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Before the Arizona Corporation Commission

ORIGINAL

Bob Stump - Chairman  
Gary Pierce - Commissioner  
Brenda Burns - Commissioner  
Bob Burns - Commissioner  
Susan Bitter Smith - Commissioner

In the matter of Epcor Water Arizona, Inc. of ) Docket Nos SW-01303A-09-0343  
a hearing on rate consolidation/deconsolidation ) W-01303A-09-0343  
proposals for possible rate changes for utility )  
service in all of its Arizona wastewater districts )

I am submitting testimony on the following four issues:

- 1 - Epcor's estimate of 6 - 12 months to separate each community's data from the combined data of the Agua Fria district
- 2 - Epcor's attempt to charge consumers for their own costs of \$375,000 to separate each community's data from the combined data of Agua Fria district
- 3 - Epcor's responsibility to provide complete and accurate information for this proceeding
- 4 - Epcor's omission of significant hidden costs in full consolidation

I am including my third set of questions to Epcor as well as their responses to my second and third sets of questions. My first set of questions and Epcor's responses were included in my request to Judge Nodes on September 19, 2014.

Respectfully submitted on October 6, 2014

Frederick G. Botha

Arizona Corporation Commission

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This testimony focuses on four issues:

1 - Epcor's estimate of 6 - 12 months to separate each community's data from the combined data of the Agua Fria district

2 - Epcor's attempt to charge consumers for their own costs of \$375,000 to separate each community's data from the combined data of Agua Fria district

3 - Epcor's responsibility to provide complete and accurate information for this proceeding

4 - Epcor's omission of significant hidden costs in full consolidation

1 - Epcor's estimate of 6 - 12 months to separate each community's data from the combined data of the Agua Fria district

Epcor has responded to three sets of questions from me on this topic but has presented no clear indication yet to support their estimate of 6 - 12 months to separate out each community's data.

Epcor has not provided any specific, detailed examples of how or why any current asset or liability in the combined data of the Agua Fria district cannot be converted easily and quickly into each community's data.

Instead Epcor has provided only vague comments about how difficult the separation and conversion process will be.

One way to do the separation is to allocate each community's data proportionally according to specific criteria acceptable to the ACC, such as annual consumption, current plant value, number of consumers or any combination of these or other measures.

Against Epcor's estimate, it may take as little as a few minutes to completely separate and convert the Agua Fria district data into each community's data, if appropriate allocation criteria are used.

2 - Epcor's attempt to charge consumers for their own costs of \$375,000 to separate each community's data from the combined data of Agua Fria district

Epcor estimates that it will cost \$375,000.00 to separate each community's consumer data from the combined data of the Agua Fria district.

Epcor do not mention that they are willing to accept the costs of improving and updating their billing, accounts receivable and other information systems but refuse to accept the costs of improving and updating their rates and income and expense information systems.

Also, Epcor do not mention that when they purchased Arizona American Water, they became legally responsible for Arizona American Water's assets and liabilities, including their information systems - whether these meet their expectations or not.

The responsibilities for improving and updating these systems and for the costs of separating each community's data are Epcor's and not the Agua Fria district's.

3 - Epcor's responsibility to provide complete and accurate information for this proceeding

The ACC instructed Epcor to provide three different wastewater rates, including the fully consolidated rate for all districts - for the purposes of reviewing and changing the wastewater rates in the Agua Fria district and other districts serviced by Epcor.

As we have seen on many occasions in the last few weeks already, these three rates are not nearly sufficient for the ACC, RUCO, Epcor or consumers to reach a fair and acceptable decision on wastewater rates.

Far more complete and accurate information is required, including ranges of different rates for different combinations of districts and communities. Also, many different one-time rates and additional income and expense totals are needed by different groups of consumers to support their own specific perspectives.

For example, separate consolidation rates with and without Sun City and Sun City West are a high priority. In addition, these rates need to be supplemented by further projected rate increases by Epcor to match the dollar amounts of projected plant upgrades for the years ahead.

