BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
CHAIRMAN
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BOB BURNS
COMMISSIONER
DOUG LITTLE
COMMISSIONER
TOM FORESE
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF EPCOR WATER ARIZONA INC., 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 FOR UTILITY SERVICE BY ITS MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WATER DISTRICT, TUBAC WATER DISTRICT, AND MOHAVE WASTEWATER DISTRICT.

Docket No. WS-01303A-14-0010

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Testimony of Robert B. Mease, Timothy Coley, Jeffrey Michlik, Frank Radigan and the Redacted Direct Testimony of Ralph Smith, in the above referenced matter. The unredacted version will be provided to parties who signed the Protective Agreement.

RESPECTFULLY SUBMITTED this 23rd day of January, 2015

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Chief Counsel

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WS-01303A-14-0010

PART 1 OF 2
BARCODE # 0000159649

To review Part 2 please see:

BARCODE #0000159650

EPCOR WATER ARIZONA, INC.

DOCKET NO. WS-01303A-14-0010

DIRECT TESTIMONY

OF

ROBERT B. MEASE

ON THE

SYSTEM IMPROVEMENT BENEFIT

ON BEHALF OF THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 20, 2015

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I. EXECUTIVE SUMMARY

EPCOR Water Arizona, Inc. ("Company," "EPCOR," or "EWAZ") in its application for a rate increase filed on March 12, 2014, requested a System Improvement Benefit ("SIB") mechanism for its Sun City Water District, Mohave Water District and its Paradise Valley Water District in the amounts as follows:

Sun City Water District	$ 10,999,327
Mohave Valley Water District	$ 10,227,319
Paradise Valley Water District	$ 7,019,992
TOTAL	$ 28,246,638

The Arizona Corporation Commission ("ACC" or "Commission") has approved a SIB mechanism for six water districts and one wastewater district ("CSIB") and RUCO has taken exception in each filing. RUCO's objection to a SIB and/or CSIB mechanism in past SIB applications has in general been; (1) that the SIB inappropriately shifts risk from the Company to ratepayers without adequate financial consideration to the ratepayer; (2) the SIB is not an adjustor mechanism; (3) the SIB will increase the Company's fair value rate base without any determination of fair value; (4) the Company has not requested interim rates; and (5) the SIB is not in the public interest.

In addition to the exceptions above RUCO has identified additional reasons why the SIB should be rejected in this case. The additional reasons include; (1) EWAZ does not meet the SIB Eligible Plant criteria as identified in its Plan of Administration ("POA"); (2) RUCO takes exception to EWAZ's explanation for its requesting a SIB mechanism; (3) if the Commission approves a SIB mechanism rates will increase an additional 18.8 percent, 21.5 percent, and 17.6 percent, collectively through the next rate case over and above the rates approved in this rate case, in the Sun City, Mohave and Paradise Valley Water Districts respectively

In summary, RUCO takes issue with the Company's proposed SIB mechanism and currently has a lawsuit pending on this subject in other Commission cases before the Arizona Court of Appeals.

II. INTRODUCTION

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

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

Q. Please describe your qualifications in the field of utility regulation and your educational background.

A. Attachment A, which is attached to this testimony, describes my educational background, work experience and regulatory matters in which I have participated. In summary, I joined RUCO in October of 2011. I graduated from Morris Harvey College in Charleston, WV and attended Kanawha Valley School of Graduate Studies. I am a Certified Public Accountant and currently licensed in the state of West Virginia, as well as a Certified Rate of Return Analyst. My years of work experience include serving as Vice President and Controller of Energy West, Inc. a public utility and energy company located in Great Falls, Montana. While with Energy West I had responsibility for all utility filings and participated in several rate case filings on behalf of the utility. As Energy West was a publicly traded company listed on the NASDAQ Exchange I also had responsibility for all filings with the Securities and Exchange Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide background and support and to explain why the Commission should not approve the implementation of a SIB mechanism for the three water districts included in this filing.

III. SYSTEM IMPROVEMENT BENEFIT ("SIB") BACKGROUND

Q. Can you please provide a history of the SIB in Arizona ratemaking and the water and or wastewater companies have been authorized recovery through a SIB mechanism?

A. Arizona Water Company's ("AWC") Eastern Group, Docket No. W-01445A-11-0310 was the first water company that had filed for a Distribution System Improvement Charge ("DSIC") mechanism (that was the predecessor to the SIB) and was ultimately approved by the Arizona Corporation Commission. The original decision, No. 73736, which became known as Phase I, was left open for the sole purpose of determining if a DSIC was appropriate in that case even though the Commission specifically determined that a higher Rate of Return was appropriate to address the DSIC related infrastructure costs. In Phase II of that case, many additional benefits were added to the original DSIC request and what was originally referred to as a DSIC, became known as a SIB and was approved by the Commission in Decision No. 73938. The Commission reopened that decision, at the request of RUCO, under ARS §40-452 and the decision made in Phase II was again confirmed by the

Commission in Decision No. 74463. RUCO appealed and the appeal is currently before the Arizona Court of Appeals.

Since the AWC original SIB approval, several other companies have been awarded a SIB. Those include AWC's Northern Division, Global Water for its Willow Valley District, Liberty Utilities for its Rio Rico Districts(s) for both water and wastewater divisions (the wastewater is called a CSIB) and the latest company allowed a SIB mechanism was EPCOR's Chaparral City Water Company.

Q. Does RUCO believe that mechanisms such as the SIB and CSIB are appropriate for ratemaking purposes?

A. In general – no. RUCO acknowledges that water companies are facing fully depreciated and worn our infrastructure which will be expensive to repair and/or replace. There may be a place for such mechanisms but at the very least they need to be balanced, necessary under the circumstances of any case and legal – none of which exists in the Company's proposal here. RUCO has opposed a DSIC, SIB and CSIB in all filings where any of the three have been requested to date.

Q. Can you please explain why RUCO has opposed a SIB mechanism in past rate cases?

A. Yes. In past rate cases RUCO has opposed a DSIC, CSIC and/or a SIB mechanism, for the following reasons: (1) the SIB inappropriately shifts risk from the Company to the ratepayer without adequate financial compensation to the ratepayer; (2) the SIB is not an adjustor mechanism; (3) the SIB will increase the Company's fair value rate base without any determination of fair value; (4) the Company has not requested interim rates; (5) the SIB is not in the public interest; (6) individual circumstances of the case and (7) the Company does not set aside depreciation expense.

Q. Can you explain RUCO's first reason for rejecting the Company-proposed SIB that it shifts risk from the Company to the ratepayer without adequate financial consideration to the ratepayer?

A. The SIB mechanism reduces regulatory lag in favor of the Company because the Company will not have to wait until new rates go into effect to recover a return. Under the Company-proposed SIB, EWAZ would enjoy the benefit of receiving a return on and a return of its investment in new plant through a surcharge established between general rate case proceedings. (RUCO believes that establishing rates, more specifically increasing rates, without the benefit of a fair value determination is a violation of the State Constitution which mandates a fair value determination). The ratepayers will receive a 5 percent efficiency credit on their billings, however, this is quite a small reduction considering the potential savings that could accrue as a result of operations and maintenance ("O&M") expense reductions. Any cost savings resulting from new plant additions recovered through the Company-proposed SIB would flow through to the bottom line and ultimately to the shareholders as dividend distributions. This is particularly true in EWAZ as 75 percent of net income is targeted as dividend distribution to its parent. In Ms. Ahern's Cost of Capital testimony she states that her proxy group of companies used in her analysis had a dividend payout ratio of 65.95 percent.[1] However, in my analysis the actual dividend payout ratio is 54.94 percent.[2]

Q. In those rate cases where the Commission has approved a SIB wasn't there a 5 percent "efficiency credit' used to reduce the increase to ratepayers as a result of the SIB?

A. Yes there was an "efficiency credit" approved. However, a 5 percent credit compared to the O&M expense reductions doesn't appear to be a significant benefit to ratepayers. For example, EWAZ is requesting total SIB eligible projects totaling $28,246,638[3] for the Sun City, Mohave and Paradise Valley Water Districts. The 5 percent efficiency credit would

[1] Direct testimony of Pauline M. Ahern, Cost of Capital. Page 18
[2] RBM Schedule 1, Page 1 of 1. See further discussion Section VI. SIB Financial Analysis and Effects on Ratepayers
[3] See Table Page 11, EPCOR WATER RATE FILING – SIB REQUESTS

benefit the ratepayer by reducing future rates by only $155,288, representing less than one percent of the total SIB capital improvements. It is likely that a Company upgrading plant infrastructure by investing in excess of $28 million would realize more than $155,288 in reductions to their O&M expenses.

Q. You state that the SIB is not an adjustor mechanism. Why is that?

A. I qualify my comment here by noting that I am not an attorney. But I have a long history as an accountant in regulation and have a thorough understanding of the definition and the mechanics of an adjustor mechanism. An adjustor mechanism permits rates to go up or down in relation to certain narrowly defined operating expenses. The Commission has defined adjustor mechanisms applying to expenses that are routine and fluctuate widely. In Decision No. 56450, page 6, issued on April 13, 1989, related to APS' requesting a fuel adjustor the Commission stated:

> The principle justification for a fuel adjustor is volatility in fuel prices. A fuel adjustor allows the Commission to approve changes in rates for a utility in response to volatile changes in fuel or purchased power prices without having to conduct a rate case. (Decision No. 56450, page 6, April 13, 1989).

Q. Why is it important to determine the Company's fair value rate base ("FVRB") when establishing an increase in rates?

A. The determination of fair value is a basic premise in the rate making process. When determining fair value all elements of the Company's operations are considered. All of the Company's adjustment to utility plant in service ("UPIS") and additional rate base items are thoroughly reviewed for proper accounting treatment and a used a useful determination is made for all additions to plant. The Company's revenues and expenses are reviewed and adjusted upward or downward if necessary. The Commission will not be making a new FVRB finding as part of each surcharge filing and it will not be adequately reviewing the Company's expense and revenues correctness. The fact that the Company will be subject to an annual earnings test and will have to file balance sheets, income statements and other "summarized" financial information is not a substitution for a full rate case filing.[4]

Q. You indicate that a SIB Mechanism is not in the public interest. Can you further explain?

A. Yes. In short, the SIB does not compensate ratepayers for any reductions in O&M expenses as a result of the SIB or take into consideration additional revenues generated resulting from the SIB. (The small 5 percent efficiency credit in immaterial when considering the potential savings that can be generated by system infrastructure improvements). Also, any growth on the system that produces additional income is not taken into consideration. By eliminating regulatory lag the Company creates a disincentive to operate the system as efficiently and as prudently as possible.

[4] See RBM testimony Section VII, SIB Other Considerations for further discussion.

IV. SIB AS REQUESTED BY EWAZ

Q. Can you please provide the most recent description of a SIB mechanism as defined by EWAZ?

A. I will define the SIB that was incorporated in the Company's Plan of Administration ("POA") filed with its application which happens to mirror the plan in the Chaparral City Water Company's recent filing and approved by the Commission in Decision No. 74860. "The SIB provides for the recovery of the capital costs (return on investment, income taxes and depreciation expense) associated with distribution system improvement projects listed in SIB Plant Table I that have been verified to be completed, net of associated retirements and placed in service per SIB Plant Table II and where costs have not been included in rate base for recovery."[5]

Q. As part of the POA what is considered SIB Eligible Plant?

A. SIB Eligible Plant must satisfy at least one of the following criteria[6]:

1. Water loss for the system exceeds ten (10) percent, as calculated by the following formula: ((Volume of Water Produced and/or Purchased) – (Volume of Water Sold + Volume of Water Put to Beneficial Use)) divided by (Volume of Water Produced and/or Purchased). If the Volume of Water Put to Beneficial Use is not metered, it shall be established in a reliable, verifiable manner.

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

[5] Company filed Plan of Administration Page 2, Part I General Description
[6] Company filed Plan of Administration Page 8, Part V (D)

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

    a. A documented increasing level of repairs to, or failures of, a plant asset justifying its replacement prior to reaching the end of its useful service life. (e.g. black poly pipe).

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

Q. Do the Paradise Valley, Sun City and Mohave Water Districts meet any of the criteria as described in EWAZ's POA?

A. (1) The water losses as reported by EWAZ in its 2013 Annual Report filed with the Commission identified 5.96 percent water loss for the Paradise Valley Water District, 6.63 percent water loss for the Sun City Water District and a 9.39 percent water loss for its Mohave Water District.[7] These districts do not qualify for SIB recovery under the first eligibility requirement, as identified in the Company's POA.

(2) Many of the plant assets have remained in service well beyond their useful service lives (authorized depreciation rates) as evidenced by the excess depreciation taken in many of the Company's plant accounts.[8] Now, because the Commission has approved a SIB recovery mechanism in every case where a SIB was requested EWAZ too, appears to be

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[7] See Attachment 2

[8] See Tim Coley's testimony. Excessive and Accumulated Depreciation

requesting recovery of capital expenditures that are normal and routine in nature and do not quality for special treatment. These districts do not qualify for SIB recovery under the second eligibility requirement, as identified in the Company's POA, and should not be awarded a SIB.

(3) The third eligible criteria is what could be referred to as a "catch all." Basically, the Company can request a SIB for any type of asset (i.e. vehicles, office furniture, etc.) if its repair costs increase, fails, or just needs replacement prior to reaching the end of its useful life. How did we go from addressing the Commission's concern of 10 percent or greater water loss to including just about any type of plant that needs to be repaired or replaced? I believe that requesting recovery through a catch all eligibility requirement truly stretches the purpose of the original DSIC as well as the SIB's eligibility requirements previously approved by the Commission. These districts do not qualify for SIB recovery under the third eligibility requirement.

In summary, the Company's SIB proposal fails to meet the criteria set forth in its Plan of Administration and should be denied.

Q. So basically, EWAZ does not qualify for a SIB mechanism under its own internally developed POA as filed in this case?

A. No, in my opinion they do not meet any of the SIB Eligible Plant qualifications as identified in their POA.

V. SIB ELIGIBLE PROJECTS

Q. Can you identify the SIB eligible plant accounts that the Company has identified in its request?

A. The Company has defined SIB Eligible Plant investments as recorded in SIB Eligible NARUC accounts:

NARUC Account No. 331--Transmission & Distribution Mains and Valves
NARUC Account No. 333--Services
NARUC Account No. 334--Meters

Q. In the Company's filing for a SIB mechanism can you please identify the water districts included and the amount of SIB requested?

A. Yes. The information included in the following Table summarizes the SIB request for each District by NARUC account number:

EPCOR WATER RATE FILING - SIB REQUESTS

Sun City Water System		Year 1	Year 2	Year 3	Year 4	Year 5	Five Year Total Costs
Service Lines	333	$ 650,232	$ -	$ 1,241,420	$ 1,256,363	$ 1,145,430	$ 4,293,445
Gate Valves	331	76,375	81,418	82,188	77,018	82,610	$ 399,609
Mains	331	1,005,087	1,680,440	471,483	349,698	575,162	$ 4,081,870
Meters	334	409,508	376,982	432,728	534,279	470,906	$ 2,224,403
TOTALS		$ 2,141,202	$ 2,138,840	$ 2,227,819	$ 2,217,358	$ 2,274,108	$ 10,999,327

Mohave Water System		Year 1	Year 2	Year 3	Year 4	Year 5	Five Year Total Costs
Service Lines	333	$ 1,063,339	$ 593,762	$ 395,842	$ 562,716	$ 399,722	$ 3,015,381
Gate Valves	331	212,819	217,439	225,289	229,658	226,763	$ 1,111,968
Mains	331	566,093	872,322	1,126,877	1,030,934	992,251	$ 4,588,477
Meters	334	266,908	314,733	298,679	263,074	368,099	$ 1,511,493
TOTALS		$ 2,109,159	$ 1,998,256	$ 2,046,687	$ 2,086,382	$ 1,986,835	$ 10,227,319

Paradise Valley Water Sys		Year 1	Year 2	Year 3	Year 4	Year 5	Five Year Total Costs
Service Lines	333	$ 813,727	$ 824,710	$ 930,283	$ 904,042	$ 761,957	$ 4,234,719
Gate Valves	331	203,628	225,795	242,691	204,380	229,975	$ 1,106,469
Mains	331	454,179	346,614	291,500	362,142	224,369	$ 1,678,804
Meters	334	-	-	-	-	-	$ -
TOTALS		$ 1,471,534	$ 1,397,119	$ 1,464,474	$ 1,470,564	$ 1,216,301	$ 7,019,992

TOTAL SIB ALL SYSTEMS		Year 1	Year 2	Year 3	Year 4	Year 5	Five Year Total Costs
Serviced Lines	333	$ 2,527,298	$ 1,418,472	$ 2,567,545	$ 2,723,121	$ 2,307,109	$ 11,543,545
Gate Valves	331	$ 492,822	$ 524,652	$ 550,168	$ 511,056	$ 539,348	$ 2,618,046
Mains	331	$ 2,025,359	$ 2,899,376	$ 1,889,860	$ 1,742,774	$ 1,791,782	$ 10,349,151
Meters	334	$ 676,416	$ 691,715	$ 731,407	$ 797,353	$ 839,005	$ 3,735,896
TOTALS		$ 5,721,895	$ 5,534,215	$ 5,738,980	$ 5,774,304	$ 5,477,244	$ 28,246,638

VI. SIB FINANCIAL ANALYSIS AND EFFECTS ON RATEPAYERS

Q Did the Company provide an explanation for its requesting a SIB mechanism?

A. Yes. In Ms. Coleman's testimony she explains why EWAZ is requesting a SIB mechanism in three of the districts included in this rate filing. In summary Ms. Coleman states that

"A SIB mechanism results in more gradual rate increases, which increases the time between rate cases and reduces their complexity. This will help to keep

EWAZ financially healthy, in turn, enabling it to attract the capital it needs to continue to provide safe and reliable water service."[9]

Q. Do you agree with Ms. Coleman's testimony that there will be more rate gradualism as a result of the SIB?

A. Yes. There is no doubt that rates will increase gradually between rate cases as a result of the SIB approval each year – but that comes at too high of a cost to ratepayers. Ratepayers will pay more in rates as a result of the SIB over time. For example, assume that the Commission approves a SIB surcharge in year two resulting from completion of SIB approved projects in year one. For the three subsequent years following the increase in rates the ratepayer will be paying the rate and return that was approved by the Commission as a SIB surcharge. After year five the company files a rate application and the cost of the SIB plant and the accumulation depreciation becomes part of the rate base when filing the rate case application. The cost of the SIB plant and accumulated depreciation that is included in rate base will be the same if the Company has been granted a SIB or has not been granted a SIB. As a result, the ratepayer has paid for three years a SIB surcharge and a return that would not have been incurred under traditional rate making principles.

[9] Direct Testimony of Candice Coleman, Page 2.

Q. What about the statement that a SIB would increase the time between rate cases and reduces their complexity?

A. I don't know that for a fact. The SIB mechanism approvals haven't been in existence long enough to make that a given. Even though "the Company shall be required to file its next general rate case no later than June 30, 2019, with a test year ending no later than December 31, 2018,"[10] there is nothing to prevent them from filing earlier. Time will tell.

Q. What about the final justification, that it will help keep EWAZ financially healthy, in turn, enabling it to attract the capital needs to continue to provide safe and reliable water service?

A. When capital improvements are made to utility plant in service they are typically paid for by debt, equity infusions or retained earnings. EWAZ has obtained long term-debt at a very attractive rate of 4.29 percent which is lower than the long term cost of debt for both Arizona Public Service Company (4.725 percent cost of long-term debt in their last rate case filing) and Tucson Electric Power Company (5.18 percent cost of long-term debt in their last rate case filing). In reviewing the financial statements of the proxy group of companies used for comparative purposes in RUCO's Cost of Capital analysis and testimony, EWAZ's cost of long term debt is considerably less.

[10] Company filed Plan of Administration, Page 5, Part III SIB Related Filings

The attraction of debt at reasonable rates for EWAZ is not an issue that needs to be addressed by the approval of a SIB mechanism.

As for EWAZ's retention of earnings that could be used to fund capital infrastructure improvements the Company has targeted 75 percent dividend distribution to shareholders. Since it initially acquired its predecessor on February 1, 2012, EWAZ has paid $23,962,545 in dividend payments to its shareholders. As previously discussed in my testimony the proxy group of Company's included in RUCO's Cost of Capital testimony have a dividend payout percentage of 54.94 percent of net income. EWAZ should and easily could retain a larger portion of its earnings in the company to maintain its existing infrastructure. The Commission should never consider side-stepping ratepayer safeguards where the situation does not require it.

Q. Do you believe that the Company needs a SIB in order to continue to provide safe and reliable water service?

A. No. Providing safe and reliable water service is automatically assumed by water utility companies and is inherent in the utility model. In the recent Chaparral Company's rate hearing the Company's engineer, Candace Coleman testified to the following:

> Q. Let me ask you, Ms. Coleman, why can't the company make the repairs and the improvements and then request recovery in the next rate case, which is the traditional way things are done?

A. We Could

To think that EWAZ needs to get approval of a SIB in order to provide safe and reliable water service is absurd.

Q. Has RUCO determined the annual effect on ratepayers if the SIB is awarded as requested?

A. EWAZ is requesting additional revenues of $2,952,370 over and above its original revenue request of $4,420,643 for the three water districts requesting a SIB mechanism. See following Table. Ratepayers will not get the benefit of operation and maintenance costs savings except for an immaterial 5 percent efficiency credit.[11]

DISTRICT	Year 1	Year 2	Year 3	Year 4	Year 5	Five Year Total SIB Rev.
Total SIB Revenues Over Five Year Period						
Sun City	$ 223,629	$ 216,580	$ 237,641	$ 197,947	$ 204,697	$ 1,080,493
Mohave Water	224,540	212,672	214,285	217,392	213,118	1,082,008
Paradise Valley	131,888	125,557	131,946	129,966	151,422	670,780
TOTAL SIB REVENUE	$ 580,057	$ 554,808	$ 583,872	$ 545,306	$ 569,237	$ 2,833,281

DISTRICT	Revenue Inc Requested In Rate Case	Five Year Total SIB Rev.
Sun City	$ 1,606,392	$ 1,080,493
Mohave Water	1,972,914	1,082,008
Paradise Valley	841,337	670,780
	$ 4,420,643	$ 2,833,281

For the three water districts that EWAZ has requested a SIB mechanism, they will collect an additional $2,952,370 without the benefit to ratepayers of a determination of fair value. Approximately a 67% additional increase in revenues

[11] See Schedule 2, Pages 1, 2 and 3 for RUCO's calculations by District

Q. Have you been able to assess the potential rate effects on the ratepayers in the Sun City, Mohave and Sun City Water Districts?

A. Yes. In reviewing the Table below you can see that the rate increase as requested by EWAZ in its rate application for its Sun City Water District is 20.69 percent for the residential ratepayer and an additional increase of 18.88 percent over the next five year period as its SIB request. The total increase over the five year period is 39.57 percent. For the Mohave Water System the initial rate increase requested in the rate filing is 43.92 percent for the residential ratepayer and an additional 21.50 percent if the SIB is approved. Total rate increase over the next five year period is 65.42 percent. Finally, the increase that the Paradise Valley Water District residential ratepayer will see, as requested by EWAZ, is 8.55 percent and the SIB will add as additional increase of 17.55 percent. Total increase in the Paradise Valley District over the five year period will be 26.11 percent.

MONTHLY RATE INCREASE FROM SIB MECHANISM

DISTRICT		Year 1	Year 2	Year 3	Year 4	Year 5
Sun City						
Current Base Rates	$ 17.35	$ 17.35	$ 17.35	$ 17.35	$ 17.35	$ 17.35
Requested Inc.	$ 3.59					
SIB Inc. over 5 years		$ 4.27	$ 4.92	$ 5.64	$ 6.24	$ 6.87
Requested Inc. in Rate Case Inc. SIB	**20.69%**	**24.59%**	**28.37%**	**32.51%**	**35.98%**	**39.57%**
Mohave						
Current Base Rates	$ 20.63	$ 20.63	$ 20.63	$ 20.63	$ 20.63	$ 20.63
Requested Inc.	$ 9.06					
SIB Inc. over 5 years		$ 9.98	$ 10.85	$ 11.73	$ 12.62	$ 13.50
Requested Inc. in Rate Case Inc. SIB	**43.92%**	**48.38%**	**52.60%**	**56.86%**	**61.19%**	**65.42%**
Paradise Valley						
Current Base Rates	$ 52.30	$ 52.30	$ 52.30	$ 52.30	$ 52.30	$ 52.30
Requested Inc.	$ 4.47					
SIB Inc. over 5 years		$ 6.28	$ 8.01	$ 9.82	$ 11.61	$ 13.66
Requested Inc. in Rate Case Inc. SIB	**8.55%**	**12.01%**	**15.31%**	**18.77%**	**22.19%**	**26.11%**

VII. SIB OTHER CONSIDERATIONS

Q. Does RUCO have concerns with the Company's POA[12], Part III SIB Related Filings, Section C, Lines 3, 4, 5 and 6?

A. Yes. RUCO has some concerns with the accuracy of the information that will be provided. While RUCO has concerns with Schedules A, B, and C as defined on Lines 3, 4 and 5, our primary concern is related to line 6. More specifically line 6 reads as follows: "SIB Schedule D (sample

[12] Company filed POA Section III, SIB Related Filings, Pages 3, 4, and 5

attached as Exhibit CC-4-D) which shall include an analysis of the impact of the SIB Eligible Plant on the fair value rate base, revenue, and the fair value rate of return. The Company shall also file the following:

a) the most current balance sheet at the time of filing;

b) the most current income statement;

c) an earning test schedule;

d) a rate review schedule (including the incremental and pro forma effect of the proposed increase);

e) an adjusted rate base schedule; and

f) a Construction Work in Progress ledger (for each project showing accumulation of charges by month and paid vendor invoices).

Q. **Why does RUCO have a concern with the detailed information that the Company has proposed providing to support its SIB request?**

A. EWAZ filed its rate application in this case on March 10, 2014, and the application was found to be sufficient on April 3, 2014. On April 15, 2014 RUCO issued its first Data Request (DR) and requested specific plant related information and details. (DR # 1.52). EWAZ first responded to this DR on May 12, 2014. The Company's response was substantially incomplete. RUCO issued its first follow up request on May 14, 2014 to obtain the missing information. After requesting the same information on a number of different occasions, RUCO filed a Motion to Compel which was withdrawn in good faith on July 18, 2014, after receiving the requested information and assuming the response was correct and complete. RUCO was mistaken[13]. On August 20, 2014, RUCO filed a Motion to Continue all Procedural Deadlines, Continue the Hearing, and for Tolling of the Rate Case Time-Clock ("Motion"). In its Motion, RUCO asserted that the Company's responses to certain of RUCO's data requests have been inadequate and, as a result, RUCO was unable to adequately prepare testimony in this proceeding by the then current filing deadline October 3, 2014. RUCO requested that the due date for filing intervenor testimony be extended by 120 days, that all other procedural deadlines and the hearing date be extended accordingly, and that the time clock be extended by 120 days. Finally on October 16, 2014, a Procedural Conference was held and on October 18, 2014, a Procedural Order was issued extending filing deadlines and revising the hearing dates. It should be noted that the Commission Staff was in full agreement with RUCO's request for the 120 day extension. It should be further noted that EWAZ's plant schedules were accepted by both RUCO and Staff on October 16, 2014, an hour before the Procedural Conference was held.

From the time that RUCO first requested detailed plant schedules on April 15, 2014, until the time the plant schedules were considered correct, October 16, 2014, six months had elapsed. RUCO and Staff worked

[13] Given the amount of information and the level of detail, it took RUCO several weeks to analyze the information and determine whether it was correct and responsive. Given the amount of time to review the material, RUCO agreed to withdraw its Motion with the understanding that further action would be taken if necessary.

numerous hours with the Company, had many phone conversations with appropriate Company personnel, and traded schedules back and forth in assisting the Company in getting their plant schedules as accurate as possible. Given this history, RUCO cannot put total reliance that all balances as shown on the plant schedules will be completely accurate[14].

Q. If RUCO spent a significant amount of time in assisting EWAZ in getting their plant schedules filed, why is there concern going forward?

A. As stated, we cannot put total reliance that the balances will be completely correct. RUCO is concerned that the information to be filed in SIB Schedule D that includes an analysis of the impact of the SIB Eligible Plant on the fair value rate base, revenue, and fair value rate of return, will not be accurate and correct. This is the most critical schedule supporting a SIB rate surcharge and basically there are still questions as to the accuracy of future filings.

VIII. SIB CONCLUSION

Q. Can you please summarize RUCO's reasons for recommending the SIB mechanism not be approved in EWAZ rate application?

A. In summary, RUCO has taken exception to a SIB and/or CSIB mechanism in prior applications for the following reasons: (1) that the SIB

[14] See Tim Coley's testimony on Utility Plant in Service and Accumulated Depreciation

inappropriately shifts risk from the Company to ratepayers without adequate financial consideration to the ratepayer; (2) the SIB is not an adjustor mechanism; (3) the SIB will increase the Company's fair value rate base without any determination of fair value; (4) the Company has not requested interim rates; (5) the SIB is not in the public interest; and (6) the particular circumstances of each case. In EWAZ's request for a SIB, RUCO has also identified additional reasons why the three districts requesting a SIB should not be approved. The additional reasons include; (1) EWAZ does not meet the SIB Eligible Plant criteria as identified in its Plan of Administration ("POA"); (2) RUCO takes exception to EWAZ's explanation for its requesting a SIB mechanism; (3) if the Arizona Corporation Commission ("ACC" or "Commission") approves a SIB mechanism rates will increase an additional 18.9 percent, 21.5 percent, and 17.6 percent, over and above the rates approved in the rate case, in the Sun City, Mohave and Paradise Valley Water Districts, respectively.

Q. Mr. Mease, do you believe that the Arizona ratepayers in the Sun City, Tubac, Paradise Valley, Districts and the Mohave Wastewater District are aware that over $24 million has been remitted to EWAZ's parent as dividends since they took ownership on February 1, 2012?

A. No. After attending several public meetings it became clear to me that some are but the majority are not aware of this.

Q. Do you think that these same ratepayers are aware that these dividend payments are well above the average dividend payments, as a percentage of net income, made by publicly traded water and wastewater companies in the United States?

A. No.

Q. Do you think that these same ratepayers are aware that the rates they are currently paying are helping the City of Edmonton by keeping "property taxes 25 percent below where they would otherwise have to be" and that "EPCOR was a cash cow, and it was keeping the City of Edmonton well fed"?[15]

A. No.

Q. Mr. Mease, do you believe that the Arizona ratepayers in the Sun City, Tubac, Paradise Valley Water Districts and the Mohave Water and Wastewater District are aware that the rates they are paying today are helping to enrich the citizens of Edmonton, Canada?

A. No.

[15] Attachment 3 "Business Person of the Year: Don Lowry, EPCOR

Q. Do you believe that the ACC should protect the Arizona ratepayers' interests, rather than protecting the interests of the citizen's living in the City Edmonton, when making their final decision regarding the approval of a SIB?

A. Absolutely.

Q. Do you believe the ACC should reject the Company's application for a SIB in this case?

A. Yes. The Commission not only has the responsibility to ensure that utility companies operating in Arizona are financially heathy, they also have the responsibility to protect the ratepayers residing in Arizona. I am certain that the Commission will fulfill their fiduciary responsibility and will not award EWAZ a SIB mechanism in this case. It is apparent that EWAZ is not experiencing excessive water loss in the Districts requesting a SIB, EWAZ is financially healthy as a total Company, EWAZ is paying excessive dividends to its parent and the SIB does not meet the criteria as set forth in its Plan of Administration filed with its application.

Q. Does this conclude your testimony regarding the approval of a SIB mechanism?

A. Yes.

ATTACHMENT 1

ATTACHMENT 1

ROBERT B. MEASE, CPA
Education and Professional Qualifications

EDUCATION

Bachelors Degree Business Administration / Accounting - Morris Harvey College.

Attended West Virginia School of Graduate Studies and studied Accounting and Public Administration

Attended numerous courses and seminars for Continuing Professional Educational purposes.

WORK EXPERIENCE

Controller
Knives of Alaska, Inc., Diamond Blade, LLC, and Alaska Expedition Company.

Financial Manager / CFO
All Saints Camp & Conference Center

Energy West, Inc.
Vice President, Controller

- Led team that succeeded in obtaining a $1.5 million annual utility rate increase
- Coached accountants for proper communication techniques with Public Service Commission, supervised 9 professional accountants
- Developed financial models used to negotiate an $18 million credit line
- Responsible for monthly, quarterly and annual financial statements for internal and external purposes, SEC filings on a quarterly and annual basis, quarterly presentations to Board of Directors and shareholders during annual meetings, coordinated annual audit
- Communication with senior management team, supervised accounting staff and resolved all accounting issues, reviewed expenditures related to capital projects
- Monitored natural gas prices and worked with senior buyers to ensure optimal price obtained

Junkermier, Clark, Campanella, Stevens
Consulting Staff

- Established a consulting practice that generated approximately $160k the first year of existence
- Prepared business plan and projections for inclusion in clients financing documents
- Prepared written reports related to consulting engagements performed
- Developed models used in financing documents and made available for other personnel to use
- Performed Profit Enhancement engagements
- Participated during audit of large manufacturing client for two reporting years

Prior to 1999, held various positions: TMC Sales, Inc. as **Vice President / Controller**, with American Agri-Technology Corporation as **Vice President / CFO** and with Union Carbide Corporation as A**ccounting Manager. (Union Carbide was a multi-national Fortune 500 Company that was purchased by Dow Chemical)**

PROFESSIONAL AFFILIATIONS
Past Member - Institute of Management Accountants
Member - American Institute of CPA's
Member – Society of Utility and Regulatory Financial Analysts
Past Member –WV Society of CPA's and Montana Society of CPA's

RESUME OF RATE CASE AND REGULATORY PARTICIPATION WITH RUCO

Utility Company	Docket No.
Arizona Water Company (Eastern Group)	W-01445A-11-0310
Pima Utility Company	W-02199A-11-0329 et al.
Tucson Electric Power Company	E-01933A-12-0291
Arizona Water Company (Northern Group)	W-01445A-12-0348
UNS Electric	E-04204A-12-0504
Global Water	W-01212A-12-0309 et al.
LPSCO	SW-01428A-13-0042 et al.
Johnson Utilities	WS-02987A-13-0477
APS	E-01345A-11-0224
Utility Source, LLC	WS-04235A-13-0331
EPCOR Water Arizona, Inc.	WS-01303A-14-0010

ATTACHMENT 2

COMPANY NAME	EPCOR WATER	
Name of System: Sun City	ADEQ Public Water System Number:	04-07-099

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2013

		A	B	C	D	E	F
MONTH	NUMBER OF CUSTOMERS	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)	TOTAL PRODUCTION	GALLONS AUTHORIZED UNBILLED (Thousands)	GALLONS SOLD (Thousands)	% NON-ACCOUNT WATER (Thousands)
							=(C-D-E)/C
JANUARY	22,881	264,239	-	264,239	849	229,426	12.85%
FEBRUARY	22,868	232,225	-	232,225	1,554	235,775	-2.20%
MARCH	22,922	291,840	-	291,840	1,181	219,282	24.46%
APRIL	22,880	328,289	-	328,289	736	265,190	19.00%
MAY	22,853	409,387	-	409,387	1,057	318,500	21.94%
JUNE	22,860	451,946	-	451,946	743	406,473	9.90%
JULY	22,855	465,937	-	465,937	748	411,022	11.63%
AUGUST	22,849	442,606	-	442,606	925	443,518	-0.42%
SEPTEMBER	22,848	343,862	-	343,862	502	434,941	-26.63%
OCTOBER	22,860	415,992	-	415,992	677	296,359	28.60%
NOVEMBER	22,869	308,630	-	308,630	789	410,197	-33.16%
DECEMBER	22,886	272,509	-	272,509	663	265,984	2.15%
	TOTALS ->	4,227,462	0	4,227,462	10,424	3,936,667	6.63%

What is the level of arsenic for each well on your system. __________mg/l
(If more than one well, please list each separately) - **See attached**

If system has fire hydrants, what is the fire flow requirement? ______GPM for ______ hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
( ) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
(X) Yes ( ) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
(X) Yes ( ) No

If yes, provide the GPCPD amount: 255*

*Estimate

EPCOR Water
Central Division - Sun City (07-099)
Unaccounted For Water - 2013

	Description	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
		Quantity of Water (Kgal)												
A	**Gallons Pumped**													
	Water Treatment													
	Wells	264,239	232,225	291,840	328,289	409,387	451,946	465,937	442,606	343,862	415,992	308,630	272,509	**4,227,462**
B	**Gallons Purchased**													
C	**Total Production**	**264,239**	**232,225**	**291,840**	**328,289**	**409,387**	**451,946**	**465,937**	**442,606**	**343,862**	**415,992**	**308,630**	**272,509**	**4,227,462**
	Authorized Unbilled/Consumption													
	In-Plant Usage		711	302	247	61	194	236	272	3	4	2		**2,032**
	Mixing Chemicals - Field													
	Well Pumped Waste	42		84	35	511	91		137		220	115	116	**1,351**
	Flushing Mains	7	27							20		50	13	**117**
	Identified Fire Usage													
	Vandalism													
	Street Cleaning	10						36	32	3				**81**
	Draining Storage Tanks	350	310	334							40	210	100	**1,344**
	Online Analyzers & Chlorinators	402	402	402	402	402	402	402	402	402	402	402	402	**4,824**
	Field Meter Testing													
	Fire Hydrant Maintenance	38	94	59	6	3		4	2		11			**217**
	Flushing Sewer Mains		10		46	80	56	70	80	74		10	32	**458**
D	**Total Water Losses**	**849**	**1,554**	**1,181**	**736**	**1,057**	**743**	**748**	**925**	**502**	**677**	**789**	**663**	**10,424**
E	**Gallons Sold**													
	Residential	183,145	187,176	170,956	204,144	244,457	313,519	317,559	340,086	326,613	222,586	327,970	215,269	**3,053,480**
	Commercial	45,796	48,059	47,857	60,696	73,567	92,716	93,146	103,142	107,215	72,986	81,773	50,457	**877,410**
	Industrial													
	Fire Service													
	OPA													
	Resale													
	Miscellaneous	485	540	469	350	476	238	317	290	1,113	787	454	258	**5,777**
	Total Sales	**229,426**	**235,775**	**219,282**	**265,190**	**318,500**	**406,473**	**411,022**	**443,518**	**434,941**	**296,359**	**410,197**	**265,984**	**3,936,667**
F	**Non-Account Water**													
	Gallons =C-D-E	33,964	(5,104)	71,377	62,363	89,830	44,730	54,167	(1,837)	(91,581)	118,956	(102,356)	5,862	280,371
	Percentage =(C-D-E)/C	12.85%	-2.20%	24.46%	19.00%	21.94%	9.90%	11.63%	-0.42%	-26.63%	28.60%	-33.16%	2.15%	6.63%

Negative numbers indicate quantity or percentage above production or 100%

COMPANY NAME	EPCOR WATER	
Name of System: Paradise Valley	ADEQ Public Water System Number:	04-07-056

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2013

		A	B	C	D	E	F
					GALLONS		%
MONTH	NUMBER OF CUSTOMERS	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)	TOTAL PRODUCTION	AUTHORIZED UNBILLED (Thousands)	GALLONS SOLD (Thousands)	NON-ACCOUNT WATER (Thousands)
							=(C-D-E)/C
JANUARY	4,854	187,680	-	187,680	147	169,282	9.72%
FEBRUARY	4,855	174,164	-	174,164	165	158,197	9.07%
MARCH	4,859	212,921	-	212,921	233	144,530	32.01%
APRIL	4,860	269,467	-	269,467	157	187,332	30.42%
MAY	4,851	339,812	-	339,812	1,057	258,323	23.67%
JUNE	4,861	379,243	-	379,243	187	354,731	6.41%
JULY	4,866	374,271	-	374,271	197	355,539	4.95%
AUGUST	4,874	363,510	-	363,510	189	362,876	0.12%
SEPTEMBER	4,872	297,990	-	297,990	347	364,882	-22.56%
OCTOBER	4,876	333,818	-	333,818	497	254,484	23.62%
NOVEMBER	4,875	235,467	-	235,467	164	333,598	-41.74%
DECEMBER	4,880	186,526	-	186,526	88	207,576	-11.33%
	TOTALS ->	3,354,869	-	3,354,869	3,428	3,151,350	5.96%

What is the level of arsenic for each well on your system. ____________mg/l
(If more than one well, please list each separately)

Well PCX-1	no longer on system
Well 11	0.008
Well 12	0.007
Well 12b	0.007
Well 14	0.006
Well 15	0.005
Well 16	0.008
Well 17	0.007

If system has fire hydrants, what is the fire flow requirement? 1500 GPM for 1 hr

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
(X) Yes ( ) No

Does the Company have An ADWR Gallons Per Capita Per Day (GPCPD) requirement?
(X) Yes ( ) No

If yes, provide the GPCPD amount: 1010*

*Estimate

EPCOR Water
Eastern Division - Paradise Valley Water District
Unaccounted For Water - 2013

	Description		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
			Quantity of Water (Kgal)												
A	**Gallons Pumped**														
	Water Treatment														
	Wells		187,680	174,164	212,921	269,467	339,812	379,243	374,271	363,510	297,990	333,818	235,467	186,526	3,354,869
B	**Gallons Purchased**														
C	**Total Production**		**187,680**	**174,164**	**212,921**	**269,467**	**339,812**	**379,243**	**374,271**	**363,510**	**297,990**	**333,818**	**235,467**	**186,526**	**3,354,869**
	Authorized Unbilled/Consumption														
	In-Plant Usage		13	12	13	13	13	13	13	13	13	13	12		142
	Mixing Chemicals - Field						2	1							3
	Well Pumped Waste														
	Flushing Mains			27	86	8	39	44	50	22	65	85	26	88	540
	Identified Fire Usage														
	Vandalism														
	Street Cleaning					7									7
	Draining Storage Tanks						870								870
	Online Analyzers & Chlorinators		134	121	134	129	134	129	134	134	124	134	116		1,420
	Field Meter Testing														
	Fire Hydrant Maintenance			5						20	145	265	10		445
	Flushing Sewer Mains														
D	**Total Authorized Unbilled/Consumption**		**147**	**165**	**233**	**157**	**1,057**	**187**	**197**	**189**	**347**	**497**	**164**	**88**	**3,427**
	Gallons Sold														
	Residential		124,773	115,000	100,330	128,236	172,147	246,342	247,431	262,071	261,375	188,367	238,219	155,194	2,239,485
	Commercial		43,808	42,435	43,610	58,430	84,678	105,878	105,312	98,040	100,641	64,020	93,430	51,459	891,741
	Industrial														0
	Fire Service		61	79	67	63	48	27	21	21	40	12	16	16	471
	OPA		219	230	75	114	815	1,790	2,085	1,877	1,752	1,424	1,155	276	11,812
	Resale		353	378	357	387	518	520	461	565	735	419	486	464	5,643
	Miscellaneous		68	75	91	102	117	174	229	302	339	242	292	167	2,198
E	**Total Sales**		**169,282**	**158,197**	**144,530**	**187,332**	**258,323**	**354,731**	**355,539**	**362,876**	**364,882**	**254,484**	**333,598**	**207,576**	**3,151,350**
F	**Non-Account Water**														
	Gallons	=C-D-E	18,251	15,802	68,158	81,978	80,432	24,325	18,535	445	(67,239)	78,837	(98,295)	(21,138)	200,092
	Percentage	=(C-D-E)/C	9.72%	9.07%	32.01%	30.42%	23.67%	6.41%	4.95%	0.12%	(22.56%)	23.62%	(41.74%)	(11.33%)	5.96%

Negative numbers indicate quantity or percentage above production or 100%

COMPANY NAME	EPCOR WATER	
Name of System: Mohave	ADEQ Public Water System Number:	04-08-032

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2013

		A	B	C	D	E	F
MONTH	NUMBER OF CUSTOMERS	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)	TOTAL PRODUCTION	GALLONS AUTHORIZED UNBILLED (Thousands)	GALLONS SOLD (Thousands)	% NON-ACCOUNT WATER (Thousands)
							=(C-D-E)/C
JANUARY	14,341	132,341		132,341	7,207	105,042	15.18%
FEBRUARY	14,359	117,255	(239)	117,016	5,966	109,041	1.72%
MARCH	14,318	139,102		139,102	3,860	103,062	23.13%
APRIL	14,339	142,950		142,950	2,994	120,386	13.69%
MAY	14,332	157,642		157,642	3,205	134,551	12.61%
JUNE	14,365	172,222		172,222	4,288	154,228	7.96%
JULY	14,350	179,898		179,898	5,773	154,745	10.77%
AUGUST	14,326	171,249		171,249	5,980	160,167	2.98%
SEPTEMBER	14,305	150,810		150,810	6,579	143,266	0.64%
OCTOBER	14,328	146,463		146,463	4,927	121,817	13.46%
NOVEMBER	14,350	124,774		124,774	2,682	127,376	-4.23%
DECEMBER	14,329	130,346		130,346	4,222	107,749	14.10%
	TOTALS ->	**1,765,052**	**(239)**	**1,764,813**	**57,683**	**1,541,430**	**9.39%**

What is the level of arsenic for each well on your system. __________mg/l
(If more than one well, please list each separately)

If system has fire hydrants, what is the fire flow requirement? 1,000 GPM for 2 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have An ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: N/A

EPCOR Water
Eastern Division - Mohave Water District - Bullhead City (08-032)
Unaccounted For Water - 2013

