-0343 or SW-01303A-09-0343.

Your motion to intervene must contain the following:

1. Your name, address and telephone number, and the name, address and telephone number of any person upon whom service of documents is to be made, if not yourself;
2. A short statement of your interest in the proceeding (e.g., a customer of the Company, a shareholder of the Company, etc.); and
3. A statement certifying that you have mailed a copy of the motion to intervene to the Company or its counsel and to all parties of record in the case.

The granting of motions to intervene is governed by A.A.C. R14-3-105, except that all motions to intervene must be filed on or before _____, 2014. For a sample intervention request form, go to http://www.azcc.gov/divisions/utilities/FORMS/interven.pdf. All parties must comply with Arizona Supreme Court Rules 31 and 38 and A.R.S. § 40-243 with respect to the practice of law.

If you do intervene, and wish to present direct testimony and associated exhibits at the hearing, you must, on or before _____, 2014: (1) reduce your direct testimony and associated exhibits to writing, (2) file the original and 13 copies with the Commission's Docket Control Center by 4:00 p.m., and (3) mail a copy to each party.

ADA/Equal Access Information

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, email SAbernal@azcc.gov, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

EXHIBIT 2

EPCOR Water Arizona
Docket No. W-1303A-09-0343; SW-1303A-09-0343

EXHIBIT 2

Wastewater District Rate Design Proceeding

Consolidation Scenario

		Total Authorized Revenue	Total # of Billing Units	Total Consumption		Flat Rate per Unit[1]
1	Residential (Single and Multi-Unit)	$ 25,792,489	751,604	870,371		$ 34.30
2						
3	Commercial					
4	Single Unit	906,934	11,259	229,898		$ 81.59
5	Multi-Unit	169,877	564	94,212		$ 301.00
6	Large User (Meter >2")	665,981	1,692	107,224		$ 394.00
7	Mobile Home Parks (Paradise Park)	160,998	12	30,079		$ 13,416.00
8	Commercial-Flat (Mohave ONLY)	14,902	180	0		$ 83.00
9						
10	Other Public Authority-Flat (Mohave ONLY)	12,915	156	0		$ 82.79
11						
12	Other Wholesale Users - City of Phoenix	792,489	24	184,710	[2]	$ 4.29
13						
14	Effluent (AF, AN, MO ONLY)	631,157	632	825,559		$ 0.76
15						
16	Totals	$ 29,147,741	766,124	2,342,054		

[1] Mohave bills on an Equivalent Residential Unit (ERUs) basis instead of Units. Rates for Mohave Commercial and Other Public Authority customers are per ERU.

[2] Consumption based on flume flow thousand gallons.

EXHIBIT 3

EPCOR Water Arizona
Docket No. W-1303A-09-0343; SW-1303A-09-0343

Exhibit 3

Wastewater District Rate Design Proceeding

Deconsolidation of Agua Fria District Scenario

LINE NO.	DESCRIPTION	Verrado	NE Agua Fria	Russell Ranch	Totals
1	Adjusted Rate Base	$ 12,050,468	$ 7,097,062	$ -	$ 19,147,531
2	Adjusted Operating Income (Loss)	$ (548,068)	$ (391,818)	$ (33,380)	$ (973,265)
3	Current Rate of Return (L2 / L1)	-4.55%	-5.52%	0.00%	-5.08%
4	Required Rate of Return	6.70%	6.70%	6.70%	6.70%
5	Required Operating Income (L4 * L1)	$ 807,381	$ 475,503	$ -	$ 1,282,885
6	Operating Income Deficiency (L5 - L2)	$ 1,355,449	$ 867,321	$ 33,380	$ 2,256,150
7	Gross Revenue Conversion Factor	1.6561	1.6561	1.6561	1.6561
8	Required Revenue Increase (L7 * L6)	$ 2,244,807	$ 1,436,401	$ 55,282	$ 3,736,490
9	Adjusted Test Year Revenue	$ 1,506,275	$ 1,076,847	$ 91,740	2,674,862
10	Proposed Annual Revenue (L8 + L9)	$ 3,751,083	$ 2,513,248	$ 147,021	$ 6,411,352
11	Total Customer Count	2,577	1,842	157	4,576
12	**Flat Rate per Customer per month**	**$ 121.31**	**$ 113.69**	**$ 78.07**	**$ 116.76**
13	**Final Avg Rates per month per Decision No. 73837**	**$ 121.00**	**$ 121.00**	**$ 121.00**	**$ 121.00**
14	**Difference in Deconsolidated Rates & Authorized**	**$ (0.31)**	**$ 7.31**	**$ 42.93**	**$ 4.24**