What if these projected dollar amount upgrades of Epcor are not accurate and need to be upgraded again to produce further revised rates? Both Sun City and Sun City West might find that when the projected plant upgrades are installed in several years' time, their rates are quite different from what they now expect them to be. If they knew this now, they might support quite different proposals.

Even more important, no information has been provided by Epcor on existing or future plant efficiency and performance and how possible future positive or negative variances might impact current projected wastewater processing rates and costs.

Requests for such additional information are not unexpected or unusual - instead they are typical and could have easily been foreseen and met by Arizona American Water and Epcor years ago, when they set up their information systems.

According to responses to my questions, Epcor has an effective system to meet their own needs but it is not available to consumers and Epcor do not disclose whether it would meet consumers' needs. Expecting consumers to rely on the slow and cumbersome process of accessing documents at Epcor's offices or scanned documents on ACC's website are unrealistic. If Epcor staff need their own computer system to access up-to-date information rapidly and in a flexible way, surely consumers need the same facilities?

It would have been easy for Epcor to provide the additional rates and income and expense information required for this proceeding - either by upgrading their existing systems or by installing a completely new system - improvements and upgrades which are long overdue.

Consumers need in an online, internet system for rates and income and expenses to match the current billing and accounts receivable system that Epcor already provide.

Facilities can easily be provided for consumers to access complete, accurate and up-to-date rates and income and expense information for each district and community - without continuing to incur the high costs and time-consuming delays associated with the current, inconvenient one-time rate extracts.

In addition, early warnings can be provided of future rate increases instead of only the projected dollar investments by Epcor, such as \$9.3 million in the next five years for Sun City, \$4.9 million for Sun City West and \$5.3 for Anthem. At present, these total dollar upgrade amounts give no indication what eventual rates will be.

If such a system had easily been set up when the Agua Fria district was set up, it would have saved consumers significant cost and time.

High rates from duplicate plant facilities for the Agua Fria district consumers could have been foreseen before the different communities were grouped together.

High rates could have been avoided for consumers and the responsibility for the excess plant capacity installed in the North West Valley could have been appropriately allocated, when the projected new consumers never materialized.

Costs of wastewater facilities between Sun City West and Corte Bella could have been allocated fairly.

The increase in rates in Corte Bella for the new borehole could have been anticipated before the borehole was drilled.

For far too long, an online, internet system for consumers on rates and income and expenses has been avoided by both Arizona American Water and Epcor and we are now experiencing the severe consequences. Without complete and accurate information from Epcor both water and wastewater rates are not possible.

#### 4 - Epcor's omission of significant hidden costs in full consolidation

Consolidation does not automatically reduce total costs of water or wastewater or make their supply more efficient - all it does is spread total costs over the total number of consumers. It is understandable that some consumers will be elated if their wastewater rates are significantly reduced as a result of this proceeding, but we need to be aware of other dangers ahead.

Just as important as consolidation in reducing rates are the effective design, location, use and management of the different plants and their raw materials.

These factors can be tracked easily only by an effective online, internet computer system providing performance information on the different factors in wastewater management for Epcor, the ACC, RUCO and consumers to evaluate.

Shawn Bradford of Epcor in his testimony on September 8, 2014, pointed out that communities do not have to be contiguous or next to each other to be grouped into the same district. This is misleading. To achieve economies of scale in plant location and size, it is vital to locate communities as close to each other as possible. The dangers of having separate plants for each community and combining communities that are not close to each other could not be clearer now than in the Agua Fria district - almost complete duplication of plant facilities with no economies of scale.

Shawn Bradford, whose responsibility is Information Technology, also did not point out how important an effective online, internet system is for Epcor, the ACC, RUCO and consumers in order to track the performance of each of the different factors that combine to provide high quality water and wastewater facilities. Without such an information system who knows which plants are performing well or not and what needs to be done to address poor performance issues at each plant? Full consolidation reduces total costs only if each plant is effectively managed and its performance is easily and continuously tracked.