	Description	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
		Quantity of Water (Kgal)												
A	**Gallons Pumped**													
	Water Treatment													
	Wells	132,341	117,255	139,102	142,950	157,642	172,222	179,898	171,249	150,810	146,463	124,774	130,346	1,765,052
B	**Gallons Purchased**		(239)											(239)
C	**Total Production**	**132,341**	**117,016**	**139,102**	**142,950**	**157,642**	**172,222**	**179,898**	**171,249**	**150,810**	**146,463**	**124,774**	**130,346**	**1,764,813**
	Authorized Unbilled/Consumption													
	In-Plant Usage													
	Mixing Chemicals - Field													
	Well Pumped Waste													
	Flushing Mains	7,091	5,855	3,749	2,868	3,068	4,154	5,622	5,443	6,363	4,681	2,682	4,222	55,798
	Identified Fire Usage	116	111	111	126	137	134	151	437	116	246			1,685
	Vandalism													
	Street Cleaning													
	Draining Storage Tanks								100	100				200
	Online Analyzers & Chlorinators													
	Field Meter Testing													
	Fire Hydrant Maintenance													
	Flushing Sewer Mains													
D	**Total Authorized Unbilled/Consumption**	**7,207**	**5,966**	**3,860**	**2,994**	**3,205**	**4,288**	**5,773**	**5,980**	**6,579**	**4,927**	**2,682**	**4,222**	**57,683**
	Gallons Sold													
	Residential	76,098	79,160	74,470	87,020	96,345	112,184	114,029	115,192	104,846	85,967	89,613	74,494	1,109,418
	Commercial	17,673	18,185	17,747	20,240	23,501	25,829	24,658	28,905	27,485	22,583	23,738	20,847	271,391
	Industrial													
	Fire Service													
	OPA	4,262	4,555	4,185	6,148	8,148	9,613	10,164	10,021	8,788	7,223	7,365	5,133	85,605
	Resale													
	Miscellaneous	7,009	7,141	6,660	6,978	6,557	6,602	5,894	6,049	2,147	6,044	6,660	7,275	75,016
E	**Total Sales**	**105,042**	**109,041**	**103,062**	**120,386**	**134,551**	**154,228**	**154,745**	**160,167**	**143,266**	**121,817**	**127,376**	**107,749**	**1,541,430**
F	**Non-Account Water**													
	Gallons =C-D-E	20,092	2,009	32,180	19,570	19,886	13,706	19,380	5,102	965	19,719	(5,284)	18,375	165,700
	Percentage =(C-D-E)/C	15.18%	1.72%	23.13%	13.69%	12.61%	7.96%	10.77%	2.98%	0.64%	13.46%	(4.23%)	14.10%	9.39%

Negative numbers indicate quantity or percentage above production or 100%

COMPANY NAME	EPCOR WATER	
Name of System: Camp Mohave	ADEQ Public Water System Number:	04-08-037

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2013

		A	B	C	D	E	F
MONTH	NUMBER OF CUSTOMERS	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)	TOTAL PRODUCTION	GALLONS AUTHORIZED UNBILLED (Thousands)	GALLONS SOLD (Thousands)	% NON-ACCOUNT WATER (Thousands)
							=(C-D-E)/C
JANUARY	77	1,215		1,215	160	979	6.26%
FEBRUARY	77	949	239	1,188	-	1,205	-1.43%
MARCH	77	1,096		1,096	120	817	14.51%
APRIL	78	1,268		1,268	170	1,028	5.52%
MAY	77	1,312		1,312	109	1,213	-0.76%
JUNE	79	1,547		1,547		1,546	0.06%
JULY	76	1,589		1,589		1,752	-10.26%
AUGUST	75	1,523		1,523	50	1,471	0.13%
SEPTEMBER	75	1,358		1,358		1,162	14.43%
OCTOBER	72	1,316		1,316	38	1,283	-0.38%
NOVEMBER	69	1,116		1,116		1,273	-14.07%
DECEMBER	70	1,199		1,199		1,100	8.26%
	TOTALS ->	15,488	239	15,727	647	14,829	1.60%

What is the level of arsenic for each well on your system. __________mg/l
(If more than one well, please list each separately)

If system has fire hydrants, what is the fire flow requirement? 1,000 GPM for 2 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have An ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: N/A

EPCOR Water
Eastern Division - Mohave Water District - Camp Mohave (08-037)
Unaccounted For Water - 2013

	Description		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
			Quantity of Water (Kgal)												
A	**Gallons Pumped**														
	Water Treatment														
	Wells		1,215	949	1,096	1,268	1,312	1,547	1,589	1,523	1,358	1,316	1,116	1,199	15,488
B	**Gallons Purchased**			239											239
C	**Total Production**		**1,215**	**1,188**	**1,096**	**1,268**	**1,312**	**1,547**	**1,589**	**1,523**	**1,358**	**1,316**	**1,116**	**1,199**	**15,727**
	Authorized Unbilled/Consumption														
	In-Plant Usage														
	Mixing Chemicals - Field														
	Well Pumped Waste														
	Flushing Mains		160		120	170	109			50					609
	Identified Fire Usage											38			38
	Vandalism														
	Street Cleaning														
	Draining Storage Tanks														
	Online Analyzers & Chlorinators														
	Field Meter Testing														
	Fire Hydrant Maintenance														
	Flushing Sewer Mains														
D	**Total Authorized Unbilled/Consumption**		**160**	**0**	**120**	**170**	**109**	**0**	**0**	**50**	**0**	**38**	**0**	**0**	**647**
	Gallons Sold														
	Residential		172	172	176	236	306	437	435	305	211	221	266	195	3,132
	Commercial		807	1,033	641	792	907	1,109	1,317	1,166	951	1,062	1,007	905	11,697
	Industrial														
	Fire Service														
	OPA														
	Resale														
	Miscellaneous														
E	**Total Sales**		**979**	**1,205**	**817**	**1,028**	**1,213**	**1,546**	**1,752**	**1,471**	**1,162**	**1,283**	**1,273**	**1,100**	**14,829**
F	**Non-Account Water**														
	Gallons	=C-D-E	76	(17)	159	70	(10)	1	(163)	2	196	(5)	(157)	99	251
	Percentage	=(C-D-E)/C	6.26%	(1.43%)	14.51%	5.52%	(0.76%)	0.06%	(10.26%)	0.13%	14.43%	(0.38%)	(14.07%)	8.26%	1.60%

Negative numbers indicate quantity or percentage above production or 100%

COMPANY NAME	EPCOR WATER	
Name of System: Lake Mohave	ADEQ Public Water System Number:	04-08-062

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2013

		A	B	C	D	E	F
MONTH	NUMBER OF CUSTOMERS	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)	TOTAL PRODUCTION	GALLONS AUTHORIZED UNBILLED (Thousands)	GALLONS SOLD (Thousands)	% NON-ACCOUNT WATER (Thousands)
							=(C-D-E)/C
JANUARY	268	1,949	-	1,949	636	1,392	-4.05%
FEBRUARY	269	1,571	-	1,571	85	1,546	-3.82%
MARCH	271	1,894	-	1,894	189	1,208	26.24%
APRIL	268	1,974	-	1,974	84	1,552	17.12%
MAY	269	2,225	-	2,225	75	1,628	23.46%
JUNE	271	2,467	-	2,467	340	2,253	-5.11%
JULY	272	2,440	-	2,440		2,060	15.57%
AUGUST	291	2,260	-	2,260		2,222	1.68%
SEPTEMBER	272	2,134	-	2,134	130	2,165	-7.54%
OCTOBER	272	2,083	-	2,083	400	1,721	-1.82%
NOVEMBER	271	1,807	-	1,807		1,714	5.15%
DECEMBER	269	1,733	-	1,733	101	1,663	-1.79%
	TOTALS ->	24,537	0	24,537	2,040	21,124	5.60%

What is the level of arsenic for each well on your system. __________mg/l
(If more than one well, please list each separately)

If system has fire hydrants, what is the fire flow requirement? 1,000 GPM for 2 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have An ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: N/A

EPCOR Water
Eastern Division - Mohave Water District - Lake Mohave Highlands (08-062)
Operational Activity - 2013

	Description		Quantity of Water (Kgal)												
			JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
A	**Gallons Pumped**														
	Water Treatment														
	Wells		1,949	1,571	1,894	1,974	2,225	2,467	2,440	2,260	2,134	2,083	1,807	1,733	24,537
B	**Gallons Purchased**														
C	**Total Production**		**1,949**	**1,571**	**1,894**	**1,974**	**2,225**	**2,467**	**2,440**	**2,260**	**2,134**	**2,083**	**1,807**	**1,733**	**24,537**
	Authorized Unbilled/Consumption														
	In-Plant Usage														
	Mixing Chemicals - Field														
	Well Pumped Waste														
	Flushing Mains		636	65	189	84	75	290			130	400		101	1,970
	Identified Fire Usage														
	Vandalism														
	Street Cleaning														
	Draining Storage Tanks							50							50
	Online Analyzers & Chlorinators														
	Field Meter Testing			20											20
	Fire Hydrant Maintenance														
	Flushing Sewer Mains														
D	**Total Authorized Unbilled/Consumption**		**636**	**85**	**189**	**84**	**75**	**340**			**130**	**400**		**101**	**2,040**
	Gallons Sold														
	Residential		1,371	1,522	1,202	1,513	1,605	2,214	2,034	2,180	2,122	1,658	1,646	1,615	20,682
	Commercial		15	23	6	39	23	39	26	42	43	63	68	48	435
	Industrial														
	Fire Service														
	OPA														
	Resale														
	Miscellaneous		6	1											7
E	**Total Sales**		**1,392**	**1,546**	**1,208**	**1,552**	**1,628**	**2,253**	**2,060**	**2,222**	**2,165**	**1,721**	**1,714**	**1,663**	**21,124**
F	**Non-Account Water**														
	Gallons	=C-D-E	(79)	(60)	497	338	522	(126)	380	38	(161)	(38)	93	(31)	1,373
	Percentage	=(C-D-E)/C	(4.05%)	(3.82%)	26.24%	17.12%	23.46%	(5.11%)	15.57%	1.68%	(7.54%)	(1.82%)	5.15%	(1.79%)	5.60%

Negative numbers indicate quantity or percentage above production or 100%

COMPANY NAME	EPCOR WATER	
Name of System: Desert Foothills	ADEQ Public Water System Number:	04-08-137

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2013

MONTH	NUMBER OF CUSTOMERS	A GALLONS PUMPED (Thousands)	B GALLONS PURCHASED (Thousands)	C TOTAL PRODUCTION	D GALLONS AUTHORIZED UNBILLED (Thousands)	E GALLONS SOLD (Thousands)	F % NON-ACCOUNT WATER (Thousands)
							=(C-D-E)/C
JANUARY	1,056	16,545	-	16,545	1,140	13,900	9.10%
FEBRUARY	1,056	15,066	-	15,066	379	13,326	9.03%
MARCH	1,059	18,966	-	18,966		13,647	28.04%
APRIL	1,059	19,458	-	19,458	385	17,369	8.76%
MAY	1,060	23,391	-	23,391	151	18,521	20.17%
JUNE	1,061	24,893	-	24,893	5	23,416	5.91%
JULY	1,061	26,334	-	26,334	52	22,779	13.30%
AUGUST	1,067	25,486	-	25,486	135	26,122	-3.03%
SEPTEMBER	1,065	21,454	-	21,454	3	20,628	3.84%
OCTOBER	1,060	22,377	-	22,377	7	17,031	23.86%
NOVEMBER	1,062	21,454	-	21,454		13,244	38.27%
DECEMBER	1,060	17,984	-	17,984	206	14,997	15.46%
	TOTALS ->	253,408	0	253,408	2,463	214,980	14.19%

What is the level of arsenic for each well on your system. __________mg/l
(If more than one well, please list each separately)

If system has fire hydrants, what is the fire flow requirement? 1,000 GPM for 2 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have An ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: N/A

EPCOR Water

Eastern Division - Mohave Water District - Desert Foothills Estates (08-137)

Unaccounted For Water - 2013

	Description		Quantity of Water (Kgal)												
			JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
A	**Gallons Pumped**														
	Water Treatment														
	Wells		16,545	15,066	18,966	19,458	23,391	24,893	26,334	25,486	21,454	22,377	21,454	17,984	253,408
B	**Gallons Purchased**														
C	**Total Production**		**16,545**	**15,066**	**18,966**	**19,458**	**23,391**	**24,893**	**26,334**	**25,486**	**21,454**	**22,377**	**21,454**	**17,984**	**253,408**
	Authorized Unbilled/Consumption														
	In-Plant Usage														
	Mixing Chemicals - Field														
	Well Pumped Waste														
	Flushing Mains		1,140	379		385	1	5	32	135	3			206	2,286
	Identified Fire Usage						150		20			7			177
	Vandalism														
	Street Cleaning														
	Draining Storage Tanks														
	Online Analyzers & Chlorinators														
	Field Meter Testing														
	Fire Hydrant Maintenance														
	Flushing Sewer Mains														
D	**Total Authorized Unbilled/Consumption**		**1,140**	**379**	**0**	**385**	**151**	**5**	**52**	**135**	**3**	**7**	**0**	**206**	**2,463**
	Gallons Sold														
	Residential		11,850	11,594	11,531	14,474	14,832	18,518	19,021	20,739	16,695	13,182	11,286	12,609	176,331
	Commercial		2,050	1,732	2,116	2,895	3,689	4,898	3,758	5,383	3,933	3,849	1,958	2,388	38,649
	Industrial														
	Fire Service														
	OPA														
	Resale														
	Miscellaneous														
E	**Total Sales**		**13,900**	**13,326**	**13,647**	**17,369**	**18,521**	**23,416**	**22,779**	**26,122**	**20,628**	**17,031**	**13,244**	**14,997**	**214,980**
F	**Non-Account Water**														
	Gallons	=C-D-E	1,505	1,361	5,319	1,704	4,719	1,472	3,503	(771)	823	5,339	8,210	2,781	35,965
	Percentage	=(C-D-E)/C	9.10%	9.03%	28.04%	8.76%	20.17%	5.91%	13.30%	(3.03%)	3.84%	23.86%	38.27%	15.46%	14.19%

Negative numbers indicate quantity or percentage above production or 100%

COMPANY NAME	EPCOR WATER	
Name of System: Arizona Gateway	ADEQ Public Water System Number:	04-08-163

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2013

		A	B	C	D	E	F
MONTH	NUMBER OF CUSTOMERS	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)	TOTAL PRODUCTION	GALLONS AUTHORIZED UNBILLED (Thousands)	GALLONS SOLD (Thousands)	% NON-ACCOUNT WATER (Thousands)
							=(C-D-E)/C
JANUARY	8	360	-	360		313	13.06%
FEBRUARY	8	347	-	347	116	342	-31.99%
MARCH	8	382	-	382		329	13.87%
APRIL	8	527	-	527		456	13.47%
MAY	8	747	-	747		641	14.19%
JUNE	8	554	-	554		529	4.51%
JULY	8	724	-	724	75	659	-1.38%
AUGUST	8	731	-	731		713	2.46%
SEPTEMBER	8	442	-	442		571	-29.19%
OCTOBER	8	698	-	698		471	32.52%
NOVEMBER	8	676	-	676		726	-7.40%
DECEMBER	8	331	-	331	50	395	-34.44%
	TOTALS ->	6,519	0	6,519	241	6,145	2.04%

What is the level of arsenic for each well on your system. __________mg/l
(If more than one well, please list each separately)

If system has fire hydrants, what is the fire flow requirement? 1,000 GPM for 2 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have An ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: N/A

EPCOR Water
Eastern Division - Mohave Water District - AZ Gateway (08-163)
Unaccounted For Water - 2013

	Description		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
			Quantity of Water (Kgal)												
A	**Gallons Pumped**														
	Water Treatment														
	Wells		360	347	382	527	747	554	724	731	442	698	676	331	6,519
B	**Gallons Purchased**														
C	**Total Production**		**360**	**347**	**382**	**527**	**747**	**554**	**724**	**731**	**442**	**698**	**676**	**331**	**6,519**
	Authorized Unbilled/Consumption														
	In-Plant Usage														
	Mixing Chemicals - Field														
	Well Pumped Waste														
	Flushing Mains			116										50	166
	Identified Fire Usage								75						75
	Vandalism														
	Street Cleaning														
	Draining Storage Tanks														
	Online Analyzers & Chlorinators														
	Field Meter Testing														
	Fire Hydrant Maintenance														
	Flushing Sewer Mains														
D	**Total Authorized Unbilled/Consumption**		-	**116**					**75**					**50**	**241**
E	**Gallons Sold**														
	Residential														
	Commercial		294	342	329	456	641	529	659	710	571	471	726	395	6,123
	Industrial														
	Fire Service														
	OPA														
	Resale														
	Miscellaneous		19							3					22
	Total Sales		**313**	**342**	**329**	**456**	**641**	**529**	**659**	**713**	**571**	**471**	**726**	**395**	**6,145**
F	**Non-Account Water**														
	Gallons	=C-D-E	47	(111)	53	71	106	25	(10)	18	(129)	227	(50)	(114)	133
	Percentage	=(C-D-E)/C	13.06%	(31.99%)	13.87%	13.47%	14.19%	4.51%	(1.38%)	2.46%	(29.19%)	32.52%	(7.40%)	(34.44%)	2.04%

Negative numbers indicate quantity or percentage above production or 100%

COMPANY NAME	EPCOR WATER	
Name of System: Paradise Valley	ADEQ Public Water System Number:	04-07-056

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2013

		A	B	C	D	E	F
					GALLONS		%
	NUMBER OF CUSTOMERS	GALLONS PUMPED	GALLONS PURCHASED	TOTAL PRODUCTION	AUTHORIZED UNBILLED	GALLONS SOLD	NON-ACCOUNT WATER
MONTH		(Thousands)	(Thousands)		(Thousands)	(Thousands)	(Thousands)
							=(C-D-E)/C
JANUARY	4,854	187,680	-	187,680	147	169,282	9.72%
FEBRUARY	4,855	174,164	-	174,164	165	158,197	9.07%
MARCH	4,859	212,921	-	212,921	233	144,530	32.01%
APRIL	4,860	269,467	-	269,467	157	187,332	30.42%
MAY	4,851	339,812	-	339,812	1,057	258,323	23.67%
JUNE	4,861	379,243	-	379,243	187	354,731	6.41%
JULY	4,866	374,271	-	374,271	197	355,539	4.95%
AUGUST	4,874	363,510	-	363,510	189	362,876	0.12%
SEPTEMBER	4,872	297,990	-	297,990	347	364,882	-22.56%
OCTOBER	4,876	333,818	-	333,818	497	254,484	23.62%
NOVEMBER	4,875	235,467	-	235,467	164	333,598	-41.74%
DECEMBER	4,880	186,526	-	186,526	88	207,576	-11.33%
	TOTALS ->	3,354,869	-	3,354,869	3,428	3,151,350	5.96%

What is the level of arsenic for each well on your system. ________mg/l
(If more than one well, please list each separately)

Well PCX-1	no longer on system
Well 11	0.008
Well 12	0.007
Well 12b	0.007
Well 14	0.006
Well 15	0.005
Well 16	0.008
Well 17	0.007

If system has fire hydrants, what is the fire flow requirement? 1500 GPM for 1 hr

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
(X) Yes ( ) No

Does the Company have An ADWR Gallons Per Capita Per Day (GPCPD) requirement?
(X) Yes ( ) No

If yes, provide the GPCPD amount: 1010*

*Estimate

EPCOR Water
Eastern Division - Paradise Valley Water District
Unaccounted For Water - 2013

	Description		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
			Quantity of Water (Kgal)												
A	**Gallons Pumped**														
	Water Treatment														
	Wells		187,680	174,164	212,921	269,467	339,812	379,243	374,271	363,510	297,990	333,818	235,467	186,526	3,354,869
B	**Gallons Purchased**														
C	**Total Production**		**187,680**	**174,164**	**212,921**	**269,467**	**339,812**	**379,243**	**374,271**	**363,510**	**297,990**	**333,818**	**235,467**	**186,526**	**3,354,869**
	Authorized Unbilled/Consumption														
	In-Plant Usage		13	12	13	13	13	13	13	13	13	13	12		142
	Mixing Chemicals - Field						2	1							3
	Well Pumped Waste														
	Flushing Mains			27	86	8	39	44	50	22	65	85	26	88	540
	Identified Fire Usage														
	Vandalism														
	Street Cleaning					7									7
	Draining Storage Tanks						870								870
	Online Analyzers & Chlorinators		134	121	134	129	134	129	134	134	124	134	116		1,420
	Field Meter Testing														
	Fire Hydrant Maintenance			5						20	145	265	10		445
	Flushing Sewer Mains														
D	**Total Authorized Unbilled/Consumption**		**147**	**165**	**233**	**157**	**1,057**	**187**	**197**	**189**	**347**	**497**	**164**	**88**	**3,427**
	Gallons Sold														
	Residential		124,773	115,000	100,330	128,236	172,147	246,342	247,431	262,071	261,375	188,367	238,219	155,194	2,239,485
	Commercial		43,808	42,435	43,610	58,430	84,678	105,878	105,312	98,040	100,641	64,020	93,430	51,459	891,741
	Industrial														0
	Fire Service		61	79	67	63	48	27	21	21	40	12	16	16	471
	OPA		219	230	75	114	815	1,790	2,085	1,877	1,752	1,424	1,155	276	11,812
	Resale		353	378	357	387	518	520	461	565	735	419	486	464	5,643
	Miscellaneous		68	75	91	102	117	174	229	302	339	242	292	167	2,198
E	**Total Sales**		**169,282**	**158,197**	**144,530**	**187,332**	**258,323**	**354,731**	**355,539**	**362,876**	**364,882**	**254,484**	**333,598**	**207,576**	**3,151,350**
F	**Non-Account Water**														
	Gallons	=C-D-E	18,251	15,802	68,158	81,978	80,432	24,325	18,535	445	(67,239)	78,837	(98,295)	(21,138)	200,092
	Percentage	=(C-D-E)/C	9.72%	9.07%	32.01%	30.42%	23.67%	6.41%	4.95%	0.12%	(22.56%)	23.62%	(41.74%)	(11.33%)	5.96%

Negative numbers indicate quantity or percentage above production or 100%

ATTACHMENT 3

Business Person of the Year 2010: Don Lowry, EPCOR

EPCOR CEO DON LOWRY BUILDS A PUBLIC UTILITY THAT WILL STAND THE TEST OF TIME

Dec 1, 2010

The 2010 Business Person of the Year is presented in association with the Chartered Accountants of Alberta. On the cover, Don Lowry wears a suit provided by Henry Singer.

On the Rise: Don Lowry standing on the 27th floor of the new Epcor building.
Click here for a behind the scenes photo gallery from the Business Person of the Year photoshoot.
Photography by Curtis Trent

Thirty years ago, a soft-spoken young hockey player from Brantford, Ontario, with the uncanny ability to see how a play would unfold before it actually did, began a remarkable run in Edmonton that would see him lead the Edmonton Oilers to four Stanley Cup victories in five seasons. Don Lowry, the president and CEO of Epcor Utilities Inc. and Alberta's Business Person of the Year for 2010, shares many of the same qualities, from the reserved demeanour to that unique ability to see and understand what lies ahead. But while Wayne Gretzky made his magic on the ice, Lowry's spent the last 12 years doing it in the boardroom on behalf of his company's shareholder.

Between 1996 and 2008 the utility paid the City of Edmonton, Epcor's sole shareholder, more than $1.8 billion in dividends, franchise fees and taxes. The dividend increased for nine consecutive years and reached an all-time high of $134 million in 2009, a figure that constituted approximately eight per cent of the city's overall budget and by some

estimates kept property taxes 25 per cent below where they would otherwise have to be. Epcor was a cash cow, and it was keeping the City of Edmonton well fed.
Then, in 2009, Lowry appeared to abruptly change course.

In the 14 years since its creation, Epcor's portfolio of assets had expanded from three power plants and two water plants in Alberta to more than 50 power and water plants in Canada and the United States. That growth had fuelled the increases in the dividend, but it had also made Epcor dependent on its power generation assets. Meanwhile, without access to capital markets, the company's balance sheets had reached their limits. It was time, Lowry decided, to move in a different direction.

That direction was the creation of an independent power generation company, Capital Power Corporation, which would be able to tap into lucrative capital markets in order to fund its continued growth. Epcor, meanwhile, would focus on the business of "water and wires," while gradually drawing down its investment stake in Capital Power. "When we looked at our shareholder's risk appetite, it's very – and appropriately – low, and their need for a stable and predictable dividend with no volatility is a principal driver," he says. "The power generation business is a growth business, but it's a higher-risk business with higher volatility. We had grown the company such that 70 per cent of the income was coming from outside the City of Edmonton and was primarily driven by power generation. When we stacked them all up, we had to make a decision."

While the decision attracted controversy, Lowry remains convinced that it was the right one to make. The creation of Capital Power has added another head office to Edmonton's corporate landscape, along with all the high-value jobs that come with it. It's not about to go anywhere, either; a social objectives clause ensures that Capital Power's head offices will remain in Edmonton in perpetuity. More importantly, Lowry says, is the fact that Epcor's stake in Capital Power will provide the fuel it needs to grow its new interest in electrical transmission and water management, and protect the dividend that is so important to its shareholder. "We've captured the value we created on power generation," he says, "and used it as a currency to now grow the water business."

It's a bold move, and one that didn't necessarily have to be taken. As Lowry points out, Epcor could have continued to milk its power generation assets for at least three or four years and conceivably increased the dividend over that period. But, he says, that kind of passive approach might have ultimately boxed the company into a corner it couldn't get out of. "If we'd been at a point where the markets collapsed, as in 2008, and we had a major financing or a major cash call, that could have been disastrous." His decision to move Epcor out of the power generation business was driven by the fact that it's easier to make a choice than to have the market make it for you. "Often, the easy things to do aren't the right things to do," he explains. "But at a time when a company for all intents and purposes looks like it's growing exceedingly well and things are going exactly the way they should, often that's the time you should exit the market."

Brian Vaasjo, the president and CEO of Capital Power, believes that Lowry's decision to exit the power generation market before he had to epitomizes his style of leadership. "His greatest strength is clarity of purpose and direction," Vaasjo says. "When it comes to making a decision or arriving at a conclusion and moving forward, it becomes very clear, very straightforward." Hugh Bolton, the chair of Epcor's board of directors, shares Vaasjo's view, noting that this forward-thinking approach is what puts Lowry in the top tier of Alberta's executive community. "He's a strategic thinker," Bolton says. "People talk about strategy and they throw the word around, but Don really understands what it means. He has that wonderful ability to peek around the corner and see what's coming and, more importantly, to marshal his colleagues into action to deal with it."

What Lowry sees around the corner right now, and what he has been seeing for a few years now, is the growing importance of water. "We're very fortunate in Canada that we have a current abundance of water," he says, "but the warning signals are there now, whether it's [David] Schindler's report on the Athabasca [River], whether it's the flood from the Red River in Winnipeg, the boil water advisories, the Walkertons in Ontario – all of those early warning alarm bells are going off. Our message from Epcor is that there's no need for them. We should be ashamed to have boil water advisories in Canada."

There's opportunity here too, of course. "The water business is a good, long-term, stable and regulated business," Bolton says. "That's why we had to get out of the electrical generation business. It requires a huge amount of patient capital, and our shareholder's not patient. They rely on our dividend." But if the water business is a steady and predictable one, it's also one with a lot of untapped potential. Lowry estimates that the financial opportunities associated with water management are in the "billions and billions" of dollars. Still, it's clear that Epcor's interest in water isn't entirely driven by its bottom line. "We have opportunities with our industries to lead with the deployment of technology and water," Lowry says. "We believe that our responsibility is to take those steps and demonstrate that it can be done. The expertise and the people and the operations that we have here are poised to contribute responsibly to making Alberta better, and then taking that expertise beyond Alberta."

Don Lowry's contributions to Edmonton and Alberta reach far beyond the boardroom

Epcor is already doing that, in fact. From the rehabilitation of the Britannia Mine, one of the continent's biggest sources of heavy metal pollution, to the wastewater treatment plant in Sooke, B.C., the company has a growing resumé of water-related projects. Back home, meanwhile, the Gold Bar Wastewater Treatment Plant, which was transferred by the City of Edmonton to Epcor on April 1, 2009, remains one of North America's most innovative and effective such operations. "We've demonstrated, from the tip of Vancouver Island and our management of water treatment plants, to our first introduction of ultraviolet technology here in Edmonton, that breakthrough will come from innovation and technology," Lowry says. "We see ourselves as positioning Epcor to be a contributor to that." Those contributions won't be constrained to the borders of Alberta or Canada, either. Epcor's decision this past summer to purchase the Chaparral City Water Company in Arizona reflects the increasingly international nature of Epcor's water-related activities.

Not surprisingly, Epcor has identified the oil sands and the companies that do business up there as a major area of opportunity for its water business. In October of 2009 Epcor inked a deal with Suncor worth $100 million that will see it provide potable water and domestic wastewater services to more than 6,000 Suncor oil sands workers through the management of three wastewater treatment plants, two water treatment plants and an assortment of collection and distribution systems. Don Thompson, the president of the Oil Sands Developers Group, is happy to see Epcor doing business in the oil sands. "We welcome somebody with Epcor's obvious strong technical competence with respect to treatment and management of water, because of course water is one of the core issues of concern not just to the industry but all of our stakeholders."

Thompson thinks that the opportunities available to Epcor in the oil sands could be significant. "I would think that every company in the oil sands manages water, and that means there's a considerable market for people with water expertise." Bolton is confident that the new front that Epcor has opened in the oil sands will be a productive one. "There are all sorts of roadblocks to overcome, but so far we've been making inordinate headway, not only with Suncor but several other participants in the oil sands. And really, that's our future."

That's one future, at least. The other is in the residential water market, and it's there that things get more complicated. Most of us still treat water as an inexhaustible free good, and that's an attitude that simply has to change, Lowry says. "There's nothing free in this world, and where we've seen the abuse of water and then its eventual disappearance is when it's been a free good." The solution to Alberta's now-chronic water shortages, he believes, is a move towards pricing and regulating it properly. "You can't introduce good technology, attract smart and committed people and get the capital to maintain and build great infrastructure unless you're repaid for it. I'm not advocating that it should be a gold strike mentality where the highest payer gets all the water, but you can put in mechanisms similar to the power or telecom industries where you have lifeline users and then you price your water accordingly. You work on the demand side through conservation measures, you promote the efficient use and reuse of water and you're going to get to a better place."

Bob Sandford, the Epcor chair of the Canadian Partnership Initiative in support of the United Nations' "Water for Life" Decade, thinks Lowry is ahead of his time when it comes to his views on water management. "I think he understands both the local issues with respect to water and the fact that Canadians take water for granted, but he also understands the global water circumstance, and I think he understands fully how those global circumstances are going to present themselves here over time," Sandford says. "I think that's a valuable asset for a leader to have." Sandford, who got to know Lowry through the invite-only Rosenberg International Forum on Water Policy, which was held in Banff in 2006, says that Lowry is highly respected within the global community of experts and academics who study water policy. "He was the first ever private-sector speaker to open the conference. It's usually a head of state, so that gives you some idea of how well respected he is internationally."

Lowry remains optimistic that sound leadership and good policies could be enough to change our spendthrift approach to water, although he concedes that it may take a crisis to truly alter people's attitudes. Sandford believes that Lowry is one of a half-dozen people in senior executive positions in this country with the leadership capacity to avoid that moment of crisis, but Bolton is a bit more pessimistic. "I say he's an awful good CEO, but he's not the messiah. People take water for granted, and to get people to change their attitude, I think, will require a crisis."

If it comes to that, though, Lowry will be ready. "You can make that crisis a launching pad, or you can make it your Waterloo," he says, noting that the reinvention of Epcor itself was a response to a crisis of another sort, the deregulation of the Alberta electricity market. Bolton, who has seen his fair share of CEOs operate in the heat of battle, believes in Lowry's ability to rise to the occasion. "He's very sentimental, he's very family-oriented, and yet in a real crisis he's as stoic and as calm and as clear-thinking as anybody you'd want to know."

That orientation is what has kept Lowry grounded throughout his career. While it's common to hear about executives willing to lay just about anything, from their own health to that of their family life, at the altar of professional success, Lowry isn't willing to make those sorts of sacrifices. Success, he says, is the ability to create a balance between family, health and work. "It's like juggling three balls," he says, "and you can never let your family or your health ball drop. Work, you know, you can drop that from time to time and get another job or modify it. Where I've seen things go wrong is when people have compromised on the first two. You just can't."

– *Click here for a behind the scenes photo gallery from the Business Person of the Year photoshoot.*

He's not perfect, mind you. "He's got one fault," Bolton says. "He is terribly modest and shy, and he hates going out and selling the Epcor story. He hates going out and glad-handing at cocktail parties. He hates visiting clients and chitty-chatting about nothing. He really struggles doing those sorts of things." The Epcor story, Bolton says, deserves a wider hearing. "Have we told the Epcor story properly to the citizens of Edmonton? The answer is no. The average Edmontonian has no idea of all the good Epcor does to this city, over and above the financial return."

Don't expect Lowry to turn into a cheerleader any time soon, though. Instead, he's content to continue moving Epcor towards its future in water and wires, while building a company whose influence extends beyond its bottom line. "Whether it was on the power or the water side, people here got a sense that we weren't just building a company to pay a dividend. It's not just a job. It's not just a financial statement. We're doing interesting things."

The School Of Fish

Don Lowry didn't grow up dreaming of a corner office on the 28th floor. Instead, he had designs on a career that would have kept him closer to ground level. "When I was growing up, I was going to become a limnologist," he explains. "That's the study of fresh water biology." But if that's an unusual childhood aspiration for a corporate titan, it's also one that led him, in a roundabout way, to the world of business and the job he has today.

Growing up in a family of modest means that couldn't afford to buy horses for their kids and wasn't particularly interested in dogs, Lowry set his sights a little lower when it came to choosing a pet. He became a guppy enthusiast. "I went to the pet store one day, and there were these really fancy guppies but they cost a buck each," Lowry explains. "I didn't know until then that we were poor, because he [his father] said that I could have whatever fish I wanted but that I had to find a way to pay for them." The young Lowry quickly figured out that the best way to pay for these high-end guppies was to make more of them and sell them back to the very same store.

It wasn't long before he was supplying all of his local pet stores with guppies and other kinds of tropical fish, and it was a pursuit that provided him with both entertainment and extra cash. More important, he says, are the lessons that he learned from them about how the world works. First and foremost among those is the importance of water, a lesson that now informs Epcor's own mission. "It might sound a little bizarre," he says, "but if you are into fish, one thing you learn is the importance of water. It's a base ingredient, and unless your water is clean, it has all the chemical elements, trace and otherwise, and is the right temperature and the right turbidity and flow, your fish will not thrive and propagate."

His fish have even taught him a thing or two about leadership, including the importance of being patient. "Don't expect your fish tank to be magnificent overnight, with the coral reef and the diversity of species," he explains. "You have to work with it, and it's the same with your business. You have to work at your business every day, and be wary of those that say you can hit it out of the block with an investment tomorrow or that suddenly everything's going to change just through working hard at it for a week or a month. Great things in business, as in life, don't happen quickly."

Meanwhile, that carefully cultivated balance can be upset in a nanosecond. "Your aquarium can be upset by a power failure, you can have an intrusion of a pathogen through a new fish, you can have a broken filter – you have to be ready with your fish to accept that you're going to have to work with them continually to keep that environment pure.

It takes years to build culture, it takes 10 years to build a business, and it can be upset in a nanosecond. That's one fish lesson for you."

Special Dividend

While Don Lowry is proud of the financial contributions that Epcor has consistently delivered to its shareholder, he's quick to point out that the utility is more than just the sum of its dividend payments. What follows are just a few of the ways in which Epcor's presence in and influence on communities across Alberta is felt.

Cultural Capital

Epcor is a major supporter of arts and cultural functions and facilities in Alberta. In Calgary, that support is highlighted by its investment in the Epcor Centre for the Performing Arts, while in Edmonton it includes the Epcor Amphitheatre at downtown's Churchill Square and its role as the 2010/11 season sponsor at the nearby Citadel Theatre. Other events and organizations that receive support include the Works Festival, Capital Ex and the Canadian Finals Rodeo.

Culinary Champion

Epcor's philanthropic reach extended all the way to Vancouver last spring, where its fundraising efforts helped support Canada's athletes as they competed at the 2010 Winter Olympics. Epcor's support of our Olympic athletes began back in 2005, when Epcor signed on as a title sponsor of the Gold Medal Plates program, a series of national fundraising dinners that support both the Canadian Olympic athletes and the competing chefs in their respective quests for excellence. Those dinners continue to provide nourishment for both Canada's Olympic and culinary communities.

Charitable Donations

Epcor and its employees participate in a number of fundraising and philanthropic campaigns, from the Comedy Cares program that visited Canmore, Fort McMurray, Okotoks and Strathmore in 2009 to the Donate-A-Ride program and Boyle Street Community Services. Epcor's employees also engage in charitable activities, and they outdid themselves in 2009 by donating a record $421,826 to the United Way in a joint campaign with Capital Power (including a corporate contribution of $125,000). Canmore's Emily Munro, meanwhile, received $2,500 to attend the 2009 National Circus School's Summer Camp in Montreal through Epcor's Sports Excellence and Youth Excellence awards program.

LEEDing the Way

If there's one neighbourhood in particular that's glad to have Epcor around, it's the hardscrabble patch of downtown Edmonton that sits on the edge of the city's Chinatown. A landscape defined by abandoned storefronts and bars with noon-hour drink specials, it is a monument to inner-city decay. But that will almost certainly change with the arrival of Epcor's new corporate headquarters.

The new 28-storey Epcor tower, located near the northeast corner of 104 Avenue and 101 Street, is the first office tower to be built in downtown Edmonton in 22 years, and one that's expected to earn LEED-silver certification for low energy, water and resource use upon its completion.

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SCHEDULE 1

EPCOR Water Arizona, Inc.
Test Year Ending June 30, 2013
Docket No. WS-01303A-14-0010

DIVIDEND PAYOUT PERCENTAGE - PROXY COMPANY'S

Line	Company	(A) 2011	(B) 2012	(C) 2013
1	American States Water Co.			
2	Net Income	$ 45,859	$ 54,148	$ 62,686
3	Dividend Paid	$ 20,552	$ 24,130	$ 29,360
4	Percentage Payout	44.8%	44.6%	46.8%
5				
6	American Water Works Co., Inc			
7	Net Income	$ 309,613	$ 358,070	$ 369,264
8	Dividend Paid	$ 198,258	$ 173,056	$ 199,359
9	Percentage Payout	64.0%	**48.3%**	54.0%
10				
11	Aqua America, Inc.			
12	Net Income	$ 143,083	$ 196,580	$ 221,320
13	Dividend Paid	$ 87,133	$ 93,423	$ 102,889
14	Percentage Payout	60.9%	47.5%	46.5%
15				
16	Artesian Resources Corp.			
17	Net Income	$ 6,746	$ 9,846	$ 8,301
18	Dividend Paid	$ 6,191	$ 6,850	$ 7,207
19	Percentage Payout	91.8%	69.6%	**86.8%**
20				
21	California Water Service Group			
22	Net Income	$ 37,712	$ 48,828	$ 47,254
23	Dividend Paid	$ 25,674	$ 26,387	$ 29,619
24	Percentage Payout	68.1%	54.0%	62.7%
25				
26	Connecticut Water Service, Inc.			
27	Net Income	$ 11,300	$ 13,640	$ 18,296
28	Dividend Paid	$ 8,234	$ 8,505	$ 10,796
29	Percentage Payout	72.9%	62.4%	59.0%
30				
31	Middlesex Water			
32	Net Income	$ 13,447	$ 14,396	$ 16,633
33	Dividend Paid	$ 11,437	$ 11,679	$ 11,943
34	Percentage Payout	85.1%	81.1%	71.8%
35				
36	SJW Corporation			
37	Net Income	$ 20,878	$ 22,318	$ 22,384
38	Dividend Paid	$ 12,823	$ 13,231	$ 14,443
39	Percentage Payout	61.4%	59.3%	64.5%
40				
41	York Water Company			
42	Net Income	$ 9,084	$ 9,303	$ 9,654
43	Dividend Paid	$ 6,708	$ 6,929	$ 7,214
44	Percentage Payout	73.8%	74.5%	74.7%
45				
46	Total Net Income All Proxy Companies	$ 597,722	$ 727,129	$ 775,792
47	Total Divident Payout	$ 377,010	$ 364,190	$ 412,830
48		63.1%	50.1%	53.2%
49				
50				
51	**AVERAGE DIVIDEND PAYOUT PERCENTAGE - PROXY COMPANIES**			**54.94%**
52				

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

(in thousands)	Common Shares Number of Shares	Common Shares Amount	Earnings Reinvested in the Business	Total
Balances at December 31, 2010	37,262	$ 227,385	$ 150,156	$ 377,541
Add:				
Net income			45,859	45,859
Issuance of Common Shares	138	1,658		1,658
Exercise of stock options	178	2,350		2,350
Tax benefit from employee stock-based awards		336		336
Compensation on stock-based awards		1,474		1,474
Dividend equivalent rights on stock-based awards not paid in cash		103		103
Deduct:				
Dividends on Common Shares			20,552	20,552
Dividend equivalent rights on stock-based awards not paid in cash			103	103
Balances at December 31, 2011	37,578	233,306	175,360	408,666
Add:				
Net income			54,148	54,148
Exercise of stock options and other issuance of Common Shares	896	13,295		13,295
Tax benefit from employee stock-based awards		890		890
Compensation on stock-based awards		1,710		1,710
Dividend equivalent rights on stock-based awards not paid in cash		121		121
Deduct:				
Dividends on Common Shares			24,130	24,130
Dividend equivalent rights on stock-based awards not paid in cash			121	121
Balances at December 31, 2012	38,474	249,322	205,257	454,579
Add:				
Net income			62,686	62,686
Exercise of stock options and other issuance of Common Shares	247	2,111		2,111
Tax benefit from employee stock-based awards		1,026		1,026
Compensation on stock-based awards		1,362		1,362
Dividend equivalent rights on stock-based awards not paid in cash		140		140
Deduct:				
Dividends on Common Shares			29,360	29,360
Dividend equivalent rights on stock-based awards not paid in cash			140	140
Balances at December 31, 2013	38,721	$ 253,961	$ 238,443	$ 492,404

The accompanying notes are an integral part of these consolidated financial statements.

