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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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

DOCKET NO. W-01303A-10-0448

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, AND MOHAVE WATER DISTRICT.

ORIGINAL

PROCEDURAL ORDER

BY THE COMMISSION:

Docket Nos. W-01303A-09-0343 and SW-01303A-09-0343

On July 2, 2009, Arizona-American Water Company (“Arizona-American” or “Company”) filed with the Arizona Corporation Commission (“Commission”) in the above-captioned dockets (the “09-0343 Docket”) an application for rate increases for its Anthem Water District, Sun City Water District, Anthem-Agua Fria Wastewater District, Sun City Wastewater District, and Sun City West Wastewater District.¹

The hearing in this matter was bifurcated, with the first phase focusing on the revenue requirement requested by the Company for the various districts and second phase consisting of Commission consideration of rate design and rate consolidation issues. There was extensive public comment submitted in this case, both written and oral. The Commission adopted Decision No. 72047 on January 6, 2011, setting new rates for the districts involved in the 09-0343 Docket.

Intervenors in this matter included the Residential Utility Consumer Office (“RUCO”), Camelback Inn, Sanctuary of Camelback Mountain, the Intercontinental Montelucia Resort and Spa,

¹On February 1, 2012, Arizona-American Water Company was acquired by EPCOR Water (USA), Inc.. The acquisition was approved by Commission Decision No. 72668 (November 17, 2011). EPCOR Water (USA), Inc. is now doing business as EPCOR Water Arizona, Inc. (“EPCOR”).

1 and the Scottsdale Cottonwoods Resort and Suites, the Town of Paradise Valley, the Anthem
2 Community Council, the Sun City West Property Owners and Residents Association, the Water
3 Utility Association of Arizona (“WUAA”), Anthem Golf and Country Club, Marshall Magruder,
4 W.R. Hansen, Larry D. Woods, Philip H. Cook, DMB White Tank, and Mashie, LLC dba Corte Bella
5 Golf Club.

6 An issue considered in the rate case in the 09-0343 Docket was whether to deconsolidate the
7 Anthem-Agua Fria Wastewater district into two new separate districts: an Anthem Wastewater
8 District and an Agua Fria Wastewater District. Decision No. 72047 left the Docket open for the sole
9 purpose of considering the implementation of stand-alone revenue requirements and rate designs for
10 separate Anthem Wastewater and Agua Fria Wastewater Districts, as agreed to in the settlement
11 reached by the Company, Anthem, RUCO and Staff during the Open Meeting at which Decision No.
12 72047 was considered.

13 While Decision No. 72047 approved an overall rate increase of 53.98 percent for all
14 residential customers in the Company’s Anthem-Agua Fria Wastewater District, it made those rates
15 interim, subject to change depending upon the Commission’s determination on a deconsolidation
16 petition to be filed by the Company on April 1, 2011. In Decision No. 73227, the Commission found
17 that deconsolidation of the Anthem-Agua Fria Wastewater District, as contained in the Company’s
18 application, was in the public interest. The Commission adopted a deconsolidation rate plan
19 proposed by Dan Neidlinger, a consultant for the Anthem Community Council. The plan provided
20 for a phase-in of the rates over three years. Step 1 of the 3 step rate plan was to begin on January 1,
21 2013; with Step 2 taking effect in January 2014, and Step 3 taking effect in January 2015.

22 In Decision No. 73837, the Commission clarified that the “Neidlinger rate plan” was to be
23 used in light of deconsolidation; and the Winter Average Rate (“WAR”) Design approved in
24 Decision No. 72047 was no longer intended to be implemented, because implementation of both
25 deconsolidated rates and a WAR design would have been extremely confusing for customers and
26 could have led to unanticipated results.

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1 **Docket No. W-01303A-10-0448**

2 On November 13, 2010, Arizona-American filed an application for rate increases for its Agua
3 Fria Water District, Havasu Water District and Mohave Water District (the "10-0448 Docket").

4 Intervenors in the 10-0448 Docket included RUCO, the City of Surprise, WUAA, Sun City
5 Grand Community Association (as class representative for 17 homeowners associations), EPCOR,
6 Verrado Community Association, DMB White Tank LLC, and Corte Bella, as well as various
7 individual customers.

8 In Decision No. 73145 (May 1, 2012), the Commission approved a Settlement Agreement in
9 the 10-0448 Docket signed by EPCOR, Arizona-American, Staff, RUCO, Verrado, DMB, the City of
10 Surprise, Corte Bella, Cross River Homeowners Association, WUAA and SCGCA on behalf of itself
11 and the Class of Homeowners Associations. That Decision approved a 58 percent rate increase for the
12 Agua Fria Water District, with the rate increases phased in over a three-year period. The Agreement
13 provided for implementation of approximately 67 percent of the rate increase in year 1 beginning in
14 July 2012; and 16 percent and 17 percent of the rate increase in years 2 and 3, respectively, with the
15 last increase taking effect on July 1, 2014.

16 **Recent Decisions**

17 On July 30, 2014, the Commission issued Decision No. 74588 (in the 09-0343 Docket) and
18 Decision No. 74589 (in the 10-0448 Docket). In those Decisions, the Commission indicated that it
19 had received a significant number of customer complaints and petitions concerning EPCOR's Agua
20 Fria District's rates and charges for water and wastewater service. The customers' complaints
21 regarding the water and wastewater rates in Corte Bella, Cross River, Dos Rios and Coldwater Ranch
22 relate primarily to the combined impacts of the Decisions discussed above.