Two of the most important factors in charging a fair system of rates are, first, districts of matching communities where economies of scale can be attained and, second, an online, internet system that provides permanent up-to-date information on the factors that track effective water and wastewater management and provide early warning signals of significant rate increases - in time for consumers to react.

In her testimony on September 8, 2014, and in her responses to my questions, Sheryl L. Hubbard showed that she has extensive qualifications and experience in accounting systems and in the water and wastewater industry. If she has been given the opportunities to use her skills in directing the specification, design and implementation of computing systems that match the needs of all Epcor's consumers, why is it necessary for her to speculate about the value of such systems instead of supporting them?

RESPONSES OF EPCOR WATER ARIZONA, INC. TO MR. BOTHA'S SECOND SET OF  
DATA REQUESTS

W-01303A-09-0343

SW-01303A-09-0343

GENERAL OBJECTIONS TO ALL DATA REQUESTS

1. EPCOR Water Arizona, Inc. ("EWAZ") objects to each Request to the extent it seeks information subject to the attorney-client privilege, work product doctrine or any other privilege recognized by the State of Arizona. In responding to these Requests, EWAZ preserves all such privileges.
2. EWAZ objects to each Request to the extent that it is not reasonably calculated to lead to the discovery of admissible evidence.
3. EWAZ objects to each Request to the extent it calls for speculation.
4. EWAZ objects to each definition and/or instruction to the extent it purports to abrogate any of EWAZ's rights, or adds to any of EWAZ's obligations under, the Arizona Rules of Civil Procedure or the Commission's Rules.
5. EWAZ objects to each Request to the extent that it is overly broad, unduly burdensome and imposes any burden not expressly permitted under the Commission's Rules or the Arizona Rules of Civil Procedure.
6. EWAZ objects to each Request to the extent that the information requested constitutes "trade secrets" that are privileged under the Arizona Uniform Trade Secrets Act, Ariz. Rev. Stat. § 44-401, et. seq. (2003).
7. EWAZ objects to each Request to the extent it seeks information not within EWAZ's possession, control, or custody and/or to the extent the Requests ask EWAZ to provide information that it does not maintain in the ordinary course of business.
8. EWAZ objects to each Request to the extent it calls for a legal conclusion.
9. EWAZ reserves the right to supplement or amend its objections and responses as necessary.

## SPECIFIC OBJECTIONS

1. In Decision No. 74588, the Commission set forth the three scenarios to be examined in this proceeding as part of a possible modification to wastewater rate design utilizing revenue requirements approved by the Commission. EWAZ objects to the following data requests as outside the scope of this proceeding and not reasonably calculated to lead to the discovery of admissible evidence: 2-1-1 through 2-1-26; 2-2-1; 2-4-1 through 2-4-14.
2. EWAZ objects to the following data requests as overly broad and unduly burdensome: 2- 1-2; 2-1-3; 2-1-8; 2-1-9; 2-1-10; 2-1-11.
3. EWAZ objects to the following data requests as calling for speculation: 2-1-19; 2-1-20; 2-1-26; 2-4-5; 2-4-12; 2-4-12; 2-4-13.
4. EWAZ objects to all data requests previously answered and refers to those responses from the first set of data requests.

## OBJECTIONS

EPCOR Water Arizona, Inc. (the "Company") submitted objections to these data requests on September 15, 2014. Each of these responses is made subject to and without waiving those objections.

FGB 2-1-1 (Ref FGB 1-1-6)

Question: Does EPCOR use features in its Oracle system to combine totals for different divisions for any period in order to produce the three sets of totals required by the Commission?

Response: No. Reports are downloaded into Excel and combined outside of Oracle.

FGB 2-1-2 (Ref FGB 1-1-11)

Question: What is the highest, lowest and average number of monthly income and expense transactions (to the nearest 50) for a typical district?