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Changes in Stockholders' Equity

(In thousands, except per share data)

	Common Stock					Treasury Stock		Preferred Stock of Subsidiary Companies Without Mandatory Redemption Requirements	
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Shares	At Cost		Total Stockholders' Equity
Balance at December 31, 2010	174,996	$1,750	$6,156,675	$(1,959,235)	$ (71,446)	(1)	$ (19)	$ 4,547	$4,132,272
Net income	—	—	—	309,613	—	—	—	—	309,613
Direct stock reinvestment and purchase plan, net of expense of $19	64	1	1,807	—	—	—	—	—	1,808
Employee stock purchase plan	121	1	3,533	—	—	—	—	—	3,534
Stock-based compensation activity	483	5	18,543	(921)	—	1	19	—	17,646
Other comprehensive loss, net of tax of $(16,507)	—	—	—	—	(26,231)	—	—	—	(26,231)
Dividends	—	—	—	(198,258)	—	—	—	—	(198,258)
Balance at December 31, 2011	175,664	$1,757	$6,180,558	$(1,848,801)	$ (97,677)	0	$ 0	$ 4,547	$4,240,384
Net income	—	—	—	358,070	—	—	—	—	358,070
Direct stock reinvestment and purchase plan, net of expense of $14	60	0	2,092	—	—	—	—	—	2,092
Employee stock purchase plan	87	1	3,306	—	—	31	1,046	—	4,353
Stock-based compensation activity	1,177	12	36,688	(1,168)	—	(31)	(1,046)	—	34,486
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(2,827)	(2,827)
Other comprehensive loss, net of tax of $(12,113)	—	—	—	—	(18,514)	—	—	—	(18,514)
Dividends	—	—	—	(173,056)	—	—	—	—	(173,056)
Balance at December 31, 2012	176,988	$1,770	$6,222,644	$(1,664,955)	$(116,191)	0	$ 0	$ 1,720	$4,444,988
Net income	—	—	—	369,264	—	—	—	—	369,264
Direct stock reinvestment and purchase plan, net of expense of $49	53	1	2,122	—	—	—	—	—	2,123
Employee stock purchase plan	111	1	4,554	—	—			—	4,555
Stock-based compensation activity, net of expense of $11	1,227	12	32,076	(648)	—	(132)	(5,043)	—	26,397
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(1,720)	(1,720)
Other comprehensive income, net of tax of $52,782	—	—	—	—	81,556	—	—	—	81,556
Dividends	—	—	—	(199,359)	—	—	—	—	(199,359)
Balance at December 31, 2013	178,379	$1,784	$6,261,396	$(1,495,698)	$ (34,635)	(132)	$(5,043)	$ 0	$4,727,804

The accompanying notes are an integral part of these consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands of dollars)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance at December 31, 2010	$ 69,223	$ 664,369	$ 452,470	$ (12,307)	$ 499	$ 572	$ 1,174,826
Net income	-	-	143,069	-	-	14	143,083
Purchase of subsidiary shares from noncontrolling interest	-	-	-	-	-	(82)	(82)
Other comprehensive loss, net of income tax of $130	-	-	-	-	(243)	-	(243)
Dividends	-	-	(87,133)	-	-	-	(87,133)
Sale of stock (753,958 shares)	295	11,987	-	325	-	-	12,607
Repurchase of stock (51,431 shares)	-	-	-	(1,163)	-	-	(1,163)
Equity Compensation Plan (79,133 shares)	32	(32)	-	-	-	-	-
Exercise of stock options (530,613 shares)	212	6,391	-	-	-	-	6,603
Stock-based compensation	-	3,964	(72)	-	-	-	3,892
Employee stock plan tax benefits	-	(573)	-	-	-	-	(573)
Balance at December 31, 2011	69,762	686,106	508,334	(13,145)	256	504	1,251,817
Net income	-	-	196,563	-	-	17	196,580
Purchase of subsidiary shares from noncontrolling interest	-	-	-	-	-	(333)	(333)
Other comprehensive loss, net of income tax of $76	-	-	-	-	(141)	-	(141)
Dividends	-	-	(93,423)	-	-	-	(93,423)
Sale of stock (726,093 shares)	285	12,610	-	295	-	-	13,190
Repurchase of stock (77,355 shares)	-	-	-	(1,818)	-	-	(1,818)
Equity Compensation Plan (19,015 shares)	8	(8)	-	-	-	-	-
Exercise of stock options (1,041,796 shares)	417	14,181	-	-	-	-	14,598
Stock-based compensation	-	5,593	(171)	-	-	-	5,422
Balance at December 31, 2012	70,472	718,482	611,303	(14,668)	115	188	1,385,892
Net income	-	-	221,300	-	-	20	221,320
Other comprehensive gain, net of income tax of $125	-	-	-	-	231	-	231
Dividends	-	-	(102,889)	-	-	-	(102,889)
Stock split	17,655	(17,655)	-	-	-	-	-
Sale of stock (449,129 shares)	188	9,693	-	409	-	-	10,290
Repurchase of stock (415,233 shares)	-	-	-	(12,823)	-	-	(12,823)
Equity Compensation Plan (43,500 shares)	17	(17)	-	-	-	-	-
Exercise of stock options (1,566,089 shares)	632	25,066	-	-	-	-	25,698
Stock-based compensation	-	5,066	(442)	-	-	-	4,624
Employee stock plan tax benefits	-	2,700	-	-	-	-	2,700
Balance at December 31, 2013	$ 88,964	$ 743,335	$ 729,272	$ (27,082)	$ 346	$ 208	$ 1,535,043

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
In thousands

	Common Shares Outstanding Class A Non-Voting (1) (3) (4)	Common Shares Outstanding Class B Voting (2)	$1 Par Value Class A Non-Voting	$1 Par Value Class B Voting	Additional Paid-in Capital	Retained Earnings	Total
Balance as of December 31, 2010	6,755	882	$ 6,755	$ 882	$ 69,989	$ 17,520	$ 95,146
Net income	—	—	—	—	—	6,746	6,746
Cash dividends declared							
Common stock	—	—	—	—	—	(6,191)	(6,191)
Issuance of common stock							
Stock issuance	888	—	888	—	14,746	—	15,634
Dividend reinvestment plan	21	—	21	—	373	—	394
Employee stock options and awards(4)	25	—	25	—	543	—	568
Employee Retirement Plan (3)	40	—	40	—	660	—	700
Balance as of December 31, 2011	7,729	882	$ 7,729	$ 882	$ 86,311	$ 18,075	$ 112,997
Net income	—	—	—	—	—	9,846	9,846
Cash dividends declared							
Common stock	—	—	—	—	—	(6,850)	(6,850)
Issuance of common stock							
Dividend reinvestment plan	22	—	22	—	439	—	461
Employee stock options and awards(4)	58	—	58	—	1,269	—	1,327
Employee Retirement Plan (3)	19	—	19	—	380	—	399
Balance as of December 31, 2012	7,828	882	$ 7,828	$ 882	$ 88,399	$ 21,071	$ 118,180
Net income	—	—	—	—	—	8,301	8,301
Cash dividends declared							
Common stock	—	—	—	—	—	(7,207)	(7,207)
Issuance of common stock							
Dividend reinvestment plan	27	—	27	—	572	—	599
Employee stock options and awards(4)	68	—	68	—	1,340	—	1,408
Employee Retirement Plan (3)	25	—	25	—	530	—	555
Balance as of December 31, 2013	7,948	882	$ 7,948	$ 882	$ 90,841	$ 22,165	$ 121,836

(1) *At December 31, 2013, 2012, and 2011, Class A Common Stock had 15,000,000 shares authorized. For the same periods, shares issued were 7,977,546, 7,856,485 and 7,753,730, respectively.*

(2) *At December 31, 2013, 2012, and 2011, Class B Common Stock had 1,040,000 shares authorized and 882,000 shares issued.*

(3) *Artesian Resources Corporation registered 500,000 shares of Class A Common Stock available for purchase through the Artesian Retirement Plan and the Artesian Supplemental Retirement Plan.*

(4) *Under the Equity Compensation Plan, effective May 25, 2005 Artesian Resources Corporation authorized up to 500,000 shares of Class A Common Stock for issuance of grants in forms of stock options, stock units, dividend equivalents and other stock-based awards, subject to adjustment in certain circumstances as discussed in the Plan.*

The notes are an integral part of the consolidated financial statements.

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CALIFORNIA WATER SERVICE GROUP

Consolidated Statements of Common Stockholders' Equity

For the Years Ended December 31, 2013, 2012 and 2011

	Common Stock		Additional		Total
	Shares	Amount	Paid-in Capital	Retained Earnings	Stockholders' Equity
	(In thousands)				
Balance at December 31, 2010	41,667	$ 416	$ 217,309	$ 217,801	$ 435,526
Net income	—	—	—	37,712	37,712
Issuance of common stock	150	2	2,263	—	2,265
Dividends paid on common stock ($0.615 per share)	—	—	—	(25,674)	(25,674)
Balance at December 31, 2011	41,817	418	219,572	229,839	449,829
Net income	—	—	—	48,828	48,828
Issuance of common stock	91	1	1,441	—	1,442
Dividends paid on common stock ($0.630 per share)	—	—	—	(26,387)	(26,387)
Balance at December 31, 2012	41,908	419	221,013	252,280	473,712
Net income	—	—	—	47,254	47,254
Issuance of common stock	5,833	58	107,351	—	107,409
Dividends paid on common stock ($0.640 per share)	—	—	—	(29,619)	(29,619)
Balance at December 31, 2013	47,741	$ 477	$ 328,364	$ 269,915	$ 598,756

See accompanying Notes to Consolidated Financial Statements.

NOTE 4: RETAINED EARNINGS

The summary of the changes in Retained Earnings for the period January 1, 2011 through December 31, 2013, appears below:

(in thousands, except per share data)	2013	2012	2011
Balance, beginning of year	$ 51,804	$ 46,669	$ 43,603
Net Income	18,269	13,640	11,300
Sub-total	70,073	60,309	54,903
Dividends declared:			
Cumulative Preferred Stock, Series A, $0.80 per share	12	12	12
Cumulative Preferred Stock, Series $0.90, $0.90 per share	26	26	26
Common Stock:			
$0.98, $0.96 and $0.94 per Common Share in 2013, 2012 and 2011, respectively	10,758	8,467	8,196
Total Dividends Declared	10,796	8,505	8,234
Balance, end of year	$ 59,277	$ 51,804	$ 46,669

NOTE 5: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in Accumulated Other Comprehensive Income/(Loss) ("AOCI") by component, net of tax, for the year ended December 31, 2013, (in thousands):

For the year ended December 31, 2013	**Interest Rate Swap**	**Unrealized Gains on Investments**	**Defined Benefit Items**	**Total**
Beginning Balance (a)	$ (41)	$ 69	$ (1,356)	$ (1,328)
Other Comprehensive Income Before Reclassification	—	165	672	837
Amounts Reclassified from AOCI	41	25	310	376
Net current-period Other Comprehensive Income	41	190	982	1,213
Ending Balance	$ —	$ 259	$ (374)	$ (115)

(a) All amounts shown are net of tax. Amounts in parentheses indicate loss.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(In thousands)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total
Balance at January 1, 2011	15,566	$ 139,534	$ 33,745	$ 173,279
Net Income			13,447	13,447
Dividend Reinvestment & Common Stock Purchase Plan	82	1,504		1,504
Restricted Stock Award, Net - Employees	30	323		323
Stock Award - Board Of Directors	4	71		71
Cash Dividends on Common Stock			(11,437)	(11,437)
Cash Dividends on Preferred Stock			(206)	(206)
Balance at December 31, 2011	15,682	$ 141,432	$ 35,549	$ 176,981
Net Income			14,396	14,396
Dividend Reinvestment & Common Stock Purchase Plan	86	1,587		1,587
Restricted Stock Award, Net - Employees	21	448		448
Stock Award - Board Of Directors	6	105		105
Cash Dividends on Common Stock			(11,679)	(11,679)
Cash Dividends on Preferred Stock			(206)	(206)
Balance at December 31, 2012	15,795	$ 143,572	$ 38,060	$ 181,632
Net Income			16,633	16,633
Dividend Reinvestment & Common Stock Purchase Plan	82	1,653		1,653
Restricted Stock Award, Net - Employees	26	388		388
Stock Award - Board Of Directors	5	105		105
Conversion of $8.00 Convertible Preferred Stock	55	467		467
Cash Dividends on Common Stock			(11,943)	(11,943)
Cash Dividends on Preferred Stock			(190)	(190)
Balance at December 31, 2013	15,963	$ 146,185	$ 42,560	$ 188,745

See Notes to Consolidated Financial Statements.

SJW Corp. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands, except share and per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Number of Shares	Amount				
Balances, December 31, 2010	18,551,540	9,662	23,443	219,568	2,359	255,032
Net income	—	—	—	20,878	—	20,878
Unrealized loss on investment, net of tax effect of ($59)	—	—	—	—	(85)	(85)
Share-based compensation	—	—	651	(129)	—	522
Exercise of stock options and similar instruments	13,896	7	(91)	—	—	(84)
Employee stock purchase plan	25,712	14	511	—	—	525
Dividend reinvestment and stock purchase plan	1,679	1	38	—	—	39
Dividends paid ($0.69 per share)	—	—	—	(12,823)	—	(12,823)
Balances, December 31, 2011	18,592,827	9,684	24,552	227,494	2,274	264,004
Net income	—	—	—	22,318	—	22,318
Unrealized loss on investment, net of tax effect of $0	—	—	—	—	36	36
Share-based compensation	—	—	564	(128)	—	436
Exercise of stock options and similar instruments	44,784	23	347	—	—	370
Employee stock purchase plan	29,468	15	573	—	—	588
Dividend reinvestment and stock purchase plan	3,487	2	81	—	—	83
Dividends paid ($0.71 per share)	—	—	—	(13,231)	—	(13,231)
Balances, December 31, 2012	18,670,566	9,724	26,117	236,453	2,310	274,604
Net income	—	—	—	22,384	—	22,384
Unrealized income on investment, net of tax effect of $741	—	—	—	—	1,077	1,077
Share-based compensation	—	—	912	(128)	—	784
Exercise of stock options and similar instruments	43,665	23	46	—	—	69
Employee stock purchase plan	30,869	16	706	—	—	722
Dividend reinvestment and stock purchase plan	3,111	2	82	—	—	84
Common stock issued	1,421,000	740	35,154	—	—	35,894
Dividends paid ($0.73 per share)	—	—	—	(14,443)	—	(14,443)
Balances, December 31, 2013	20,169,211	10,505	63,017	244,266	3,387	321,175

See Accompanying Notes to Consolidated Financial Statements.

THE YORK WATER COMPANY

Statements of Common Stockholders' Equity
(In thousands of dollars, except per share amounts)
For the Years Ended December 31, 2013, 2012 and 2011

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total
Balance, December 31, 2010	12,692,054	$ 75,481	$ 15,776	$ 91,257
Net income	-	-	9,084	9,084
Dividends	-	-	(6,708)	(6,708)
Issuance of common stock under dividend reinvestment, direct stock and employee stock purchase plans	99,617	1,632	-	1,632
Balance, December 31, 2011	12,791,671	77,113	18,152	95,265
Net income	-	-	9,303	9,303
Dividends	-	-	(6,929)	(6,929)
Issuance of common stock under dividend reinvestment, direct stock and employee stock purchase plans	126,962	2,186	-	2,186
Balance, December 31, 2012	12,918,633	79,299	20,526	99,825
Net income	-	-	9,654	9,654
Dividends	-	-	(7,214)	(7,214)
Retirement of common stock	(94,414)	(1,772)	-	(1,772)
Issuance of common stock under dividend reinvestment, direct stock and employee stock purchase plans	155,062	3,018	-	3,018
Balance, December 31, 2013	12,979,281	$ 80,545	$ 22,966	$ 103,511

The accompanying notes are an integral part of these statements.

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SCHEDULE 2

EPCOR Water Arizona, Inc.
Test Year Ending June 30, 2013
Docket No. WS-01303A-14-0010

SUN CITY - SIB REVENUE REQUEST

Ln No	PROJECT ACCOUNT DESCRIPTION		Year 1	Year 2	Year 3	Year 4	Year 5	Five Year Total Costs
1	Mains		$ 1,005,087	$ 1,680,440	$ 471,483	$ 349,698	$ 575,162	$ 4,081,870
2	Services		650,232	-	1,241,420	1,256,363	1,145,430	4,293,445
3	Valves		76,375	81,418	82,188	77,018	82,610	399,609
4	Meters		409,508	376,982	432,728	534,279	470,906	2,224,403
5								
6	TOTAL		$ 2,141,202	$ 2,138,840	$ 2,227,819	$ 2,217,358	$ 2,274,108	$ 10,999,327
7								
8	CALCULATION OF OVERALL SIB REVENUE REQUIREMENTS & EFFICIENCY CREDIT							
9								
10	Total Revenue Requirement - Requested in Rate Filing		$ 11,871,945	$ 11,871,945	$ 11,871,945	$ 11,871,945	$ 11,871,945	
11								
12	SIB Revenue CAP %		5%	5%	5%	5%	5%	
13								
14	Net SIB Revenue Cap (Ln 10 x Ln 12))		$ 593,597	$ 593,597	$ 593,597	$ 593,597	$ 593,597	
15								
16	SIB Eligible Plant in Service (Ln 6)		$ 2,141,202	$ 2,138,840	$ 2,227,819	$ 2,217,358	$ 2,274,108	$ 10,999,327
17								
18	Accumulated Depreciation- 1/2 Year Convention (Ln 26*.5)		$ 59,986	$ 52,101	$ 68,121	$ 73,323	$ 69,880	$ 323,412
19								
20	SIB Rate Base (Ln 16 - Ln 18)		$ 2,081,216	$ 2,086,739	$ 2,159,698	$ 2,144,035	$ 2,204,228	$ 10,675,915
21								
22	Pre-Tax Cost of Capital (Ln 55)		8.43%	8.43%	8.43%	8.43%	8.43%	8.43%
23								
24	Required SIB Operating Income (Ln 20 x Ln 22)		$ 175,412	$ 175,878	$ 182,027	$ 180,707	$ 185,780	$ 899,804
25								
26	SIB Depreciation Expense (See Schedule II)		$ 59,986	$ 52,101	$ 68,121	$ 73,323	$ 69,880	$ 323,412
27								
28	Less: Depre Assoc with Applicable Retirements		-	-	-	-	-	-
29								
30	Net Depreciation Expense - SIB Eligible Plant (Ln 26 - Ln 28)		$ 59,986	$ 52,101	$ 68,121	$ 27,659	$ 29,690	$ 237,558
31								
32	SIB Capital Costs - Pre Tax Ret. + Depre. (Ln 24 + Ln 30)		$ 235,398	$ 227,979	$ 250,148	$ 208,366	$ 215,470	$ 1,137,361
33								
34	Under or Over recovery Form Previous Period		-	-	-	-	-	-
35								
36	Overall SIB Revenue Requirement Lessor of Net SIB Rev							
37	Cap or SIB Capital Costs (Ln 32)		$ 235,398	$ 227,979	$ 250,148	$ 208,366	$ 215,470	$ 1,137,361
38								
39	SIB Efficiency Credit at 5%		-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%
40								
41	Overall SIB Efficiency Credit (Ln 37 x Ln 39)		$ (11,770)	$ (11,399)	$ (12,507)	$ (10,418)	$ (10,774)	$ (56,868)
42								
43	NET SIB REVENUE INCLUDING EFFICIENCY CR		$ 223,629	$ 216,580	$ 237,641	$ 197,947	$ 204,697	$ 1,080,493
44								
45	Current Base Rates Residential Ratepayer	17.35	$ 17.35	$ 17.35	$ 17.35	$ 17.35	$ 17.35	
46	Increase to Residential Ratepayers	3.59	$ 4.27	$ 4.92	$ 5.64	$ 6.24	$ 6.87	
47								
48	Percentage Inc. Estimated to Residential Ratepayer	20.69%	24.59%	28.37%	32.51%	35.98%	39.57%	
49								
50	Pre-Tax Cost of Capital							
51	Weighted Cost of Equity		3.57%		Residential Rev. % of Total Rev.			80.29%
52	Revenue Conversion Factor		1.655		Total Ratepayers			23,004
53	Pre-Tax Weighted Cost of Equity		5.91%		Total Residential Ratepayers			21,896
54	Weighted Cost of Debt		2.52%					
55	Pre-Tax Cost of Capital		8.43%					

EPCOR Water Arizona, Inc.
Test Year Ending June 30, 2013
Docket No. WS-01303A-14-0010

MOHAVE WATER - SIB REVENUE REQUEST

Ln No	PROJECT LOCATIONS		Year 1	Year 2	Year 3	Year 4	Year 5	Five Year Total Costs
1	Mains		$ 566,093	$ 872,322	$ 1,126,877	$ 1,030,934	$ 992,251	$ 4,588,477
2	Services		1,063,339	593,762	395,842	562,716	399,722	3,015,381
3	Valves		212,819	217,439	225,289	229,658	226,763	1,111,968
4	Meters		266,908	314,733	298,679	263,074	368,099	1,511,493
5								
6	TOTAL		$ 2,109,159	$ 1,998,256	$ 2,046,687	$ 2,086,382	$ 1,986,835	$ 10,227,319
7								
8	CALCULATION OF OVERALL SIB REVENUE REQUIREMENTS & EFFICIENCY CREDIT							
9								
10	Total Revenue Requirement - Requested in Rate Filing		$ 8,327,207	$ 8,327,207	$ 8,327,207	$ 8,327,207	$ 8,327,207	
11								
12	SIB Revenue CAP %		5%	5%	5%	5%	5%	
13								
14	Net SIB Revenue Cap (Ln 10 X Ln 12)		$ 416,360	$ 416,360	$ 416,360	$ 416,360	$ 416,360	
15								
16	SIB Eligible Plant in Service (Ln 6)		$ 2,109,159	$ 1,998,256	$ 2,046,687	$ 2,086,382	$ 1,986,835	$ 10,227,319
17								
18	Accumulated Depreciation- 1/2 Year Convention (Ln 26*.5)		$ 30,584	$ 28,942	$ 27,698	$ 27,659	$ 29,690	$ 144,573
19								
20	SIB Rate Base (Ln 16 - Ln 18)		$ 2,078,575	$ 1,969,314	$ 2,018,989	$ 2,058,723	$ 1,957,145	$ 10,082,746
21								
22	Pre-Tax Cost of Capital (Ln 55)		8.43%	8.43%	8.43%	8.43%	8.43%	8.43%
23								
24	Required SIB Operating Income (Ln 20 x Ln 22)		$ 175,190	$ 165,981	$ 170,167	$ 173,516	$ 164,955	$ 849,809
25								
26	SIB Depreciation Expense (See Schedule II)		$ 61,168	$ 57,884	$ 55,396	$ 55,317	$ 59,380	$ 289,146
27								
28	Less: Depre Assoc with Applicable Retirements		-	-	-	-	-	-
29								
30	Net Depreciation Expense - SIB Eligible Plant (Ln 26 - Ln 28)		$ 61,168	$ 57,884	$ 55,396	$ 55,317	$ 59,380	$ 289,146
31								
32	SIB Capital Costs - Pre Tax Ret. + Depre. (Ln 24 + Ln 30)		$ 236,358	$ 223,865	$ 225,564	$ 228,834	$ 224,335	$ 1,138,956
33								
34	Under or Over recovery Form Previous Period		-	-	-	-	-	-
35								
36	Overall SIB Revenue Requirement Lessor of Net SIB Rev							
37	Cap or SIB Capital Costs (Ln 32)		$ 236,358	$ 223,865	$ 225,564	$ 228,834	$ 224,335	$ 1,138,956
38								
39	SIB Efficiency Credit at 5%		-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%
40								
41	Overall SIB Efficiency Credit (Ln 37 x Ln 39)		$ (11,818)	$ (11,193)	$ (11,278)	$ (11,442)	$ (11,217)	$ (56,948)
42								
43	NET SIB REVENUE INCLUDING EFFICIENCY CR		$ 224,540	$ 212,672	$ 214,285	$ 217,392	$ 213,118	$ 1,082,008
44								
45	Current Rates Residential Ratepayer	$ 20.63	$ 20.63	$ 20.63	$ 20.63	$ 20.63	$ 20.63	
46	Increase to Residential Ratepayers	$ 9.06	$ 9.98	$ 10.85	$ 11.73	$ 12.62	$ 13.50	
47								
48	Percentage Inc. Estimated to Residential Ratepayer	43.92%	48.38%	52.60%	56.86%	61.19%	65.42%	
49								
50	Pre-Tax Cost of Capital							
51	Weighted Cost of Equity		3.57%		Residential Rev. % of Total Rev			76.00%
52	Revenue Conversion Factor		1.655		Total Ratepayers			16,067
53	Pre-Tax Weighted Cost of Equity		5.91%		Total Residential Ratepayers			15,008
54	Weighted Cost of Debt		2.52%					
55	Pre-Tax Cost of Capital		8.43%					

PARADISE VALLEY - SIB REVENUE REQUEST

Ln No	PROJECT LOCATIONS		Year 1	Year 2	Year 3	Year 4	Year 5	Five Year Total Costs
1	Mains		$ 454,179	$ 346,614	$ 291,500	$ 362,142	$ 224,369	$ 1,678,804
2	Services		813,727	824,710	930,283	904,042	761,957	4,234,719
3	Valves		203,628	225,795	242,691	204,380	229,975	1,106,469
4	Meters		-	-	-	-	-	-
5								
6	TOTAL		$ 1,471,534	$ 1,397,119	$ 1,464,474	$ 1,470,564	$ 1,216,301	$ 7,019,992
7								
8	**CALCULATION OF OVERALL SIB REVENUE REQUIREMENTS & EFFICIENCY CREDIT**							
9								
10	Total Revenue Requirement - Requested in Rate Filing		$ 10,489,588	$ 10,489,588	$ 10,489,588	$ 10,489,588	$ 10,489,588	
11								
12	SIB Revenue CAP %		5%	5%	5%	5%	5%	
13								
14	Net SIB Revenue Cap (LN 10 X Ln 12)		$ 524,479	$ 524,479	$ 524,479	$ 524,479	$ 524,479	
15								
16	SIB Eligible Plant in Service (Ln 6)		$ 1,471,534	$ 1,397,119	$ 1,464,474	$ 1,470,564	$ 1,216,301	$ 7,019,992
17								
18	Accumulated Depreciation- 1/2 Year Convention (Ln 26*.5)		$ 7,728	$ 7,523	$ 8,070	$ 6,714	$ 29,690	$ 59,724
19								
20	SIB Rate Base (Ln 16 - Ln 18)		$ 1,463,806	$ 1,389,596	$ 1,456,404	$ 1,463,850	$ 1,186,611	$ 6,960,268
21								
22	Pre-Tax Cost of Capital (Ln 55)		8.43%	8.43%	8.43%	8.43%	8.43%	8.43%
23								
24	Required SIB Operating Income (Ln 20 x Ln 22)		$ 123,375	$ 117,120	$ 122,751	$ 123,378	$ 100,012	$ 586,636
25								
26	SIB Depreciation Expense (See Schedule II)		$ 15,455	$ 15,045	$ 16,140	$ 13,428	$ 59,380	$ 119,449
27								
28	Less: Depre Assoc with Applicable Retirements		-	-	-	-	-	-
29								
30	Net Depreciation Expense - SIB Eligible Plant (Ln 26 - Ln 28)		$ 15,455	$ 15,045	$ 16,140	$ 13,428	$ 59,380	$ 119,449
31								
32	SIB Capital Costs - Pre Tax Ret. + Depre. (Ln 24 + Ln 30)		$ 138,830	$ 132,165	$ 138,891	$ 136,807	$ 159,392	$ 706,084
33								
34	Under or Over recovery Form Previous Period		-	-	-	-	-	-
35								
36	Overall SIB Revenue Requirement Lessor of Net SIB Rev							
37	Cap or SIB Capital Costs Ln 32)		$ 138,830	$ 132,165	$ 138,891	$ 136,807	$ 159,392	$ 706,084
38								
39	SIB Efficiency Credit %		-5.00%	-5.00%	-5.00%	-5.00%	-5.00%	-5.00%
40								
41	Overall SIB Efficiency Credit (Ln 37 x Ln 39)		$ (6,941)	$ (6,608)	$ (6,945)	$ (6,840)	$ (7,970)	$ (35,304)
42								
43	NET SIB REVENUE INCLUDING EFFICIENCY CR		$ 131,888	$ 125,557	$ 131,946	$ 129,966	$ 151,422	$ 670,780
44								
45	Current Rates Residential Ratepayer	$ 52.30	$ 52.30	$ 52.30	$ 52.30	$ 52.30	$ 52.30	
46	Increase to Residential Ratepayers	$ 4.47	$ 6.28	$ 8.01	$ 9.82	$ 11.61	$ 13.66	
47								
48	Percentage Inc. Estimated to Residential Ratepayer	8.55%	12.01%	15.31%	18.77%	22.19%	26.11%	
49								
50	Pre-Tax Cost of Capital							
51	Weighted Cost of Equity		3.57%		Residential Rev. % of Total Rev.			76.5%
52	Revenue Conversion Factor		1.655		Total Ratepayers			4,862
53	Pre-Tax Weighted Cost of Equity		5.91%		Total Residential Ratepayers			4,447
54	Weighted Cost of Debt		2.52%					
55	Pre-Tax Cost of Capital		8.43%					

EPCOR WATER ARIZONA, INC.

DOCKET NO. WS-01303A-14-0010

DIRECT TESTIMONY

OF

ROBERT B. MEASE

ON

COST OF CAPITAL

ON BEHALF OF THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 20, 2015

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I. EXECUTUVE SUMMERY

RUCO is recommending that the Commission adopt a 6.09 percent overall company rate of return for the systems included in this filing, which includes an 8.91 percent cost of equity, as shown below:

	Percent	Cost	Return
Long Term Debt	58.46 %	4.29 %	2.51 %
Short-term Debt	2.17 %	0.31 %	0.01 %
Cost of Equity	39.37 %	8.91 %	3.57 %
Total Capital	100.00%		6.09 %

The cost of equity components included in my calculations includes the results of three equity models including:

	Weighted Cost
Discounted Cash Flow	8.74 %
Capital Asset Pricing Model	7.48 %
Comparable Earnings	10.50 %
Weighted Cost	8.91 %

II. INTRODUCTION

Q. Please state your name, position, employer and address.

A. My name is Robert Mease and I'm Chief of Accounting and Rates for the Residential Utility Consumers Office. ("RUCO") My business address is 1110 W. Washington Street, Suite 220, Phoenix, AZ.

Q. Please state your educational background and qualifications in the utility regulation field.

A. My educational background, work experience and regulatory matters in which I have participated were included in my testimony on the System Improvement Benefit ("SIB") mechanism. In summary, I joined RUCO in October of 2011. I graduated from Morris Harvey College in Charleston, WV and attended Kanawha Valley School of Graduate Studies. I am a Certified Public Accountant and currently licensed in the state of West Virginia. I also have the professional designation, Certified Rate of Return Analyst ("CRRA") issued by the Society of Utility Regulatory Financial Analysts. The CRRA designation is awarded based on experience and the successful completion of a written examination. My years of work experience include serving as Vice President and Controller of Energy West, Inc. a public utility and Energy Company located in Great Falls, Montana. While with Energy West I had responsibility for all utility filings and participated in several rate case filings on behalf of the utility. As Energy West was a publicly traded company listed on the NASDAQ Exchange I also had responsibility for all filings with the Securities and Exchange Commission.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations for the establishment of a fair value rate of return. The Company has chosen to use its original cost rate base as its fair value rate base for the purpose of establishing a fair value rate of return on its invested capital.

Q. Will RUCO also provide direct testimony on the rate base, operating income and rate design issues in this proceeding?

A. Yes. RUCO witnesses Mr. Jeffrey Michlik and Mr. Tim Coley will address the rate base and operating income issues associated with the case. Mr. Michlik will also file testimony on RUCO's rate design. In addition, Mr. Ralph Smith will provide testimony on the corporation allocation process including expense allocation and Mr. Frank Radigan will provide testimony on EWAZ engineering issues including post-test year plant and the System Improvement Benefits projects.

III. SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how your cost of capital testimony is organized.

A. My cost of capital testimony is organized into several different sections as identified in my "Table of Contents." In summary I have prepared both a Discounted Cash Flow ("DCF") model and the Capital Asset Pricing Model ("CAPM"). These are the two methods that RUCO and ACC Staff have consistently used for calculating the cost of equity capital in rate case proceedings in the past, and are the methodologies that the ACC has given the most weight to in setting allowed rates of return for utilities that operate in the Arizona jurisdiction. The Company witness, Ms. Pauline Ahern, has also prepared both a DCF and a CAPM model in her Cost of Capital analysis. In addition to the DCF and CAPM models I prepared a Comparable Earnings ("CE") analysis and included in the final determination of my recommended cost of capital. Ms. Ahern has also prepared a third model in her analysis and is referred to as the Risk Premium Model. I will discuss these models further in my testimony.

Q. Please summarize the recommendations and adjustments that you will address in your testimony.

A. Based on the results of my analysis, I am making the following recommendations:

Overall Company Cost of Capital Schedule 2 – I am recommending that the Commission adopt a 6.09 percent overall company rate of return for the districts included in this filing. The components included in my cost of capital calculation include:[1]

	Percent	Cost	Return
Long Term Debt	58.46 %	4.29 %	2.51%
Short-term Debt	2.17 %	0.31 %	0.01%
Cost of Equity	39.37 %	8.91 %	3.57%
Total Capital	100.00 %		6.09%

The cost of equity components included in my calculations includes the results of three equity models including:

	Weighted Cost
Discounted Cash Flow	8.74 %
Capital Asset Pricing Model	7.48 %
Comparable Earnings	10.50 %
Weighted Cost	8.91 %

[1] See RBM Schedule 1

IV. ECONOMIC PRINCIPLES APPLICABLE TO ARIZONA

Q. What are the basic economic principles applicable in determining a fair rate of return for regulated utilities in Arizona?

A. Public utilities in Arizona establish rates designed to allow recovery of specific operating expenses, taxes and depreciation and are allowed the opportunity to earn a fair value rate of return on the fair value rate base (assets used in providing service to ratepayers). This is traditionally referred to as "cost of service." Rate base is determined from the asset section of the Company's balance sheet and the rate of return is determined from the liability side of the balance sheet. (i.e. debt and owner's equity) In this case, the Company is proposing that its original cost rate base also be used as its fair value rate base. Revenues are determined by multiplying rate base by the rate of return and in this case we are recommending an overall rate of return of 6.09 percent.

Q. What is the meaning a "fair rate of return" when analyzing a rate case application?

A. A fair rate of return means that a utility will have an opportunity to earn sufficient returns to maintain its financial integrity, attract capital in order to provide efficient utility service and provide returns that would be available for similar investment risks.

Q. Since public utilities are regulated monopolies are they guaranteed a rate of return on their investment?

A. No. Public utilities are not guaranteed the rate of return that has been authorized in each rate case. When utilities file rate case applications and a fair rate of return is determined, it doesn't mean that they are guaranteed this return. Many factors are involved in determining a rate of return. Investments in rate base items as well as increasing operating expenses between rate cases can have a negative impact on the utilities rate of return while at the same time an increase in revenues or decreases in operating expenses can have a positive impact. In the first case, when rate base increases and/or operating expense increase with no corresponding increase in revenues a public utility will generally file for a rate increase. Conversely, if revenues increase without a corresponding increase in rate base or operating expenses decrease utilities could be receiving a rate of return in excess of what has been approved by a utility commission. In those later cases the public utility may be instructed by the commission to file a rate case application so that the ratepayer will be given rate relief.

V. GENERAL ECONOMIC CONDITIONS – Schedule 6, Pages 1 through 8

Q. Can you please explain how general economic and financial conditions are considered in the determination of the cost of capital for a public utility?

A. Yes. The cost of capital is determined in part by the current and future economic and financial conditions. The level of economic activity; the stage of the business cycle; the trend in interest rates, and the level of inflation or expansion all play an important factor in determining the cost of capital. While there are other factors involved these are the most important and at any point in time each can have an influence on the cost of capital.

Q. Can you describe the recent trends in economic conditions and their impact on capital costs over the past thirty years?

A. Yes. Since the early 1980's through the end of 2007 the United States economy had been relatively stable. This period had been characterized by longer economic expansions, small contractions, low and/or declining inflation, and declining interest rates and other capital costs. However, in 2008 and 2009, the economy declined as a result of the mortgage crisis and had a negative effect on the financial markets both in the US and international financial markets. This decline was described as the worst financial crisis since the Great Depression and has been referred to as the "Great Recession." Since 2008, the U.S. and other governments implemented unprecedented actions to attempt to correct or minimize the scope and effects of this worldwide recession.

The recession bottomed out in mid-2009 and the economy began to slowly expand again, initially at a slow rate but has escalated at a much quicker rate in recent months. This is evidenced by the unemployment rate reducing from 6.7 at the end of 2013 to 5.6 percent at the end of December, 2014. Arizona's unemployment rate hasn't recovered quite as well as the national average and at the end of December, 2014 was 6.8 percent. The length of this most recent recession and the slow recovery indicate that the impact may be felt for an extended period of time.

Q. Can you please describe how the economic and financial indicators were examined and how they relate generally to the cost of capital?

A. Schedule 6 identifies relevant economic data such Gross Domestic Product ("GDP"), Industrial Production Growth, Unemployment, Consumer Price Index ("CPI") and Producer Price Index. These schedules also show that 2007 was sixth year of economic expansion and the economy entered into a significant decline as indicated in the GDP negative expansion for year 2008 and the increase in unemployment rates. Since 2010, the economy began to rebound, however, overall economic growth has been slower than the initial period of prior expansions.

Since 2008, the CPI has been 3 percent or lower, with 2014 being only 1.1 percent. The annual rate of inflation has generally been declining over the past several business cycles and continues as evidenced by 2014 annual inflation rate of 1.7 percent. The current levels of inflation are at the lowest levels over the past 35 years and are indicative of lower capital costs.

Q. What have been the trends in interest rates over the four prior business cycles and at the current time?

A. Schedule 6 shows that interest rates rose sharply to record levels in 1975-1981, when the inflation rate was high and generally rising. Interest rates declined substantially as did inflation rates during the remainder of the 1980s and throughout the 1990s. Interest rates declined even further from 2000-2005 and for the years 2009 through 2014, interest rates have been the lowest since prior to 1975. Since 2008, the Federal Reserve has lowered the Federal Funds rate in 2012 and 2013 both U.S. and corporate bond yields declined to their lowest levels in more than 35 years. Interest rates have risen slightly from those lows since the beginning of 2013. Even with the recent increases, both government and corporate lending rates remain at historically low levels through 2014, again reflective of lower capital costs.

Q. What do the economic indicators show for trends of common share prices?

A. Schedule 6, pages 5 and 6 of 6, show that stock prices were essentially stagnant during the high inflation/high interest rate environment of the late 1970s and early 1980s. Beginning in 1983 a significant upward trend in stock prices began. However, the beginning of the recent financial crisis saw stock prices decline significantly and stock prices in 2008 and early 2009 were down significantly from peak 2007 levels, reflecting the financial/economic crisis. Beginning in the second quarter of 2009, prices have recovered substantially and have ultimately reached and exceeded the levels achieved prior to the beginning of the "crash" and the DOW Jones Industrial average has reached all-time highs.

Q. What conclusions can be reached from your discussion of economic and financial conditions?

A. I believe that the most recent downturn in the economy has resulted in a decline in the investor expectation of returns. This is evident in several ways: 1) lower interest rates on bank deposits; 2) lower interest rates on U.S. Treasury and corporate bonds; and, 3) lower increases in Social Security cost of living benefits. While unemployment has reduced substantially, the average median income of families has reduced as well. Finally, as noted above, utility bond interest rates are currently at levels below those prevailing prior to the financial crisis of late 2008 to early 2009 and are near the lowest levels in the past 35 years. While the economy is recovering from this latest recession, it is recovering slower than expected. Slower recovery means that the results of the traditional cost of equity models are lower than prior to the recession.

VI. PROXY GROUP SELECTED

Q. How have you estimated the cost of equity for EWAZ?

A. The Company is not a publicly-traded company. However, in performing a cost of capital analysis, it is customary to analyze groups of comparative, or "proxy," companies as a substitute for EWAZ to determine its cost of equity. I have selected nine companies for comparison to EWAZ. This proxy group includes all nine of the water utilities included in Value Line Investment Survey.[2] My group of the nine companies that are included in my analysis are the same proxy group used by EWAZ's Cost of Capital expert witness Ms. Pauline M. Ahern.

VII. COST OF EQUITY CAPITAL ANALYSIS

Q. How did you calculate the cost of equity in performing your analysis?

A. I utilized three separate models in my calculations. First, I prepared the DCF model and computed the cost of equity capital. Second, I calculated the cost of equity using the CAPM. Third and finally, I prepared a Comparable Earnings Model. My recommendation is based on an average of the results of the three models to arrive at my recommended cost of equity.

DCF ANALYSIS – SCHEDULE 3

Q. What is the theory and methodological basis of the DCF model?

A. Basically the DCF model, one of the oldest and most commonly used of the cost of equity models, is based on the "dividend discount model" of financial theory, which maintains that the value (price) of any security or commodity is the discounted present value of all future cash flows.

The most common variant of the DCF model assumes that dividends are expected to grow at a constant rate and the following formula will generate the cost of capital.

[2] See Attachment 1

$$K = \frac{D}{P} + g$$

where: K = cost of equity
P = current price
D = current dividend rate
K = discount rate (cost of capital)
g = constant rate of expected growth

This formula essentially recognizes that the return expected, or required, by investors is comprised of two factors: the dividend yield (current income) and expected growth in dividends (future income).

Q. Please explain how you calculated the cost of equity capital using the DCF model.

A. I use the constant growth DCF model. In doing so, I combine the current dividend yield for each group of proxy utility stocks described in the previous section with several indicators of expected dividend growth.

Q. How did you calculate the dividend yield component of the DCF equation?

A. While there are several methods that can be used to calculate dividend yield I believe the most appropriate dividend yield component is a quarterly compounding variant expressed as follows:

$$Yield = \frac{D_0(1 + 0.5g)}{P_0}$$

This dividend yield component recognizes the timing of dividend payments and dividend increases.

The P_o in my yield calculation is the average of the high and low stock price for each proxy company for the most recent three month period (July – September, 2014). The D_o is the current annualized dividend rate for each proxy company.

Q. How do you estimate the dividend growth component of the DCF equation?

A. The DCF model's dividend growth rate component is usually the most crucial and controversial element involved in using this methodology. A critical assumption in this analysis is that investors do not always have the same investment objective. A wide array of indicators exists for estimating investors' growth expectations. As a result, it is evident that investors do not always use one single indicator of growth. It therefore, is necessary to consider alternative dividend growth indicators in deriving the growth component of the DCF model. I have considered five indicators of growth in my DCF analyses. These are:

1. Years 2009-2013 (5-year average) earnings retention, or fundamental growth;
2. Five-year average of historic growth in earnings per share (EPS), dividends per share (DPS), and book value per share (BVPS);
3. Years 2014, 2015 and 2017-2019 projections of earnings retention growth (per Value Line);
4. Years 2011-2013 to 2017-2019 projections of EPS, DPS, and BVPS (per Value Line); and,
5. Five - year projections of EPS growth.

This combination of growth indicators is a representative and appropriate set with which to begin the process of estimating investor expectations of dividend growth for the groups of proxy companies. In addition, these growth indicators reflect the types of information that investors would normally consider in making their investment decisions.

Q. Please describe your DCF calculations.

A. Schedule 3 pages 1 through 4, presents my DCF analysis. Page 3 shows the calculation of the dividend yield (prior to adjustment for growth) for each proxy company. Pages 2 and 4 show the growth rates for the groups of proxy companies including estimated growth rates. Page 1 shows the "raw" DCF calculations, which are presented on several bases: mean, median, and high values. The DCF calculations should not be interpreted to reflect the expected cost of capital for individual companies in the proxy groups; rather, the individual values shown should be interpreted as alternative information considered by investors.

Q. What are your conclusions from your DCF analyses?

A. The DCF rates resulting from the analysis of the proxy group falls into a range between 7.6 percent and 8.7 percent. The highest DCF rates are 8.7 percent. I recommend a cost of equity of 8.7 percent for EWAZ, which is based on the high end of the DCF range. Use of the high end of the DCF results for EWAZ reflects that the business risk of EWAZ is modestly higher than the business risk on average of the companies in the proxy group.

CAPM ANALYSIS – SCHEDULE 4

Q. Can you please describe the CAPM and the benefits of preparing this analysis?

A. The CAPM describes the relationship between a security's investment risk and its market rate of return. This relationship identifies the rate of return which investors expect a security to earn so that its market return is comparable with the market returns earned by other securities that have similar risk. The relationship is specified by the Security Market Line (SLM) that indicates the relationship between each security or portfolio's "beta" and its resulting return. Beta is an indicator of investment risk. It is a measure of the expected amount of change in a security's variability of return relative to the return variability of the overall capital market. The general form of the CAPM is:

$$K = R_f + \beta\,(R_m - R_f)$$

Where: K = *cost of equity*

R_f = *risk free rate*

R_m = *return on market*

β = *beta*

$R_m - R_f$ = *market risk premium*

Q. Can you please identify the strengths of using the CAPM model in your analysis?

A. The CAPM is cited as having the following strengths (1) it is based on the concept of risk and return; (2) it is company specific as it relates to the specific beta's within the industry; (3) it has widespread use as it recognizes that investors can and do diversify; (4) it's highly structured and easy to apply when using the assumptions of the model; (5) the model is formulistic and the data used in the computations is readily available; (6) it is a forward looking concept; and (7) it is a method for converting changes in interest rates to the cost of equity.

Q. What do you use for the risk-free rate?

A. In CAPM applications, the risk-free rate is generally recognized by use of U.S. Treasury securities. Two general types of U.S. Treasury securities are most often used as the risk free *(R_f)* component, short-term U.S. Treasury bills and long-term U.S. Treasury bonds.[3] I performed CAPM calculations using the three-month average yield (August - October 2014) for 20-year U.S. Treasury bonds. I use the yields on long-term Treasury bonds since this matches the long-term perspective of the cost of equity analyses. Over this three-month period, these bonds had an average yield of 2.91 percent.

Q. What betas do you employ in your CAPM?

A. Once again, beta[4] is a measure of the relative volatility, or risk, of a particular stock in relation to the overall market. Betas less than 1 are considered less risky than the market, whereas betas greater than 1 are more risky. Utility stocks traditionally have had betas below 1. The most recent Value Line betas have been used in my analysis for each company in my proxy group.

Q. How do you estimate the market risk premium component?

A. The market risk premium component (R_m-R_f) represents the investor-expected premium of common stocks over the risk-free rate, or government bonds. For the purpose of

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[3] See Attachment 2
[4] See Attachment 1 – Individual proxy companies beta's identified

estimating the market risk premium, I considered alternative measures of returns of the S&P 500 (a broad-based group of large U.S. companies) and 20-year U.S. Treasury bonds.

First, I compared the actual annual returns on equity of the S&P 500 with the actual annual yields of U.S. Treasury bonds. Schedule 6 shows the return on equity for the S&P 500 group for the period 1978-2013 (all available years reported by S&P). This schedule also indicates the annual yields on 20-year U.S. Treasury bonds and the annual differentials (*i.e.* risk premiums) between the S&P 500 and U.S. Treasury 20-year bonds. Based upon these returns, I conclude that the risk premium from this analysis is 7.36 percent.

I next considered the total returns (*i.e.* dividends/interest plus capital gains/losses) for the S&P 500 group as well as for long-term government bonds, as tabulated by Morningstar (formerly Ibbotson Associates), using both arithmetic and geometric means. I considered the total returns for the entire 1926-2013 period, which are as follows:

	S&P 500	LT Gov't Bonds	Risk Premium
Arithmetic	12.1 %	5.9 %	6.2 %
Geometric	10.1 %	5.5 %	4.6 %

I concluded that the expected risk premium is 6.53 percent. The risk premium was computed as the average of the risk premium on Schedule RBM – 4, page 2 of 2 and the arithmetic risk premium of 6.2 percent above. I chose the arithmetic mean because investors expect to achieve their target returns over a period of time. The target return is effectively calculated using the arithmetic average.

Q. What is your conclusion concerning the CAPM COE?

A. My calculations using the CAPM results is 7.48 percent for the group of proxy utilities. I conclude that an appropriate COE estimation for EWAZ is 7.48 percent.

COMPARABLE EARNINGS ANALYSIS – SCHEDULE 5

Q. Please describe the basis of the Comparable Earnings (CE) methodology.

A. The CE method is designed to measure the returns expected to be earned on the original cost book value of similar risk enterprises, in this case the proxy companies. Thus, it provides a direct measure of the fair return, since it translates into practice the competitive principle upon which regulation rests. While EWAZ is not a public company as is the proxy group, it still provides additional support that the company will be earning a fair rate of return.