23 As described in Decision Nos. 74588 and 74589, Staff recommended that EPCOR file a
24 response to the customers' complaints by August 8, 2014, that addresses, at a minimum, the
25 following items:

- 26 1. Response to the customer complaints and requests for relief.
- 27 2. Response to Staff's opinion that the Commission's examination of these matters should
28 commence with rate design matters related to wastewater rates.

- 1 3. Discussion and analysis demonstrating the rate impacts of full consolidation of all
2 districts, including a potential timeline for consolidation and whether phase in is
3 warranted. Discussion and analysis should address when the circumstances in one district
4 necessitate a substantive investment for new plant and/or infrastructure improvements, for
5 only that district. This discussion should also address whether a rate case(s) would be
6 warranted for consolidation of all districts.
- 7 4. Discussion and analysis as to whether consolidation is warranted, when there is no nexus
8 between districts that do not share contiguous service territorial borders, weather
9 conditions, urban or rural locations, farming factors and/or water supply needs.
- 10 5. Discussion and analysis demonstrating the rate impacts of full deconsolidation of all
11 districts and systems, including a potential timeline for deconsolidation and whether phase
12 in is warranted. This discussion should also address whether a rate case(s) would be
13 warranted for deconsolidation.
- 14 6. Discussion and analysis demonstrating the rate impacts of reversing the deconsolidation of
15 Anthem from the Agua Fria District, including a potential timeline for reversal and
16 whether phase in is warranted. Discussion and analysis should include any and all
17 implications to the settlement agreement in Docket Nos. W-01303A-09-0343 and SW-
18 01303A-09-0343.
- 19 7. Discussion of any EPCOR identified potential alternative options and the options' rate
20 impacts on affected customers.
- 21 8. Any recent calculations by EPCOR, which have previously identified potential alternative
22 options, must be updated and must also add any new calculations if the next rate case
23 moves forward as scheduled.

24 In addition, Decision Nos. 74588 and 74589 directed the Hearing Division to issue a
25 Procedural Order that schedules a procedural conference in both Dockets, within 7 to 10 calendar
26 days after EPCOR's Response is filed, to discuss the further processing of these matters. As
27 described in those Decisions, the matters to be addressed at the procedural conference include:

- 28 1. Who are the appropriate parties in these proceedings?

- 1 2. What are the type, extent and timing of notices that should be provided to EPCOR's
2 customers?
- 3 3. What is an appropriate schedule for intervention by interested persons and stakeholders?
- 4 4. What is an appropriate schedule for the submission of pre-filed testimony and dates for
5 hearing?

6 Decision Nos. 74588 and 74589 also pointed out that a possible result of the Commission's
7 examination of these matters may involve Commission consideration of modification of previous
8 decisions. As a result, those Decisions indicated that the procedural conference should also address
9 whether prior decisions should be reopened, pursuant to Arizona Revised Statutes ("A.R.S.") §40-
10 252, to provide notice and opportunity to be heard concerning the Commission's possible amendment
11 of prior orders. The Decisions emphasized, however, that, at this time, no specific modification to
12 any prior Decision was contemplated or recommended by Staff. In adopting Staff's
13 recommendations, the Commission agreed that the extent of notice and opportunity to be heard
14 should be a topic discussed at the procedural conference.

15 **Recent Filings and Procedural Conference**

16 On August 7, 2014, separate Procedural Orders were issued in the 09-0343 and 10-0448
17 Dockets scheduling a procedural conference for August 13, 2014, to discuss the matters set forth in
18 Decision Nos. 74588 and 74589.

19 On August 8, 2014, EPCOR filed its Response to Decision Nos. 74588 and 74589.

20 On August 12, 2014, Anthem Community Council filed Preliminary Comments on EPCOR
21 Water Company's Response to Commission Decisions. Anthem Community Council also filed a
22 Motion to Stay Proceedings.

23 On August 13, 2014, EPCOR filed a copy of an email sent to the Commission with an
24 electronic copy of its August 8, 2014 Response.

25 On August 13, 2014, the procedural conference was held as scheduled. At the procedural
26 conference, the parties discussed a number of procedural issues including filing dates for testimony
27 and possible hearing dates. The parties agreed that only the 09-0343 Docket should be used for
28

1 processing the issues raised by Decision Nos. 74588 and 74589 because the Commission was
2 addressing only wastewater rate issues in those Decisions, while the 10-0448 Docket involved only
3 water systems.

4 IT IS THEREFORE ORDERED that the issues raised by the Commission in Decision Nos.
5 74588 and 74589 shall be processed solely in Docket Nos. W-01303A-09-0343 and SW-01303A-
6 09-0343.

7 IT IS FURTHER ORDERED that all future filings related to the issues raised by the
8 Commission in Decision Nos. 74588 and 74589 shall be made only in Docket Nos. W-01303A-09-
9 0343 and SW-01303A-09-0343.

10 IT IS FURTHER ORDERED that the above-captioned Docket shall be closed.

11 IT IS FURTHER ORDERED that the Administrative Law Judge may rescind, alter, amend,
12 or waive any portion of this Procedural Order either by subsequent Procedural Order or by ruling at
13 hearing.

14 DATED this 19th day of August, 2014.

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ASSISTANT CHIEF ADMINISTRATIVE LAW JUDGE

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(Service lists are from Docket Nos.
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and W-01303A-10-0448)