Response: It is very difficult to estimate the number of transactions in any given month for a typical district. The Company uses the Oracle ERP as our main financial system but other systems contribute information to Oracle e.g. IVARA (our procurement system), ADP (our payroll system), Vertex (our billing system), etc. The Company has put together the below monthly approximation using its best estimates:

1. Oracle ERP:
  - a. Oracle General Ledger - we have approximately 20,000 transactions/month;
  - b. Oracle Accounts Payable - we have approximately 4,000 transactions/month;
  - c. Oracle Fixed Assets - we have approximately 1,100 transactions/month;
2. IVARA - we have approximately 200 transaction/month;
3. ADP - we have approximately 5,600 transactions/month; and
4. Vertex - we process approximate 200,000 transactions/month.
5. Total system transactions of approximate 230,900/month

Secondly, districts range in size from 600 customers in the smallest district to 40,400 in the largest district. The Company has a total of 18 service districts. If you simply divide the number of transactions by the total number of districts you arrive at an average district transaction of 12,800 per month.

FGB 2-1-3 (Ref FGB 1-1-12)

Question: How many physical plant items are recorded in EPCOR's Oracle system for the Agua Fria district?

Response: When you ask for plant items, the Company assumes you want to know how many items are recorded in our Oracle Fixed Asset (OFA) program. OFA records assets to categories as defined by National Association of Regulatory Utility Commissioners (NARUC) and prescribed by the Company's regulator. An asset item within a category can have 10 assets or 1,000 assets depending on what it is.

FGB 2-1-4 (Ref FGB 1-1-12)

Question: Is each plant item a separate record for the purpose of accumulated depreciation and income and expense allocation, as typically recorded and required for IRS taxation purposes?

Response: The Company's regulator requires accumulated depreciation and depreciation expense to be calculated based on the NARUC system of accounts, which is not related to IRS taxation.

FGB 2-1-5 (Ref FGB 1-1-12)

Question: If not, why not?

Response: Please see response to FGB 2-1-4.

FGB 2-1-6 (Ref FGB 1-1-12)

Question: Is the original purchase date and purchase cost of each plant item recorded in EPCOR's Oracle system, as typically recorded and required for IRS taxation purposes?

Response: Following the NARUC practices as prescribed by the Company's regulator, the Company places assets in service based on the in service date of the asset. The cost of the asset is also recorded at this time. This process is not related to IRS taxation.

FGB 2-1-7 (Ref FGB 1-1-12)

Question: Can each plant item be readily identified at its physical location?

Response: No, the plant items are recorded by district not physical location.

FGB 2-1-8 (Ref FGB 1-1-12)

Question: How many unique plant locations are there for each community in Agua Fria district?

Response: The Company does not classify assets by community, but in the Agua Fria wastewater district the Company has three plant facilities: Northwest Valley Regional Water Reclamation Facility, Verrado Water Reclamation Facility, and Russell Ranch Water Reclamation Facility.

FGB 2-1-9 (Ref FGB 1-1-12)

Question: How many plant items are there at each of these locations (to the nearest 10)?

Response: Plant items are recorded by district not physical location. OFA records assets to categories as defined by NARUC and prescribed by the Company's regulator. An asset item within a category can have 10 assets or 1,000 assets depending on what it is so it is not possible to give a count of assets at a particular location.

FGB 2-1-10 (Ref FGB 1-1-12)

Question: How many joint plant locations are there for each community in Agua Fria district?

Response: The Company does not classify assets by community, but in the Agua Fria Wastewater District the Company has one facility which is shared with the Sun City West Wastewater District: the Northwest Valley Regional Water Reclamation Facility.

FGB 2-1-11 (Ref FGB 1-1-12)

Question: How many plant items are there at each of these locations (to the nearest 10)?

Response: Plant items are recorded by district not physical location. OFA records assets to categories as defined by NARUC and prescribed by the Company's regulator. An asset item within a category can have 10 assets or 1,000 assets depending on what it is so it is not possible to give a count of assets at a particular location.

FGB 2-1-12 (Ref FGB 1-1-14)

Question: If conversion was not necessary, does this mean that all the data for Arizona American and Citizens Utilities for depreciation and income and expense allocation is included in EPCOR's Oracle system?