Q. What time periods do you examine in your CE analysis?

A. My CE analysis considers the experienced equity returns of the proxy group of utilities for the period 1992-2014 (*i.e.* the last twenty-two years). Longer periods of time are required in order to determine trends in earnings over at least a full business cycle.

Q. What was the result of your calculation?

A. As shown on Schedule 5, the results of my CE review and calculating various averages of the proxy group earnings since 1992, result in a CE average and recommendation of in this case of 10.50 percent. The average is based on the rates of return of the proxy utilities and can be summarized as follows:

	Historic ROE's	Prospective ROE's
Mean	9.4 % - 11.1 %	9.9 % - 10.9 %
Median	9.5 % - 11.1 %	9.3 % - 10.3 %

The range as shown in the CE review is between 9.30 percent and 11.10 percent.

VIII. COMMENTS OF COMPANY TESTIMONY

Q. What cost of capital has EWAZ requested in its rate application?

A. EWAZ has requested a total cost of capital of 6.87 percent, which includes a COE on 10.70 percent. Ms. Pauline M. Ahern, the Company's COE expert witness derived her COE in her analysis as follows:

	Proxy Group[5]
DCF Model	8.37 %
Risk Premium Model	11.25 %
CAPM Model	9.93 %
Indicated Common Equity Cost Rate	9.95 %
Credit Risk Adjustment	.44 %
Business Risk Adjustment	.30 %
Indicated Common Equity Cost Rate	10.69 %
Recommended Common Equity Cost Rate	10.70 %

Q. Do you have any comments on Ms. Ahern's analysis and recommendations?

A. Yes. I do not agree with her final conclusions in the Risk Free Model and her CAPM. Ms. Ahern's DCF model-based recommendation of 8.37 percent is lower that my DCF analysis result of 8.69 percent, and I will use my calculations in finalizing my recommended COE.

[5] Ms. Ahern's Testimony, Page 4

Q. Can you describe Ms. Ahern's Risk Premium Model and her conclusions?

A. Ms. Ahern prepared two types of risk free models in her analysis. The first method, Predictive Risk Premium ("PRPM™") produced an 11.68 percent cost of equity and the risk premium using the market approach produced a 9.96 percent cost of equity[6]. As Ms. Ahern explains on page 35 of her testimony, the RPM derived common equity is 11.25 percent is derived by giving three times the greater weight to the PRPM™ results because the PRPM™ is based on a minimum of restrictive assumptions. In addition, the PRPM™ is "not based upon an estimate of investor behavior" because it evaluates the results of that behavior.

Q. Please explain the first model Ms. Ahern's conclusions.

A. The PRPM™ estimates the risk/return relationship directly by analyzing the actual results of investor behavior rather than using subjective judgments as to the inputs required for the application of other cost of common equity models. The PRPM™ is not based upon an estimate of investor behavior, but rather upon the evaluation of the results of that behavior, i.e. the variance of historical equity risk premiums. Also, in the derivation of the premiums, greater weight is given to more recent time periods, in contrast to reliance on the arithmetic mean premium which gives equal weight to each observed premium.

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[6] M. Pauline Ahern's Testimony, Schedule 7, Page 1

Q. Has Ms. Ahern's PRPM™ been used in her analysis of cost of equity in previous testimony in Arizona and other State Commissions in the past?

A. The PRPM™ has apparently been used by Ms. Ahern, but is not an accepted model in utility regulation, and, to my knowledge, has never been adopted by a regulatory commission, including the Arizona Corporation Commission, in setting a utility ROE. In fact, the sole purpose of Ms. Ahern's use of this model seems to produce an ROE result that is far higher than the results produced by models such as DCF and CAPM that have been widely accepted in the utility industry. The PRPM™ was originally developed in 2004 and is a relatively new approach and untried. The PRPM™ was presented in the Chaparral City Water Company's most recent rate case and was not recommended in the final Decision. In response to Staff DR #13.5 "To the best of Ms. Ahern's knowledge Ms. Ahern's PRPM™ cost of equity recommendations have not been specifically adopted in a regulatory proceeding."

Q. Do you believe that the PRPM™ distorts the cost of equity and is just a way to increase the cost of equity?

A. Yes I do. When compared to the DCF model and the CAPM, the PRPM™ calculated cost of equity in 288 basis points more than the DCF and 132 basis points above the CAPM. This is just a way to increase the cost of equity by presenting a model that is untried and untested. Stated another way, this is clearly a results oriented model. With all of the adjustor mechanisms currently in place and being requested as part of its case, in additions to a generous SIB, it is simply incredible that the Company seeks a cost of equity 288 basis points more than its DCF results. The cost of equity is a function of risk – the more risk the greater the return – not the other way as the Company is seeks.

Q. Do you agree with Ms. Ahern's adjusted market risks premium model?

A. No. I don't. There are several problems with her model. Her analysis is skewed to favor higher results. Her use of total stock returns over the 1926 – 2012 period, in connection with bond yields over the same period, implies that investors in 2013 would expect the same type of relationship. This is a stretch that current investors would expect the same relationship as depression-era and other era investors. In addition, by looking at such a lengthy period, both the Great Depression and World War II weight heavily on the outcome of the calculations. In addition, the highly inflationary period in the mid 1970's and early 1980's would have the effect of inflating risk premiums over those expected returns by investors.

Q. Ms. Ahern also prepared a CAPM in her analysis and based on the results identifies a 9.92 percent COE. Do you agree with her analysis and methodologies used in her analysis?

A. No, I don't agree with Ms. Ahern's CAPM analysis. In her analysis she performs both a "traditional" and an "empirical" CAPM analysis. In her traditional analysis she uses a risk free rate of 4.31 percent, (**projected yield** on a 30 year US Treasury Bonds), and today 30 year Treasury Bonds are yielding well below this rate. Prospective interest rates as used in Ms. Ahern's analysis are not known and measurable and purely speculative. Ms. Ahern's use of a 30 year period opposed to a more appropriate period of 20 years generates a higher risk free rate even when reviewing it on a prospective basis.

It is more accurate to use the current yield, rather than a projected yield as it is known and measurable and reflects the investor's current expectations. Prospective interest rates are not known and measurable. The current yield reflects what investors will receive over a period of time and should be used as the risk-free rate in the CAPM.

Q. You identify in your calculated CAPM cost of equity of 7.48 percent compared to Ms. Ahern's recommended 9.92 percent. What other differences have you identified in your analysis?

A. Ms. Ahern states in her testimony that she has "averaged the prospective and historical yields of U.S. Treasury Securities because the current U.S. Treasury securities market, the Federal Bank is artificially and indefinitely keeping interest rates low until certain economic thresholds are met: i.e. unemployment falls to 6.5% and inflation rises to 2.5%, amid concerns over struggling U.S. Economy." She goes on to say that the Treasury Bond yields and the consensus forecasted yields are near historical and unprecedented lows. As such, they are, by definition, not currently representative of long-term cost of capital."[7] The unemployment rate has fallen to below 6.5 percent but inflation has not reached a level of 2.5 percent. Even with these changes, the Treasury Bonds yields have continued to fall. The results of her analysis is purely speculative and cannot be relied on.

By averaging both historical and prospective (over a 30 year period) her risk free rate is 4.31 percent compared to the current rate of 2.91 percent. The risk free rate used in her analysis is purely a speculative rate and cannot be relied on based on current investor's expectations in the market place.

[7] Ms. Ahern's Testimony, Page 37

IX. BUSINESS RISK ADJUSTMENT

Q. Has the Company requested a business risk and a credit risk adjustment in its Recommended Common Equity Cost Rate?

A. Yes. Ms. Ahern has included in her Recommended Common Equity Cost Rate two additional adjustments for risk: (1) an additional 30 basis points for a Business Risk Adjustment and (2) an additional 44 basis points for a Credit Risk Adjustment. I will first address the business risk in this section of my testimony. Then, I will address the credit risk in the following section of my testimony.

Q. How has Ms. Ahern defined business risk?

A. Yes. Ms. Ahern defines business risk as the "riskiness of a company's common stock without the use of debt and/or preferred capital. Ms. Ahern also provides examples of business risk such as quality of management, regulatory environment, capital intensity, and size, all of which have a direct bearing on earnings. An individual utility may face different levels of one or more of these risks. This means that business risk is important to the determination of a fair rate of return because the greater the level of risk, the greater the return investors demand, consistent with the basic principles of risk and return.

Q. In Ms. Ahern's testimony at page 8 she states that it took $3.51 of net utility plant on average to produce $1.00 in operating revenues in 2012 for the water utility industry as a whole while it took a much lower $3.28 of net utility plant to produce $1.00 of operating revenues for EWAZ. How would you interpret this analysis?

A. There are several ways to view EWAZ's lower cost. First, the Company may have neglected its system and failed to invest in capital system upgrades and/or improvements that were necessary and second, the Company may not have sufficient cash remaining from retained earnings to invest in capital system upgrades and/or improvements, after making substantial dividend payments to EWUS, which flow upwards to the utility's ultimate owner, the City of Edmonton, Alberta, Canada.

Q. Let's discuss the retention of cash or in EWAZ the lack of cash retention. On page 18 of Ms. Ahern's testimony she states that the average dividend payout for her proxy group companies was 65.95 percent. Have you determined what EWAZ's dividend payout ratio is targeted at?

A. Yes. The company responded to RUCO's DR #14.03 as follows, "From time to time EWAZ pays dividends to EWUS. To calculate the dividend amount, EWAZ determines its net income from the previous 12-months, less any dividends paid in that period, and multiplies that amount by 75 percent. This dividend amount is then paid to EWUS. In Ms. Ahern's testimony she states that her proxy group of companies used in her analysis had a dividend payout ratio of 65.95 percent.[8] However, in my analysis the actual dividend payout ratio is 54.94 percent.[9]

Q. Can you please identify the earnings that the Company has reported since they began operations on February 1, 2012 and the dividend payments that have also been paid since the purchase date?

A. Yes, please see the following summary table: [10]

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[8] Direct testimony of Pauline M. Ahern, Cost of Capital. Page 18
[9] See Attachment 4
[10] See Attachment 5

Date		Earnings	Date		Dividends
December 31, 2012	$	10,319,000	December 31, 2012	$	10,378,122
December 31, 2013	$	14,773,000	December 31, 2013	$	3,691,533
June 30, ,2014	$	4,745,000	June 30, ,2014	$	9,892,890
TOTAL	$	29,837,000	TOTAL	$	23,962,545

PAYOUT RATIO $\boxed{80.31\%}$

The Company's dividend payout ratio is 80.31 percent. This exceeds the proxy group of company's dividend payout ratio of 54.94 percent by 25 percent. In addition, the Company is paying approximately 5 percent over the 75 percent that it has indicated is its own internally targeted dividend distribution ratio.

Q. Why do you believe that the dividends paid by EWAZ to EWUS are important in this discussion?

A. EWAZ has a targeted dividend payout of 75 percent of net income which exceeds the average payout ratio of the proxy group of 55 percent by 20 percent. Since EPCOR's assumption of ownership, EWAZ has paid out 80 percent of its earnings, as shown above. This represents 25 percent more in dividends distributions than the proxy group of companies.

Q. Could the dividends paid to EWUS be used in the districts to help in the betterment of the existing infrastructure and benefit the ratepayers in the districts in Arizona?

A. Yes. The proxy companies included used in our analysis pay out significantly less in dividends and EWAZ could follow suit and do the same.

Q. What has the Company stated about its need to attract capital to invest in infrastructure?

A. In the Company's filing of its RESPONSE TO RUCO'S MOTION TO CONTINUE ALL PROCEDUREL DEADLINES, CONTINUE HEARING, AND FOR TOLLING OF THE RATE CASE TIME-CLOCK, the Company states on Page 11, Line 23 "The Company needs rate relief for the five districts in this docket: any delay is detrimental to its financial health. Poor financial health makes it harder and more costly to attract the capital necessary to meet continuing infrastructure investment challenges EWAZ faces."

Q. Are these Company statements about the need to attract capital consistent with EWAZ's payment of dividends to its parent at payout ratios which substantially exceed the average of the proxy group of companies that Ms. Ahern has included in her testimony?

A. No. If the Company is truly experiencing the financial difficulties that have been portrayed in the rate case filing, as discussed in the above referenced motion filed by the Company and the testimony of Ms. Ahern, then the Company should reduce its dividend payments to its parent. Retaining capital at EWAZ by lowering the dividend payout ratios closer to the industry average is one way to help assure that EWAZ has capital to invest in infrastructure.

X. CREDIT RISK ADJUSTMENT

Q. Has the Company requested a business risk and a credit risk adjustment in its Recommended Common Equity Cost Rate?

A. Yes. As previously stated, Ms. Ahern has included in her Recommended Common Equity Cost Rate 30 basis points for a Business Risk Adjustment and a Credit Risk Adjustment of 44 basis points.

Q. What is Ms. Ahern's rational for proposing a credit risk adjustment of 44 basis points?

A. Basically the reasons presented in Ms. Ahern's testimony are (1) EWAZ's small size, (2) the financial metrics of EWAZ are consistent with the Baa/BBB category and (3) the bond rating agencies, specifically S&P, link the bond / credit ratings of subsidiaries with those of their parent holding companies. Ms. Ahern's testimony further states, "Therefore, in my opinion, if EWAZ were rated, it would be rated in the Baa / BBB rating category, a less credit-worthy, or riskier bond / credit rating category than that of the proxy group of nine water companies."

Q. Has Standard & Poor's Rating Services ("S&P") recently revised its bond rating of EWAZ's parent company to a higher rating?

A. Yes. In the most recent S&P Ratings Update, published September 26, 2014, EPCOR Utilities, Inc., corporate credit and senior unsecured debt ratings were upgraded from a BBB+ to A-.

Q. What was S&P's rational for the upgrade?

A. S&P's explanation of the ratings upgrade states that:[11]

"Under our criteria, to determine the assessment of the business risk profile, we combine an assessment of industry risk, country risk and competitive position. EPCOR's operations in regulated electricity and water businesses account for more than 85% of its consolidated EBITDA. Based on our criteria, we assess industry risk for regulated utilities as very low risk. All of the company's operations are in Canada or the U.S., which we assess as having a very low risk. Based on this and the very low country risk, we have assigned a corporate industry country risk assessment (CICRA) score of 1. Combined with a "strong" competitive position, this results in an "excellent" business risk profile."

Q. Can you summarize the Ratings Score Snapshot, as published in the S&P Service Ratings Report?

A. Corporate Credit Rating: A-/Stable/--
Business risk: Excellent
-- Country risk: Very Low
-- Industry risk: Nery Low
-- Competitive position: Strong
Financial risk: Intermediate
-- Cash flow / Leverage: Intermediate

Q. Does the City of Edmonton, the sole shareholder of EPCOR Utilities, Inc., also have a published credit rating from S&P?

A. Yes. As published on September 30, 2013 the City of Edmonton, Canada was given strong marks by S&P. "International credit rating agency Standard & Poor's has given its second-highest score, AA+ rating, to the City of Edmonton for the third year in a row. The rating is just one notch below the highest possible mark and indicates a stable outlook for the City of Edmonton."[12]

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[11] See Attachment 6 for Rating Agency Reports
[12] See Attachment 6 for Published Report

Q. Are there any other agencies that have provided positive ratings analysis of EPCOR Utilities, Inc.?

A. Yes. On August 7, 2014 DBRS is its Rating Reports has confirmed the "Issuer Rating and the Senior Unsecured Debentures rating of EPCOR Utilities Inc. (EUI or the Company) at A (low) and the Commercial Paper a rating at R-1 (low), all with Stable trends. EUI's consolidate risk profile is supportive of the current rating category, with all key credit metrics in the "A" rating range. The Company's key rations going forward will continue to benefit from the increase in cash flow resulting from the acquisition of EPCOR Water Arizona Inc. (Water Arizona) and EPCOR Water Mew Mexico Inc. (Water New Mexico) in late 2012."

Q. What are your thoughts concerning EPCOR's recent rating agencies analysis and upgrades and EWAZ's credit risk?

A. The recent rating agencies reports and the upgrade is an indication of the business and financial strength of EWAZ's parent company and its low credit risk. The recent rating agency upgrades and discussion of EPCOR's credit rating demonstrate that EPCOR has relatively low risk and enjoys a high bond rating. There is a direct link between the bond / credit ratings of subsidiaries with those of their parent company. The business and credit risk of a wholly-owned, cost of service based, rate regulated monopoly utility operating in the U.S. such as EWAZ is comparable to that of its parent. There is no reliable basis for imputing a credit risk adjustment to EWAZ's return on equity in the current rate case.

Q. Can you please summarize what your final conclusions are concerning the Company's request for a business and credit risk adjustments?

A. Neither adjustment has been justified. The additional 77 basis points for various business and financial risks, claimed by Ms. Ahern simply do not apply in this case and should be rejected.

Q. Does this conclude you testimony on Cost of Capital?

A. Yes.

ATTACHMENT 1

AMER. STATES WATER NYSE-AWR

RECENT PRICE 30.52 | P/E RATIO 20.8 (Trailing: 20.3 Median: 21.0) | RELATIVE P/E RATIO 1.20 | DIV'D YLD 2.8% | VALUE LINE

TIMELINESS 3 Lowered 5/16/14

SAFETY 2 Raised 7/20/12

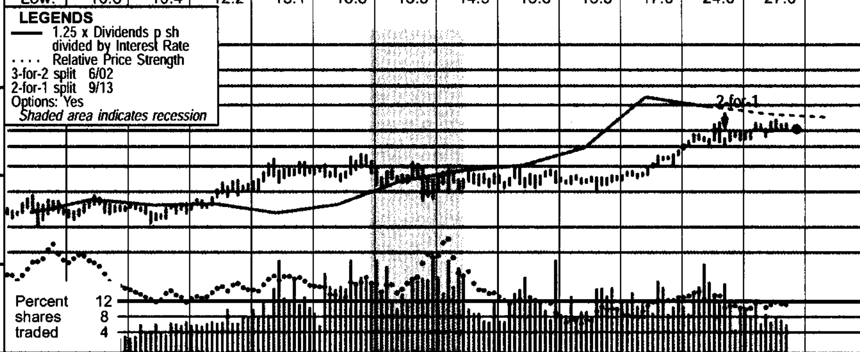
TECHNICAL 3 Lowered 10/10/14

BETA .70 (1.00 = Market)

High:	14.5	13.4	17.3	21.9	23.1	21.0	19.4	19.8	18.2	24.1	33.1	34.0	
Low:	10.8	10.4	12.2	15.1	16.8	13.5	14.9	15.6	15.3	17.0	24.0	27.0	

Target Price Range 2017 | 2018 | 2019

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 6/02
2-for-1 split 9/13
Options: Yes
Shaded area indicates recession



80
60
50
40
30
25
20
15
10
7.5

2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+45%)	12%
Low	35	(+15%)	6%

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	0	0	0	0	0	0	0	0
Options	1	0	0	0	1	0	0	0	0
to Sell	2	0	0	0	2	0	0	1	0

Institutional Decisions

	4Q2013	1Q2014	2Q2014
to Buy	79	79	96
to Sell	72	72	68
Hld's(000)	23188	23233	23236

Percent shares traded 12 8 4

% TOT. RETURN 9/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	13.5	9.5
3 yr.	95.7	84.2
5 yr.	95.1	104.4

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
5.51	6.45	6.08	6.53	6.89	6.99	6.81	7.03	7.88	8.75	9.21	9.74	10.71	11.12	12.12	12.19	*12.30*	*12.95*	Revenues per sh	*14.95*
1.02	1.13	1.10	1.26	1.27	1.04	1.11	1.32	1.45	1.65	1.69	1.70	2.11	2.13	2.48	2.65	*2.60*	*2.75*	"Cash Flow" per sh	*3.15*
.54	.60	.64	.67	.67	.39	.53	.66	.67	.81	.78	.81	1.11	1.12	1.41	1.61	*1.45*	*1.60*	Earnings per sh A	*1.90*
.42	.43	.43	.43	.44	.44	.44	.45	.46	.48	.50	.51	.52	.55	.64	.76	*.83*	*.87*	Div'd Decl'd per sh B■	*1.10*
1.56	2.15	1.51	1.59	1.34	1.88	2.51	2.12	1.95	1.45	2.23	2.09	2.12	2.13	1.77	2.52	*2.25*	*2.40*	Cap'l Spending per sh	*2.40*
5.74	5.91	6.37	6.61	7.02	6.98	7.51	7.86	8.32	8.77	8.97	9.70	10.13	10.84	11.80	12.72	*12.60*	*13.05*	Book Value per sh	*15.20*
26.87	26.87	30.24	30.24	30.36	30.42	33.50	33.60	34.10	34.46	34.60	37.06	37.26	37.70	38.53	38.72	*38.00*	*37.50*	Common Shs Outst'g C	*37.50*
15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.4	14.3	17.2	*Bold figures are*		Avg Ann'l P/E Ratio	*20.0*
.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.00	.97	.91	.97	*Value Line*		Relative P/E Ratio	*1.25*
5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.2%	3.1%	2.7%	*estimates*		Avg Ann'l Div'd Yield	*2.8%*

CAPITAL STRUCTURE as of 6/30/14
Total Debt $332.2 mill. Due in 5 Yrs $7.6 mill.
LT Debt $310.9 mill. LT Interest $22.0 mill.
(LT interest earned: 5.7 x: total interest coverage: 5.4 x) (39% of Cap'l)
Leases, Uncapitalized: Annual rentals $2.2 mill.
Pension Assets-12/13 $127.5 mill. **Oblig.** $152.7 mill.
Pfd Stock None.

Common Stock 38,709,657 shs. as of 8/4/14

MARKET CAP: $1.2 billion (Mid Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		17-19
228.0	236.2	268.6	301.4	318.7	361.0	398.9	419.3	466.9	472.1	*455*	*485*	Revenues ($mill)	*560*
16.5	22.5	23.1	28.0	26.8	29.5	41.4	42.0	54.1	62.7	*56.0*	*60.0*	Net Profit ($mill)	*71.0*
37.4%	47.0%	40.5%	42.6%	37.8%	38.9%	43.2%	41.7%	39.9%	36.3%	*37.0%*	*39.0%*	Income Tax Rate	*39.0%*
--	--	12.2%	8.5%	6.9%	3.2%	5.8%	2.0%	2.5%	.5%	*.5%*	*2.0%*	AFUDC % to Net Profit	*2.0%*
47.7%	50.4%	48.6%	46.9%	46.2%	45.9%	44.3%	45.4%	42.2%	39.8%	*40.0%*	*41.0%*	Long-Term Debt Ratio	*42.0%*
52.3%	49.6%	51.4%	53.1%	53.8%	54.1%	55.7%	54.6%	57.8%	60.2%	*60.0%*	*59.0%*	Common Equity Ratio	*58.0%*
480.4	532.5	551.6	569.4	577.0	665.0	677.4	749.1	787.0	818.4	*800*	*825*	Total Capital ($mill)	*980*
664.2	713.2	750.6	776.4	825.3	866.4	855.0	896.5	917.8	981.5	*1010*	*1040*	Net Plant ($mill)	*1160*
5.2%	5.4%	6.0%	6.7%	6.4%	5.9%	7.6%	7.1%	8.3%	8.9%	*8.5%*	*8.5%*	Return on Total Cap'l	*8.5%*
6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	*11.5%*	*12.5%*	Return on Shr. Equity	*12.5%*
6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	*11.5%*	*12.5%*	Return on Com Equity	*12.5%*
1.0%	2.8%	2.7%	3.9%	3.1%	3.2%	5.8%	5.3%	6.6%	6.8%	*6.0%*	*5.0%*	Retained to Com Eq	*5.5%*
84%	67%	67%	58%	64%	61%	47%	49%	45%	47%	*57%*	*54%*	All Div'ds to Net Prof	*58%*

CURRENT POSITION ($MILL.)	2012	2013	6/30/14
Cash Assets	23.5	38.2	77.9
Other	160.5	153.4	120.0
Current Assets	184.0	191.6	197.9
Accts Payable	40.6	49.8	45.4
Debt Due	3.3	6.3	21.3
Other	49.8	44.8	60.8
Current Liab.	93.7	100.9	127.5
Fix. Chg. Cov.	488%	531%	533%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	5.5%	6.5%	*4.0%*
"Cash Flow"	7.5%	8.5%	*4.5%*
Earnings	9.0%	13.0%	*5.5%*
Dividends	4.0%	6.5%	*9.0%*
Book Value	5.5%	6.5%	*4.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	94.3	109.8	119.9	95.3	419.3
2012	107.6	114.3	133.5	111.5	466.9
2013	110.6	120.7	130.9	109.9	472.1
2014	101.9	115.6	*127.5*	*110*	*455*
2015	*115*	*120*	*135*	*115*	*485*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.19	.34	.42	.17	1.12
2012	.27	.40	.49	.26	1.41
2013	.35	.43	.53	.30	1.61
2014	.28	.39	*.50*	*.28*	*1.45*
2015	*.30*	*.45*	*.55*	*.30*	*1.60*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.13	.13	.13	.13	.52
2011	.13	.14	.14	.14	.55
2012	.14	.14	.1775	.1775	.64
2013	.1775	.1775	.2025	.2025	.76
2014	.2025	.2025	.213		

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Sold Chaparral City Water of Arizona (6/11). Has 728 employees. Officers & directors own 2.9% of common stock (4/12 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprowls. Inc: CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

American States Water's earnings will likely decline this year. Share earnings were down 13% for the first half of 2014 as the noncore businesses' contribution fell to $0.12, or 50% less than in the similar 2013 period. Results at the main water utility operations also decreased, more than 8%, as last year's bottom line was aided by a one-time recovery of costs. To reflect this, we have lowered our per-share estimate for the company by $0.15, to $1.45.

The outlook for 2015 is only marginally better. Profits from Golden Gate Water Co. (GGWC), American States' main subsidiary, will be restrained as the utility is bumping up to its allowed return on equity. Overall, we think share net can recover to $1.60 for the full year.

A favorable regulatory climate augurs well for the GGWC's long-term prospects. To the surprise of many utility investors, the California Public Utility Commission (CPUC) has been very constructive in dealing with water utilities. Perhaps realizing the difficult conditions facing the state, as a result of the prolonged drought, the CPUC permits rates to be calculated using a "forward-looking test year". This allows for faster recovery of any higher-than-projected costs. Since utilities file for rate relief every three years in California, we are optimistic that GGWC will receive fair treatment on the rate case filed in July for the years 2016, 2017, and 2018.

Nonregulated businesses have solid prospects. Through its ASUS subsidiary, the company operates the water systems at nine U.S. Army bases. As can be seen from this year, earnings can be choppy and unpredictable. Nevertheless, with 50-60 military bases expected to privatize their systems over the next five to 10 years, we estimate that ASUS can obtain a fair share of this business. Since the returns on these operations are higher than those from the regulated sector, they should provide a boost to earnings.

Long-term, income-seeking investors may like this equity. For starters, the company has a solid balance sheet. In addition, a 1.25 million share-buyback program was recently initiated. Furthermore, dividend growth prospects through 2017-2019 are above average for a water utility.

James A. Flood *October 17, 2014*

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 7¢; '05, 13¢; '06, 3¢; '08, (14¢); '10, (23¢) '11, 10¢. Next earnings report due early November. Quarterly earnings may not add due to rounding.
(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	A
Stock's Price Stability	90
Price Growth Persistence	65
Earnings Predictability	90

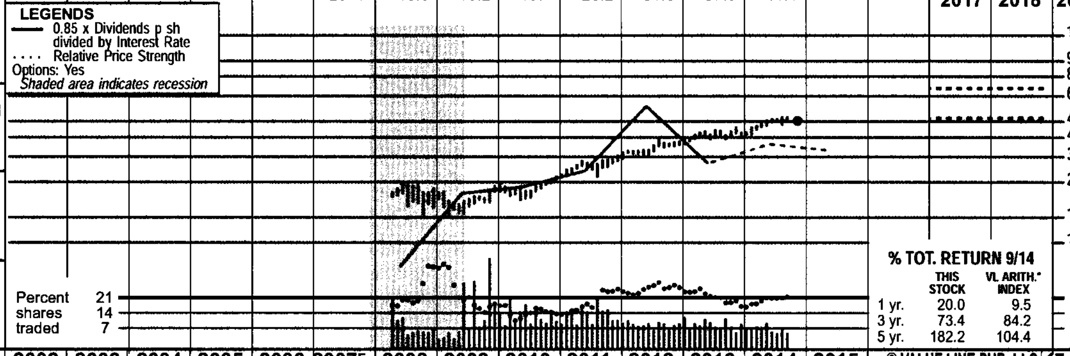
AMERICAN WATER NYSE-AWK

RECENT PRICE 48.40 | P/E RATIO 20.0 (Trailing: 22.4 Median: NMF) | RELATIVE P/E RATIO 1.16 | DIV'D YLD 2.7% | VALUE LINE

TIMELINESS 2 Lowered 8/15/14
SAFETY 3 New 7/25/08
TECHNICAL 3 Lowered 8/8/14
BETA .70 (1.00 = Market)

High:	23.7	23.0	25.8	32.8	39.4	45.1	50.7
Low:	16.5	16.2	19.4	25.2	31.3	37.0	41.1

Target Price Range 2017 | 2018 | 2019



2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	70	(+45%)	12%
Low	50	(+5%)	6%

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	0	0	0	1	0	0	0	0
Options	2	0	0	0	10	0	3	0	0
to Sell	2	0	0	0	9	0	3	0	0

Institutional Decisions

	4Q2013	1Q2014	2Q2014
to Buy	204	220	208
to Sell	176	177	194
Hld's(000)	143986	144603	146101

% TOT. RETURN 9/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	20.0	9.5
3 yr.	73.4	84.2
5 yr.	182.2	104.4

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007E	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
--	--	--	--	--	--	--	--	13.08	13.84	14.61	13.98	15.49	15.18	16.25	16.28	*17.05*	*17.65*	Revenues per sh	*20.65*
--	--	--	--	--	--	--	--	.65	d.47	2.87	2.89	3.56	3.73	4.27	4.36	*4.60*	*5.05*	"Cash Flow" per sh	*5.65*
--	--	--	--	--	--	--	--	d.97	d2.14	1.10	1.25	1.53	1.72	2.11	2.06	*2.35*	*2.60*	Earnings per sh A	*3.05*
--	--	--	--	--	--	--	--	--	--	.40	.82	.86	.91	1.21	.84	*1.18*	*1.30*	Div'd Decl'd per sh B■	*1.55*
--	--	--	--	--	--	--	--	4.31	4.74	6.31	4.50	4.38	5.27	5.25	5.50	*6.10*	*6.00*	Cap'l Spending per sh	*5.80*
--	--	--	--	--	--	--	--	23.86	28.39	25.64	22.91	23.59	24.11	25.11	26.52	*26.55*	*26.85*	Book Value per sh D	*28.40*
--	--	--	--	--	--	--	--	160.00	160.00	160.00	174.63	175.00	175.66	176.99	178.25	*180.00*	*182.50*	Common Shs Outst'g C	*190.00*
--	--	--	--	--	--	--	--	--	--	18.9	15.6	14.6	16.8	16.7	19.9	*Bold figures are*		Avg Ann'l P/E Ratio	*19.5*
--	--	--	--	--	--	--	--	--	--	1.14	1.04	.93	1.05	1.06	1.12	*Value Line*		Relative P/E Ratio	*1.20*
--	--	--	--	--	--	--	--	--	--	1.9%	4.2%	3.8%	3.1%	3.4%	2.0%	*estimates*		Avg Ann'l Div'd Yield	*2.6%*

CAPITAL STRUCTURE as of 6/30/14
Total Debt $5935.0 mil. Due in 5 Yrs $1034.0 mil.
LT Debt $5217.5 mil. LT Interest $274.0 mil.
(Total interest coverage: 3.0x) (52% of Cap'l)

Leases, Uncapitalized: Annual rentals $15.9 mill.
Pension Assets 12/13 $1383.6 mill
Oblig. $1494.1 mill.
Pfd Stock $16.0 mill. Pfd Div'd $.7 mill

Common Stock 179,148,915 shs.
as of 7/31/2014

MARKET CAP: $8.7 billion (Large Cap)

2004	2005	2006	2007E	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
--	--	2093.1	2214.2	2336.9	2440.7	2710.7	2666.2	2876.9	2901.9	*3065*	*3250*	Revenues ($mill)	*3920*
--	--	d155.8	d342.3	187.2	209.9	267.8	304.9	374.3	369.3	*420*	*465*	Net Profit ($mill)	*580*
--	--	--	--	37.4%	37.9%	40.4%	39.5%	40.7%	39.1%	*39.0%*	*38.5%*	Income Tax Rate	*37.0%*
--	--	--	--	--	--	--	--	6.2%	5.1%	*5.5%*	*6.0%*	AFUDC % to Net Profit	*8.0%*
--	--	56.1%	50.9%	53.1%	56.9%	56.8%	55.7%	53.9%	52.4%	*54.0%*	*53.5%*	Long-Term Debt Ratio	*55.0%*
--	--	43.9%	49.1%	46.9%	43.1%	43.2%	44.2%	46.1%	47.6%	*46.0%*	*46.5%*	Common Equity Ratio	*45.0%*
--	--	8692.8	9245.7	8750.2	9289.0	9561.3	9580.3	9635.5	9940.7	*10390*	*10600*	Total Capital ($mill)	*12000*
--	--	8720.6	9318.0	9991.8	10524	11059	11021	11739	12391	*12800*	*13200*	Net Plant ($mill)	*14650*
--	--	NMF	NMF	3.7%	3.8%	4.4%	4.8%	5.4%	5.1%	*6.0%*	*6.0%*	Return on Total Cap'l	*6.5%*
--	--	NMF	NMF	4.6%	5.2%	6.5%	7.2%	8.4%	7.8%	*9.0%*	*9.5%*	Return on Shr. Equity	*10.5%*
--	--	NMF	NMF	4.6%	5.2%	6.5%	7.2%	8.4%	7.8%	*9.0%*	*9.5%*	Return on Com Equity	*10.5%*
--	--	NMF	NMF	3.0%	1.8%	2.8%	3.5%	3.6%	4.7%	*4.0%*	*4.5%*	Retained to Com Eq	*5.5%*
--	--	--	--	34%	65%	56%	52%	57%	40%	*50%*	*51%*	All Div'ds to Net Prof	*51%*

CURRENT POSITION ($MILL.)	2012	2013	6/30/14
Cash Assets	24.4	27.0	32.1
Other	475.0	523.3	675.5
Current Assets	499.4	550.3	707.6
Accts Payable	279.6	14.2	192.4
Debt Due	385.9	644.5	717.5
Other	329.3	576.8	325.0
Current Liab.	994.8	1235.5	1234.9
Fix. Chg. Cov.	297%	307%	305%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	--	3.0%	4.5%
"Cash Flow"	--	32.5%	5.0%
Earnings	--	--	7.5%
Dividends	--	--	7.5%
Book Value	--	-.5%	2.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	596.7	668.8	760.9	639.8	2666.2
2012	618.5	745.6	831.8	681.0	2876.9
2013	636.1	724.3	829.2	712.3	2901.9
2014	681.9	759.2	*875*	*748.9*	*3065*
2015	*705*	*810*	*940*	*795*	*3250*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.23	.42	.73	.34	1.72
2012	.28	.66	.87	.30	2.11
2013	.32	.57	.84	.33	2.06
2014	.38	.61	*.97*	*.39*	*2.35*
2015	*.45*	*.70*	*1.00*	*.45*	*2.60*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.21	.21	.22	.22	.86
2011	.22	.23	.23	.23	.91
2012	.23	.23	.25	.50	1.21
2013	--	.28	.28	.28	.84
2014	.28	.31	.31		

BUSINESS: American Water Works Company, Inc. is the largest investor-owned water and wastewater utility in the U.S., providing services to over 14 million people in over 30 states and Canada. It's nonregulated business assists municipalities and military bases with the maintenance and upkeep as well. Regulated operations made up 89.1% of 2013 revenues. New Jersey is its biggest market accounting for 24.6% of revenues. Has roughly 6,600 employees. Depreciation rate, 3.1% in '13. BlackRock, Inc., owns 10.5% of the common stock outstanding. Officers & directors own 2.8%. (3/14 Proxy). President & CEO; Susan Story. Chairman; George Mackenzie. Address: 1025 Laurel Oak Road, Voorhees, NJ 08043. Telephone: 856-346-8200. Internet: www.amwater.com.

Controlling costs remains one of American Water Works' main strategies. Every quarter, the utility highlights its operating expenses as a percent of revenues. Currently, the rate is less than 38%, compared to 40.7% at this time last year. The company's growth-through-acquisition policy is helping to keep this ratio low. American Water purchases many smaller utilities every year and increases their margins substantially using economies of scale. Successfully managing costs also makes it harder for regulators to hand down harsh rulings.

Planned capital expenditures are large but manageable. American Water is scheduled to spend $1.1 billion annually through 2017-2019. Most of this will be used to replace and modernize aging pipelines and waste treatment facilities. Additional debt and equity will most likely be required to fund this budget. Some of the company's financial metrics will slide as a result. Still, the balance sheet should remain adequate.

Contributions from the nonregulated businesses should continue to grow. Though not meaningful at this time, we expect this to change in the years ahead. Profits from these operations are attractive because they are not capped, as is the case with regulated utilities. The most promising subsidiary extends water pipelines to reach energy companies that use vast amounts of water to explore for oil and natural gas.

American Water is an excellent way for investors to participate in the domestic water utility market. The company stands out for a couple of reasons. For example, with a market capitalization of $8.7 billion, it represents half of the market capitalization of the nine stocks that *Value Line* follows. Also, by doing business in over 30 states, the utility is well diversified and not subject to much regulatory risk.

We continue to believe that American Water shares offer value. For starters, they are ranked to outperform the market in the year ahead. Second, compared to other equities in this group, investors don't have to forfeit much current income for a holding that has well above-average dividend growth prospects.

James A. Flood *October 17, 2014*

(A) Diluted earnings. Excludes nonrecurring losses: '08, $4.62; '09, $2.63; '11, $0.07. Discontinued operations: '06, (4¢); '11, 3¢; '12, (10¢). Next earnings report due early Nov. Quarterly earnings may not sum due to rounding. (B) Dividends paid in March, June, September, and December. ■ Div. reinvestment available. Two payments made in 4th quarter of 2012. (C) In millions. (D) Includes intangibles. In 2013: $1.21 billion, $6.78/share. (E) Pro forma numbers for '06 & '07.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	20

AQUA AMERICA NYSE-WTR

RECENT PRICE	23.77	P/E RATIO	19.3 (Trailing: 20.7 Median: 24.0)	RELATIVE P/E RATIO	1.12	DIV'D YLD	2.8%	VALUE LINE

TIMELINESS 3 Lowered 5/24/13
SAFETY 2 Raised 4/20/12
TECHNICAL 2 Raised 10/3/14
BETA .70 (1.00 = Market)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
High:	13.4	14.8	23.4	23.8	21.3	17.6	17.2	18.4	19.0	21.5	28.1	26.3	
Low:	9.5	11.3	14.0	16.1	15.1	9.8	12.3	13.2	15.4	16.8	20.6	22.4	

Target Price Range 2017 | 2018 | 2019

2017-19 PROJECTIONS

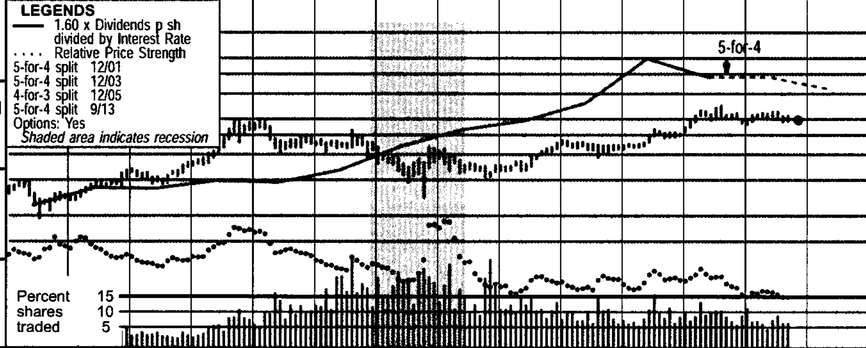
	Price	Gain	Ann'l Total Return
High	40	(+70%)	16%
Low	30	(+25%)	9%

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	2	0	3	2	0	2	1	0
to Sell	3	1	1	1	4	1	3	1	1

Institutional Decisions

	4Q2013	1Q2014	2Q2014
to Buy	140	130	127
to Sell	149	145	133
Hld's(000)	83710	82758	81999



% TOT. RETURN 9/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-2.4	9.5
3 yr.	47.5	84.2
5 yr.	91.7	104.4

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
1.67	1.93	1.97	2.16	2.28	2.38	2.78	3.08	3.23	3.61	3.71	3.93	4.21	4.10	4.32	4.32	*4.55*	*4.90*	Revenues per sh	*5.60*
.49	.58	.61	.69	.76	.77	.87	.97	1.01	1.10	1.14	1.29	1.42	1.45	1.51	1.82	*1.95*	*2.00*	"Cash Flow" per sh	*2.90*
.32	.33	.37	.41	.43	.46	.51	.57	.56	.57	.58	.62	.72	.83	.87	1.16	*1.20*	*1.30*	Earnings per sh A	*1.55*
.20	.22	.23	.24	.26	.28	.29	.32	.35	.38	.41	.44	.47	.50	.54	.58	*.63*	*.69*	Div'd Decl'd per sh B■	*.90*
.65	.72	.93	.87	.96	1.06	1.23	1.47	1.64	1.43	1.58	1.66	1.89	1.90	1.98	1.73	*1.85*	*1.95*	Cap'l Spending per sh	*1.95*
2.57	2.74	3.08	3.32	3.49	4.27	4.71	5.04	5.57	5.85	6.26	6.50	6.81	7.21	7.90	8.63	*8.85*	*9.05*	Book Value per sh	*11.00*
90.25	133.50	139.78	142.47	141.49	154.31	158.97	161.21	165.41	166.75	169.21	170.61	172.46	173.60	175.43	177.93	*174.00*	*171.00*	Common Shs Outst'g C	*170.00*
22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	21.3	21.9	21.2	*Bold figures are*		Avg Ann'l P/E Ratio	*21.5*
1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.54	1.34	1.34	1.39	1.19	*Value Line*		Relative P/E Ratio	*1.35*
2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	2.8%	2.8%	2.4%	*estimates*		Avg Ann'l Div'd Yield	*2.6%*

CAPITAL STRUCTURE as of 6/30/14
Total Debt $1639.9 mill. **Due in 5 Yrs** $324.6 mill.
LT Debt $1481.4 mill. **LT Interest** $70.0 mill.
(Total interest coverage: 3.9x) (48% of Cap'l)

Pension Assets-12/13 $232.4 mill. **Oblig.** $281.2 mill.

Pfd Stock None

Common Stock 177,180,169 shares as of 7/25/14

MARKET CAP: $4.2 billion (Mid Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		17-19
442.0	496.8	533.5	602.5	627.0	670.5	726.1	712.0	757.8	768.6	*790*	*835*	Revenues ($mill)	*950*
80.0	91.2	92.0	95.0	97.9	104.4	124.0	144.8	153.1	205.0	*210*	*225*	Net Profit ($mill)	*265*
39.4%	38.4%	39.6%	38.9%	39.7%	39.4%	39.2%	32.9%	39.0%	10.0%	*30.0%*	*30.0%*	Income Tax Rate	*30.0%*
--	--	--	--	--	--	--	--	2.9%	1.1%	*2.0%*	*2.0%*	AFUDC % to Net Profit	*2.0%*
50.0%	52.0%	51.6%	55.4%	54.1%	55.6%	56.6%	52.7%	52.7%	48.9%	*51.0%*	*51.0%*	Long-Term Debt Ratio	*52.0%*
50.0%	48.0%	48.4%	44.6%	45.9%	44.4%	43.4%	47.3%	47.3%	51.1%	*49.0%*	*49.0%*	Common Equity Ratio	*48.0%*
1497.3	1690.4	1904.4	2191.4	2306.6	2495.5	2706.2	2646.8	2929.7	3003.6	*3150*	*3325*	Total Capital ($mill)	*3950*
2069.8	2280.0	2506.0	2792.8	2997.4	3227.3	3469.3	3612.9	3936.2	4167.3	*4300*	*4400*	Net Plant ($mill)	*5000*
6.7%	6.9%	6.4%	5.9%	5.7%	5.6%	5.9%	6.9%	6.6%	8.0%	*8.5%*	*9.0%*	Return on Total Cap'l	*8.5%*
10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	*13.5%*	*14.5%*	Return on Shr. Equity	*14.0%*
10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	*13.5%*	*14.5%*	Return on Com Equity	*14.0%*
4.6%	4.9%	3.7%	3.2%	2.8%	2.7%	3.7%	4.6%	4.3%	6.7%	*6.5%*	*7.0%*	Retained to Com Eq	*6.0%*
57%	56%	63%	67%	70%	72%	65%	60%	61%	50%	*53%*	*53%*	All Div'ds to Net Prof	*58%*

CURRENT POSITION ($MILL.)	2012	2013	6/30/14
Cash Assets	5.5	5.1	3.9
Receivables	92.9	95.4	100.5
Inventory (AvgCst)	11.8	11.4	12.3
Other	150.7	59.8	85.1
Current Assets	260.9	171.7	201.8
Accts Payable	55.5	65.8	38.1
Debt Due	125.4	123.0	158.5
Other	93.3	78.1	81.4
Current Liab.	274.2	266.9	278.0
Fix. Chg. Cov.	413%	388%	389%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	6.5%	4.0%	*4.5%*
"Cash Flow"	8.0%	8.0%	*10.0%*
Earnings	8.5%	11.0%	*8.5%*
Dividends	7.5%	7.0%	*9.0%*
Book Value	8.0%	6.0%	*5.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	163.6	178.3	197.3	172.7	712.0
2012	164.0	191.7	214.6	187.5	757.8
2013	180.0	195.7	204.3	188.6	768.6
2014	182.7	195.3	*210*	*202*	*790*
2015	*195*	*210*	*220*	*210*	*835*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.18	.22	.24	.19	.83
2012	.15	.24	.29	.19	.87
2013	.26	.30	.36	.24	1.16
2014	.24	.31	*.40*	*.25*	*1.20*
2015	*.27*	*.32*	*.40*	*.31*	*1.30*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.116	.116	.116	.124	.47
2011	.124	.124	.124	.132	.50
2012	.132	.132	.132	.14	.54
2013	.14	.14	.152	.152	.58
2014	.152	.152	.165		

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '13: residential, 60.3%; commercial, 15.8%; industrial & other, 23.9%. Officers and directors own .8% of the common stock; Vanguard Group, 6.6%; State Street Capital Corp., 6.3%; Blackrock, Inc, 6.1% (4/14 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America recently raised its quarterly payout a hefty 8.6%. As we expected, the company increased the dividend from $0.152 to $0.165, an above-average rate for a water utility. What's more, thanks to the company's strong cash generation, annual dividend increases should remain in the 8%-10% range through 2017-2019, despite the company's large construction program.