EXHIBIT 4

EPCOR Water Arizona
Docket No. W-1303A-09-0343; SW-1303A-09-0343

Exhibit 4

Wastewater District Rate Design Proceeding

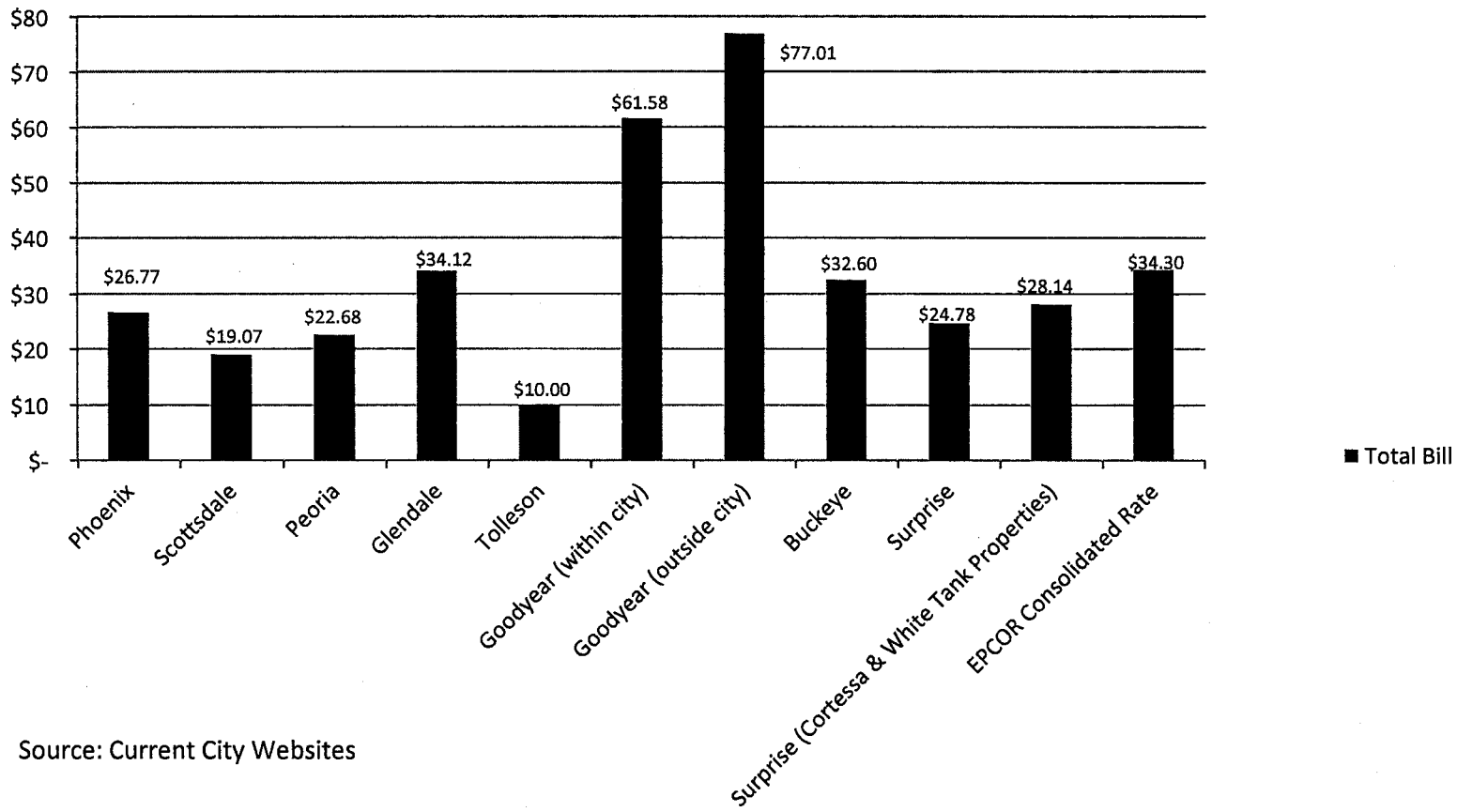
Re-Consolidation of Anthem / Agua Fria Wastewater Scenario

Anthem Wastewater & Agua Fria Wastewater
Test Year Ended December 31, 2008

Line No.	Rate Schedule	Description	Kgals Billed (Cap)	Average Number of Customers	Average Consumption (Gallons)	Service Chg # of Billing Units	Billed Consumption (Kgals)	(Deconsolidated) Revenue	Re-consolidation Base Charge	Re-consolidation Commodity Charge
1	E1MS1	Anthem/Agua Fria Sewer Residential	7,000	12,879	11,111	154,551	870,371	10,504,815	$ 39.84	$ 4.99
2	E2MS1	Anthem/Agua Fria Sewer Commercial	10,000	4	5,925	51	302	3,951	$ 44.48	$ 5.58
3	E2MS2	Anthem/Agua Fria Sewer Commercial	15,000	1	-	12	-	801	$ 66.72	$ 5.58
4	E2MS3	Anthem/Agua Fria Sewer Commercial	15,000	20	18,324	237	2,104	32,803	$ 89.06	$ 5.58
5	E2MS4	Anthem/Agua Fria Sewer Commercial	All Gallons	130	103,650	1,571	79,868	725,128	$ 178.05	$ 5.58
6	E5M2	Anthem Wholesale (Phoenix) OWU	All Gallons	2	9,655,083	24	231,722	1,292,082	$ -	$ 5.58
7	D7M1	Anthem Effluent	All Gallons	48	840,540	572	480,873	370,272	$ -	$ 0.77
8	D7M2	Anthem Effluent - Const	All Gallons	5	1,717,117	60	103,027	79,331	$ -	$ 0.77
9	C8M2A	Agua Fria DMB @ Verrado Golf	All Gallons	1	13,683,831	0	177,890	136,975	$ -	$ 0.77
		Total Anthem / Agua Fria Sewer - Billed Revenues		13,090	26,035,581	157,078	1,946,156	13,146,157		

EXHIBIT 5

Wastewater Residential Bill Comparison at 7Kgals



Source: Current City Websites