Response: The fixed asset data that was transferred from Citizens Utilities to American Water and then to EPCOR currently resides in OFA.

FGB 2-1-13 (Ref FGB 1-1-14)

Question: If not, why was it not necessary to convert it?

Response: Please see response to FBG 2-1-12.

FGB 2-1-14 (Ref FGB 1-1-14)

Question: If each plant item can be easily allocated to its community location, is the data for all plant items in Agua Fria, including Citizens Utilities and Arizona American, up-to-date in terms of cumulative depreciation for IRS tax purposes?

Response: Each plant item cannot be easily allocated to its community location. Regarding the question on depreciation, the methodology for calculating depreciation for determining rates versus IRS tax purposes follow two separate methods. Depreciation for rate making follows NARUC accounting practices and depreciation for IRS tax follows the internal revenue code. The Company is in compliance with its cumulative depreciation under both methods.

FGB 2-1-15 (Ref FGB 1-1-14)

Question: Is total depreciation for all plant items in the Agua Fria district up-to-date for IRS tax purposes?

Response: See response to FGB 2-1-14.

FGB 2-1-16 (Ref FGB 1-1-14)

Question: If not, why not?

Response: Please see response to FGB 2-1-15.

FGB 2-1-17 (Ref FGB 1-1-15)

Question: If there is a quick and easy automated way to convert the Agua Fria data into data for its separate communities, is EPCOR prepared to use this?

Response: The Agua Fria District data cannot be easily converted into separate communities and will take a significant amount of effort, time, and cost. EPCOR is regulated by the Arizona Corporation Commission and will abide by its orders.

FGB 2-1-18 (Ref FGB 1-1-15)

Question: If not, why not?

Response: Please see response to FGB 2-1-17.

FGB 2-1-19 (Ref FGB 1-1-17)

Question: If the ACC agrees to such criteria for the purposes of rapid and automated conversion, will EPCOR accept the criteria?

Response: Please see response to FGB 2-1-17.

FGB 2-1-20 (Ref 1-1-18)

Question: If total values for each community balance to the district total, will this be acceptable to EPCOR?

Response: Please see response to FGB 2-1-17.

FGB 2-1-21 (Ref 1-1-19)

Question: Can these costs be estimated by estimating the increased number of transactions each month?

Response: No.

FGB 2-1-22 (New question)

Question: When a corporation purchases another corporation, it is customary for the purchasing corporation to assume the assets and the liabilities of the purchased corporation, unless specifically excluded by prior agreement. Did EPCOR have any agreement to pass on the costs of separating the Agua Fria division's assets and liabilities and income and expenses to its communities?

Response: No.

FGB 2-1-25 (New question)

Question: How many months has EPCOR has been aware of the issue of separating out Agua Fria data into data for each of its communities?

Response: The Company has been aware that revenues, costs, and plant are assigned to specific districts from its inception and that by subdividing current districts into sub areas would require a considerable amount of additional work.

FGB 2-1-26 (New question)

Question: How many staff members will be needed to resolve this issue of separating the Agua Fria data and for how many days each?

Response: This effort cannot be completed with existing staff levels. This will take a significant amount of resources using an outside consultant.

FGB 2-2-1 (Ref 1-2-2)

Question: To better estimate EPCOR's anticipated minimum legal costs of more than \$100,000, how many lawyers are working on this review, how much are they paid per hour, what type of work are they doing and how many hours are they estimate to require?

This question was not answered previously - instead the accounting order was mentioned as approved.

Response: Please see response to FGB 1-2-2.

FGB 2-4-1 (Ref 1.3.2)

Question: What are the advantages to EPCOR's management and staff in Arizona to be able to regularly and rapidly access up-to-date confidential EPCOR information securely on their own computer system?

Response: Please see response to FGB 1-3-2.

FGB 2-4-2 (Ref 1.3.2)

Question: Is it possible or probable or even likely that consumers want to regularly and rapidly access public up-to-date previous, current and estimated future water and wastewater rates as well as previous, current and estimated future income and expenses for all districts and communities securely on EPCOR's internet computer system?