Tuck-in acquisitions will remain a key element in Aqua's expansion strategy. The company states that it has purchased 300 companies since it was founded. This year, eight small water systems have been purchased, and another 12 deals are likely to be completed by yearend. We wouldn't be surprised if the pace picked up in the years ahead as many municipally- owned water utilities don't have the funds required to upgrade their aging infrastructures. With its expertise and size, Aqua is able to integrate the new companies and squeeze more profits out of them.

The profit outlook is encouraging. Share earnings should improve only marginally this year, but that would be a relatively good showing considering that 2013 was an incredibly successful year. Moreover, the unusually wet weather in the second quarter held back demand, and Aqua's promising nonregulated business is posting losses due to, what we believe, is a temporary problem. Indeed, for 2015 through late decade, we expect earnings per share to increase about 8% annually.

The balance sheet is strong enough to handle the company's ambitious construction program. Aqua plans on spending $1 billion over the next three years to modernize its pipelines and facilities. Internally generated funds should cover a large portion of the expenditures, so the company's finances should remain in solid shape.

These shares have a lot to offer income-oriented investors. Compared to other water utilities, the current yield is slightly subpar. This is a small premium to pay, however, for Aqua's strong dividend growth prospects. In addition, the stock's total return potential is attractive considering its low Beta (.70), and high grades for Stock Price Stability (100) and Earnings Predictability (95).

James A. Flood *October 17, 2014*

(A) Diluted egs. Excl. nonrec. gains (losses): '99, (9¢); '00, 2¢; '01, 2¢; '02, 4¢; '03, 3¢; '12, 18¢. Excl. gain from disc. operations: '12, 7¢; '13, 9¢. May not sum due to rounding. Next earnings report due early November.
(B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount).
(C) In millions, adjusted for stock splits.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	95

ARTESIAN RES. CORP. NDQ--ARTNA

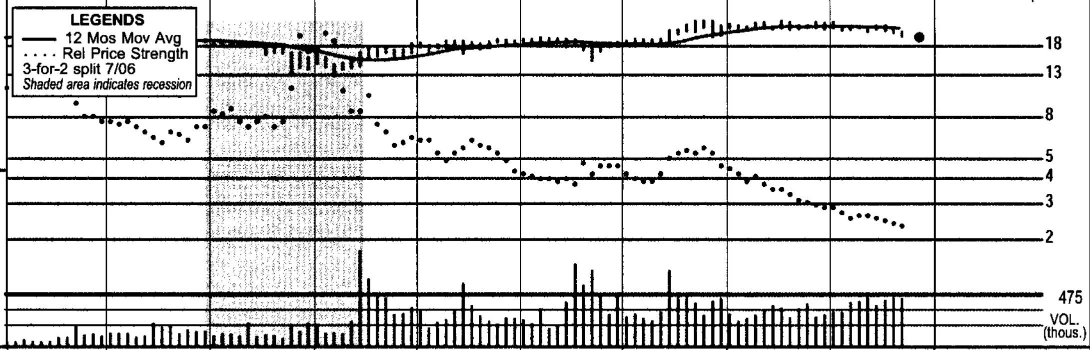
RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	
19.93	21.9	1.14	4.3%	VALUE LINE

RANKS

PERFORMANCE	3	*Average*
Technical	3	*Average*
SAFETY	3	*Average*
BETA .60		(1.00 = Market)

High	22.33	20.67	19.31	18.73	19.59	19.99	24.43	24.27	23.82	High
Low	17.90	18.26	13.00	12.81	16.43	15.16	18.20	21.52	19.85	Low

LEGENDS
— 12 Mos Mov Avg
.... Rel Price Strength
3-for-2 split 7/06
Shaded area indicates recession



Financial Strength	B
Price Stability	90
Price Growth Persistence	40
Earnings Predictability	85

© VALUE LINE PUBLISHING LLC	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015/2016
SALES PER SH	7.77	7.20	7.59	8.11	8.48	7.56	8.10	7.82	--	
"CASH FLOW" PER SH	1.75	1.57	1.65	1.84	1.92	1.64	2.04	1.87	--	
EARNINGS PER SH	.97	.90	.86	.97	1.00	.83	1.13	.94	***1.05***[A,B]	***1.23***[C]***/NA***
DIV'DS DECL'D PER SH	.61	.66	.71	.72	.75	.76	.79	.82	--	
CAP'L SPENDING PER SH	5.08	3.66	6.09	2.32	2.57	1.83	2.36	2.40	--	
BOOK VALUE PER SH	10.15	11.66	11.86	12.15	12.44	13.12	13.57	13.80	--	
COMMON SHS OUTST'G (MILL)	6.09	7.30	7.40	7.51	7.65	8.61	8.71	8.83	--	
AVG ANN'L P/E RATIO	20.3	21.5	20.1	16.4	18.2	22.5	18.3	23.9	***19.0***	***16.2/NA***
RELATIVE P/E RATIO	1.10	1.14	1.21	1.09	1.16	1.41	1.17	1.34	--	
AVG ANN'L DIV'D YIELD	3.1%	3.4%	4.1%	4.5%	4.1%	4.1%	3.8%	3.7%	--	
SALES ($MILL)	47.3	52.5	56.2	60.9	64.9	65.1	70.6	69.1	--	***Bold figures***
OPERATING MARGIN	45.6%	45.6%	45.1%	46.9%	46.5%	45.5%	48.7%	47.0%	--	***are consensus***
DEPRECIATION ($MILL)	4.6	5.2	5.8	6.6	7.0	7.4	7.9	8.3	--	***earnings***
NET PROFIT ($MILL)	6.1	6.3	6.4	7.3	7.6	6.7	9.8	8.3	--	***estimates***
INCOME TAX RATE	39.0%	39.8%	40.8%	40.1%	40.0%	40.8%	40.2%	40.2%	--	***and, using the***
NET PROFIT MARGIN	12.8%	11.9%	11.4%	11.9%	11.7%	10.4%	14.0%	12.0%	--	***recent prices,***
WORKING CAP'L ($MILL)	d8.8	2.5	d20.9	d23.3	d27.9	d11.4	d11.4	d12.3	--	***P/E ratios.***
LONG-TERM DEBT ($MILL)	92.1	91.8	107.6	106.0	105.1	106.5	106.3	105.5	--	
SHR. EQUITY ($MILL)	61.8	85.1	87.8	91.2	95.1	113.0	118.2	121.8	--	
RETURN ON TOTAL CAP'L	5.8%	5.3%	4.7%	5.2%	5.6%	4.6%	5.9%	5.1%	--	
RETURN ON SHR. EQUITY	9.8%	7.4%	7.3%	8.0%	8.0%	6.0%	8.3%	6.8%	--	
RETAINED TO COM EQ	3.8%	2.1%	1.4%	2.1%	2.0%	.5%	2.5%	.9%	--	
ALL DIV'DS TO NET PROF	61%	71%	81%	74%	75%	92%	70%	87%	--	

[A]No. of analysts changing earn. est. in last 3 days: 0 up, 0 down, consensus 5-year earnings growth not available. [B]Based upon 4 analysts' estimates. [C]Based upon 3 analysts' estimates.

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	1.0%	-3.5%
"Cash Flow"	2.5%	-8.0%
Earnings	1.0%	-17.0%
Dividends	3.5%	4.0%
Book Value	4.0%	1.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/12	16.7	17.9	19.0	17.0	70.6
12/31/13	16.3	17.8	18.1	16.9	69.1
12/31/14	16.9	17.9			
12/31/15					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/11	.14	.23	.26	.20	.83
12/31/12	.28	.32	.33	.20	1.13
12/31/13	.20	.28	.29	.17	.94
12/31/14	.23	.22	***.34***	***.23***	
12/31/15	***.26***				

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2011	.19	.19	.19	.193	.76
2012	.193	.198	.198	.203	.79
2013	.203	.206	.206	.209	.82
2014	.209	.212	.212		

INSTITUTIONAL DECISIONS

	4Q'13	1Q'14	2Q'14
to Buy	17	28	36
to Sell	34	25	20
Hld's(000)	2952	3092	3132

ASSETS ($mill.)	2012	2013	6/30/14
Cash Assets	.6	.4	.4
Receivables	8.7	8.1	8.4
Inventory	1.4	1.5	1.7
Other	2.8	3.3	1.9
Current Assets	13.5	13.3	12.4
Property, Plant & Equip, at cost	454.4	472.9	- -
Accum Depreciation	83.8	89.8	- -
Net Property	370.6	383.1	387.9
Other	7.6	7.4	7.6
Total Assets	391.7	403.8	407.9
LIABILITIES ($mill.)			
Accts Payable	3.5	4.1	3.3
Debt Due	12.6	12.2	12.7
Other	8.8	9.3	9.9
Current Liab	24.9	25.6	25.9

LONG-TERM DEBT AND EQUITY as of 6/30/14

Total Debt $118.1 mill. **Due in 5 Yrs.** NA
LT Debt $105.5 mill.
Including Cap. Leases NA
(46% of Cap'l)
Leases, Uncapitalized Annual rentals NA

Pension Liability $.3 mill. in '13 vs. $.4 mill. in '12

Pfd Stock None **Pfd Div'd Paid** None

Common Stock 8,891,643 shares
(54% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Artesian Resources Corporation, through its eight wholly owned subsidiaries, provides water, wastewater, and other services on the Delmarva Peninsula. It distributes and sells water to residential, commercial, industrial, municipal, and utility customers in Delaware, Maryland, and Pennsylvania. Artesian Water Company, Inc., or Artesian Water, the company's principal subsidiary, is the oldest and largest public water utility in Delaware and has been providing water service within the state since 1905. Artesian Resources offers water for public and private fire protection to customers in its service territories. In addition, it provides contract water and wastewater services, water and sewer service line protection plans, and wastewater management services, as well as design, construction, and engineering services. As of June 30, 2014, the company served approximately 80,200 metered water customers. Has 237 employees. Chairman, C.E.O. & President: Dian C. Taylor. Address: 664 Churchmans Rd., Newark, DE 19702. Tel.: (302) 453-6900. Internet: http://www.artesianwater.com.

J.V.

October 17, 2014

TOTAL SHAREHOLDER RETURN

Dividends plus appreciation as of 9/30/2014

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
-9.52%	-8.55%	-5.93%	29.00%	45.87%

CALIFORNIA WATER NYSE-CWT

RECENT PRICE	P/E RATIO	(Trailing/Median)	RELATIVE P/E RATIO	DIV'D YLD
22.74	19.1	(Trailing: 23.2 Median: 20.0)	1.10	2.9%

VALUE LINE

TIMELINESS	3 Raised 6/20/14
SAFETY	3 Lowered 7/27/07
TECHNICAL	3 Lowered 10/3/14
BETA	.70 (1.00 = Market)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
High:	15.7	19.0	21.1	22.9	22.7	23.3	24.1	19.8	19.4	19.3	23.4	24.8
Low:	11.8	13.0	15.6	16.4	17.1	13.8	16.7	16.9	16.7	16.8	18.4	20.3

2017-19 PROJECTIONS

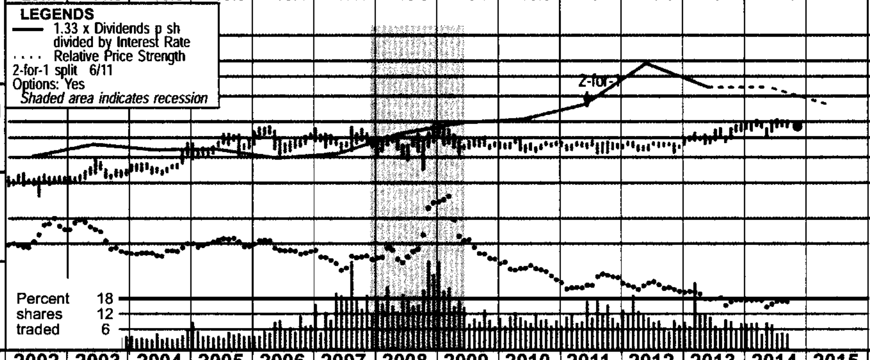
	Price	Gain	Ann'l Total Return
High	35	(+55%)	*14%*
Low	25	(+10%)	*5%*

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	1	0	0	0	0
to Sell	0	0	0	0	0	0	1	0	0

Institutional Decisions

	4Q2013	1Q2014	2Q2014
to Buy	74	64	57
to Sell	52	58	56
Hld's(000)	27908	29389	30279



Target Price Range
2017 | 2018 | 2019

% TOT. RETURN 9/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	13.7	9.5
3 yr.	39.5	84.2
5 yr.	35.6	104.4

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
7.38	7.98	8.08	8.13	8.67	8.18	8.59	8.72	8.10	8.88	9.90	10.82	11.05	12.00	13.34	12.23	*12.60*	*13.25*	Revenues per sh	*16.50*
1.30	1.37	1.26	1.10	1.32	1.26	1.42	1.52	1.36	1.56	1.86	1.93	1.93	2.07	2.32	2.21	*2.20*	*2.40*	"Cash Flow" per sh	*3.00*
.73	.77	.66	.47	.63	.61	.73	.74	.67	.75	.95	.98	.91	.86	1.02	1.02	*1.05*	*1.20*	Earnings per sh A	*1.50*
.54	.54	.55	.56	.56	.56	.57	.57	.58	.58	.59	.59	.60	.62	.63	.64	*.65*	*.68*	Div'd Decl'd per sh B ■	*.94*
1.37	1.72	1.23	2.04	2.91	2.19	1.87	2.01	2.14	1.84	2.41	2.66	2.97	2.83	3.04	2.58	*2.65*	*3.35*	Cap'l Spending per sh	*3.20*
6.69	6.71	6.45	6.48	6.56	7.22	7.83	7.90	9.07	9.25	9.72	10.13	10.45	10.76	11.28	12.54	*12.90*	*13.30*	Book Value per sh C	*15.10*
25.24	25.87	30.29	30.36	30.36	33.86	36.73	36.78	41.31	41.33	41.45	41.53	41.67	41.82	41.98	47.74	*48.00*	*48.00*	Common Shs Outst'g D	*50.00*
17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.7	20.3	21.3	17.9	20.1	*Bold figures are*		Avg Ann'l P/E Ratio	*20.0*
.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.19	1.31	1.29	1.34	1.14	1.13	*Value Line*		Relative P/E Ratio	*1.25*
4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%	3.2%	3.4%	3.5%	3.1%	*estimates*		Avg Ann'l Div'd Yield	*3.1%*

CAPITAL STRUCTURE as of 6/30/14
Total Debt $511.1 mill. Due in 5 Yrs $89.3 mill.
LT Debt $423.3 mill. LT Interest $28.0 mill.
(LT interest earned: 3.4x; total int. cov.: 3.2x)
(42% of Cap'l)
Pension Assets-12/13 $266.2 mill.
Oblig. $383.2 mill.
Pfd Stock None

Common Stock 47,803,849 shs.
as of 7/25/14

MARKET CAP: $1.1 billion (Mid Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		17-19
315.6	320.7	334.7	367.1	410.3	449.4	460.4	501.8	560.0	584.1	*605*	*635*	Revenues ($mill) E	*825*
26.0	27.2	25.6	31.2	39.8	40.6	37.7	36.1	42.6	47.3	*48.0*	*58.0*	Net Profit ($mill)	*75.0*
39.6%	42.4%	37.4%	39.9%	37.7%	40.3%	39.5%	40.5%	37.5%	30.3%	*34.5%*	*38.0%*	Income Tax Rate	*39.0%*
3.2%	3.3%	10.6%	8.3%	8.6%	7.6%	4.2%	7.6%	8.0%	4.3%	*7.0%*	*8.5%*	AFUDC % to Net Profit	*7.0%*
48.6%	48.3%	43.5%	42.9%	41.6%	47.1%	52.4%	51.7%	47.8%	41.6%	*43.0%*	*45.5%*	Long-Term Debt Ratio	*49.0%*
50.8%	51.1%	55.9%	56.6%	58.4%	52.9%	47.6%	48.3%	52.2%	58.4%	*57.0%*	*54.5%*	Common Equity Ratio	*51.0%*
565.9	568.1	670.1	674.9	690.4	794.9	914.7	931.5	908.2	1024.9	*1030*	*1185*	Total Capital ($mill)	*1435*
800.3	862.7	941.5	1010.2	1112.4	1198.1	1294.3	1381.1	1457.1	1515.8	*1570*	*1600*	Net Plant ($mill)	*1850*
6.1%	6.3%	5.2%	5.9%	7.1%	6.5%	5.5%	5.5%	6.3%	6.0%	*6.0%*	*7.5%*	Return on Total Cap'l	*6.5%*
8.9%	9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	9.0%	7.9%	*8.0%*	*9.0%*	Return on Shr. Equity	*10.0%*
9.0%	9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	9.0%	7.9%	*8.0%*	*9.0%*	Return on Com Equity	*10.0%*
2.1%	2.1%	1.0%	1.8%	3.8%	3.8%	3.0%	2.3%	3.4%	3.4%	*3.0%*	*5.0%*	Retained to Com Eq	*4.0%*
77%	78%	86%	77%	61%	60%	66%	71%	62%	56%	*65%*	*57%*	All Div'ds to Net Prof	*63%*

CURRENT POSITION ($MILL.)	2012	2013	6/30/14
Cash Assets	38.8	27.5	29.7
Other	107.8	112.0	121.1
Current Assets	146.6	139.5	150.8
Accts Payable	46.8	55.1	70.9
Debt Due	136.3	54.7	87.8
Other	59.7	56.8	63.4
Current Liab.	242.8	166.6	222.1
Fix. Chg. Cov.	296%	301%	299%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	4.0%	7.0%	*4.5%*
"Cash Flow"	6.0%	6.5%	*5.5%*
Earnings	5.5%	4.0%	*7.5%*
Dividends	1.0%	1.5%	*7.0%*
Book Value	5.5%	4.5%	*4.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	98.1	131.4	169.3	103.0	501.8
2012	116.8	143.6	178.1	121.5	560.0
2013	111.4	154.6	184.4	133.7	584.1
2014	110.5	158.4	*195*	*141.1*	*605*
2015	*125*	*160*	*200*	*150*	*635*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.03	.29	.50	.04	.86
2012	.03	.31	.56	.12	1.02
2013	.01	.28	.61	.12	1.02
2014	d.11	.36	*.64*	*.16*	*1.05*
2015	*.03*	*.32*	*.68*	*.17*	*1.20*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.149	.149	.149	.149	.60
2011	.154	.154	.154	.154	.62
2012	.1575	.1575	.1575	.1575	.63
2013	.16	.16	.16	.16	.64
2014	.1625	.1625	.1625		

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 471,900 customers in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '13: residential, 70%; business, 19%; public authorities, 5%; industrial, 5%; other 1%. '13 reported depreciation rate: 3.8%. Has 1,131 employees. President, Chairman, and Chief Executive Officer: Peter C. Nelson. Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.

A final ruling has been made on California Water Service Group's rate case. After a 25-month process, the California Public Utility Commission (CPUC) issued a decision in mid-August. The utility was allowed to raise rates by $45 million this year, and an additional $10 million in both 2015 and 2016.

We believe that this is good news for the company. Although the decision was anticipated, regulatory rulings always carry risks until they are completely finalized. This is especially true in states that have not always been reasonable with utilities seeking higher rates. Also, since petitions to increase tariffs are only filed every three years in California, a harsh ruling can have a negative impact on a utility for quite some time.

We are increasing our earnings estimates. The rate hikes will start to benefit the company in the fourth quarter, enabling California Water to top last year's earnings per share by a few cents. And, with these rates in effect for all of 2015, we look for earnings to rise a strong 14%, to $1.20.

How is the ongoing drought affecting California Water? In the short term, the impact appears to be minimal. Management is optimistic that the combination of the utility's own wells along with a dependable supplier of bulk water, should result in the service area's needs being met. The CPUC's recent decision also augurs well for future regulation. So, should the price of purchased water increase, California Water will probably be allowed to pass the higher costs along to its ratepayers.

Dividend growth prospects are much improved. Over the past five- and 10-year period, the company's average annual payout has been a paltry 1.0% and 1.5%, respectively, well below the industry norms. Through 2017-2019, this trend should change as we expect the annual dividend increase to average 7%, a higher rate than most of its peers. Part of our forecast is based on the assumption that the regulatory climate will remain constructive as the utility's next rate case should be decided before 2018.

These neutrally ranked shares have modestly above-average, long-term total return potential for a water utility.

James A. Flood *October 17, 2014*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (4¢); '01, 2¢; '02, 4¢; '11, 4¢. Next earnings report due mid-November. (B) Dividends historically paid in late Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available. (C) Incl. intangible assets. In '13: $18.2 mill., $0.38/sh. (D) In millions, adjusted for splits. (E) Excludes non-reg. rev.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	40
Earnings Predictability	90

CONNECTICUT WATER NDQ-CTWS

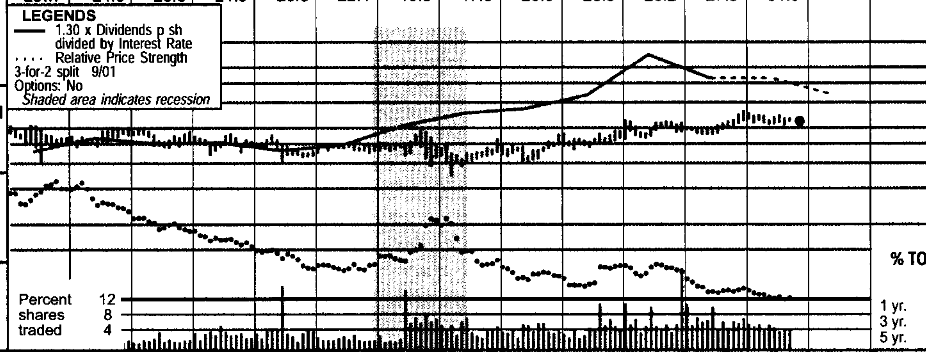
RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD
32.43	16.8	(Trailing: 16.5 Median: 22.0)	0.97	3.2%

VALUE LINE

TIMELINESS 2 Raised 12/13/13
SAFETY 3 New 1/18/13
TECHNICAL 3 Raised 8/22/14
BETA .65 (1.00 = Market)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
High:	30.4	29.8	28.2	27.7	25.6	29.0	26.4	27.9	29.1	32.8	36.4	35.5
Low:	24.0	23.8	21.9	20.3	22.4	19.3	17.3	20.0	23.3	26.2	27.8	31.0

Target Price Range 2017 | 2018 | 2019



2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+55%)	14%
Low	35	(+10%)	6%

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	0	0	0	0	0	0	0	0
Options	2	0	0	0	0	0	0	0	0
to Sell	2	0	0	0	0	0	0	0	0

Institutional Decisions

	4Q2013	1Q2014	2Q2014
to Buy	41	44	40
to Sell	35	27	32
Hld's(000)	4350	4324	4304

% TOT. RETURN 9/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	4.2	9.5
3 yr.	42.9	84.2
5 yr.	72.5	104.4

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
5.58	5.87	5.70	5.93	5.77	5.91	6.04	5.81	5.68	7.05	7.24	6.93	7.65	7.93	9.47	8.29	**8.45**	**8.70**	Revenues per sh	**12.10**
1.59	1.65	1.73	1.78	1.78	1.89	1.91	1.62	1.52	1.90	1.95	1.93	2.04	2.11	2.64	2.63	**2.85**	**2.85**	"Cash Flow" per sh	**3.25**
1.02	1.03	1.09	1.13	1.12	1.15	1.16	.88	.81	1.05	1.11	1.19	1.13	1.13	1.53	1.66	**1.85**	**1.95**	Earnings per sh A	**2.10**
.78	.79	.79	.80	.81	.83	.84	.85	.86	.87	.88	.90	.92	.94	.96	.98	**1.01**	**1.05**	Div'd Decl'd per sh B■	**1.20**
1.12	1.42	1.43	1.86	1.98	1.49	1.58	1.96	1.96	2.24	2.44	3.28	3.06	2.61	2.79	3.02	**2.95**	**2.80**	Cap'l Spending per sh	**2.75**
8.52	8.61	8.92	9.25	10.06	10.46	10.94	11.52	11.60	11.95	12.23	12.67	13.05	13.50	20.95	17.92	**18.15**	**19.50**	Book Value per sh D	**21.25**
6.80	7.26	7.28	7.65	7.94	7.97	8.04	8.17	8.27	8.38	8.46	8.57	8.68	8.76	8.85	11.04	**11.25**	**11.50**	Common Shs Outst'g C	**12.00**
15.5	18.2	18.2	21.5	24.3	23.5	22.9	28.6	29.0	23.0	22.2	18.4	20.7	23.0	19.4	18.4	*Bold figures are*		Avg Ann'l P/E Ratio	**20.0**
.81	1.04	1.18	1.10	1.33	1.34	1.21	1.52	1.57	1.22	1.34	1.23	1.32	1.44	1.23	1.03	*Value Line*		Relative P/E Ratio	**1.25**
4.9%	4.2%	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	3.6%	3.6%	3.6%	4.1%	3.9%	3.6%	3.2%	3.2%	*estimates*		Avg Ann'l Div'd Yield	**2.8%**

CAPITAL STRUCTURE as of 6/30/14
Total Debt $178.1 mill. **Due in 5 Yrs** $18.6 mill.
LT Debt $173.9 mill. **LT Interest** $7.0 mill.
(Total interest coverage: 4.4x)
(47% of Cap'l)
Leases, Uncapitalized: Annual rentals $.1 mill.
Pension Assets $56.8 mill.
Oblig. $64.2 mill.

Pfd Stock $0.8 mill. **Pfd Divd** NMF

Common Stock 11,099,574 shs.
as of 7/31/14
MARKET CAP: $350 million (Small Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
48.5	47.5	46.9	59.0	61.3	59.4	66.4	69.4	83.8	91.5	**95.0**	**100**	Revenues ($mill)	**145**
9.4	7.2	6.7	8.8	9.4	10.2	9.8	9.9	13.6	18.3	**20.5**	**22.0**	Net Profit ($mill)	**25.0**
22.9%	--	23.5%	32.4%	27.2%	19.5%	35.2%	41.3%	32.0%	28.0%	**18.0%**	**20.0%**	Income Tax Rate	**30.0%**
--	--	--	--	1.7%	--	--	--	1.7%	2.0%	**2.5%**	**2.0%**	AFUDC % to Net Profit	**2.5%**
42.8%	44.9%	44.4%	47.8%	46.9%	50.6%	49.5%	53.2%	49.0%	46.9%	**47.5%**	**43.5%**	Long-Term Debt Ratio	**48.5%**
56.7%	54.6%	55.1%	51.8%	52.7%	49.1%	50.2%	46.5%	50.8%	52.9%	**52.5%**	**56.5%**	Common Equity Ratio	**51.5%**
155.1	172.3	174.1	193.2	196.5	221.3	225.6	254.2	364.6	373.6	**400**	**430**	Total Capital ($mill)	**495**
246.1	247.7	268.1	284.3	302.3	325.2	344.2	362.4	447.9	471.9	**490**	**505**	Net Plant ($mill)	**575**
7.0%	5.0%	4.9%	5.5%	5.9%	5.5%	5.4%	4.9%	4.8%	5.9%	**6.0%**	**6.0%**	Return on Total Cap'l	**6.5%**
10.6%	7.5%	6.9%	8.7%	9.0%	9.3%	8.6%	8.3%	7.3%	9.2%	**9.5%**	**10.0%**	Return on Shr. Equity	**10.0%**
10.6%	7.6%	7.0%	8.7%	9.1%	9.4%	8.7%	8.3%	7.3%	9.2%	**9.5%**	**10.0%**	Return on Com Equity	**10.0%**
3.1%	.3%	NMF	1.6%	1.9%	2.3%	1.6%	1.4%	2.8%	3.8%	**4.5%**	**4.5%**	Retained to Com Eq	**4.0%**
71%	95%	105%	82%	79%	76%	81%	83%	62%	59%	**55%**	**54%**	All Div'ds to Net Prof	**57%**

CURRENT POSITION ($MILL.)	2012	2013	6/30/14
Cash Assets	13.2	18.4	10.6
Accounts Receivable	11.5	12.3	12.1
Other	11.7	16.2	19.5
Current Assets	36.4	46.9	42.2
Accts Payable	10.0	10.8	9.2
Debt Due	3.0	4.1	4.2
Other	2.9	7.8	9.5
Current Liab.	15.9	22.7	22.9
Fix. Chg. Cov.	408%	375%	375%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	4.0%	5.0%	*6.0%*
"Cash Flow"	3.0%	6.5%	*5.0%*
Earnings	2.5%	8.0%	*6.5%*
Dividends	1.5%	2.0%	*4.0%*
Book Value	6.0%	8.0%	*3.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	16.0	17.4	20.6	15.4	69.4
2012	18.5	21.3	24.5	19.5	83.8
2013	19.7	22.6	27.6	21.6	91.5
2014	20.3	27.3	**25.4**	**22.0**	**95.0**
2015	**22.0**	**25.0**	**30.0**	**23.0**	**100**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.26	.37	.39	.11	1.13
2012	.22	.47	.67	.17	1.53
2013	.24	.39	.86	.17	1.66
2014	.27	.67	**.70**	**.21**	**1.85**
2015	**.35**	**.55**	**.80**	**.25**	**1.95**

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.228	.228	.233	.233	.922
2011	.233	.233	.238	.238	.942
2012	.238	.238	.2425	.2425	.962
2013	.2425	.2425	.2475	.2475	.98
2014	.2475	.2475	.2575		

BUSINESS: Connecticut Water Service, Inc. is a non-operating holding company, whose income is derived from earnings of its wholly-owned subsidiary companies (regulated water utilities). Its largest subsidiary, Connecticut Water, accounted for about 85% of the holding company's net income in 2012, and provides water services to 400,000 people in 55 towns throughout Connecticut and Maine. Acquired The Maine Water Co., 1/12; Biddeford and Saco Water, 12/12. Inc.: CT. Has about 260 employees. Chairman/President/CEO: Eric W. Thornburg. Officers and directors own 2.4% of the common stock; BlackRock, Inc. 7.3%; The Vanguard Group, 3.8% (4/14 proxy). Address: 93 West Main Street, Clinton, CT 06413. Telephone: (860) 669-8636. Internet: www.ctwater.com.

Connecticut Water Service's dividend policy has recently become more generous. In August, the utility increased the quarterly payout by $0.04 a share on an annual basis, or 4.0%. For the previous five years, the annual increase had only been $0.02, or about 2%.

Earnings prospects through 2015 are encouraging. Last year, Connecticut Water allowed the proceeds of a tax refund to flow through to its ratepayers. In exchange for doing so, the Connecticut Public Regulatory Authority (CPRA) allowed the utility to keep the benefits accrued from this source in 2014 and beyond. Thus far, the situation appears to be a win-win, as ratepayers' bills have declined, while the utility's profits have gone up. Indeed, we have raised our estimates for the company's share earnings by $0.10 for both this year and next, to $1.85 and $1.95, respectively.

Connecticut Water is trying to increase its rate base. Utilities make money by earning a return on their assets. By enlarging the customer base, the company hopes to see revenues and profits rise. Currently, its pipeline system is being expanded to include the town of Mansfield, and Storrs, the home of the University of Connecticut's main campus, which is the size of a small city.

Consolidation of operations should lower costs. Roughly 20% of the utility's revenues come from the state of Maine. Connecticut is merging Biddleford and Saco, which was acquired in early 2012, into its other utility in the state. This should reduce many redundant administrative costs.

The regulatory climate in Connecticut appears to be improving. *Value Line* currently rates the CPRA as Below Average, compared to the regulatory bodies in other states. However, the recent rulings with the water utility have been very reasonable. This augurs well for Connecticut Water in the long term.

These shares continue to be ranked to outperform the market averages in the year ahead. However, even though we have raised our earnings and dividend projections for the company through 2017-2019, the equity's total return potential is only about average for a water utility.

James A. Flood *October 17, 2014*

(A) Diluted earnings. Next earnings report due late October. Quarterly earnings do no add in '12 due to rounding.
(B) Dividends historically paid in mid-March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for split.
(D) Includes intangibles. In '13: $31.7 million/$2.87 a share.

Company's Financial Strength	B+
Stock's Price Stability	90
Price Growth Persistence	50
Earnings Predictability	85

MIDDLESEX WATER NDQ-MSEX

RECENT PRICE	P/E RATIO	(Trailing / Median)	RELATIVE P/E RATIO	DIV'D YLD
19.91	18.1	(Trailing: 19.1 / Median: 21.0)	1.05	3.9%

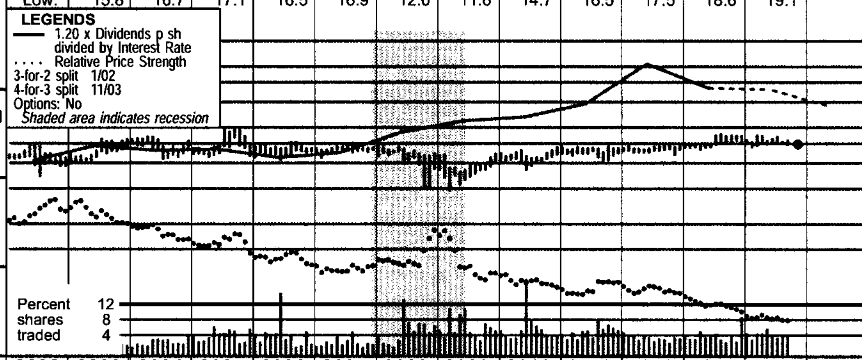
VALUE LINE

High:	21.2	21.8	23.5	20.5	20.2	19.8	17.9	19.3	19.4	19.6	22.5	22.1
Low:	15.8	16.7	17.1	16.5	16.9	12.0	11.6	14.7	16.5	17.5	18.6	19.1

Target Price Range 2017 | 2018 | 2019

TIMELINESS 3 Lowered 4/11/14
SAFETY 2 New 10/21/11
TECHNICAL 3 Lowered 9/26/14
BETA .70 (1.00 = Market)

LEGENDS
— 1.20 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 1/02
4-for-3 split 11/03
Options: No
Shaded area indicates recession



2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+50%)	14%
Low	20	(Nil)	4%

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	1	0	0	0	0	2	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	2	0	0	0	0	1	0	0

Institutional Decisions

	4Q2013	1Q2014	2Q2014
to Buy	43	37	41
to Sell	32	34	34
Hld's(000)	6384	6432	6463

Percent shares traded 12 8 4

% TOT. RETURN 9/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-4.9	9.5
3 yr.	28.8	84.2
5 yr.	58.2	104.4

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
4.39	5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.50	6.98	7.19	**7.45**	**8.00**	Revenues per sh	**9.10**
1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.46	1.56	1.72	**1.85**	**1.90**	"Cash Flow" per sh	**2.25**
.71	.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.84	.90	1.03	**1.10**	**1.15**	Earnings per sh A	**1.25**
.58	.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	**.76**	**.77**	Div'd Decl'd per sh B■	**.83**
2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.36	1.26	**1.25**	**2.00**	Cap'l Spending per sh	**2.00**
6.80	6.95	6.98	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.48	11.82	**12.10**	**12.30**	Book Value per sh D	**13.25**
9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	15.82	15.96	**16.10**	**16.25**	Common Shs Outst'g C	**17.00**
15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.7	20.8	19.7	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	**21.0**
.79	1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.36	1.32	1.11	*estimates*		Relative P/E Ratio	**1.30**
5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%	4.0%	3.7%			Avg Ann'l Div'd Yield	**3.3%**

CAPITAL STRUCTURE as of 6/30/14
Total Debt $165.7 mill. Due in 5 Yrs $56.4 mill.
LT Debt $132.2 mill. LT Interest $4.2 mill.
(LT interest earned: 6.0x)
(40% of Cap'l)

Pension Assets-12/13 $46.4 mill.
Oblig. $56.0 mill.
Pfd Stock $2.4 mill. Pfd Div'd: $.1 mill.

Common Stock 16,056,825 shs.
as of 7/31/14

MARKET CAP: $325 million (Small Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		17-19
71.0	74.6	81.1	86.1	91.0	91.2	102.7	102.1	110.4	114.8	**120**	**130**	Revenues ($mill)	**155**
8.4	8.5	10.0	11.8	12.2	10.0	14.3	13.4	14.4	16.6	**17.5**	**18.5**	Net Profit ($mill)	**21.0**
31.1%	27.6%	33.4%	32.6%	33.2%	34.1%	32.1%	32.7%	33.9%	34.1%	**35.5%**	**35.0%**	Income Tax Rate	**35.0%**
--	--	--	--	--	--	6.8%	6.1%	3.4%	1.9%	**1.5%**	**1.5%**	AFUDC % to Net Profit	**2.5%**
53.8%	55.3%	49.5%	49.0%	45.6%	46.6%	43.1%	42.3%	41.5%	40.4%	**40.5%**	**42.5%**	Long-Term Debt Ratio	**43.5%**
42.5%	41.3%	47.5%	49.6%	51.8%	52.1%	55.8%	56.6%	57.4%	58.7%	**59.0%**	**57.0%**	Common Equity Ratio	**56.0%**
214.5	231.7	264.0	268.8	259.4	267.9	310.5	312.5	316.5	321.4	**335**	**350**	Total Capital ($mill)	**400**
262.9	288.0	317.1	333.9	366.3	376.5	405.9	422.2	435.2	446.5	**460**	**470**	Net Plant ($mill)	**500**
5.1%	5.0%	5.1%	5.6%	5.8%	5.0%	5.7%	5.2%	5.4%	5.9%	**6.0%**	**6.0%**	Return on Total Cap'l	**6.5%**
8.5%	8.2%	7.5%	8.6%	8.6%	7.0%	8.1%	7.5%	7.8%	8.7%	**9.0%**	**9.5%**	Return on Shr. Equity	**9.5%**
9.0%	8.6%	7.8%	8.7%	8.9%	7.0%	8.2%	7.5%	7.8%	8.7%	**9.0%**	**9.5%**	Return on Com Equity	**9.5%**
.9%	.6%	1.3%	1.8%	2.0%	.1%	2.1%	1.0%	1.4%	2.4%	**3.0%**	**3.0%**	Retained to Com Eq	**3.0%**
90%	94%	84%	79%	78%	98%	75%	87%	83%	73%	**69%**	**67%**	All Div'ds to Net Prof	**66%**

CURRENT POSITION ($MILL.)	2012	2013	6/30/14
Cash Assets	3.0	4.8	5.1
Other	21.6	21.0	23.5
Current Assets	24.6	25.8	28.6
Accts Payable	3.8	6.3	6.7
Debt Due	11.1	33.8	33.5
Other	41.1	12.6	14.3
Current Liab.	56.0	52.7	54.5
Fix. Chg. Cov.	554%	697%	695%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	1.5%	1.0%	4.5%
"Cash Flow"	3.0%	1.5%	6.0%
Earnings	3.5%	1.5%	5.0%
Dividends	1.5%	1.5%	2.0%
Book Value	4.5%	3.0%	2.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	24.0	26.1	28.7	23.3	102.1
2012	23.5	27.4	32.4	27.1	110.4
2013	27.0	29.1	31.3	27.4	114.8
2014	27.1	29.2	**33.0**	**30.7**	**120**
2015	**30.0**	**32.0**	**36.0**	**32.0**	**130**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.11	.23	.32	.12	.84
2012	.11	.23	.38	.17	.90
2013	.20	.28	.36	.19	1.03
2014	.20	.29	**.40**	**.21**	**1.10**
2015	**.20**	**.32**	**.43**	**.20**	**1.15**

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.180	.180	.180	.183	.72
2011	.183	.183	.183	.185	.73
2012	.185	.185	.185	.1875	.74
2013	.1875	.1875	.1875	.19	.75
2014	.19	.19	.19		

BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 60,000 retail customers, primarily in Middlesex County, New Jersey. In 2013, the Middlesex System accounted for 60% of operating revenues. At 12/31/13, the company had 279 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers & directors own 3.3% of the common stock; BlackRock, 7.4%; Vanguard 3.3%. (4/14 proxy). Add.: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

Middlesex Water's stock price has been weak of late. Since our last report three months ago, the shares have declined 7% in value, while the market averages have remained flat.

Will Middlesex's 10-year streak remain intact? Every year since 2004, the utility has raised its annual payout by $0.01 a share. This average rate of 1.5% is very low when compared to the yearly payout hikes made by others in the industry. Probably sometime during the week of November 10th, the company will announce the new dividend for the year ahead. We are being conservative and estimating that the payout will only be raised another $0.0025 a quarter, to $0.1925, or an annualized rate of $0.01. A larger dividend increase would not shock us, though, as Middlesex's percentage of dividends to net profit has dropped to the low 70s, providing it with some flexibility.

Earnings growth is decent. Last year, the bottom line experienced a solid improvement as earnings per share rose over 14%. In 2014, the implementation of rate relief in Delaware is helping to offset the loss of a major customer, the borough of Sayreville. Still, we are expecting the increase in share net to decline to a still fairly healthy 7% level. Next year, we are looking for a more modest increase of 5%, which will be more representative of the company's future earnings potential.

Middlesex is getting more involved in nonregulated markets. The utility recently took over the water operations at Dover Air Force Base in Delaware. More and more, U.S. military posts are looking to privatize these systems. Competition in this sector is strong as there are other utilities that are better capitalized and have greater expertise in this field. Predicting whether this is a one-time occurrence or the company can increase its presence here is difficult.

Middlesex has the highest yield of any stock in *Value Line's* water utility industry. Investors should not be overly impressed by this, however. That's because the equity's dividend growth and total return potential through 2017-2019 are subpar compared to those of its peers. Indeed, the yield on the equity is not high enough to compensate for this, in our opinion.

James A. Flood *October 17, 2014*

(A) Diluted earnings. May not sum due to rounding. Next earnings report due mid-November.
(B) Dividends historically paid in mid-Feb., May, Aug., and November.■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	40
Earnings Predictability	80

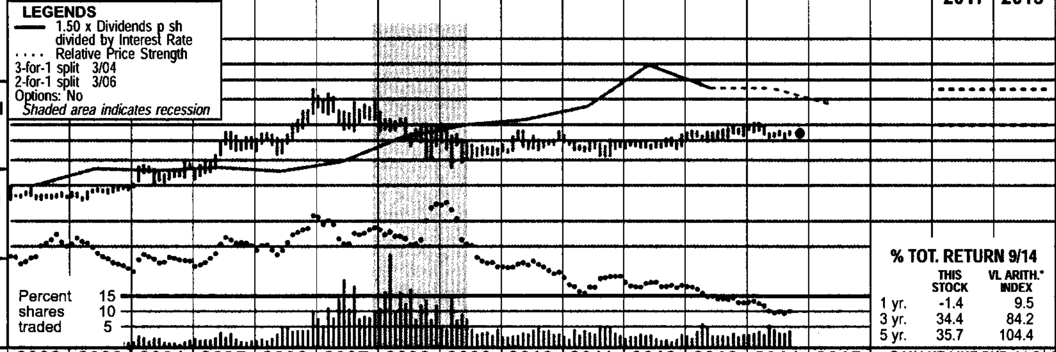
SJW CORP. NYSE-SJW

RECENT PRICE	27.23	P/E RATIO	20.8 (Trailing: 25.9 / Median: 24.0)	RELATIVE P/E RATIO	1.20	DIV'D YLD	2.9%	VALUE LINE

TIMELINESS 3 Raised 6/20/14
SAFETY 3 New 4/22/11
TECHNICAL 3 Lowered 10/10/14
BETA .85 (1.00 = Market)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
High:	15.0	19.6	27.8	45.3	43.0	35.1	30.4	28.2	26.8	26.9	30.1	30.9
Low:	12.6	14.6	16.1	21.2	27.7	20.0	18.2	21.6	20.9	22.6	24.5	25.5

Target Price Range 2017 | 2018 | 2019



2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+65%)	16%
Low	30	(+10%)	6%

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	1	0	0	0	0	0	1	1	0
Options	1	1	0	0	0	0	0	0	0
to Sell	1	1	0	0	0	0	0	0	0

Institutional Decisions

	4Q2013	1Q2014	2Q2014
to Buy	43	32	45
to Sell	30	39	40
Hld's(000)	10770	10980	10965

% TOT. RETURN 9/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-1.4	9.5
3 yr.	34.4	84.2
5 yr.	35.7	104.4

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
5.58	6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	11.25	12.12	11.68	11.62	12.85	14.01	13.73	*14.05*	*14.55*	Revenues per sh	*16.95*
1.26	1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.97	2.90	*3.10*	*3.25*	"Cash Flow" per sh	*3.80*
.76	.87	.58	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.18	1.12	*1.25*	*1.40*	Earnings per sh A	*1.70*
.39	.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.66	.68	.69	.71	.73	*.75*	*.79*	Div'd Decl'd per sh B■	*1.00*
1.81	1.77	1.89	2.63	2.06	3.41	2.31	2.83	3.87	6.62	3.79	3.17	5.65	3.75	5.67	4.68	*5.00*	*5.00*	Cap'l Spending per sh	*5.00*
7.53	7.88	7.90	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.99	13.66	13.75	14.20	14.71	15.92	*16.65*	*17.75*	Book Value per sh	*20.65*
19.01	18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	18.36	18.18	18.50	18.55	18.59	18.67	20.17	*21.00*	*22.00*	Common Shs Outst'g C	*23.00*
13.1	15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	33.4	26.2	28.7	29.1	21.2	20.4	24.3	*Bold figures are*		Avg Ann'l P/E Ratio	*22.0*
.68	.88	2.15	.95	.94	.88	1.04	1.05	1.27	1.77	1.58	1.91	1.85	1.33	1.30	1.36	*Value Line*		Relative P/E Ratio	*1.40*
3.9%	3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%	2.9%	3.0%	2.7%	*estimates*		Avg Ann'l Div'd Yield	*2.7%*

CAPITAL STRUCTURE as of 6/30/14
Total Debt $387.3 mill. **Due in 5 Yrs** $21.2 mill.
LT Debt $334.7 mill. **LT Interest** $18.1 mill.
(Total interest coverage: 2.9x) (51% of Cap'l)

Leases, Uncapitalized: Annual rentals $5.5 mill.

