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Our File Number: 149764-00009

August 13, 2014

ARIZONA CORPORATION COMMISSION
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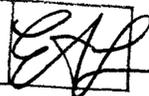
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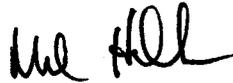
DOCKETED BY 

Re: Docket Nos: W-01303A-09-0343 and SW-01303A-09-0343

Docket Control:

Attached is a cover email provided to the Commission with its electronic copy of the August 8, 2014 filing.

Very truly yours,



Michael T. Hallam
LEWIS ROCA ROTHGERBER LLP

MTH/jw

Enclosure

Copy of the foregoing mailed
this 13th day of August, 2014, to:

Service list for Docket Nos W-01303A-09-0343; SW-01303A-09-0343 and W-01303A-10-0448

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From: Hubbard, Sheryl

Sent: Friday, August 08, 2014 6:05 PM

To: Stump-Web; Pierce-Web; BitterSmith-Web; Burns-Web; RBurns-Web; Thomas Galvin; Steve Court; Amanda H. Ho; Angela Paton; John LeSueur; Laurie Woodall; Connie Walczak; Elijah Abinah; Steven Olea

Cc: Gysel, Joe; McKee, Jim; Stenholm, Rebecca

Subject: EPCOR - Wastewater Rate Design

Good afternoon.

As you know, EPCOR is required to respond to the Arizona Corporation Commission (ACC) today with our preliminary analysis of wastewater rate design under three scenarios:

- Full consolidation of our five wastewater districts,
- Full deconsolidation, or separating our Agua Fria district into several smaller districts, and
- Re-consolidation of our Anthem and Agua Fria wastewater districts

Attached you will find the information that EPCOR filed today with the ACC, which reflects our preliminary analysis of wastewater rates under the three scenarios above. It remains important to EPCOR that our customers understand that their current rates for service are in full compliance with ACC decisions and this is not a request by EPCOR to increase rates.

With full consolidation, we're estimating that our residential customers would pay a flat rate of about \$34. This would mean that wastewater rates for our Agua Fria, Anthem and Mohave customers would come down, and come up for our Sun City and Sun City West customers.

We understand that this would be a change for our Sun City and Sun City West customers, who currently pay a flat rate of about \$18 and \$31, respectively. But, the long-term perspective is important and the systems serving these two communities have aged considerably and over the next five years we anticipate the need for approximately \$14.2 million in treatment plant and infrastructure replacements in these two districts.

The Commission also directed us to look at separating the Agua Fria system into smaller areas. As we've said before, we don't believe deconsolidation is a solution to the concerns of the Agua Fria customers. Our accounting system for the Agua Fria district doesn't provide the costs at the community level. In order to get that information, we estimate it would take about six months and cost approximately \$375,000 to separate out those costs.

To meet the August 8 deadline we've taken a high level look at what deconsolidated rates would look like based on the wastewater treatment plant costs in Verrado, Russell Ranch and the northern area of Agua Fria. Our preliminary analysis indicates that -- on a flat rate -- there would be no change to Verrado rates, a very small decrease for the northern portion of Agua Fria and a little bit larger decrease for Russell Ranch. But even though Russell Ranch would see a bit more of a decrease than the other two areas, the wastewater plant for Russell Ranch is reaching the end of its useful life and in the not too distant future we're going to need to look at replacing or significantly investing into this facility and if Russell Ranch was separated out on its own, those costs would have to be spread across a very small base of about 200 customers.

As we've said before, we don't believe that reconsolidation of the Anthem and Agua Fria districts solves the problem as it would essentially put us back to where we were before the ACC approved Anthem's request to separate the two districts.

Using the final phase-in of Commission-approved rates, if the districts were put back together as they were just before the two districts were deconsolidated, the base charge could be decreased for Agua Fria customers from about \$66 to about \$40, and the usage charge – based on water usage up to 7,000 gallons – would decrease from about \$8 to \$5. For Anthem customers, the base charge could be increased from \$30 to \$40, and the usage charge – based on water usage up to 7,000 gallons – would increase from about \$3.75 to \$5. But, again, we don't believe reconsolidation really changes anything.

As we've shared before, we believe that it is important to look at the long-term benefits that consolidation could bring – predictable, uniform rate structures, reduced regulatory expenses and increased efficiencies. It's also important to consider the benefits of consolidation when looking at infrastructure needs. All of our districts will have infrastructure needs over both the short and long term.

We look forward to the next steps in this review process. At any time, please do not hesitate to contact me directly at [redacted] or 623-445-2419.

Best,

Sheryl

The logo for EPCOR WATER, featuring the word "EPCOR" in a bold, white, sans-serif font inside a black square, followed by the word "WATER" in a smaller, white, sans-serif font to its right.

Sheryl L. Hubbard, CPA
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