Response: The Company continues to object to this request as it calls for speculation. Subject to and without waiving this objection, the Company responds as follows: Please see responses to FGB 1-4. The Company provides current water and wastewater rates on the Company website in addition to the proposed rate application and all supporting exhibits.

FGB 2-4-3 (Ref 1-3-1...1-3-6) (Ref 1-4-1...1-4-17)

Question: Accurate income and costs are required to determine fair rates, as is happening in this proceeding with the three different cost scenarios required by the ACC from EPCOR. Could a permanent online, internet information system easily and automatically at no charge provide the information for consumers to review such rates and income and costs now, especially future estimated rates and income and costs from EPCOR's planned plant updates, instead of documentation of mere planned expenditures as provided by EPCOR at present?

Response: The Company continues to object to this request as it calls for speculation. The Company does not have any information with which to respond to this request.

FGB 2-4-4 (Ref 1-3-1...1-3-6) (Ref 1-4-1...1-4-17)

Question: If not, why not?

Response: Please see response to FGB 2-4-3.

FGB 2-4-5 (Ref 1-3-1...1-3-6) (Ref 1-4-1...1-4-17)

Question: Would EPCOR have supported such a system when the communities were combined into the Agua Fria district?

Response: Please see response to FGB 2-4-3.

FGB 2-4-6 (Ref 1-3-1...1-3-6) (Ref 1-4-1...1-4-17)

Question: If not, why not?

Response: Please see response to FGB 2-4-3.

FGB 2-4-7 (Ref 1-3-1...1-3-6) (Ref 1-4-1...1-4-17)

Question: Does EPCOR support such a system for their own staff, the ACC, RUCO and consumers now?

Response: Please see response to FGB 2-4-3.

FGB 2-4-8 (Ref 1-3-1...1-3-6) (Ref 1-4-1...1-4-17)

Question: If not, why not?

Response: Please see response to FGB 2-4-3.

FGB 2-4-9 (Ref 1-3-1...1-3-6) (Ref 1-4-1...1-4-17)

Question: If not, what type of system does EPCOR recommend as an alternative to the option in 2-4-3?

Response: The Company is not recommending any changes to their current information technology systems in this proceeding.

FGB 2-4-10 (Ref 1-4-3)

Question: Does EPCOR consider that access in its offices to printed documents of rates, income and expenses is as convenient as access to an online, internet information system and an acceptable alternative?

Response: If this question is referring to the ACC requirement of having a hard copy of rate applications available for customers to review in the Company offices during a rate case proceeding, that is a requirement of the ACC. This requirement provides an alternative source of information to our customers for those who do not have access to the Internet. Customers with access to the Internet can access this information through the Company's website.

FGB 2-4-11 (Ref 1-4-3)

Question: If so, why?

Response: Please see response to FGB 2-4-10.

FGB 2-4-12 (Ref 1-4-11)

Question: Why is the ACC requesting rate scenarios from EPCOR and not expenditure scenarios?

Response: The ACC has already reviewed and approved overall revenues and the resulting rate design for each district in previous cases except for the Mohave Wastewater District which is currently under review in a separate application. In this proceeding, the ACC has ordered the Company to provide three alternative rate scenarios which would reallocate those approved revenues. Therefore, this proceeding is limited to those rate design scenarios.

FGB 2-4-13 (Ref 1-4-11)

Question: Which is more important to consumers - rates or expenditures?

Response: The Company continues to object to this request as it calls for speculation. The Company does not have any information with which to respond to this request.

FGB 2-4-14 (Ref 1-4-12)

Question: If EPCOR can provide a system for customer account information, why does EPCOR not provide a separate online, internet system for rates, income and costs?

Response: Please see responses to FGB 1-4.