Pension Assets $91.4 mill. **Oblig.** $128.7 mill.

Pfd Stock None.

Common Stock 20,218,534 shs. as of 7/25/14

MARKET CAP: $550 million (Small Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		17-19
166.9	180.1	189.2	206.6	220.3	216.1	215.6	239.0	261.5	276.9	*295*	*320*	Revenues ($mill)	*390*
16.0	20.7	22.2	19.3	20.2	15.2	15.8	20.9	22.3	23.5	*26.0*	*31.0*	Net Profit ($mill)	*39.0*
42.1%	41.6%	40.8%	39.4%	39.5%	40.4%	38.8%	41.1%	41.1%	38.7%	*33.0%*	*39.0%*	Income Tax Rate	*38.0%*
2.1%	1.6%	2.1%	2.7%	2.3%	2.0%	--	--	2.0%	--	*1.0%*	*1.5%*	AFUDC % to Net Profit	*2.5%*
43.7%	42.6%	41.8%	47.7%	46.0%	49.4%	53.7%	56.6%	55.0%	51.1%	*50.5%*	*51.0%*	Long-Term Debt Ratio	*53.5%*
56.3%	57.4%	58.2%	52.3%	54.0%	50.6%	46.3%	43.4%	45.0%	48.9%	*49.5%*	*49.0%*	Common Equity Ratio	*46.5%*
328.3	341.2	391.8	453.2	470.9	499.6	550.7	607.9	610.2	656.2	*710*	*800*	Total Capital ($mill)	*1020*
456.8	484.8	541.7	645.5	684.2	718.5	785.5	756.2	831.6	898.7	*970*	*1010*	Net Plant ($mill)	*1200*
6.5%	7.6%	7.0%	5.7%	5.8%	4.4%	4.3%	4.9%	5.0%	5.0%	*4.5%*	*4.5%*	Return on Total Cap'l	*5.5%*
8.7%	10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	8.1%	7.3%	*7.5%*	*8.0%*	Return on Shr. Equity	*8.0%*
8.7%	10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	8.1%	7.3%	*7.5%*	*8.0%*	Return on Com Equity	*8.0%*
3.6%	5.6%	5.2%	3.5%	3.3%	1.2%	1.2%	3.1%	3.3%	2.8%	*3.0%*	*3.5%*	Retained to Com Eq	*3.5%*
58%	47%	46%	57%	59%	80%	80%	61%	59%	62%	*60%*	*56%*	All Div'ds to Net Prof	*59%*

CURRENT POSITION ($MILL.)	2012	2013	6/30/14
Cash Assets	2.5	2.3	6.0
Other	40.4	37.4	41.0
Current Assets	42.9	39.7	47.0
Accts Payable	8.5	12.6	12.6
Debt Due	20.7	23.0	52.6
Other	19.9	23.6	26.9
Current Liab.	49.1	59.2	92.1
Fix. Chg. Cov.	317%	268%	270%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	5.5%	4.0%	*4.0%*
"Cash Flow"	6.0%	4.0%	*4.5%*
Earnings	3.5%	.5%	*7.0%*
Dividends	4.5%	3.5%	*5.0%*
Book Value	5.5%	2.5%	*5.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	43.7	59.0	73.9	62.4	239.0
2012	51.1	65.6	82.4	62.4	261.5
2013	50.1	74.2	85.2	67.4	276.9
2014	54.6	70.4	*95.0*	*75.0*	*295*
2015	*60.0*	*80.0*	*100*	*80.0*	*320*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.03	.29	.44	.35	1.11
2012	.06	.28	.53	.31	1.18
2013	.07	.37	.44	.24	1.12
2014	.04	.34	*.52*	*.35*	*1.25*
2015	*.10*	*.43*	*.55*	*.32*	*1.40*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.17	.17	.17	.17	.68
2011	.173	.173	.173	.173	.69
2012	.1775	.1775	.1775	.1775	.71
2013	.1825	.1825	.1825	.1825	.73
2014	.1875	.1875	.1875		

BUSINESS: SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 228,000 connections that serve a population of approximately one million people in the San Jose area and 11,000 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and Austin, Texas. The company offers nonregulated water-related services, including water system operations, cash remittances, and maintenance contract services. SJW also owns and operates commercial real estate investments. Has about 379 employees. Chrm.: Charles J. Toeniskoetter. Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Int: www.sjwater.com.

Regulatory lag has been hurting SJW's bottom line. There is a period of time between when a utility incurs higher costs and when it recovers these expenses. San Jose Water, the principal subsidiary of SJW, filed for higher rates two years ago, and the California Public Utility Commission (CPUC) only made a final decision on the petition two months ago. In San Jose's case, this time lag has resulted in four consecutive negative quarterly share-earnings comparisons.

California's drought has not helped, either. San Jose is being hurt twofold by the lack of precipitation. First, the cost of buying and extracting water has increased. Second, the mandatory conservation rules put in place have caused a sharp drop in the demand for water.

State regulators recently made an important ruling on a San Jose Water request for higher rates. The highlights of the decision include permission to raise customers bills 9.8% in 2013, and 5.2% in 2014. The increase in 2015 has yet to finalized as a new forecast for inflation rate needs to be set. On balance, we view the decision as relatively reasonable.

Earnings should start to pick up. San Jose will now be able to add a surcharge to customers bills to retroactively recover the higher-than-expected outlays it had to make over the past 20 months or so. This should lead to a strong gain in share net of almost 21% in the second half of this year. In 2015, with an additional rate hike being implemented, we think the bottom line can rise a solid 12%.

Our outlook for SJW's dividend growth has improved. Previously, for 2015, we had been predicting a dividend increase of 2.7%, or \$0.02 a share, to \$0.77. With the rate decision concluded, we now think the company will increase the dividend by \$0.04 a share, or 5.3%, a level more in line with the industry norm.

We are more optimistic regarding the equity's long-term prospects. With the regulatory ruling concluded, SJW has more clearly defined earnings prospects. Moreover, the utility's service area is the home of Silicon Valley, a very prosperous and growing region. All told, on a risk-adjusted basis, the stock has decent total return potential to 2017-2019.

James A. Flood *October 17, 2014*

(A) Diluted earnings. Excludes nonrecurring losses: '03, $1.97; '04, $3.78; '05, $1.09; '06, $16.36; '08, $1.22; '10, 46¢. Next earnings report due early November. Quarterly egs. may not add due to rounding.
(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	30
Earnings Predictability	80

YORK WATER NDQ-YORW

RECENT PRICE	19.95	P/E RATIO	22.4 (Trailing: 25.6 / Median: 25.0)	RELATIVE P/E RATIO	1.29	DIV'D YLD	3.0%	VALUE LINE

TIMELINESS 4 Raised 3/28/14
SAFETY 2 New 7/19/13
TECHNICAL 3 Lowered 10/10/14
BETA .70 (1.00 = Market)

2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+50%)	13%
Low	19	(-5%)	2%

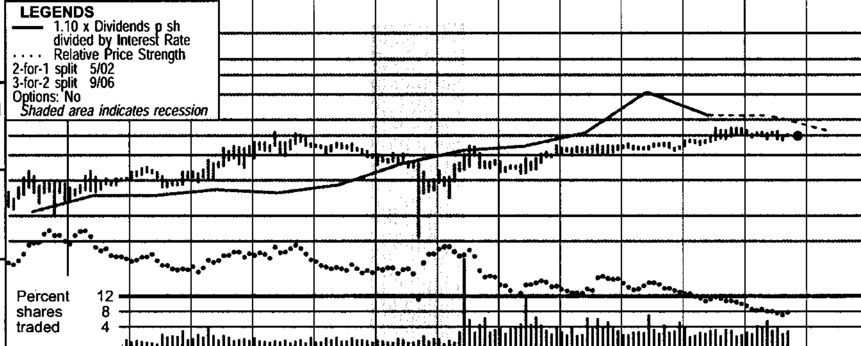
Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	0	6	0	1	4	1	0	4
Options	0	0	0	0	0	0	0	0	0
to Sell	0	1	0	0	0	0	0	1	0

Institutional Decisions

	4Q2013	1Q2014	2Q2014
to Buy	29	30	29
to Sell	24	21	28
Hld's(000)	3528	3634	3603

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
High:	13.5	14.0	17.9	21.0	18.5	16.5	18.0	18.0	18.1	18.5	22.0	21.5
Low:	9.3	11.0	11.7	15.3	15.5	6.2	9.7	12.8	15.8	16.8	17.6	18.8



Target Price Range
2017 | 2018 | 2019

64
48
40
32
24
20
16
12
8
6

% TOT. RETURN 9/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	2.5	9.5
3 yr.	33.9	84.2
5 yr.	66.9	104.4

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
--	--	--	2.05	2.05	2.17	2.18	2.58	2.56	2.79	2.89	2.95	3.07	3.18	3.21	3.27	3.65	3.95	Revenues per sh	4.65
--	--	--	.59	.57	.65	.65	.79	.77	.86	.88	.95	1.07	1.09	1.12	1.19	1.35	1.50	"Cash Flow" per sh	1.70
--	--	--	.43	.40	.47	.49	.56	.58	.57	.57	.64	.71	.71	.72	.75	.85	.95	Earnings per sh A	1.10
--	--	--	.34	.35	.37	.39	.42	.45	.48	.49	.51	.52	.53	.54	.55	.57	.59	Div'd Decl'd per sh B	.75
--	--	--	.75	.66	1.07	2.50	1.69	1.85	1.69	2.17	1.18	.83	.74	.94	.76	.85	.85	Cap'l Spending per sh	1.00
--	--	--	3.79	3.90	4.06	4.65	4.85	5.84	5.97	6.14	6.92	7.19	7.45	7.73	7.98	7.95	7.95	Book Value per sh	8.90
--	--	--	9.46	9.55	9.63	10.33	10.40	11.20	11.27	11.37	12.56	12.69	12.79	12.92	12.98	12.60	12.20	Common Shs Outst'g C	11.80
--	--	--	17.8	26.9	24.5	25.7	26.3	31.2	30.3	24.6	21.9	20.7	23.9	24.4	26.3	Bold figures are		Avg Ann'l P/E Ratio	22.0
--	--	--	.91	1.47	1.40	1.36	1.40	1.68	1.61	1.48	1.46	1.32	1.50	1.55	1.48	Value Line		Relative P/E Ratio	1.40
--	--	--	4.4%	3.3%	3.2%	3.1%	2.9%	2.5%	2.8%	3.5%	3.6%	3.5%	3.1%	3.1%	2.8%	estimates		Avg Ann'l Div'd Yield	3.0%
						22.5	26.8	28.7	31.4	32.8	37.0	39.0	40.6	41.4	42.4	46.0	48.0	Revenues ($mill)	55.0
						4.8	5.8	6.1	6.4	6.4	7.5	8.9	9.1	9.3	9.7	11.0	12.0	Net Profit ($mill)	13.0
						36.7%	36.7%	34.4%	36.5%	36.1%	37.9%	38.5%	35.3%	37.6%	37.6%	38.0%	37.0%	Income Tax Rate	38.0%
						--	--	7.2%	3.6%	10.1%	--	1.2%	1.1%	1.1%	.8%	1.0%	1.0%	AFUDC % to Net Profit	1.0%
						42.5%	44.1%	48.3%	46.5%	54.5%	45.7%	48.3%	47.1%	46.0%	45.1%	46.0%	46.0%	Long-Term Debt Ratio	50.0%
						57.5%	55.9%	51.7%	53.5%	45.5%	54.3%	51.7%	52.9%	54.0%	54.9%	54.0%	54.0%	Common Equity Ratio	50.0%
						83.6	90.3	126.5	125.7	153.4	160.1	176.4	180.2	184.8	188.4	185	180	Total Capital ($mill)	210
						140.0	155.3	174.4	191.6	211.4	222.0	228.4	233.0	240.3	244.2	250	255	Net Plant ($mill)	270
						7.6%	8.4%	6.2%	6.7%	5.7%	6.2%	6.5%	6.4%	6.4%	6.5%	7.5%	8.0%	Return on Total Cap'l	7.5%
						10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.0%	12.5%	Return on Shr. Equity	12.5%
						10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.0%	12.5%	Return on Com Equity	12.5%
						2.1%	3.0%	2.2%	1.7%	1.4%	1.9%	2.7%	2.5%	2.4%	2.4%	3.5%	3.5%	Retained to Com Eq	4.0%
						79%	74%	77%	82%	85%	78%	72%	73%	74%	74%	67%	62%	All Div'ds to Net Prof	68%

CAPITAL STRUCTURE as of 6/30/14
Total Debt $84.9 mill. **Due in 5 Yrs** $19.5 mill.
LT Debt $84.9 mill. **LT Interest** $5.2 mill.
(Total interest coverage: 4.0x)
(45% of Cap'l)

Pension Assets 12/13 $27.1 mill.
Oblig. $32.1 mill.

Pfd Stock None

Common Stock 12,831,171 shs.
as of 8/5/14

MARKET CAP: $250 million (Small Cap)

CURRENT POSITION ($MILL.)	2012	2013	6/30/14
Cash Assets	4.0	7.6	2.1
Accounts Receivable	6.4	3.8	4.0
Other	1.2	3.8	4.1
Current Assets	11.6	15.2	10.2
Accts Payable	1.1	1.8	1.7
Debt Due	.1	--	--
Other	4.3	6.0	7.1
Current Liab.	5.5	7.8	8.8
Fix. Chg. Cov.	414%	417%	417%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	4.5%	3.0%	6.5%
"Cash Flow"	6.5%	6.5%	7.0%
Earnings	5.5%	5.0%	7.0%
Dividends	4.5%	2.5%	5.5%
Book Value	7.0%	5.0%	2.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	9.6	10.5	10.5	10.0	40.6
2012	9.6	10.4	11.0	10.4	41.4
2013	10.1	10.7	10.9	10.7	42.4
2014	10.6	11.8	*12.0*	*11.6*	*46.0*
2015	*11.0*	*12.0*	*12.5*	*12.5*	*48.0*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.17	.19	.19	.16	.71
2012	.15	.17	.22	.18	.72
2013	.17	.18	.19	.21	.75
2014	.16	.22	*.25*	*.22*	*.85*
2015	*.20*	*.25*	*.25*	*.25*	*.95*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.128	.128	.128	.128	.512
2011	.131	.131	.131	.131	.524
2012	.134	.134	.134	.134	.535
2013	.138	.138	.138	.138	.552
2014	.1431	.1431	.1431		

BUSINESS: The York Water Company is the oldest investor-owned regulated water utility in the United States. It has operated continuously since 1816. As of December 31, 2013, the company's average daily availability was 35.0 million gallons and its service territory had an estimated population of 190,000. Has more than 63,000 customers. Residential customers accounted for 63% of 2013 revenues; commercial and industrial (29%); other (8%). It also provides sewer billing services. Incorporated: PA. York had 105 full-time employees at 12/31/13. President/CEO: Jeffrey R. Hines. Officers/directors own 1.1% of the common stock (3/14 proxy). Address: 130 East Market Street York, Pennsylvania 17401. Telephone: (717) 845-3601. Internet: www.yorkwater.com.

Higher rates should help boost The York Water Company's bottom line this year. Pennsylvania regulators allowed the utility to implement rate relief effective as of February 28th. Although the hike wasn't in time to enable a positive earnings comparison in the first quarter, the June period benefited as earnings per share rose 14%. And, while we are shaving a nickel off of our 2014 estimate, we think that share net will still increase 13%. This is especially good news considering profits over the past four years were stuck in a range of $0.71 to $0.75 a share.

We expect the trend to continue through 2015. With its combination of higher rates and successful cost controls, we expect York Water to enjoy its second-consecutive successful year, as share net could increase 12% to $0.95.

Dividend growth is also improving. True, the payout was only increased by $0.02 a share, or 3.6%, earlier this year. However, this broke a four-year streak, in which the annual dividend was only raised $0.01 annually, or less than 2%. Still, despite the higher growth rate, York Water's long-term dividend growth prospects are below average for a company in this industry.

The share-buyback program has finally kicked in. Eighteen months after declaring a 1.2 million share buyback program, the number of the company's shares outstanding fell almost 1% last quarter. Our earnings presentation assumes the utility will continue to gradually implement this program and conclude it sometime in early 2016.

York Water has the financial wherewithal to fund the capital expenditure program. Like many of its peers, the utility is upgrading its aging infrastructure. With a healthy equity-to-total capital ratio of 55%, the company can take on additional debt and maintain an adequate balance sheet.

York Water shares are ranked to underperform the broader market averages in the coming six- to 12-month period. Moreover, despite the improved earnings and dividend growth prospects, the stock's total return potential to 2017-2019 does not particularly stand out for a water utility.

James A. Flood *October 17, 2014*

(A) Diluted earnings. Next earnings report due early November.
(B) Dividends historically paid in mid-January, April, July, and October.
(C) In millions, adjusted for splits.

Company's Financial Strength	B+
Stock's Price Stability	90
Price Growth Persistence	55
Earnings Predictability	100

ATTACHMENT 2

Selected Interest Rates (Weekly) - H.15

Current Release (48 KB PDF)

Release Date: September 2, 2014

The weekly release is posted on Monday. Daily updates of the weekly release are posted Tuesday through Friday on this site. If Monday is a holiday, the weekly release will be posted on Tuesday after the holiday and the daily update will not be posted on that Tuesday.

September 2, 2014
H.15 Selected Interest Rates
Yields in percent per annum

Instruments	2014 Aug 25	2014 Aug 26	2014 Aug 27	2014 Aug 28	2014 Aug 29	Week Ending Aug 29	Week Ending Aug 22	2014 Aug
Federal funds (effective) 1 2 3	0.09	0.09	0.09	0.09	0.07	0.09	0.09	0.09
Commercial Paper 3 4 5 6								
Nonfinancial								
1-month	0.08	0.07	0.07	0.07	0.06	0.07	0.10	0.08
2-month	0.09	0.10	0.09	0.10	0.09	0.09	0.10	0.09
3-month	0.11	0.12	0.11	0.12	0.11	0.11	0.11	0.11
Financial								
1-month	0.09	0.07	0.07	0.08	0.07	0.08	0.09	0.09
2-month	0.12	0.11	0.12	0.11	0.12	0.12	0.12	0.11
3-month	0.13	0.13	0.14	0.13	0.13	0.13	0.13	0.13
Eurodollar deposits (London) 3 7								
1-month	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
3-month	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
6-month	0.36	0.36	0.36	0.36	0.36	0.36	0.36	0.36
Bank prime loan 2 3 8	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Discount window primary credit 2 9	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
U.S. government securities								
Treasury bills (secondary market) 3 4								
4-week	0.02	0.04	0.02	0.02	0.02	0.02	0.03	0.03
3-month	0.04	0.03	0.04	0.03	0.03	0.03	0.03	0.03
6-month	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.05
1-year	0.10	0.11	0.10	0.10	0.09	0.10	0.10	0.10
Treasury constant maturities								
Nominal 10								
1-month	0.02	0.04	0.02	0.02	0.02	0.02	0.03	0.03
3-month	0.04	0.03	0.04	0.03	0.03	0.03	0.03	0.03
6-month	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.05
1-year	0.11	0.12	0.11	0.11	0.09	0.11	0.11	0.11
2-year	0.53	0.52	0.51	0.50	0.48	0.51	0.48	0.47
3-year	0.99	0.98	0.97	0.95	0.94	0.97	0.93	0.93
5-year	1.69	1.68	1.65	1.63	1.63	1.66	1.63	1.63

Instruments	2014 Aug 25	2014 Aug 26	2014 Aug 27	2014 Aug 28	2014 Aug 29	Week Ending		2014 Aug
						Aug 29	Aug 22	
7-year	2.09	2.08	2.05	2.04	2.05	2.06	2.07	2.08
10-year	2.39	2.39	2.37	2.34	2.35	2.37	2.41	2.42
20-year	2.88	2.89	2.85	2.82	2.83	2.85	2.93	2.94
30-year	3.13	3.15	3.11	3.08	3.09	3.11	3.20	3.20
Inflation indexed 11								
5-year	-0.09	-0.15	-0.15	-0.14	-0.13	-0.13	-0.19	-0.21
7-year	0.18	0.16	0.18	0.19	0.21	0.18	0.14	0.15
10-year	0.24	0.25	0.23	0.21	0.23	0.23	0.24	0.22
20-year	0.58	0.64	0.61	0.58	0.61	0.60	0.65	0.64
30-year	0.86	0.88	0.85	0.82	0.84	0.85	0.91	0.90
Inflation-indexed long-term average 12	0.61	0.63	0.60	0.57	0.60	0.60	0.64	0.63
Interest rate swaps 13								
1-year	0.34	0.34	0.33	0.34	0.34	0.34	0.32	0.32
2-year	0.72	0.73	0.71	0.72	0.72	0.72	0.68	0.68
3-year	1.17	1.17	1.15	1.16	1.15	1.16	1.11	1.12
4-year	1.54	1.53	1.51	1.52	1.51	1.52	1.48	1.49
5-year	1.82	1.80	1.78	1.78	1.78	1.79	1.77	1.77
7-year	2.19	2.17	2.16	2.14	2.14	2.16	2.17	2.18
10-year	2.55	2.53	2.52	2.48	2.49	2.51	2.56	2.56
30-year	3.14	3.12	3.12	3.05	3.06	3.10	3.18	3.18
Corporate bonds								
Moody's seasoned								
Aaa 14	4.01	4.03	3.99	3.94	3.95	3.98	4.08	4.08
Baa	4.64	4.65	4.61	4.57	4.58	4.61	4.70	4.69
State & local bonds 15				4.17		4.17	4.21	4.23
Conventional mortgages 16				4.10		4.10	4.10	4.12

Footnotes

1. The daily effective federal funds rate is a weighted average of rates on brokered trades.

2. Weekly figures are averages of 7 calendar days ending on Wednesday of the current week; monthly figures include each calendar day in the month.

3. Annualized using a 360-day year or bank interest.

4. On a discount basis.

5. Interest rates interpolated from data on certain commercial paper trades settled by The Depository Trust Company. The trades represent sales of commercial paper by dealers or direct issuers to investors (that is, the offer side). The 1-, 2-, and 3-month rates are equivalent to the 30-, 60-, and 90-day dates reported on the Board's Commercial Paper Web page (www.federalreserve.gov/releases/cp/).

6. Financial paper that is insured by the FDIC's Temporary Liquidity Guarantee Program is not excluded from relevant indexes, nor is any financial or nonfinancial commercial paper that may be directly or indirectly affected by one or more of the Federal Reserve's liquidity facilities. Thus the rates published after September 19, 2008, likely reflect the direct or indirect effects of the new temporary programs and, accordingly, likely are not comparable for some purposes to rates published prior to that period.

7. Source: Bloomberg and CTRB ICAP Fixed Income & Money Market Products.

8. Rate posted by a majority of top 25 (by assets in domestic offices) insured U.S.-chartered commercial banks. Prime is one of several base rates used by banks to price short-term business loans.

9. The rate charged for discounts made and advances extended under the Federal Reserve's primary credit discount window program, which became effective January 9, 2003. This rate replaces that for adjustment credit, which was discontinued after January 8, 2003. For further information, see www.federalreserve.gov/boarddocs/press/bcreg/2002/200210312/default.htm. The rate reported is that for the Federal Reserve Bank of New York. Historical series for the rate on adjustment credit as well as the rate on primary credit are available at www.federalreserve.gov/releases/h15/data.htm.

10. Yields on actively traded non-inflation-indexed issues adjusted to constant maturities. The 30-year Treasury constant maturity series was discontinued on February 18, 2002, and reintroduced on February 9, 2006. From February 18, 2002, to February 9, 2006, the U.S. Treasury published a factor for adjusting the daily nominal 20-year constant maturity in order to estimate a 30-year nominal rate. The historical adjustment factor can be found at www.treasury.gov/resource-center/data-chart-center/interest-rates/. Source: U.S. Treasury.

11. Yields on Treasury inflation protected securities (TIPS) adjusted to constant maturities. Source: U.S. Treasury. Additional information on both nominal and inflation-indexed yields may be found at www.treasury.gov/resource-center/data-chart-center/interest-rates/.

Board of Governors of the Federal Reserve System

Selected Interest Rates (Weekly) - H.15

Current Release (48 KB PDF)

Release Date: October 6, 2014

The weekly release is posted on Monday. Daily updates of the weekly release are posted Tuesday through Friday on this site. If Monday is a holiday, the weekly release will be posted on Tuesday after the holiday and the daily update will not be posted on that Tuesday.

October 6, 2014
H.15 Selected Interest Rates
Yields in percent per annum

Instruments	2014 Sep 29	2014 Sep 30	2014 Oct 1	2014 Oct 2	2014 Oct 3	Week Ending Oct 3	Week Ending Sep 26	2014 Sep
Federal funds (effective) 1 2 3	0.08	0.07	0.09	0.09	0.09	0.09	0.09	0.09
Commercial Paper 3 4 5 6								
Nonfinancial								
1-month	0.06	0.04	0.05	0.06	0.06	0.05	0.06	0.06
2-month	0.08	0.05	0.07	0.08	0.08	0.07	0.07	0.08
3-month	0.09	0.05	0.09	0.11	0.11	0.09	0.10	0.10
Financial								
1-month	n.a.	0.06	0.07	0.08	0.08	0.07	0.09	0.09
2-month	n.a.	n.a.	0.09	0.09	0.10	0.09	0.10	0.10
3-month	0.13	0.11	0.12	0.10	0.13	0.12	0.11	0.12
Eurodollar deposits (London) 3 7								
1-month	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
3-month	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
6-month	0.36	0.36	0.36	0.36	0.36	0.36	0.36	0.36
Bank prime loan 2 3 8	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Discount window primary credit 2 9	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
U.S. government securities								
Treasury bills (secondary market) 3 4								
4-week	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01
3-month	0.02	0.02	0.02	0.01	0.01	0.02	0.01	0.02
6-month	0.05	0.03	0.04	0.03	0.03	0.04	0.03	0.04
1-year	0.10	0.11	0.09	0.09	0.09	0.10	0.10	0.10
Treasury constant maturities								
Nominal 10								
1-month	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01
3-month	0.02	0.02	0.02	0.01	0.01	0.02	0.01	0.02
6-month	0.05	0.03	0.04	0.03	0.03	0.04	0.03	0.04
1-year	0.11	0.13	0.10	0.10	0.11	0.11	0.10	0.11
2-year	0.58	0.58	0.53	0.53	0.57	0.56	0.58	0.57
3-year	1.06	1.07	1.00	1.01	1.05	1.04	1.06	1.05
5-year	1.77	1.78	1.69	1.70	1.73	1.73	1.79	1.77

Instruments	2014 Sep 29	2014 Sep 30	2014 Oct 1	2014 Oct 2	2014 Oct 3	Week Ending Oct 3	Week Ending Sep 26	2014 Sep
7-year	2.21	2.22	2.12	2.14	2.16	2.17	2.24	2.22
10-year	2.50	2.52	2.42	2.44	2.45	2.47	2.55	2.53
20-year	2.95	2.98	2.87	2.90	2.89	2.92	3.01	3.01
30-year	3.18	3.21	3.12	3.15	3.13	3.16	3.25	3.26
Inflation indexed 11								
5-year	0.16	0.22	0.09	0.13	0.17	0.15	0.17	0.10
7-year	0.44	0.51	0.36	0.41	0.42	0.43	0.44	0.38
10-year	0.55	0.55	0.46	0.49	0.52	0.51	0.54	0.46
20-year	0.89	0.89	0.80	0.83	0.84	0.85	0.89	0.81
30-year	1.08	1.10	1.01	1.04	1.04	1.05	1.09	1.05
Inflation-indexed long-term average 12	0.90	0.92	0.82	0.85	0.85	0.87	0.89	0.83
Interest rate swaps 13								
1-year	0.36	0.37	0.35	0.35	0.36	0.36	0.36	0.36
2-year	0.82	0.83	0.79	0.78	0.83	0.81	0.80	0.78
3-year	1.30	1.31	1.26	1.24	1.31	1.28	1.27	1.25
4-year	1.67	1.68	1.62	1.60	1.68	1.65	1.66	1.63
5-year	1.94	1.94	1.88	1.86	1.94	1.91	1.94	1.91
7-year	2.30	2.30	2.25	2.22	2.30	2.27	2.32	2.30
10-year	2.63	2.64	2.58	2.56	2.62	2.61	2.67	2.66
30-year	3.16	3.18	3.15	3.13	3.16	3.15	3.24	3.24
Corporate bonds								
Moody's seasoned								
Aaa 14	4.02	4.05	3.95	3.99	3.98	4.00	4.10	4.11
Baa	4.77	4.81	4.73	4.76	4.74	4.76	4.82	4.80
State & local bonds 15				4.11		4.11	4.11	4.13
Conventional mortgages 16				4.19		4.19	4.20	4.16

n.a. Not available.

Footnotes

1. The daily effective federal funds rate is a weighted average of rates on brokered trades.

2. Weekly figures are averages of 7 calendar days ending on Wednesday of the current week; monthly figures include each calendar day in the month.

3. Annualized using a 360-day year or bank interest.

4. On a discount basis.

5. Interest rates interpolated from data on certain commercial paper trades settled by The Depository Trust Company. The trades represent sales of commercial paper by dealers or direct issuers to investors (that is, the offer side). The 1-, 2-, and 3-month rates are equivalent to the 30-, 60-, and 90-day dates reported on the Board's Commercial Paper Web page (www.federalreserve.gov/releases/cp/).

6. Financial paper that is insured by the FDIC's Temporary Liquidity Guarantee Program is not excluded from relevant indexes, nor is any financial or nonfinancial commercial paper that may be directly or indirectly affected by one or more of the Federal Reserve's liquidity facilities. Thus the rates published after September 19, 2008, likely reflect the direct or indirect effects of the new temporary programs and, accordingly, likely are not comparable for some purposes to rates published prior to that period.

7. Source: Bloomberg and CTRB ICAP Fixed Income & Money Market Products.

8. Rate posted by a majority of top 25 (by assets in domestic offices) insured U.S.-chartered commercial banks. Prime is one of several base rates used by banks to price short-term business loans.

9. The rate charged for discounts made and advances extended under the Federal Reserve's primary credit discount window program, which became effective January 9, 2003. This rate replaces that for adjustment credit, which was discontinued after January 8, 2003. For further information, see www.federalreserve.gov/boarddocs/press/bcreg/2002/200210312/default.htm. The rate reported is that for the Federal Reserve Bank of New York. Historical series for the rate on adjustment credit as well as the rate on primary credit are available at www.federalreserve.gov/releases/h15/data.htm.

10. Yields on actively traded non-inflation-indexed issues adjusted to constant maturities. The 30-year Treasury constant maturity series was discontinued on February 18, 2002, and reintroduced on February 9, 2006. From February 18, 2002, to February 9, 2006, the U.S. Treasury published a factor for adjusting the daily nominal 20-year constant maturity in order to estimate a 30-year nominal rate. The historical adjustment factor can be found at www.treasury.gov/resource-center/data-chart-center/interest-rates/. Source: U.S. Treasury.

Selected Interest Rates (Weekly) - H.15

Current Release (48 KB PDF)

Release Date: November 3, 2014

The weekly release is posted on Monday. Daily updates of the weekly release are posted Tuesday through Friday on this site. If Monday is a holiday, the weekly release will be posted on Tuesday after the holiday and the daily update will not be posted on that Tuesday.

November 3, 2014
H.15 Selected Interest Rates
Yields in percent per annum

Instruments	2014 Oct 27	2014 Oct 28	2014 Oct 29	2014 Oct 30	2014 Oct 31	Week Ending Oct 31	Week Ending Oct 24	2014 Oct
Federal funds (effective) 1 2 3	0.09	0.09	0.09	0.09	0.07	0.09	0.09	0.09
Commercial Paper 3 4 5 6								
Nonfinancial								
1-month	0.07	0.06	0.04	0.06	0.06	0.06	0.06	0.06
2-month	0.07	0.07	0.08	0.08	0.07	0.07	0.08	0.08
3-month	0.08	0.08	0.10	0.11	0.07	0.09	0.10	0.10
Financial								
1-month	0.07	0.07	n.a.	n.a.	0.07	0.07	0.09	0.08
2-month	0.09	0.09	0.09	0.11	0.09	0.09	0.10	0.10
3-month	0.11	0.12	0.12	0.13	0.11	0.12	0.12	0.12
Eurodollar deposits (London) 3 7								
1-month	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
3-month	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
6-month	0.36	0.36	0.36	0.36	0.36	0.36	0.36	0.36
Bank prime loan 2 3 8	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Discount window primary credit 2 9	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
U.S. government securities								
Treasury bills (secondary market) 3 4								
4-week	0.03	0.02	0.01	0.01	0.01	0.02	0.03	0.02
3-month	0.02	0.02	0.03	0.01	0.01	0.02	0.02	0.02
6-month	0.06	0.05	0.07	0.06	0.05	0.06	0.06	0.05
1-year	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Treasury constant maturities								
Nominal 10								
1-month	0.03	0.02	0.01	0.01	0.01	0.02	0.03	0.02
3-month	0.02	0.02	0.03	0.01	0.01	0.02	0.02	0.02
6-month	0.06	0.05	0.07	0.06	0.05	0.06	0.06	0.05
1-year	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.10
2-year	0.41	0.42	0.48	0.48	0.50	0.46	0.40	0.45
3-year	0.81	0.84	0.93	0.91	0.95	0.89	0.80	0.88
5-year	1.51	1.53	1.61	1.58	1.62	1.57	1.47	1.55

Instruments	2014 Oct 27	2014 Oct 28	2014 Oct 29	2014 Oct 30	2014 Oct 31	Week Ending		2014 Oct
						Oct 31	Oct 24	
7-year	1.94	1.97	2.03	2.02	2.05	2.00	1.91	1.98
10-year	2.27	2.30	2.34	2.32	2.35	2.32	2.25	2.30
20-year	2.75	2.79	2.79	2.77	2.81	2.78	2.73	2.77
30-year	3.04	3.06	3.06	3.04	3.07	3.05	3.01	3.04
Inflation indexed 11								
5-year	0.07	0.06	0.14	0.09	0.09	0.09	0.02	0.06
7-year	0.33	0.34	0.38	0.33	0.34	0.34	0.27	0.32
10-year	0.38	0.39	0.42	0.42	0.43	0.41	0.35	0.38
20-year	0.75	0.76	0.76	0.76	0.78	0.76	0.70	0.74
30-year	0.97	0.98	0.96	0.96	0.99	0.97	0.95	0.96
Inflation-indexed long-term average 12	0.75	0.76	0.76	0.76	0.78	0.76	0.72	0.75
Interest rate swaps 13								
1-year	0.31	0.30	0.31	0.32	0.33	0.31	0.31	0.32
2-year	0.64	0.64	0.65	0.68	0.71	0.67	0.63	0.69
3-year	1.04	1.04	1.06	1.10	1.14	1.08	1.02	1.11
4-year	1.39	1.39	1.42	1.46	1.50	1.43	1.36	1.45
5-year	1.66	1.67	1.70	1.73	1.77	1.70	1.63	1.71
7-year	2.04	2.06	2.09	2.10	2.14	2.09	2.01	2.09
10-year	2.40	2.42	2.45	2.43	2.49	2.44	2.37	2.44
30-year	3.01	3.03	3.05	3.00	3.07	3.03	2.99	3.03
Corporate bonds								
Moody's seasoned								
Aaa 14	3.95	3.96	3.93	3.88	3.90	3.92	3.93	3.92
Baa	4.71	4.73	4.70	4.71	4.74	4.72	4.68	4.69
State & local bonds 15				3.90		3.90	3.90	3.96
Conventional mortgages 16				3.98		3.98	3.92	4.04

n.a. Not available.

Footnotes

1. The daily effective federal funds rate is a weighted average of rates on brokered trades.

2. Weekly figures are averages of 7 calendar days ending on Wednesday of the current week; monthly figures include each calendar day in the month.

3. Annualized using a 360-day year or bank interest.

4. On a discount basis.

5. Interest rates interpolated from data on certain commercial paper trades settled by The Depository Trust Company. The trades represent sales of commercial paper by dealers or direct issuers to investors (that is, the offer side). The 1-, 2-, and 3-month rates are equivalent to the 30-, 60-, and 90-day dates reported on the Board's Commercial Paper Web page (www.federalreserve.gov/releases/cp/).

6. Financial paper that is insured by the FDIC's Temporary Liquidity Guarantee Program is not excluded from relevant indexes, nor is any financial or nonfinancial commercial paper that may be directly or indirectly affected by one or more of the Federal Reserve's liquidity facilities. Thus the rates published after September 19, 2008, likely reflect the direct or indirect effects of the new temporary programs and, accordingly, likely are not comparable for some purposes to rates published prior to that period.

7. Source: Bloomberg and CTRB ICAP Fixed Income & Money Market Products.

8. Rate posted by a majority of top 25 (by assets in domestic offices) insured U.S.-chartered commercial banks. Prime is one of several base rates used by banks to price short-term business loans.

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10. Yields on actively traded non-inflation-indexed issues adjusted to constant maturities. The 30-year Treasury constant maturity series was discontinued on February 18, 2002, and reintroduced on February 9, 2006. From February 18, 2002, to February 9, 2006, the U.S. Treasury published a factor for adjusting the daily nominal 20-year constant maturity in order to estimate a 30-year nominal rate. The historical adjustment factor can be found at www.treasury.gov/resource-center/data-chart-center/interest-rates/. Source: U.S. Treasury.

ATTACHMENT 3

Databases, Tables & Calculators by Subject

FONT SIZE:

Change Output Options: From: 2004 To: 2014 GO

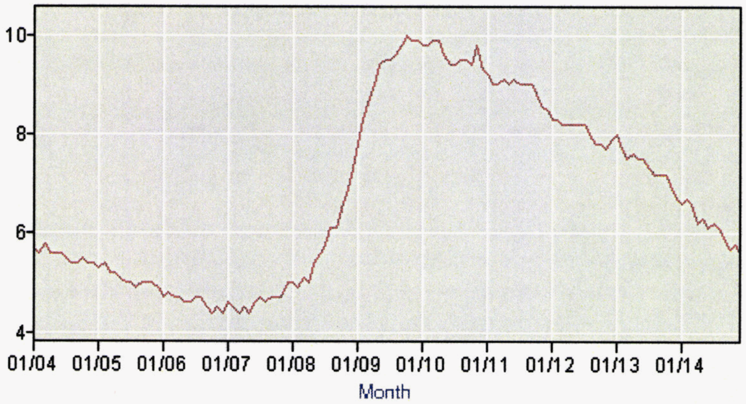
include graphs include annual averages

More Formatting Options

Data extracted on: January 14, 2015 (6:40:37 AM)

Labor Force Statistics from the Current Population Survey

Series Id: LNS14000000
Seasonally Adjusted
Series title: (Seas) Unemployment Rate
Labor force status: Unemployment rate
Type of data: Percent or rate
Age: 16 years and over



Download: xlsx

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2004	5.7	5.6	5.8	5.6	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4	
2005	5.3	5.4	5.2	5.2	5.1	5.0	5.0	4.9	5.0	5.0	5.0	4.9	
2006	4.7	4.8	4.7	4.7	4.6	4.6	4.7	4.7	4.5	4.4	4.5	4.4	
2007	4.6	4.5	4.4	4.5	4.4	4.6	4.7	4.6	4.7	4.7	4.7	5.0	
2008	5.0	4.9	5.1	5.0	5.4	5.6	5.8	6.1	6.1	6.5	6.8	7.3	
2009	7.8	8.3	8.7	9.0	9.4	9.5	9.5	9.6	9.8	10.0	9.9	9.9	
2010	9.8	9.8	9.9	9.9	9.6	9.4	9.4	9.5	9.5	9.4	9.8	9.3	
2011	9.2	9.0	9.0	9.1	9.0	9.1	9.0	9.0	9.0	8.8	8.6	8.5	
2012	8.3	8.3	8.2	8.2	8.2	8.2	8.2	8.0	7.8	7.8	7.7	7.9	
2013	8.0	7.7	7.5	7.6	7.5	7.5	7.3	7.2	7.2	7.2	7.0	6.7	
2014	6.6	6.7	6.6	6.2	6.3	6.1	6.2	6.1	5.9	5.7	5.8	5.6	

Local Area Unemployment Statistics

Unemployment Rates for States

Unemployment Rates for States
Monthly Rankings
Seasonally Adjusted
Nov. 2014p

Rank	State	Rate
1	NORTH DAKOTA	2.7
2	NEBRASKA	3.1
3	SOUTH DAKOTA	3.3
4	UTAH	3.6
5	MINNESOTA	3.7
6	IDAHO	3.9
7	HAWAII	4.0
8	COLORADO	4.1
8	NEW HAMPSHIRE	4.1
10	IOWA	4.3
10	KANSAS	4.3
10	MONTANA	4.3
10	VERMONT	4.3
14	OKLAHOMA	4.4
15	WYOMING	4.5
16	TEXAS	4.9
17	OHIO	5.0
17	VIRGINIA	5.0
19	PENNSYLVANIA	5.1
20	WISCONSIN	5.2
21	MARYLAND	5.6
21	MISSOURI	5.6
23	INDIANA	5.7
23	MAINE	5.7
25	ARKANSAS	5.8
25	FLORIDA	5.8
25	MASSACHUSETTS	5.8
25	NORTH CAROLINA	5.8
29	NEW YORK	5.9
30	ALABAMA	6.0
30	DELAWARE	6.0
30	KENTUCKY	6.0
33	WASHINGTON	6.2
34	WEST VIRGINIA	6.3
35	ILLINOIS	6.4
35	NEW JERSEY	6.4

35	NEW MEXICO	6.4
38	CONNECTICUT	6.5
38	LOUISIANA	6.5
40	ALASKA	6.6
41	MICHIGAN	6.7
41	SOUTH CAROLINA	6.7
43	ARIZONA	6.8
43	TENNESSEE	6.8
45	NEVADA	6.9
46	OREGON	7.0
47	RHODE ISLAND	7.1
48	CALIFORNIA	7.2
48	GEORGIA	7.2
50	MISSISSIPPI	7.3
51	DISTRICT OF COLUMBIA	7.4

p = preliminary.
NOTE: Rates shown are a percentage of the labor force. Data refer to place of residence. Estimates for the current month are subject to revision the following month.

Last Modified Date: December 19, 2014

U.S. Bureau of Labor Statistics | Local Area Unemployment Statistics Information and Analysis, PSB Suite 4675, 2 Massachusetts Avenue, NE Washington, DC 20212-0001
www.bls.gov/LAU | Telephone: 1-202-691-6392 | Contact LAUS

ATTACHMENT 4

EPCOR Water Arizona, Inc.
Test Year Ending June 30, 2013
Docket No. WS-01303A-14-0010

DIVIDEND PAYOUT PERCENTAGE - PROXY COMPANY'S

Company	(A) 2011	(B) 2012	(C) 2013
American States Water Co.			
Net Income	$ 45,859	$ 54,148	$ 62,686
Dividend Paid	$ 20,552	$ 24,130	$ 29,360
Percentage Payout	44.8%	44.6%	46.8%
American Water Works Co., Inc			
Net Income	$ 309,613	$ 358,070	$ 369,264
Dividend Paid	$ 198,258	$ 173,056	$ 199,359
Percentage Payout	64.0%	**48.3%**	54.0%
Aqua America, Inc.			
Net Income	$ 143,083	$ 196,580	$ 221,320
Dividend Paid	$ 87,133	$ 93,423	$ 102,889
Percentage Payout	60.9%	47.5%	46.5%
Artesian Resources Corp.			
Net Income	$ 6,746	$ 9,846	$ 8,301
Dividend Paid	$ 6,191	$ 6,850	$ 7,207
Percentage Payout	91.8%	69.6%	**86.8%**
California Water Service Group			
Net Income	$ 37,712	$ 48,828	$ 47,254
Dividend Paid	$ 25,674	$ 26,387	$ 29,619
Percentage Payout	68.1%	54.0%	62.7%
Connecticut Water Service, Inc.			
Net Income	$ 11,300	$ 13,640	$ 18,296
Dividend Paid	$ 8,234	$ 8,505	$ 10,796
Percentage Payout	72.9%	62.4%	59.0%
Middlesex Water			
Net Income	$ 13,447	$ 14,396	$ 16,633
Dividend Paid	$ 11,437	$ 11,679	$ 11,943
Percentage Payout	85.1%	81.1%	71.8%
SJW Corporation			
Net Income	$ 20,878	$ 22,318	$ 22,384
Dividend Paid	$ 12,823	$ 13,231	$ 14,443
Percentage Payout	61.4%	59.3%	64.5%
York Water Company			
Net Income	$ 9,084	$ 9,303	$ 9,654
Dividend Paid	$ 6,708	$ 6,929	$ 7,214
Percentage Payout	73.8%	74.5%	74.7%
Total Net Income All Proxy Companies	$ 597,722	$ 727,129	$ 775,792
Total Divident Payout	$ 377,010	$ 364,190	$ 412,830
	63.1%	50.1%	53.2%
AVERAGE DIVIDEND PAYOUT PERCENTAGE - PROXY COMPANIES			**54.94%**

AMERICAN STATES WATER COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

	Common Shares		Earnings	
(in thousands)	Number of Shares	Amount	Reinvested in the Business	Total
Balances at December 31, 2010	37,262	$ 227,385	$ 150,156	$ 377,541
Add:				
Net income			45,859	45,859
Issuance of Common Shares	138	1,658		1,658
Exercise of stock options	178	2,350		2,350
Tax benefit from employee stock-based awards		336		336
Compensation on stock-based awards		1,474		1,474
Dividend equivalent rights on stock-based awards not paid in cash		103		103
Deduct:				
Dividends on Common Shares			20,552	20,552
Dividend equivalent rights on stock-based awards not paid in cash			103	103
Balances at December 31, 2011	37,578	233,306	175,360	408,666
Add:				
Net income			54,148	54,148
Exercise of stock options and other issuance of Common Shares	896	13,295		13,295
Tax benefit from employee stock-based awards		890		890
Compensation on stock-based awards		1,710		1,710
Dividend equivalent rights on stock-based awards not paid in cash		121		121
Deduct:				
Dividends on Common Shares			24,130	24,130
Dividend equivalent rights on stock-based awards not paid in cash			121	121
Balances at December 31, 2012	38,474	249,322	205,257	454,579
Add:				
Net income			62,686	62,686
Exercise of stock options and other issuance of Common Shares	247	2,111		2,111
Tax benefit from employee stock-based awards		1,026		1,026
Compensation on stock-based awards		1,362		1,362
Dividend equivalent rights on stock-based awards not paid in cash		140		140
Deduct:				
Dividends on Common Shares			29,360	29,360
Dividend equivalent rights on stock-based awards not paid in cash			140	140
Balances at December 31, 2013	38,721	$ 253,961	$ 238,443	$ 492,404

The accompanying notes are an integral part of these consolidated financial statements.

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Changes in Stockholders' Equity

(In thousands, except per share data)

	Common Stock					Treasury Stock			
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Shares	At Cost	Preferred Stock of Subsidiary Companies Without Mandatory Redemption Requirements	Total Stockholders' Equity
Balance at December 31, 2010	174,996	$1,750	$6,156,675	$(1,959,235)	$ (71,446)	(1)	$ (19)	$ 4,547	$4,132,272
Net income	—	—	—	309,613	—	—	—	—	309,613
Direct stock reinvestment and purchase plan, net of expense of $19	64	1	1,807	—	—	—	—	—	1,808
Employee stock purchase plan	121	1	3,533	—	—	—	—	—	3,534
Stock-based compensation activity	483	5	18,543	(921)	—	1	19	—	17,646
Other comprehensive loss, net of tax of $(16,507)	—	—	—	—	(26,231)	—	—	—	(26,231)
Dividends	—	—	—	(198,258)	—	—	—	—	(198,258)
Balance at December 31, 2011	175,664	$1,757	$6,180,558	$(1,848,801)	$ (97,677)	0	$ 0	$ 4,547	$4,240,384
Net income	—	—	—	358,070	—	—	—	—	358,070
Direct stock reinvestment and purchase plan, net of expense of $14	60	0	2,092	—	—	—	—	—	2,092
Employee stock purchase plan	87	1	3,306	—	—	31	1,046	—	4,353
Stock-based compensation activity	1,177	12	36,688	(1,168)	—	(31)	(1,046)	—	34,486
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(2,827)	(2,827)
Other comprehensive loss, net of tax of $(12,113)	—	—	—	—	(18,514)	—	—	—	(18,514)
Dividends	—	—	—	(173,056)	—	—	—	—	(173,056)
Balance at December 31, 2012	176,988	$1,770	$6,222,644	$(1,664,955)	$(116,191)	0	$ 0	$ 1,720	$4,444,988
Net income	—	—	—	369,264	—	—	—	—	369,264
Direct stock reinvestment and purchase plan, net of expense of $49	53	1	2,122	—	—	—	—	—	2,123
Employee stock purchase plan	111	1	4,554	—	—			—	4,555
Stock-based compensation activity, net of expense of $11	1,227	12	32,076	(648)	—	(132)	(5,043)	—	26,397
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(1,720)	(1,720)
Other comprehensive income, net of tax of $52,782	—	—	—	—	81,556	—	—	—	81,556
Dividends	—	—	—	(199,359)	—	—	—	—	(199,359)
Balance at December 31, 2013	178,379	$1,784	$6,261,396	$(1,495,698)	$ (34,635)	(132)	$(5,043)	$ 0	$4,727,804

The accompanying notes are an integral part of these consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands of dollars)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance at December 31, 2010	$ 69,223	$ 664,369	$ 452,470	$ (12,307)	$ 499	$ 572	$ 1,174,826
Net income	-	-	143,069	-	-	14	143,083
Purchase of subsidiary shares from noncontrolling interest	-	-	-	-	-	(82)	(82)
Other comprehensive loss, net of income tax of $130	-	-	-	-	(243)	-	(243)
Dividends	-	-	(87,133)	-	-	-	(87,133)
Sale of stock (753,958 shares)	295	11,987	-	325	-	-	12,607
Repurchase of stock (51,431 shares)	-	-	-	(1,163)	-	-	(1,163)
Equity Compensation Plan (79,133 shares)	32	(32)	-	-	-	-	-
Exercise of stock options (530,613 shares)	212	6,391	-	-	-	-	6,603
Stock-based compensation	-	3,964	(72)	-	-	-	3,892
Employee stock plan tax benefits	-	(573)	-	-	-	-	(573)
Balance at December 31, 2011	69,762	686,106	508,334	(13,145)	256	504	1,251,817
Net income	-	-	196,563	-	-	17	196,580
Purchase of subsidiary shares from noncontrolling interest	-	-	-	-	-	(333)	(333)
Other comprehensive loss, net of income tax of $76	-	-	-	-	(141)	-	(141)
Dividends	-	-	(93,423)	-	-	-	(93,423)
Sale of stock (726,093 shares)	285	12,610	-	295	-	-	13,190
Repurchase of stock (77,355 shares)	-	-	-	(1,818)	-	-	(1,818)
Equity Compensation Plan (19,015 shares)	8	(8)	-	-	-	-	-
Exercise of stock options (1,041,796 shares)	417	14,181	-	-	-	-	14,598
Stock-based compensation	-	5,593	(171)	-	-	-	5,422
Balance at December 31, 2012	70,472	718,482	611,303	(14,668)	115	188	1,385,892
Net income	-	-	221,300	-	-	20	221,320
Other comprehensive gain, net of income tax of $125	-	-	-	-	231	-	231
Dividends	-	-	(102,889)	-	-	-	(102,889)
Stock split	17,655	(17,655)	-	-	-	-	-
Sale of stock (449,129 shares)	188	9,693	-	409	-	-	10,290
Repurchase of stock (415,233 shares)	-	-	-	(12,823)	-	-	(12,823)
Equity Compensation Plan (43,500 shares)	17	(17)	-	-	-	-	-
Exercise of stock options (1,566,089 shares)	632	25,066	-	-	-	-	25,698
Stock-based compensation	-	5,066	(442)	-	-	-	4,624
Employee stock plan tax benefits	-	2,700	-	-	-	-	2,700
Balance at December 31, 2013	$ 88,964	$ 743,335	$ 729,272	$ (27,082)	$ 346	$ 208	$ 1,535,043

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

In thousands

	Common Shares Outstanding Class A Non-Voting (1) (3) (4)	Common Shares Outstanding Class B Voting (2)	$1 Par Value Class A Non-Voting	$1 Par Value Class B Voting	Additional Paid-in Capital	Retained Earnings	Total
Balance as of December 31, 2010	6,755	882	$ 6,755	$ 882	$ 69,989	$ 17,520	$ 95,146
Net income	—	—	—	—	—	6,746	6,746
Cash dividends declared							
Common stock	—	—	—	—	—	(6,191)	(6,191)
Issuance of common stock							
Stock issuance	888	—	888	—	14,746	—	15,634
Dividend reinvestment plan	21	—	21	—	373	—	394
Employee stock options and awards(4)	25	—	25	—	543	—	568
Employee Retirement Plan (3)	40	—	40	—	660	—	700
Balance as of December 31, 2011	7,729	882	$ 7,729	$ 882	$ 86,311	$ 18,075	$ 112,997
Net income	—	—	—	—	—	9,846	9,846
Cash dividends declared							
Common stock	—	—	—	—	—	(6,850)	(6,850)
Issuance of common stock							
Dividend reinvestment plan	22	—	22	—	439	—	461
Employee stock options and awards(4)	58	—	58	—	1,269	—	1,327
Employee Retirement Plan (3)	19	—	19	—	380	—	399
Balance as of December 31, 2012	7,828	882	$ 7,828	$ 882	$ 88,399	$ 21,071	$ 118,180
Net income	—	—	—	—	—	8,301	8,301
Cash dividends declared							
Common stock	—	—	—	—	—	(7,207)	(7,207)
Issuance of common stock							
Dividend reinvestment plan	27	—	27	—	572	—	599
Employee stock options and awards(4)	68	—	68	—	1,340	—	1,408
Employee Retirement Plan (3)	25	—	25	—	530	—	555
Balance as of December 31, 2013	7,948	882	$ 7,948	$ 882	$ 90,841	$ 22,165	$ 121,836

(1) *At December 31, 2013, 2012, and 2011, Class A Common Stock had 15,000,000 shares authorized. For the same periods, shares issued were 7,977,546, 7,856,485 and 7,753,730, respectively.*

(2) *At December 31, 2013, 2012, and 2011, Class B Common Stock had 1,040,000 shares authorized and 882,000 shares issued.*

(3) *Artesian Resources Corporation registered 500,000 shares of Class A Common Stock available for purchase through the Artesian Retirement Plan and the Artesian Supplemental Retirement Plan.*

(4) *Under the Equity Compensation Plan, effective May 25, 2005 Artesian Resources Corporation authorized up to 500,000 shares of Class A Common Stock for issuance of grants in forms of stock options, stock units, dividend equivalents and other stock-based awards, subject to adjustment in certain circumstances as discussed in the Plan.*

The notes are an integral part of the consolidated financial statements.

CALIFORNIA WATER SERVICE GROUP

Consolidated Statements of Common Stockholders' Equity

For the Years Ended December 31, 2013, 2012 and 2011

	Common Stock		Additional Paid-in	Retained	Total Stockholders'
	Shares	Amount	Capital	Earnings	Equity
	(In thousands)				
Balance at December 31, 2010	41,667	$ 416	$ 217,309	$ 217,801	$ 435,526
Net income	—	—	—	37,712	37,712
Issuance of common stock	150	2	2,263	—	2,265
Dividends paid on common stock ($0.615 per share)	—	—	—	(25,674)	(25,674)
Balance at December 31, 2011	41,817	418	219,572	229,839	449,829
Net income	—	—	—	48,828	48,828
Issuance of common stock	91	1	1,441	—	1,442
Dividends paid on common stock ($0.630 per share)	—	—	—	(26,387)	(26,387)
Balance at December 31, 2012	41,908	419	221,013	252,280	473,712
Net income	—	—	—	47,254	47,254
Issuance of common stock	5,833	58	107,351	—	107,409
Dividends paid on common stock ($0.640 per share)	—	—	—	(29,619)	(29,619)
Balance at December 31, 2013	47,741	$ 477	$ 328,364	$ 269,915	$ 598,756

See accompanying Notes to Consolidated Financial Statements.

NOTE 4: RETAINED EARNINGS

The summary of the changes in Retained Earnings for the period January 1, 2011 through December 31, 2013, appears below:

(in thousands, except per share data)	2013	2012	2011
Balance, beginning of year	$ 51,804	$ 46,669	$ 43,603
Net Income	18,269	13,640	11,300
Sub-total	70,073	60,309	54,903
Dividends declared:			
Cumulative Preferred Stock, Series A, $0.80 per share	12	12	12
Cumulative Preferred Stock, Series $0.90, $0.90 per share	26	26	26
Common Stock:			
$0.98, $0.96 and $0.94 per Common Share in 2013, 2012 and 2011, respectively	10,758	8,467	8,196
Total Dividends Declared	10,796	8,505	8,234
Balance, end of year	$ 59,277	$ 51,804	$ 46,669

NOTE 5: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in Accumulated Other Comprehensive Income/(Loss) ("AOCI") by component, net of tax, for the year ended December 31, 2013, (in thousands):

For the year ended December 31, 2013	**Interest Rate Swap**	**Unrealized Gains on Investments**	**Defined Benefit Items**	**Total**
Beginning Balance (a)	$ (41)	$ 69	$ (1,356)	$ (1,328)
Other Comprehensive Income Before Reclassification	—	165	672	837
Amounts Reclassified from AOCI	41	25	310	376
Net current-period Other Comprehensive Income	41	190	982	1,213
Ending Balance	$ —	$ 259	$ (374)	$ (115)

(a) All amounts shown are net of tax. Amounts in parentheses indicate loss.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(In thousands)

	Common Stock Shares		Common Stock Amount		Retained Earnings		Total
Balance at January 1, 2011	15,566	$	139,534	$	33,745	$	173,279
Net Income					13,447		13,447
Dividend Reinvestment & Common Stock Purchase Plan	82		1,504				1,504
Restricted Stock Award, Net - Employees	30		323				323
Stock Award - Board Of Directors	4		71				71
Cash Dividends on Common Stock					(11,437)		(11,437)
Cash Dividends on Preferred Stock					(206)		(206)
Balance at December 31, 2011	15,682	$	141,432	$	35,549	$	176,981
Net Income					14,396		14,396
Dividend Reinvestment & Common Stock Purchase Plan	86		1,587				1,587
Restricted Stock Award, Net - Employees	21		448				448
Stock Award - Board Of Directors	6		105				105
Cash Dividends on Common Stock					(11,679)		(11,679)
Cash Dividends on Preferred Stock					(206)		(206)
Balance at December 31, 2012	15,795	$	143,572	$	38,060	$	181,632
Net Income					16,633		16,633
Dividend Reinvestment & Common Stock Purchase Plan	82		1,653				1,653
Restricted Stock Award, Net - Employees	26		388				388
Stock Award - Board Of Directors	5		105				105
Conversion of $8.00 Convertible Preferred Stock	55		467				467
Cash Dividends on Common Stock					(11,943)		(11,943)
Cash Dividends on Preferred Stock					(190)		(190)
Balance at December 31, 2013	15,963	$	146,185	$	42,560	$	188,745

See Notes to Consolidated Financial Statements.

SJW Corp. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share and per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Number of Shares	Amount				
Balances, December 31, 2010	18,551,540	9,662	23,443	219,568	2,359	255,032
Net income	—	—	—	20,878	—	20,878
Unrealized loss on investment, net of tax effect of ($59)	—	—	—	—	(85)	(85)
Share-based compensation	—	—	651	(129)	—	522
Exercise of stock options and similar instruments	13,896	7	(91)	—	—	(84)
Employee stock purchase plan	25,712	14	511	—	—	525
Dividend reinvestment and stock purchase plan	1,679	1	38	—	—	39
Dividends paid ($0.69 per share)	—	—	—	(12,823)	—	(12,823)
Balances, December 31, 2011	18,592,827	9,684	24,552	227,494	2,274	264,004
Net income	—	—	—	22,318	—	22,318
Unrealized loss on investment, net of tax effect of $0	—	—	—	—	36	36
Share-based compensation	—	—	564	(128)	—	436
Exercise of stock options and similar instruments	44,784	23	347	—	—	370
Employee stock purchase plan	29,468	15	573	—	—	588
Dividend reinvestment and stock purchase plan	3,487	2	81	—	—	83
Dividends paid ($0.71 per share)	—	—	—	(13,231)	—	(13,231)
Balances, December 31, 2012	18,670,566	9,724	26,117	236,453	2,310	274,604
Net income	—	—	—	22,384	—	22,384
Unrealized income on investment, net of tax effect of $741	—	—	—	—	1,077	1,077
Share-based compensation	—	—	912	(128)	—	784
Exercise of stock options and similar instruments	43,665	23	46	—	—	69
Employee stock purchase plan	30,869	16	706	—	—	722
Dividend reinvestment and stock purchase plan	3,111	2	82	—	—	84
Common stock issued	1,421,000	740	35,154	—	—	35,894
Dividends paid ($0.73 per share)	—	—	—	(14,[redacted])	—	(14,443)
Balances, December 31, 2013	20,169,211	10,505	63,017	244,266	3,387	321,175

See Accompanying Notes to Consolidated Financial Statements.

THE YORK WATER COMPANY

Statements of Common Stockholders' Equity
(In thousands of dollars, except per share amounts)
For the Years Ended December 31, 2013, 2012 and 2011

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total
Balance, December 31, 2010	12,692,054	$ 75,481	$ 15,776	$ 91,257
Net income	-	-	9,084	9,084
Dividends	-	-	(6,708)	(6,708)
Issuance of common stock under dividend reinvestment, direct stock and employee stock purchase plans	99,617	1,632	-	1,632
Balance, December 31, 2011	12,791,671	77,113	18,152	95,265
Net income	-	-	9,303	9,303
Dividends	-	-	(6,929)	(6,929)
Issuance of common stock under dividend reinvestment, direct stock and employee stock purchase plans	126,962	2,186	-	2,186
Balance, December 31, 2012	12,918,633	79,299	20,526	99,825
Net income	-	-	9,654	9,654
Dividends	-	-	(7,214)	(7,214)
Retirement of common stock	(94,414)	(1,772)	-	(1,772)
Issuance of common stock under dividend reinvestment, direct stock and employee stock purchase plans	155,062	3,018	-	3,018
Balance, December 31, 2013	12,979,281	$ 80,545	$ 22,966	$ 103,511

The accompanying notes are an integral part of these statements.

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ATTACHMENT 5

DIVIDENDS PAID OUT - SEE ATTACHED FROM COMPANY

Date		Earnings	Date		Dividends
December 31, 2012	$	10,319,000	December 31, 2012	$	10,378,122
December 31, 2013	$	14,773,000	December 31, 2013	$	3,691,533
June 30, ,2014	$	4,745,000	June 30, ,2014	$	9,892,890
TOTAL	$	29,837,000	TOTAL	$	23,962,545

PAYOUT RATIO	80.31%

The above details provided by the Company in DR# 14.03 and DR #26.2. See attached

EPCOR Water Arizona
Docket No. WS-01303A-14-0010

Response to Data Request No. RUCO 26.2

US GAAP

Net Income	EPCOR Feb-12	EPCOR Mar-12	EPCOR Apr-12	EPCOR May-12	EPCOR Jun-12	EPCOR Jul-12	EPCOR Aug-12	EPCOR Sep-12	EPCOR Oct-12	EPCOR Nov-12	EPCOR Dec-12
AZ	809	(387)	1,920	1,682	1,783	(395)	2,323	2,328	1,459	828	(2,030)
NM	(13)	18	291	495	541	(126)	308	371	250	110	1,467
CH	(15)	(117)	130	127	52	(54)	142	419	106	125	426

	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
AZ											
NM	(153)	362	866	487	1,216	2,917	2,459	2,033	3,030	1,210	1,200
CH	213	(10)	183	198	269	833	240	290	(410)	46	76
	26	42	105	114	79	217	154	159	(346)	108	116

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
AZ	401	447	(1,022)	751	2,266	1,901
NM	46	24	173	184	337	249
CH	65	44	(306)	139	155	154

Net Income
EPCOR

2012	$	10,319
2013	$	14,773
2014	$	4,745
	$	29,837

EPCOR Water Arizona
Docket No. WS-01303A-14-0010

Response to Data Request No. RUCO 26.1

Sun City Water
Test Year Ended June 30, 2013
Statement of Changes in Stockholders Equity
Total Company

Exhibit
Schedule E-4
Page 1
Witness:

	Shares Outstanding	Common Stock	Additional Paid-In-Capital	Retained Earnings	Total
Balance, June 30, 2010	$ 104,576	$ 522,880	$ 184,709,272	$ (30,778,554)	$ 154,453,598
Net Income				$ 6,093,560	$ 6,093,560
Dividends Paid				(1,603,150)	(1,603,150)
Other/Reclass				5	5
Balance, June 30, 2011	$ 104,576	$ 522,880	$ 184,842,430	$ (26,288,139)	$ 159,077,171
Net Income				$ 12,669,041	$ 12,669,041
Dividends Paid				(5,318,736)	(5,318,736)
Other/Reclass				(177,954)	(177,954)
Balance, June 30, 2012	$ 104,576	$ 522,880	$ 184,882,920	$ (19,115,788)	$ 166,290,012
Net Income				$ 10,210,179	$ 10,210,179
Dividends Paid				(10,378,122)	$ (10,378,122)
Other/Reclass				(10,588,445)	$ (10,588,445)
Balance, June 30, 2013	$ 104,576	$ 522,880	$ 184,882,920	$ (29,872,177)	$ 155,533,624
Net Income				$ 13,822,254	$ 13,822,254
Dividends Paid				(13,584,423)	$ (13,584,423)
Other/Reclass				3,605,975	$ 3,605,975
Balance, June 30, 2014	$ 104,576	$ 522,880	$ 184,882,920	$ (26,028,371)	$ 159,377,430

Supporting Schedules:
D-2

Recap Schedules:
D-1

Workpapers & Supporting Documents
\#7D Fully Allocated Balance Sheet Total Company

\2013 Sun City Water Sch. A-F Oct 2014.xls

COMPANY: EPCOR Water Arizona Inc.
DOCKET NO: WS-01303A-14-0010

Response provided by: **Greg Barber**
Title: **Controller**

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 14.03

Q: Dividends/revenues/profit transfers to Parent Company – Please explain the Company's process for transferring revenue/profits or dividends back to the parent Company. As part of your response please provide the following information:

a. The amount of revenue/profits transferred back to the parent Company since February 2012. If multiple transfers were made please list the amounts separately.
b. Are these transactions made annually, quarterly or monthly?
c. What account(s) on the general ledger are these transactions recorded in.
d. Please provide the accounting entry to record this transaction.
e. Please describe how the Company determines its target amount.
f. If no Dividends/revenues/profits have been transferred to the Parent Company at this time, does the Company intent to do so in the future? And if so, please provide the estimated amount?

A: From time to time EWAZ pays dividends to EWUS. To calculate the dividend amount, EWAZ determines its net income from the previous 12-months, less any dividends paid in that period, and multiplies that amount by 75%. This dividend amount is then paid to EWUS.

a. The following is a list of dividends paid from EWAZ to EWUS since February 2012:

December 2012	$10,378,122
March 2014	$ 3,691,533
June 2014	$ 9,892,890

b. Dividends from EWAZ to EWUS are not paid on a periodic schedule, but only paid when approved by its board of directors.
c. The EWAZ dividends are recorded in account # 3200.
d. The typical entry for an EWAZ dividend is to debit the dividend account, # 3200, and credit accounts payable. When the payment is made the entry is to debit accounts payable and credit cash.
e. EWAZ targets 75% of its rolling 12-months net income, less any previous dividends paid, for its dividend payment.
f. Dividends have been paid, therefore, this question is not applicable.

ATTACHMENT 6

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Research Update:

EPCOR Utilities Inc. Upgraded To 'A-' From 'BBB+' On Strengthening Business Risk Profile; Outlook Stable

Primary Credit Analyst:
Stephen R Goltz, Toronto (1) 416-507-2592; stephen.goltz@standardandpoors.com

Secondary Contact:
Gerald F Hannochko, Toronto (1) 416-507-2589; gerald.hannochko@standardandpoors.com

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Research Update:

EPCOR Utilities Inc. Upgraded To 'A-' From 'BBB+' On Strengthening Business Risk Profile; Outlook Stable

Overview

- We are raising our long-term corporate credit and senior unsecured debt ratings on EPCOR Utilities Inc. to 'A-' from 'BBB+'.
- The upgrade reflects our assessment of EPCOR's progress on its business risk profile, with a decrease in the company's ownership of Capital Power L.P. and its continued focus on regulated electricity and water businesses.
- The stable outlook reflects our view that EPCOR's high degree of regulated water and electricity utilities businesses will continue to provide stable and predictable cash flows.

Rating Action

On Sept. 26, 2014, Standard & Poor's Ratings Services raised its long-term corporate credit and senior unsecured debt ratings on EPCOR Utilities Inc. to 'A-' from 'BBB+'. The outlook is stable.

Rationale

The upgrade reflects our assessment of EPCOR's progress on its business risk profile, with a decrease in the company's ownership of Capital Power L.P. and its continued focus on regulated electricity and water businesses.

Under our criteria, to determine the assessment of the business risk profile, we combine an assessment of industry risk, country risk and competitive position. EPCOR's operations in regulated electricity and water businesses account for more than 85% of its consolidated EBITDA. Based on our criteria, we assess industry risk for regulated utilities as very low risk. All of the company's operations are in Canada or the U.S., which we assess as having a very low risk. Based on this and the very low country risk, we have assigned a corporate industry and country risk assessment (CICRA) score of 1. Combined with a "strong" competitive position, this results in an "excellent" business risk profile.

We view EPCOR's financial risk profile as "intermediate" based on forecast funds from operations (FFO)-to-debt of 15%-16%. Although the company has access to capital markets to fund acquisitions, it still relies in part on its ability to sell its investment in Capital Power to fund the equity portion. To date, EPCOR has been able to make a number of sales, with the most recent in October 2013, and has significantly reduced its investment in Capital Power to 19%. As per our corporate methodology, and given EPCOR's operations are predominately in regulated utilities, we use the low volatility table to assess the financial risk profile.

We have applied a negative comparable rating modifier. We base this on financial metrics that are at the lower portion of the intermediate scale. In addition, the company has indicated a desire to make acquisitions or develop competitive transmission that incrementally increases business risk. Using the modifier has a negative one-notch impact on the stand-alone credit profile. All other modifiers have no impact on the rating.

Our base-case scenario assumes the following:

- Regulatory structure will continue to be stable, with no material, adverse regulatory decisions
- Dividend will continue at the current amount of C$141 million through the forecast period. As per the dividend policy, the annual dividend was set at C$141 million beginning in 2013
- Nondiscretionary capital spending will be approximately C$300 million per year
- GDP growth in Alberta will be approximately 4%

Based on these assumptions, we have arrived at AFFO-to-debt of 15%-16% for the next two years.

Liquidity

Our assessment of EPCOR's liquidity is "adequate." We believe liquidity sources will be sufficient to cover its uses more than 1.1x in the next 12 months. We also expect that should EBITDA decline by 15%, the company has the appropriate liquidity to cover its uses. In addition, we believe the utility has well-established, solid relationships with banks and generally prudent risk management.

Principal liquidity sources include the following:

- Cash FFO of C$330 million
- Bank facilities of C$900 million

Principal liquidity uses include the following:

- Capex of C$461.2 million
- Dividends of C$141.0 million

Outlook

The stable outlook reflects our view that EPCOR's high degree of regulated water and electricity utilities businesses will continue to provide stable and predictable cash flows and that the contribution of the unregulated businesses will remain below 15% of total consolidated EBITDA.

Downside scenario

We could lower the rating if the company aggressively pursues unregulated opportunities, including contracted ones, that result in the proportion of unregulated EBITDA increasing above 15% of total consolidated EBITDA. A negative rating action is also possible during our two-year outlook period if adjusted FFO-to-debt falls and stays below 13% based on the low volatility table as our criteria outline and assuming the current business risk profile. This could occur if EPCOR decides to pursue a large acquisition or development project funded with large amounts of debt.

Upside scenario

Although we consider it unlikely within the next two years, if FFO-to-debt was forecast to be above 23% and backed by strong fundamentals, we could raise the rating.

Ratings Score Snapshot

Corporate Credit Rating: A-/Stable/--

Business risk: Excellent
- Country risk: Very Low
- Industry risk: Very Low
- Competitive position: Strong

Financial risk: Intermediate
- Cash flow/Leverage: Intermediate

Anchor: a

Modifiers
- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Unfavorable (-1 notch)

Stand-alone credit profile: a-
- Likelihood of government support: low

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013

- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Raised

	To	From
EPCOR Utilities Inc.		
Corporate credit rating	A-/Stable/--	BBB+/Positive/--
Senior unsecured debt	A-	BBB+

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Rating Report

Report Date:
August 7, 2014

Previous Report:
October 18, 2013

insight beyond the rating

EPCOR Utilities Inc.

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The Company

EPCOR Utilities Inc. builds, owns and operates electrical transmission and distribution networks and water and waste water treatment facilities and infrastructure in Canada and the United States. The Company also holds a 19% economic interest in the power generation business through its equity investment in Capital Power L.P. (rated BBB). The Company is wholly owned by the City of Edmonton.

Commercial Paper Limit

$500 million

Recent Actions

March 27, 2013
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Senior Unsecured Debentures	A (low)	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

DBRS has confirmed the Issuer Rating and the Senior Unsecured Debentures rating of EPCOR Utilities Inc. (EUI or the Company) at A (low) and the Commercial Paper rating at R-1 (low), all with Stable trends. The ratings are based on the stable, regulated operations of the Company (electric distribution and transmission, and water and waste-water) and its reasonable financial risk profile.

EUI's business risk profile is supported by the Company's regulated electricity transmission and distribution, and water and waste-water operations in Canada, and the reasonable regulatory environment in Alberta. The Alberta Utilities Commission (AUC) issued a decision on EPCOR Distribution & Transmission Inc.'s (EDTI) 2013 capital tracker application in December 2013, approving most of the applied-for amount ($4.87 million of $5.03 million). This decision is viewed as positive, as it reduces the uncertainty regarding the recovery of capital expenditures (capex) for the Company under the performance-based regulation (PBR) framework.

The current strategy of EUI is to fund its U.S. regulated water and waste-water expansion through the continued sell down of its Capital Power L.P. (Capital Power; rated BBB) investment. Although the acquired utilities in New Mexico and Arizona are considered to have lower business risk than Capital Power, overall this strategy has not had a material impact on the Company's business risk profile. This is due to the more challenging, albeit improving, regulatory environment in these states compared to EUI's primary franchise of Alberta. The use of historical test years in these states' rate-making process could potentially increase regulatory lag and negatively affect the timing of capex recovery (see Regulation section).

EUI's consolidated financial risk profile is supportive of the current rating category, with all key credit metrics in the "A" rating range. The Company's key ratios going forward will continue to benefit from the increase in cash flow resulting from the acquisition of EPCOR Water Arizona Inc. (Water Arizona) and EPCOR Water New Mexico Inc. (Water New Mexico) in late 2012. However, EUI is expected to continue generating free cash flow deficits for the medium term as it invests in maintaining the reliability of its infrastructure and expanding its system. DBRS expects these free cash flow deficits to remain manageable and be financed in a prudent manner in order for the Company to maintain its debt-to-capital ratio in line with the regulatory capital structure.

Rating Considerations

Strengths
(1) Low business risk
(2) Solid balance sheet
(3) Diversified asset portfolio

Challenges
(1) Expansion into United States
(2) High level of planned capex
(3) Limited access to equity markets

Financial Information

EPCOR Utilities Inc.	12 mos. Mar. 31	For the year ended December 31				
(CA$ millions)	2014	2013	2012	2011	2010	2009
Total debt	1,981	1,972	1,970	1,699	1,672	1,917
Total debt in capital structure (1) (2)	47.8%	47.7%	48.1%	43.6%	42.4%	43.9%
Cash flow/Total debt (1)	16.0%	16.0%	13.3%	11.5%	11.2%	18.3%
EBIT gross interest coverage (times) (1)	2.19	2.27	1.91	1.27	1.13	2.06
Net income before non-recurring items	214	234	186	146	115	161
Cash flow from operations	329	327	274	208	193	356

(1) Adjusted for operating leases (2) Adjusted for accumulated other comprehensive income.

EPCOR Utilities Inc.

Report Date:
August 7, 2014

Rating Considerations Details

Strengths

(1) Low business risk. EUI's regulated water, electric transmission and distribution assets in Canada should continue to provide a stable financial base. The sell down of Capital Power has not had a material impact on EUI's business risk profile, as the proceeds have been used to fund the Company's expansion into the U.S. regulated water and waste-water market. Although DBRS views the business risk associated with the acquired Arizona and New Mexico utilities to be lower than with Capital Power, the regulations in these states are considered to be more challenging than in Alberta.

(2) Solid balance sheet. EUI's balance sheet remains solid for an entity with relatively lower business risk, following the divestiture of the power generation business in 2009.

(3) Diversified asset portfolio. Diversification across different energy segments, water and electric transmission and distribution helps to improve stability of earnings and cash flow and to reduce risks associated with concentration in one single business.

Challenges

(1) Expansion into the United States. The utilities EUI have acquired in Arizona and New Mexico operate in more challenging regulatory environments than for utilities operating in Alberta, due to the use of historical test years in those states. This increases regulatory risk for the Company and could potentially have a negative impact on the timing of capex recovery for the U.S. utilities. Additionally, there is integration risk should the Company continue to pursue other acquisitions of water and waste-water utilities in the United States.

(2) High level of planned capex. EUI has experienced a high level of capex as the Company invests in enhancing the capacity of its infrastructure and reinforcing the reliability of its system. Gross capex in 2013 was $444 million and the Company expects to spend a similar level in 2014 ($63 million spent in the three months ended March 31, 2014 (Q1 2014)). While this has led to a weakening of EUI's debt-to-capital ratio (47.8% at Q1 2014 versus 43.9% in 2009), it remains reasonable for the current rating category. The Company is expected to fund its capex in a manner that will maintain the debt-to-capital ratio of its regulated utilities in line with their respective regulatory capital structures.

(3) Limited access to equity markets. EUI's ownership structure (100% owned by the City of Edmonton (the City)) limits its ability to access equity markets directly. As a result, EUI's free cash flow deficits are being financed largely through debt and proceeds from selling down its economic interest in Capital Power.

EPCOR Utilities Inc.

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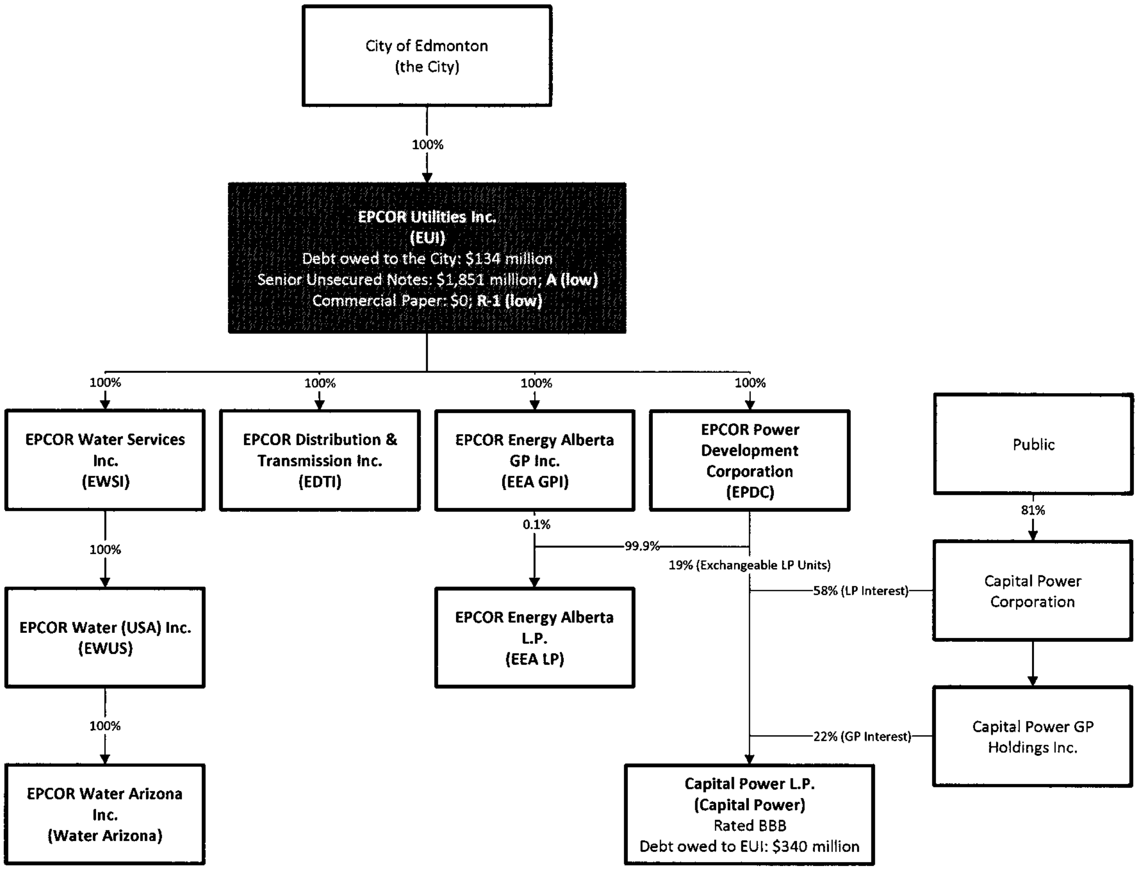
Debt and Simplified Organizational Chart



*As of December 31, 2013.

Capital Power L.P. Investment

- Capital Power is a generation entity with over 3,000 megawatts (MW) of net owned capacity and/or power purchase arrangements in Alberta, Ontario, British Columbia and the United States.
- EUI currently owns an approximate 19% economic interest via exchangeable units in Capital Power, down from the original ownership of 72.2% in 2009, as it monetizes its investment to fund growth in its core business.
- As of March 31, 2014, the sum of the market value of EUI's equity interest in Capital Power and the balance of the loans receivable due from Capital Power is approximately $824.5 million.

(CA$ millions)	
EPCOR's Equity Interest in Capital Power (in shares)	18.84
Share Price of Capital Power ($)	25.72
Market Value of Equity Interest in Capital Power	**484.6**
Loan Receivables from Capital Power	339.9
Cash from Capital Power Investment and Loan	**824.5**

As of March 31, 2014

EPCOR Utilities Inc.

Report Date:
August 7, 2014

Earnings and Outlook

(CA$ millions)	12 mos. Mar. 31 2014	For the year ended December 31 2013	2012	2011	2010	2009
Total revenues	1,940	1,929	1,931	1,794	1,437	2,354
Net sales	973	979	925	718	689	1,098
EBITDA	404	408	359	245	249	511
EBIT	262	269	230	140	151	347
Gross interest expense	121	120	123	119	138	169
Net income before non-recurring items	214	234	186	146	115	161
Reported net income	156	175	19	144	105	125
Return on equity (1) (2)	9.5%	10.5%	8.2%	6.2%	4.8%	5.8%
Segmented reported EBIT						
Water services	145	140	107	52	64	68
Distribution and transmission	84	90	84	69	55	38
Energy services	26	32	29	16	27	103
Generation	0	0	0	0	0	81
Reported subtotal	255	262	220	137	146	290
Corporate (3)	28	28	32	51	57	30
Reported total	283	290	252	188	203	320

(1) Adjusted for operating leases (2) Adjusted for accumulated other comprehensive income.
(3) Includes financing revenues on the long-term receivable from Capital Power.

2013 Summary

- Net income before non-recurring items increased in 2013 over 2012, due to higher approved customer rates for the Canadian water and waste-water operations, a full year's earnings contributed from Water Arizona and Water New Mexico, higher approved rates for transmission, higher equity income from Capital Power and lower corporate charges.
- This increase was slightly offset by lower approved customer rates and volumes for electricity distribution and lower billing charges due to fewer customer sites billed.
- Reported net income recovered from 2012, which was negatively affected by a $124 million impairment charge on the Capital Power investment as the carrying amount of the investment was higher than the recoverable amount.

2014 Summary/Outlook

- Earnings in the 12 months ending March 31, 2014 (LTM 2014), decreased due to weaker earnings from EDTI and the energy services segment, as well as lower equity income from Capital Power.
- Higher approved customer rates and increased volumes for water services in Q1 2014 slightly offset this decrease in earnings.
- Earnings from the regulated electricity distribution and transmission, and water business are expected to represent the majority of total earnings going forward (currently around 81%) as the Company continues to monetize its interest in Capital Power. This segment should see higher earnings in 2014 as a result of an increase in approved regulated utility rates.
- EUI's water business is expected to contribute significantly to growth in earnings in the medium- to long-term, as the Company continues to pursue development and operation of water and waste-water infrastructure for both municipal and commercial/industrial customers in Canada and the United States.
- Equity income from Capital Power is exposed to volatile Alberta wholesale power prices.

EPCOR Utilities Inc.

Report Date:
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Financial Profile and Outlook

(CA$ millions)	12 mos. Mar. 31 2014	For the year ended December 31 2013	2012	2011	2010	2009
Net income before non-recurring items	214	234	186	146	115	161
Depreciation & amortization	148	145	133	105	98	179
Deferred income taxes and other	(33)	(52)	(45)	(43)	(20)	16
Cash flow from operations	329	327	274	208	193	356
Dividends paid	(141)	(141)	(141)	(138)	(136)	(134)
Capital expenditures	(414)	(444)	(360)	(338)	(245)	(517)
Free cash flow (bef. working cap. changes)	(226)	(258)	(227)	(268)	(188)	(295)
Changes in non-cash work. cap. items	(51)	(59)	54	(56)	(5)	(81)
Net free cash flow	(277)	(317)	(173)	(324)	(193)	(376)
Acquisitions & long-term investments	(4)	(4)	(460)	(29)	(1)	0
Proceeds on asset sales	196	196	228	265	212	527
Payments from long-term receivables	14	14	25	233	245	39
Net equity change	0	0	0	0	0	0
Net debt change	(10)	(14)	265	22	(241)	(249)
Other investing and financing	24	23	31	45	71	(41)
Change in cash	(57)	(102)	(84)	212	93	(100)
Total debt	1,981	1,972	1,970	1,699	1,672	1,917
Total debt in capital structure (1) (2)	47.8%	47.7%	48.1%	43.6%	42.4%	43.9%
Cash flow/Total debt (1)	16.0%	16.0%	13.3%	11.5%	11.2%	18.3%
EBIT gross interest coverage (times) (1)	2.19	2.27	1.91	1.27	1.13	2.06
Dividend payout ratio	66.0%	60.4%	75.8%	94.4%	118.2%	83.3%

(1) Adjusted for operating leases (2) Adjusted for accumulated other comprehensive income.

2013 Summary

- Overall, EUI has maintained a reasonable financial profile, with credit metrics solidly in the "A" rating range.
- Cash flow from operations improved over 2012 levels, largely due to higher earnings.
- Capex in 2013 was higher than the previous year due to greater construction activity for the Heartland Transmission project.
- EUI's dividend policy has remained stable at $141 million per year.
- Cash flow from operations were insufficient to fund capex and dividends, resulting in a free cash flow deficit. The Company financed this deficit largely through a partial sale of the economic interest in Capital Power.
- EUI's key credit metrics improved in 2013 as the Company experienced stronger earnings and cash flow, and did not issue any additional debt.

2014 Summary/Outlook

- Cash flow in LTM 2014 was in line with 2013 levels. The Company's credit metrics also remained in line with the current rating category.
- Capex decreased in Q1 2014 as the Heartland Transmission line was placed into service in December 2013. This resulted in a considerably lower free cash flow deficit when compared to the same period in the prior year.
- EUI has forecast capex of around $375 million to $475 million for 2014 ($63 million spent in Q1 2014). Approximately $300 million will be on maintenance capex, with the balance to be for growth projects.
- The Company is expected to pay a dividend of $141 million to the City, in line with its dividend policy.
- EUI's ability to sell down its interest in Capital Power to fund its growth projects has helped preserve its current financial profile and liquidity. As a result, key credit metrics are expected to remain stable and in line with the current ratings.

EPCOR Utilities Inc.

Report Date:
August 7, 2014

Debt and Liquidity

Liquidity

Credit Facilities

(CA$ millions - as at March 31, 2014)	Amount	Drawn/LoC	Available	Expiry
Syndicated bank credit facility (Tranche A)	250	0	250	2016
Syndicated bank credit facility (Tranche B)	250	0	250	2018
Letter of credit facility	400	133	267	2016
Uncommitted revolving facility	47	0	47	
Total	**947**	**133**	**814**	

Summary

- DBRS views EUI's current liquidity position as sufficient for ongoing liquidity needs.
- The $400 million committed facility can only be used to provide letters of credit.
- The committed Syndicated Bank Credit facilities also indirectly back the Company's authorized commercial paper program of $500 million.