RESPONSES OF EPCOR WATER ARIZONA, INC. TO MR. BOTHA'S THIRD SET OF  
DATA REQUESTS

W-01303A-09-0343

SW-01303A-09-0343

GENERAL OBJECTIONS TO ALL DATA REQUESTS

1. EPCOR Water Arizona, Inc. ("EWAZ") objects to each Request to the extent it seeks information subject to the attorney-client privilege, work product doctrine or any other privilege recognized by the State of Arizona. In responding to these Requests, EWAZ preserves all such privileges.
2. EWAZ objects to each Request to the extent that it is not reasonably calculated to lead to the discovery of admissible evidence.
3. EWAZ objects to each Request to the extent it calls for speculation.
4. EWAZ objects to each definition and/or instruction to the extent it purports to abrogate any of EWAZ's rights, or adds to any of EWAZ's obligations under, the Arizona Rules of Civil Procedure or the Commission's Rules.
5. EWAZ objects to each Request to the extent that it is overly broad, unduly burdensome and imposes any burden not expressly permitted under the Commission's Rules or the Arizona Rules of Civil Procedure.
6. EWAZ objects to each Request to the extent that the information requested constitutes "trade secrets" that are privileged under the Arizona Uniform Trade Secrets Act, Ariz. Rev. Stat. § 44-401, et. seq. (2003).
7. EWAZ objects to each Request to the extent it seeks information not within EWAZ's possession, control, or custody and/or to the extent the Requests ask EWAZ to provide information that it does not maintain in the ordinary course of business.
8. EWAZ objects to each Request to the extent it calls for a legal conclusion.
9. EWAZ reserves the right to supplement or amend its objections and responses as necessary.

## SPECIFIC OBJECTIONS

Questions 3 to EPCOR from Fred Botha

FGB 3-1-1 (Ref FGB 2-1-3)

Q: How many categories and asset items does EPCOR use in EPCOR's Oracle system for the Agua Fria district?

A: The Agua Fria Wastewater District uses 42 NARUC sewer categories. When asked for the number of asset items, the Company assumes the question refers to how many items are recorded in the Company's Oracle Fixed Asset (OFA) program within the NARUC sewer category. An asset item within a category can have 10 assets or 1,000 assets depending on what it is.

FGB 3-1-2 (New question)

Q: What is the current value of all plant asset items in the Agua Fria District?

A: The Company uses US GAAP guidelines to capitalize its plant assets. Under US GAAP the historical cost of the plant asset is used as the value to capitalize the plant asset. The Company does not, under US GAAP guidelines, re-value the plant assets to establish a current value. The historical cost of the plant assets for the Agua Fria Wastewater district at December 31, 2008 is \$73.4 million.

FGB 3-1-3 (New question)

Q: If plant items cannot be identified at their Locations, how do EPCOR do an inventory check of plant items purchased and still in EPCOR's possession?

A: In a wastewater treatment facility the plant assets are placed in service and are not inventoried to assure they are in EPCOR's possession. The majority of assets by their nature are connected to a system and are non-movable, they are stationary equipment or pipes that are monitored regularly for their continued operation. When the asset ceases to operate it is repaired or replaced and the non-operating asset is retired.

FGB 3-1-4 (New question)

Q: If plant items cannot be identified at their Locations, how are transactions to cover theft, damage, replacement processed?

A: Typically wastewater treatment facility plant assets are not stolen or damaged, but upon the determination that the asset is not operating and needs to be replaced, the Company using group asset accounting, will identify the asset category and identify the asset to be retired.

FGB 3-1-5 (New question)

Q: How often do EPCOR's auditors do plant inventory counts to verify value of plant inventory?

A: EPCOR's auditors visit the plant facilities from time to time to verify the facility is in operation and generally all of the assets are in service. The auditors do not conduct counts of the plant assets or determine the value of the plant assets.

FGB 3-1-6 (New question)

Q: Under NARUC standards when EPCOR purchases a depreciable plant item, what are advantages of not recording it as a separate asset item in its own Location?

A: Group asset accounting is the standard method in the utility industry and is advantageous due to the large number of plant assets. This method allows the recording of large numbers of similar type plant assets into one group, and allows a depreciation calculation using one rate for the entire group.