Long-Term Debt

Debt Schedule	CA$ million
(as at December 31, 2013)	
2014	15
2015	15
2016	145
2017	15
2018	413
Thereafter	1,382
	1,985
Deferred Financing Costs	(13)
Total	**1,972**

Long-term Debt	Rate	CA$ millions
(as at December 31, 2013)		
Obligations to the City of Edmonton		
Due in 1-5 years	11.04%	33
Due in 6-10 years	7.01%	19
Due in 11-15 years	0.00%	0
Due in 16-25 years	5.36%	82
Total debt to City of Edmonton		**134**
Public debentures		
Debentures due in 2016	6.94%	130
Debentures due in 2018	6.02%	400
Debentures due in 2029	7.05%	150
Debentures due in 2035	5.88%	200
Debentures due in 2038	6.83%	200
Debentures due in 2039	5.88%	200
Debentures due in 2042	4.65%	300
Private debt notes		
Bonds due in 2021	3.80%	147
Bonds due in 2022	5.55%	4
Bonds due in 2022	5.44%	1
Bonds due in 2041	5.08%	119
Total debt issued by EUI		**1,851**
Deferred financing cost		(13)
Total long-term debt		**1,972**

Summary

- As of March 31, 2014, loans receivable representing back-to-back loans to Capital Power totalled $339.9 million. DRBS does not anticipate that Capital Power will have any difficulties making the final payment on the loans receivable, which is expected to be repaid in full by June 2018.
- EUI has third-party long-term debt of $1,850 million and $131 million, net of sinking fund, owed to the City as of March 31, 2014.

Description of Operations

Transmission and Distribution (EDTI) (approximately 34% of 2013 reported consolidated EBIT)

Distribution and Transmission	%	2013	2012	2011
(thousands of MWh)				
Residential	26%	2,012	1,957	1,913
Commercial	74%	5,603	5,566	5,434
Total	100%	7,615	7,523	7,347
YOY growth		1.2%	2.4%	1.4%

(CA$ millions)	2013	2012	2011
EBITDA	141	130	110
EBIT	90	84	69
Capital Expenditures	276	222	188

- EDTI owns and operates substations and transmission lines that form part of the Alberta interconnected electric system, regulated by the AUC and situated primarily within the City of Edmonton. EDTI's distribution function distributes approximately 14% of Alberta's energy consumption to more than 360,000 residential and commercial consumers in Edmonton. EDTI's transmission function operates 203 circuit kilometres of transmission lines.
- EDTI operates in a reasonable, albeit evolving, regulatory environment in Alberta (see Regulation on page 8). There is virtually no competition within the franchise areas.
- The Heartland Transmission project (estimated cost of $535 million) is a joint venture with AltaLink, L.P. (ALP) to construct and operate a 500 kilovolt (kV) overhead transmission line. EUI's 50% portion of cost is estimated at $267 million. The transmission line was energized in December 2013, and the AUC approved the partition of the transmission line in June 2014 in accordance with EUI and ALP's respective service territories.
- Due to the increased capex required to meet customer demand and maintain system reliability, the segment is expected to generate moderate free cash flow deficits over the medium term. DBRS notes that the risk of cost overruns is manageable, given the experience that EUI has in managing projects of this nature.
- DBRS expects that completed projects will be added to the rate base in a timely fashion.

Water Services (EWSI) (approximately 53% of 2013 reported consolidated EBIT)

Water Sales (Canada & USA)	%	2013	2012	2011
(millions of litres)				
Residential	49%	99,657	100,878	46,097
Multi-residential	8%	17,161	16,900	16,334
Commercial and Industrial	25%	51,464	52,265	30,263
Wholesale	17%	33,562	32,201	33,269
Total	100%	201,844	202,244	125,963
YOY growth		-0.2%	60.6%	3.5%

(CAD millions)	2013	2012	2011
EBITDA	212	172	93
EBIT	140	107	52
Capital expenditures	153	126	89

- EPCOR Water Services Inc. (EWSI) owns eight and operates 21 water treatment and distribution facilities in Alberta and British Columbia. It also owns five waste-water treatment and/or collection facilities and operates 23 waste-water and collection facilities in Alberta and British Columbia. EWSI has been the sole supplier of water within Edmonton for more than 100 years. Twenty-year supply agreements, expiring on various dates between 2018 and 2026, have been signed with nine regional customers, which supply over 60 surrounding communities and counties.

- EWSI operations consist of three main lines of business: (1) retail water (58% of sales), (2) wholesale water (17% of sales) and (3) commercial and industrial services (25% of sales).
- The Canadian water business is characterized by low business risk, given the essential nature of the product and the lack of competition. Operations in Edmonton are regulated by the City of Edmonton pursuant to the provisions of a PBR bylaw; wholesale water rates are calculated on a cost of service (COS) basis, allowing EWSI to recover its costs and earn a fair return on its investment (regulated by the AUC on a complaint-only basis); and commercial and industrial services are a non-regulated operation that earns income through competitive, contract-based services.
- Water Arizona, Chaparral City Water Company (Chaparral) and Water New Mexico are regulated utilities that provide water and waste-water services. Water Arizona and Chaparral are regulated by the Arizona Corporate Commission, with rate increase requests primarily based on the preceding year's revenues, operating expenses and capital costs. Water New Mexico is regulated by the New Mexico Public Regulation Commission in a similar fashion to the Arizona water utilities.
- DBRS expects EUI to continue to exercise due diligence and discipline as it grows its water and waste-water business, and to gain a good command of the regulatory regimes in Arizona as the regulator remains supportive.

Energy Services (EEA LP and EEA GPI) (approximately 12% of 2013 reported consolidated EBIT)

- The Energy Services division provides Regulated Rate Option (RRO) electricity service to residential, farm and small commercial consumers with the City of Edmonton, several rural electrification associated service territories and the FortisAlberta Inc. service territory. EEA LP also provides billing, collection and contact centre services to EWSI, Capital Power and the City of Edmonton Waste and Drainage departments.
- Energy Services earns a return margin on non-energy revenues from Regulated Rate Tariff (RRT) customers, a return on its deemed capital structure and a margin on default customers. Energy Services also earns compensation for its energy procurement and the Energy Price Setting Plan (EPSP), including an administrative risk margin and a commodity risk margin. A 2014-2018 EPSP was submitted to the AUC in January 2014, as the previous EPSP amending agreement expired in June 2014.
- Energy Services will bear some price and volume risks, albeit in a relatively short period of time (120 days), but is compensated through the margins it negotiated in customer rates for incurring such risks (for amendments to the EPSP, see Regulated Rate Option section).
- DBRS expects earnings to remain stable in the medium term.

Competitive Retail (Encor)

- Encor is a competitive retail energy provider for electricity and natural gas customers in Alberta under competitive contract. It was created in May 2014 to mitigate against the customer attrition from the RRO by signing competitive contracts.
- This division has an arrangement with an investment-grade third party to procure electricity and natural gas on a full load-following basis, eliminating commodity risk for Encor.

Regulation

Transmission and Distribution (EDTI)

- EDTI's transmission function is regulated by the AUC through a COS recovery, plus a fair rate-of-return on investment methodology. EDTI filed a two-year GTA in the second quarter of 2013.
- Beginning in 2013, EDTI's distribution function is regulated based on a PBR framework, which calculates customer rates on an annual basis based on a formula. The formula also incorporates a capital tracker mechanism for capex beyond normal investments.
- EDTI is expected to continue to manage its operational efficiency to meet or exceed the PBR's productivity factor. Operational efficiency is key to achieving higher earnings under PBR.
- The AUC initiated a Generic Cost of Capital proceeding in 2013. EDTI has an interim 8.75% return on equity (ROE) (equity components of 41% and 37% for the distribution and transmission operations, respectively) until a decision is made. The decision is expected in Q4 2014.
- The AUC issued a decision on 2013 capital tracker applications in December 2013. EPCOR had applied for 23 capital trackers to recover \$5.03 million. The AUC approved a K factor of \$4.87 million, with the Company allowed to recover, through 2014 rates, the portion in excess of the 60% being recovered through 2013 rates.

EPCOR Utilities Inc.

Report Date:
August 7, 2014

Regulated Rate Option

- Retail customers in Alberta have had a choice of suppliers since January 2001. EUI is required to offer RROs to residential and small commercial customers who do not sign up with a retailer within their service territory or FortisAlberta Inc.'s service territory.
- RRO operations are regulated by the AUC under COS regulation, in which the AUC issues rate orders establishing the revenue requirements to recover operating costs and earn a fair rate of return. The current EPSP plan expired on June 30, 2014. The AUC issued a decision in March 2014 for EEA GP to adhere to the previously approved EPSP until a decision is made on the 2014-2018 EPSP application.
- The regulated rate is currently fully priced on a forward-month energy price. The margin earned on RRO electricity sales is based on the EPSP.
- An EPSP amending agreement was filed with the AUC and subsequently approved as filed in August 2013. Amendments include incorporating a 120-day procurement window, a higher return margin to EUI and an automatic quarterly risk adjustment mechanism.
- Energy Services conducts the procurement activities for this business, which was previously outsourced, and therefore assumes the commodity risks associated with purchasing electricity forward. DBRS expects the risk to be manageable, as Energy Services currently procures electricity 120 days in advance of the consumption month and under well-defined risk parameters.
- In February 2012, the Government of Alberta (the Government) appointed an independent committee to conduct a retail market review of the RRT energy charge and other matters. The report was submitted in September 2012 and the Government responded in January 2013. Six recommendations relating to the elimination of the RRO in Alberta were rejected and the Government accepted two recommendations: (1) to extend the time frame over which RRO prices could be established and (2) to remove the distribution and transmission and administration cost rate freeze that had been in place since March 2012. The Government has established a team to facilitate industry consultation on 33 other recommendations that were accepted in principle.

Water Services (EWSI)

- Water is regulated by the City of Edmonton under a PBR tariff that is intended to allow EWSI to recover its costs and earn a fair rate of return, while providing an incentive to manage costs below the inflationary adjustment built into the PBR rate. The PBR plan was approved by the City of Edmonton for five years, commencing April 1, 2012.
- EWSI's wholesale rates in the communities surrounding Edmonton are regulated by the AUC on a complaints-only basis.
- Water Arizona and Chaparral are regulated by the Arizona Corporation Commission (ACC) and Water New Mexico is regulated by the New Mexico Public Regulation Commission (NMPRC). Both are regulated on a COS basis. The commissions are responsible for regulating prices charged for water and setting a reasonable rate of ROE (included in rates).
- In June 2013, the System Improvements Benefits mechanism was approved and adopted in Arizona, which provides revenue to cover capital costs without having to wait for retrospective rate applications.

Regulated Returns Summary

			Approved Capital Structure 2014	
Business Unit	**Regulatory Authority**	**Approved ROE - 2014**	**Debt %**	**Equity %**
EDTI - Distribution	AUC	8.75%*	59*	41*
EDTI - Transmission	AUC	8.75%*	63*	37*
Energy Services	AUC	6.00%**	N/A**	N/A**
EWSI - Edmonton (Water)	City of Edmonton	10.875%	60	40
EWSI - Edmonton (Wastewater)	City of Edmonton	8.35%	60	40
EWSI - French Creek	Comptroller (BC)	10.05%	60	40
EWSI - White Rock	Comptroller (BC)	9.75%	60	40
Arizona	ACC	10.05%	60***	40***
New Mexico (Edgewood)	NMPRC	9.64%	54	46
Chaparral	ACC	9.60%	14.45	85.55

*Approved on an interim basis until the completion of the 2013/2014 GCOC proceeding.
**Return margin of 6% on RRT non-energy revenues and a 6% return on RRT capital.
***Weighted average ROE and capital structure based on rate base.

EPCOR Utilities Inc.

Report Date:
August 7, 2014

EPCOR Utilities Inc. (CA$ millions)	Mar. 31 2014	Dec. 31 2013	Dec. 31 2012		Mar. 31 2014	Dec. 31 2013	Dec. 31 2012
Assets				**Liabilities & Equity**			
Cash & equivalents	126	106	217	S.T. borrowings	0	0	0
Accounts receivable	307	322	333	Accounts payable	214	245	303
Inventories	15	14	13	Current portion L.T.D.	15	15	14
Prepaid expenses & other	0	62	41	Other current liab.	80	81	83
Total Current Assets	448	504	604	**Total Current Liab.**	309	341	400
Net fixed assets	3,833	3,776	3,417	Long-term debt	1,966	1,957	1,956
Future income tax assets	53	53	52	Deferred income taxes	12	12	4
Goodwill & intangibles	243	240	222	Other L.T. liab.	890	875	842
Investments & others	877	874	1,129	Shareholders' equity	2,277	2,262	2,222
Total Assets	5,454	5,447	5,424	**Total Liab. & SE**	5,454	5,447	5,424

Balance Sheet & Liquidity & Capital Ratios	12 mos. Mar. 31 2014	For the year ended December 31 2013	2012	2011	2010	2009
Current ratio	1.45	1.48	1.51	2.04	1.13	1.05
Total debt in capital structure	46.5%	46.6%	47.0%	42.0%	41.7%	43.7%
Total debt in capital structure (1) (2)	47.8%	47.7%	48.1%	43.6%	42.4%	43.9%
Cash flow/Total debt	16.6%	16.6%	13.9%	12.2%	11.5%	18.6%
Cash flow/Total debt (1)	16.0%	16.0%	13.3%	11.5%	11.2%	18.3%
(Cash flow-dividends)/Capex	0.45	0.42	0.37	0.21	0.23	0.43
Dividend payout ratio	66.0%	60.4%	75.8%	94.4%	118.2%	83.3%
Coverage Ratios (times)						
EBIT gross interest coverage	2.17	2.24	1.87	1.18	1.09	2.05
EBIT gross interest coverage (1)	2.19	2.27	1.91	1.27	1.13	2.06
EBITDA gross interest coverage	3.34	3.40	2.92	2.06	1.80	3.02
Fixed-charge coverage	2.17	2.24	1.87	1.18	1.09	2.05
Profitability Ratios						
EBITDA margin	20.8%	21.2%	18.6%	13.7%	17.3%	21.7%
EBIT margin	13.5%	13.9%	11.9%	7.8%	10.5%	14.7%
Profit margin	11.0%	12.1%	9.6%	8.2%	8.0%	6.8%
Return on equity (1) (2)	9.5%	10.5%	8.2%	6.2%	4.8%	5.8%
Return on capital (1) (2)	6.8%	7.3%	6.5%	5.6%	4.9%	5.2%

(1) Adjusted for operating leases (2) Adjusted for accumulated other comprehensive income.

EPCOR Utilities Inc.

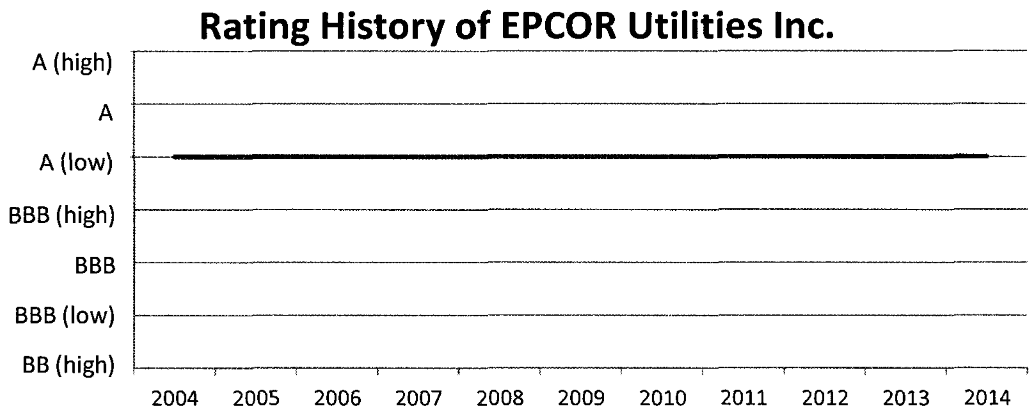
Report Date:
August 7, 2014

Rating

Debt	Rating	Rating Action	Trend
Commercial Paper	R-1 (low)	Confirmed	Stable
Issuer Rating	A (low)	Confirmed	Stable
Senior Unsecured Debentures	A (low)	Confirmed	Stable

Rating History

	Current	2013	2012	2011	2010
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Issuer Rating	A (low)	A (low)	A (low)	NR	NR
Senior Unsecured Debentures	A (low)	A (low)	A (low)	A (low)	A (low)



Note:
All figures are in Canadian dollars unless otherwise noted.

City Given Strong Marks for Credit Rating

September 30, 2013

International credit rating agency Standard & Poor's has given its second-highest score, a AA+ rating, to the City of Edmonton for the third year in a row. The rating is just one notch below the highest possible mark and indicates a stable outlook for the City of Edmonton.

"We are pleased with this continued recognition of Edmonton's strong fiscal position and the affirmation of responsible stewardship of taxpayer dollars," said Lorna Rosen, CFO and Treasurer for the City of Edmonton. "We know citizens work hard for their money, and we are just as prudent about using our resources wisely in providing the services and infrastructure that people need and use every day."

The independent rating report provides several reasons for its high confidence rating for Edmonton, including:

- Strong liquidity position
- A healthy economy
- A debt burden well within provincial limits and the more stringent city policy

Standard & Poor's states that its positive rating reflects the City has predictable and well-balanced institutional framework and budgetary performance.

For more information:

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ATTACHMENT 7

American States Water Company (AWR) - NYSE ★ Watchlist

34.19 ↓0.01 (0.03%) 11:56AM EST - NYSE Real Time Price

Analyst Estimates

Get Analyst Estimates for: GO

Earnings Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	0.25	0.33	1.46	1.57
No. of Analysts	4.00	3.00	6.00	6.00
Low Estimate	0.24	0.32	1.38	1.45
High Estimate	0.26	0.34	1.50	1.67
Year Ago EPS	0.30	0.28	1.61	1.46

Revenue Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	110.71M	108.14M	474.45M	488.13M
No. of Analysts	3	1	6	5
Low Estimate	108.32M	108.14M	464.24M	466.00M
High Estimate	113.30M	108.14M	517.80M	521.70M
Year Ago Sales	109.92M	101.94M	472.08M	474.45M
Sales Growth (year/est)	0.70%	6.10%	0.50%	2.90%

Earnings History	Dec 13	Mar 14	Jun 14	Sep 14
EPS Est	0.19	0.34	0.43	0.49
EPS Actual	0.30	0.28	0.39	0.54
Difference	0.11	-0.06	-0.04	0.05
Surprise %	57.90%	-17.60%	-9.30%	10.20%

EPS Trends	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Current Estimate	0.25	0.33	1.46	1.57
7 Days Ago	0.25	0.33	1.46	1.57
30 Days Ago	0.26	0.33	1.44	1.55
60 Days Ago	0.26	0.33	1.44	1.54
90 Days Ago	0.26	0.33	1.44	1.54

EPS Revisions	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	1	3	3
Down Last 30 Days	0	0	0	0
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Est	AWR	Industry	Sector	S&P 500
Current Qtr.	-16.70%	8.40%	196.60%	18.40%
Next Qtr.	17.90%	11.10%	101.40%	18.50%
This Year	-9.30%	3.60%	-4.10%	7.80%
Next Year	7.50%	-6.90%	6.70%	10.50%
Past 5 Years (per annum)	19.36%	N/A	N/A	N/A
Next 5 Years (per annum)	2.00%	7.64%	6.74%	9.39%
Price/Earnings (avg. for comparison categories)	23.42	16.69	17.00	20.96
PEG Ratio (avg. for comparison categories)	11.71	5.08	7.75	3.13

Currency in USD.

AWK

American Water Works Company, Inc. (AWK) - NYSE

52.15 **0.30(0.57%)** 12:42PM EST - NYSE Real Time Price

Analyst Estimates

Get Analyst Estimates for: GO

Earnings Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	0.51	0.42	2.41	2.61
No. of Analysts	12.00	7.00	13.00	17.00
Low Estimate	0.49	0.38	2.38	2.55
High Estimate	0.54	0.49	2.45	2.73
Year Ago EPS	0.47	0.40	2.20	2.41

Revenue Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	790.10M	718.80M	3.08B	3.20B
No. of Analysts	10	7	15	14
Low Estimate	719.30M	692.20M	3.01B	3.10B
High Estimate	1.18B	769.30M	3.47B	3.32B
Year Ago Sales	712.26M	681.95M	2.90B	3.08B
Sales Growth (year/est)	10.90%	5.40%	6.20%	4.00%

Earnings History	Dec 13	Mar 14	Jun 14	Sep 14
EPS Est	0.45	0.35	0.64	0.91
EPS Actual	0.47	0.40	0.63	0.92
Difference	0.02	0.05	-0.01	0.01
Surprise %	4.40%	14.30%	-1.60%	1.10%

EPS Trends	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Current Estimate	0.51	0.42	2.41	2.61
7 Days Ago	0.51	0.42	2.41	2.61
30 Days Ago	0.50	0.42	2.42	2.61
60 Days Ago	0.50	0.42	2.42	2.61
90 Days Ago	0.50	0.42	2.42	2.61

EPS Revisions	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Up Last 7 Days	0	0	0	0
Up Last 30 Days	5	1	4	2
Down Last 30 Days	0	0	0	0
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Est	AWK	Industry	Sector	S&P 500
Current Qtr.	8.50%	8.40%	196.60%	18.40%
Next Qtr.	5.00%	11.10%	101.40%	18.50%
This Year	9.50%	3.60%	-4.10%	7.80%
Next Year	8.30%	-6.90%	6.70%	10.50%
Past 5 Years (per annum)	16.23%	N/A	N/A	N/A
Next 5 Years (per annum)	8.10%	7.64%	6.74%	9.39%
Price/Earnings (avg. for comparison categories)	21.76	16.69	17.00	20.96
PEG Ratio (avg. for comparison categories)	2.69	5.08	7.75	3.13

Currency in USD.

Aqua America Inc. (WTR) - NYSE ★ Watchlist

25.90 ↓ **0.27 (1.05%)** 12:42PM EST - NYSE Real Time Price

Analyst Estimates

Get Analyst Estimates for: GO

Earnings Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	0.28	0.25	1.20	1.27
No. of Analysts	8.00	5.00	12.00	12.00
Low Estimate	0.27	0.23	1.19	1.25
High Estimate	0.29	0.26	1.22	1.30
Year Ago EPS	0.26	0.24	1.16	1.20

Revenue Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	196.39M	189.71M	787.87M	823.34M
No. of Analysts	7	3	10	9
Low Estimate	192.10M	189.07M	780.60M	807.18M
High Estimate	206.99M	190.40M	795.51M	840.09M
Year Ago Sales	188.61M	182.67M	768.64M	787.87M
Sales Growth (year/est)	4.10%	3.90%	2.50%	4.50%

Earnings History	Dec 13	Mar 14	Jun 14	Sep 14
EPS Est	0.25	0.24	0.30	0.37
EPS Actual	0.26	0.24	0.31	0.38
Difference	0.01	0.00	0.01	0.01
Surprise %	4.00%	0.00%	3.30%	2.70%

EPS Trends	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Current Estimate	0.28	0.25	1.20	1.27
7 Days Ago	0.28	0.25	1.20	1.27
30 Days Ago	0.28	0.25	1.20	1.27
60 Days Ago	0.28	0.25	1.20	1.27
90 Days Ago	0.28	0.25	1.20	1.27

EPS Revisions	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	1	4	0
Down Last 30 Days	0	0	0	0
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Est	WTR	Industry	Sector	S&P 500
Current Qtr.	7.70%	8.40%	196.60%	18.40%
Next Qtr.	4.20%	11.10%	101.40%	18.50%
This Year	3.40%	3.60%	-4.10%	7.80%
Next Year	5.80%	-6.90%	6.70%	10.50%
Past 5 Years (per annum)	14.66%	N/A	N/A	N/A
Next 5 Years (per annum)	4.00%	7.64%	6.74%	9.39%
Price/Earnings (avg. for comparison categories)	21.81	16.69	17.00	20.96
PEG Ratio (avg. for comparison categories)	5.45	5.08	7.75	3.13

Currency in USD.

ARTNA

Artesian Resources Corp. (ARTNA) - NasdaqGS ★ Watchlist

21.53 ↑0.02 (0.09%) 11:39AM EST

Analyst Estimates

Get Analyst Estimates for: GO

Earnings Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	0.22	0.26	1.08	1.20
No. of Analysts	3.00	1.00	4.00	4.00
Low Estimate	0.21	0.26	1.04	1.13
High Estimate	0.24	0.26	1.15	1.25
Year Ago EPS	0.17	0.23	0.94	1.08

Revenue Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	18.10M	18.12M	72.56M	77.16M
No. of Analysts	2	1	3	3
Low Estimate	18.02M	18.12M	72.40M	76.51M
High Estimate	18.17M	18.12M	72.71M	77.94M
Year Ago Sales	16.89M	16.90M	69.07M	72.56M
Sales Growth (year/est)	7.10%	7.20%	5.00%	6.30%

Earnings History	Dec 13	Mar 14	Jun 14	Sep 14
EPS Est	0.24	0.21	0.32	0.33
EPS Actual	0.17	0.23	0.22	0.37
Difference	-0.07	0.02	-0.10	0.04
Surprise %	-29.20%	9.50%	-31.20%	12.10%

EPS Trends	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Current Estimate	0.22	0.26	1.08	1.20
7 Days Ago	0.22	0.26	1.08	1.20
30 Days Ago	0.22	0.26	1.05	1.21
60 Days Ago	0.22	0.26	1.05	1.20
90 Days Ago	0.22	0.26	1.05	1.20

EPS Revisions	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Up Last 7 Days	0	0	0	0
Up Last 30 Days	1	0	2	0
Down Last 30 Days	0	0	0	0
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Est	ARTNA	Industry	Sector	S&P 500
Current Qtr.	29.40%	8.40%	196.60%	18.40%
Next Qtr.	13.00%	11.10%	101.40%	18.50%
This Year	14.90%	3.60%	-4.10%	7.80%
Next Year	11.10%	-6.90%	6.70%	10.50%
Past 5 Years (per annum)	2.37%	N/A	N/A	N/A
Next 5 Years (per annum)	4.00%	7.64%	6.74%	9.39%
Price/Earnings (avg. for comparison categories)	20.19	16.69	17.00	20.96
PEG Ratio (avg. for comparison categories)	5.05	5.08	7.75	3.13

Currency in USD.

California Water Service Group (CWT) - NYSE ★ Watchlist

24.01 ↓0.12(0.52%) 12:57PM EST - NYSE Real Time Price

Analyst Estimates

Get Analyst Estimates for: GO

Earnings Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	0.17	0.00	1.09	1.24
No. of Analysts	4.00	1.00	4.00	5.00
Low Estimate	0.15	0.00	1.00	1.08
High Estimate	0.21	0.00	1.15	1.45
Year Ago EPS	0.12	-0.11	1.02	1.09

Revenue Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	116.67M	114.81M	531.42M	558.95M
No. of Analysts	2	1	3	3
Low Estimate	94.00M	114.81M	379.80M	422.00M
High Estimate	139.34M	114.81M	615.00M	640.00M
Year Ago Sales	133.70M	110.52M	584.10M	531.42M
Sales Growth (year/est)	-12.70%	3.90%	-9.00%	5.20%

Earnings History	Dec 13	Mar 14	Jun 14	Sep 14
EPS Est	0.06	-0.07	0.29	0.68
EPS Actual	0.12	-0.11	0.36	0.70
Difference	0.06	-0.04	0.07	0.02
Surprise %	100.00%	-57.10%	24.10%	2.90%

EPS Trends	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Current Estimate	0.17	0.00	1.09	1.24
7 Days Ago	0.17	0.00	1.09	1.24
30 Days Ago	0.17	0.00	1.11	1.24
60 Days Ago	0.15	0.00	1.07	1.26
90 Days Ago	0.15	0.00	1.07	1.26

EPS Revisions	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	0	0	0
Down Last 30 Days	0	0	0	0
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Est	CWT	Industry	Sector	S&P 500
Current Qtr.	41.70%	8.40%	196.60%	18.40%
Next Qtr.	100.00%	11.10%	101.40%	18.50%
This Year	6.90%	3.60%	-4.10%	7.80%
Next Year	13.80%	-6.90%	6.70%	10.50%
Past 5 Years (per annum)	19.74%	N/A	N/A	N/A
Next 5 Years (per annum)	6.00%	7.64%	6.74%	9.39%
Price/Earnings (avg. for comparison categories)	22.15	16.69	17.00	20.96
PEG Ratio (avg. for comparison categories)	3.69	5.08	7.75	3.13

Currency in USD.

Connecticut Water Service Inc. (CTWS) - NasdaqGS ★ Watchlist

34.25 ↑0.14(0.42%) 12:56PM EST - Nasdaq Real Time Price

Analyst Estimates

Get Analyst Estimates for: GO

Earnings Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	0.23	0.32	1.90	1.98
No. of Analysts	4.00	1.00	5.00	5.00
Low Estimate	0.19	0.32	1.80	1.90
High Estimate	0.27	0.32	2.00	2.03
Year Ago EPS	0.17	0.27	1.66	1.90

Revenue Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	21.41M	21.27M	95.54M	99.13M
No. of Analysts	2	1	5	5
Low Estimate	20.91M	21.27M	94.18M	97.71M
High Estimate	21.91M	21.27M	97.10M	101.42M
Year Ago Sales	21.58M	20.26M	91.48M	95.54M
Sales Growth (year/est)	-0.80%	5.00%	4.40%	3.80%

Earnings History	Dec 13	Mar 14	Jun 14	Sep 14
EPS Est	0.25	0.28	0.52	0.77
EPS Actual	0.17	0.27	0.67	0.76
Difference	-0.08	-0.01	0.15	-0.01
Surprise %	-32.00%	-3.60%	28.80%	-1.30%

EPS Trends	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Current Estimate	0.23	0.32	1.90	1.98
7 Days Ago	0.23	0.32	1.90	1.98
30 Days Ago	0.24	0.32	1.89	1.96
60 Days Ago	0.24	0.32	1.89	1.96
90 Days Ago	0.24	0.32	1.89	1.96

EPS Revisions	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	0	1	1
Down Last 30 Days	0	0	0	0
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Est	CTWS	Industry	Sector	S&P 500
Current Qtr.	35.30%	8.40%	196.60%	18.40%
Next Qtr.	18.50%	11.10%	101.40%	18.50%
This Year	14.50%	3.60%	-4.10%	7.80%
Next Year	4.20%	-6.90%	6.70%	10.50%
Past 5 Years (per annum)	13.22%	N/A	N/A	N/A
Next 5 Years (per annum)	5.00%	7.64%	6.74%	9.39%
Price/Earnings (avg. for comparison categories)	18.64	16.69	17.00	20.96
PEG Ratio (avg. for comparison categories)	3.73	5.08	7.75	3.13

Currency in USD.

Fri, Dec 5, 2014, 1:02pm EST - US Markets close in 2 hrs and 58 mins **Report an Issue**

Dow ↑0

MSEX

Middlesex Water Co. (MSEX) - NasdaqGS ★ **Watchlist**

22.21 ↑0.41 (1.88%) 12:44PM EST - Nasdaq Real Time Price

Analyst Estimates

Get Analyst Estimates for: GO

Earnings Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	0.28	0.26	1.12	1.19
No. of Analysts	1.00	1.00	2.00	2.00
Low Estimate	0.28	0.26	1.09	1.16
High Estimate	0.28	0.26	1.14	1.22
Year Ago EPS	0.19	0.20	1.03	1.12

Revenue Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	29.62M	29.62M	117.29M	121.77M
No. of Analysts	1	1	2	2
Low Estimate	29.62M	29.62M	116.70M	120.30M
High Estimate	29.62M	29.62M	117.87M	123.23M
Year Ago Sales	27.42M	27.17M	114.85M	117.29M
Sales Growth (year/est)	8.00%	9.00%	2.10%	3.80%

Earnings History	Dec 13	Mar 14	Jun 14	Sep 14
EPS Est	0.15	0.16	0.29	0.39
EPS Actual	0.19	0.20	0.29	0.42
Difference	0.04	0.04	0.00	0.03
Surprise %	26.70%	25.00%	0.00%	7.70%

EPS Trends	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Current Estimate	0.28	0.26	1.12	1.19
7 Days Ago	0.28	0.26	1.12	1.19
30 Days Ago	0.28	0.26	1.12	1.19
60 Days Ago	0.28	0.26	1.12	1.19
90 Days Ago	0.28	0.26	1.12	1.19

EPS Revisions	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	0	0	0
Down Last 30 Days	0	0	0	0
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Est	MSEX	Industry	Sector	S&P 500
Current Qtr.	47.40%	8.40%	196.60%	18.40%
Next Qtr.	30.00%	11.10%	101.40%	18.50%
This Year	8.70%	3.60%	-4.10%	7.80%
Next Year	6.30%	-6.90%	6.70%	10.50%
Past 5 Years (per annum)	8.97%	N/A	N/A	N/A
Next 5 Years (per annum)	2.70%	7.64%	6.74%	9.39%
Price/Earnings (avg. for comparison categories)	19.46	16.69	17.00	20.96
PEG Ratio (avg. for comparison categories)	7.21	5.08	7.75	3.13

Currency in USD.

SJW Corp. (SJW) - NYSE ★ Watchlist

29.73 ↑0.45(1.54%) 12:50PM EST - NYSE Real Time Price

Analyst Estimates

Get Analyst Estimates for: GO

Earnings Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	0.26	0.02	2.18	1.53
No. of Analysts	2.00	1.00	3.00	3.00
Low Estimate	0.23	0.02	1.50	1.33
High Estimate	0.29	0.02	2.54	1.70
Year Ago EPS	0.23	0.04	1.12	2.18

Revenue Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	64.80M	55.09M	315.19M	302.59M
No. of Analysts	2	1	2	2
Low Estimate	58.70M	55.09M	309.10M	296.07M
High Estimate	70.89M	55.09M	321.27M	309.10M
Year Ago Sales	67.26M	54.60M	276.87M	315.19M
Sales Growth (year/est)	-3.70%	0.90%	13.80%	-4.00%

Earnings History	Dec 13	Mar 14	Jun 14	Sep 14
EPS Est	0.27	0.18	0.38	0.52
EPS Actual	0.23	0.04	0.34	1.88
Difference	-0.04	-0.14	-0.04	1.36
Surprise %	-14.80%	-77.80%	-10.50%	261.50%

EPS Trends	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Current Estimate	0.26	0.02	2.18	1.53
7 Days Ago	0.26	0.02	2.18	1.53
30 Days Ago	0.26	0.02	2.18	1.53
60 Days Ago	0.27	0.04	1.39	1.56
90 Days Ago	0.27	0.04	1.39	1.56

EPS Revisions	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Up Last 7 Days	0	0	0	0
Up Last 30 Days	1	0	2	1
Down Last 30 Days	0	0	0	0
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Est	SJW	Industry	Sector	S&P 500
Current Qtr.	13.00%	8.40%	196.60%	18.40%
Next Qtr.	-50.00%	11.10%	101.40%	18.50%
This Year	94.60%	3.60%	-4.10%	7.80%
Next Year	-29.80%	-6.90%	6.70%	10.50%
Past 5 Years (per annum)	8.99%	N/A	N/A	N/A
Next 5 Years (per annum)	14.00%	7.64%	6.74%	9.39%
Price/Earnings (avg. for comparison categories)	13.38	16.69	17.00	20.96
PEG Ratio (avg. for comparison categories)	0.96	5.08	7.75	3.13

Currency in USD.

YORW

The York Water Company (YORW) - NasdaqGS ★ Watchlist

21.24 **0.48(2.31%)** 12:41PM EST - Nasdaq Real Time Price

Analyst Estimates

Get Analyst Estimates for: GO

Earnings Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	0.24	0.19	0.84	0.89
No. of Analysts	3.00	2.00	4.00	4.00
Low Estimate	0.23	0.18	0.78	0.82
High Estimate	0.26	0.20	0.88	0.96
Year Ago EPS	0.21	0.16	0.75	0.84

Revenue Est	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Avg. Estimate	11.87M	11.41M	45.89M	47.45M
No. of Analysts	2	1	3	3
Low Estimate	11.85M	11.41M	45.12M	46.83M
High Estimate	11.89M	11.41M	46.29M	48.27M
Year Ago Sales	10.66M	10.57M	42.38M	45.89M
Sales Growth (year/est)	11.30%	7.90%	8.30%	3.40%

Earnings History	Dec 13	Mar 14	Jun 14	Sep 14
EPS Est	0.20	0.18	0.24	0.25
EPS Actual	0.21	0.16	0.22	0.23
Difference	0.01	-0.02	-0.02	-0.02
Surprise %	5.00%	-11.10%	-8.30%	-8.00%

EPS Trends	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Current Estimate	0.24	0.19	0.84	0.89
7 Days Ago	0.24	0.19	0.84	0.89
30 Days Ago	0.24	0.19	0.85	0.90
60 Days Ago	0.24	0.19	0.85	0.92
90 Days Ago	0.24	0.19	0.85	0.92

EPS Revisions	Current Qtr. Dec 14	Next Qtr. Mar 15	Current Year Dec 14	Next Year Dec 15
Up Last 7 Days	0	0	0	0
Up Last 30 Days	0	0	0	0
Down Last 30 Days	0	0	0	0
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Est	YORW	Industry	Sector	S&P 500
Current Qtr.	14.30%	8.40%	196.60%	18.40%
Next Qtr.	18.80%	11.10%	101.40%	18.50%
This Year	12.00%	3.60%	-4.10%	7.80%
Next Year	6.00%	-6.90%	6.70%	10.50%
Past 5 Years (per annum)	3.59%	N/A	N/A	N/A
Next 5 Years (per annum)	4.90%	7.64%	6.74%	9.39%
Price/Earnings (avg. for comparison categories)	24.49	16.69	17.00	20.96
PEG Ratio (avg. for comparison categories)	5.00	5.08	7.75	3.13

Currency in USD.

SCHEDULES 1 - 6

EPCOR Water Arizona, Inc.
Test Year Ending June 30, 2013
Docket No. WS-01303A-14-0010

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EPCOR Water Arizona, Inc.
Test Year Ending June 30, 2013
Docket No. WS-01303A-14-0010

WEIGHTED AVERAGE COST OF CAPITAL

Line No	Description	Capitalization Per Company	RUCO Adjustments	RUCO Adjusted Capitalization	Capital Ratio	Cost	Weighed Cost
1	Long Term Debt	$ 231,000,000	$ -	$ 231,000,000	58.47%	4.29%	2.51%
2	Short Term Debt	$ 8,560,000	$ -	$ 8,560,000	2.17%	0.31%	0.01%
3	Common Equity	$ 155,533,624	$ -	$ 155,533,624	39.37%	8.91%	~~3.58%~~ 3.57
4							
5	TOTAL CAPITALIZATION	$395,093,624	$ -	$395,093,624	100.00%		6.09%

The Company's long-term debt consists of $138,000,000 of 10 year notes orignially issued on February 1, 2012, interest rate of 3.74 percent annually with an outstanding balance of $133,000,000. The Company's remaining long -term debt consists of $112,000,000 of 30 year notes originally issued also on February 1, 2012, interest rate of 5.00 percent annually with an outstanding balance of $98,000,000.

The Company's short-term debt consist of $8,560,000 with an annual interst rate of .31 percent.

Cost of Capital Common Equity

Line No			
1	Discounted Cash Flow Model ("DCF")	Schedule RBM - 3	8.74%
2			
3	Capital Asset Pricing Model ("CAPM")	Schedule RBM - 4	7.48%
4			
5	Comparable Earning Model ("CE")	Schedule RBM - 5	10.50%
6			
7	Cost of Common Equity		8.91%
8			
9			
10			
11			
12			
13			
14			
15			
16			

PROXY GROP -- DCF ANALYSIS

Proxy Group Companies	(A) Average Dividend Yield	(B) Historic Retention Growth	(C) Projected Retention Growth	(D) Five Year Historic Growth Rate	(E) Projected Per Share Growth Rates	(F) Projected EPS Growth	(G) Average Growth	(H) DCF Rates
American States Water Co.	2.7%	5.5%	5.5%	8.7%	6.3%	2.0%	5.6%	8.3%
American Water Works Co., Inc	2.6%	3.3%	4.7%		5.7%	8.1%	5.4%	8.0%
Aqua America, Inc.	2.7%	4.4%	6.5%	8.0%	7.7%	4.0%	6.1%	8.8%
Artesian Rtesources Corp.	4.0%	1.6%		2.8%		4.0%	2.8%	6.8%
California Water Service Group	2.8%	3.2%	4.0%	3.3%	6.3%	6.0%	4.6%	7.3%
Connecticut Water Service, Inc.	3.1%	2.4%	4.3%	6.0%	4.7%	5.0%	4.5%	7.6%
Middlesex Water	3.7%	1.4%	3.0%	2.0%	3.2%	2.7%	2.5%	6.1%
SJW Corporation	2.8%	2.3%	3.3%	2.2%	5.8%	14.0%	5.5%	8.3%
York Water Company	2.9%	2.4%	3.7%	4.2%	5.0%	4.9%	4.0%	6.9%
Mean	3.01%	2.94%	4.38%	4.65%	5.58%	5.63%	4.56%	$\boxed{\textbf{7.57\%}}$
Median	2.79%	2.38%	4.17%	3.75%	5.75%	4.90%	4.57%	**7.61%**
Composite-Mean		5.95%	7.39%	7.66%	8.59%	$\boxed{\textbf{8.74\%}}$	7.57%	
Composite-Median		5.17%	6.96%	6.54%	**8.54%**	7.69%	7.36%	

References:
Column (A) - Schedule RBM - 3, page 3 of 4
Column (B) - Schedule RBM - 3, page 4 of 4
Column (C) - Schedule RBM - 3, page 4 of 4
Column (D) and Column (E) - Schedule RBM - 3, page 2 of 4
Columns(F) See Yahoo Finance, Grtowth Estimates - Next 5 Years - Attachment 7
Column (G) - Average Columns (B) thruogh (F)
Column (H) - Column (A) + Column (G)

PROXY GROUP -- PER SHARE GROWTH RATES

Line No	Proxy Group Companies	5-Year Historic Growth Rates EPS	DPS	BVPS	Average	Est'd '11-'13 to '17-'19 Growth Rates EPS	DPS	BVPS	Average
1									
2	American States Water Co.	13.0%	6.5%	6.5%	8.7%	5.5%	9.0%	4.5%	6.3%
3	American Water Works Co., Inc					7.5%	7.5%	2.0%	5.7%
4	Aqua America, Inc.	11.0%	7.0%	6.0%	8.0%	8.5%	9.0%	5.5%	7.7%
5	Artesian Rtesources Corp.	1.0%	3.5%	4.0%	2.8%				
6	California Water Service Group	4.0%	1.5%	4.5%	3.3%	7.5%	7.0%	4.5%	6.3%
7	Connecticut Water Service, Inc.	8.0%	2.0%	8.0%	6.0%	6.5%	4.0%	3.5%	4.7%
8	Middlesex Water	1.5%	1.5%	3.0%	2.0%	5.0%	2.0%	2.5%	3.2%
9	SJW Corporation	0.5%	3.5%	2.5%	2.2%	7.0%	5.0%	5.5%	5.8%
10	York Water Company	5.0%	2.5%	5.0%	4.2%	7.0%	5.5%	2.5%	5.0%
9									
10									
11					4.6%				5.6%
12									

13 **Reference:**
14 Value Line Investment Survey - October 17, 2014 - Attachment 1
15
16
17

EPCOR Water Arizona, Inc.
Test Year Ending June 30, 2013
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PROXY GROUP -- DIVIDEND YIELD

Line No	Proxy Group Companies	(A) DPS	(B) July - September, 2014 High	(C) Low	(D) Average	(E) Yield
1	American States Water Co.	$0.85	$34.00	$30.11	$32.06	2.7%
2	American Water Works Co., Inc	$1.24	$50.71	$45.98	$48.35	2.6%
3	Aqua America, Inc.	$0.66	$25.79	$23.12	$24.46	2.7%
4	Artesian Rtesources Corp.	$0.85	$22.85	$20.01	$21.43	4.0%
5	California Water Service Group	$0.65	$24.78	$22.41	$23.60	2.8%
6	Connecticut Water Service, Inc.	$1.03	$34.74	$31.00	$32.87	3.1%
7	Middlesex Water	$0.76	$21.76	$19.60	$20.68	3.7%
8	SJW Corporation	$0.75	$28.25	$25.46	$26.86	2.8%
9	York Water Company	$0.57	$21.20	$18.85	$20.03	2.9%
10						
11						
12	Average					**3.0%**
13						
14						
15						
16						
17	**References:**					
18	Column (A) - Value Line Investment Survey October 17, 2014 - Third Quarter Dividends Annualized					
19	Columns (B), (C), and (D) - Yahoo Finance					
20						

EPCOR Water Arizona, Inc.
Test Year Ending June 30, 2013
Docket No. WS-01303A-14-0010

PROXY GROUP -- GROWTH RATES - RETAINED TO COMMON EQUITY

Line No	Proxy Group Companies	(A) 2009	(B) 2010	(C) 2011	(D) 2012	2013	Average	2014	2015	2017-2019	Average
1	American States Water Co.	3.2%	5.8%	5.3%	6.6%	6.8%	5.5%	6.0%	5.0%	5.5%	5.5%
2	American Water Works Co., Inc	1.8%	2.8%	3.5%	3.6%	4.7%	3.3%	4.0%	4.5%	5.5%	4.7%
3	Aqua America, Inc.	2.7%	3.7%	4.6%	4.3%	6.7%	4.4%	6.5%	7.0%	6.0%	6.5%
4	Artesian Rtesources Corp.	2.1%	2.0%	0.5%	2.5%	0.9%	1.6%				
5	California Water Service Group	3.8%	3.0%	2.3%	3.4%	3.4%	3.2%	3.0%	5.0%	4.0%	4.0%
6	Connecticut Water Service, Inc.	2.3%	1.6%	1.4%	2.8%	3.8%	2.4%	4.5%	4.5%	4.0%	4.3%
7	Middlesex Water	0.1%	2.1%	1.0%	1.4%	2.4%	1.4%	3.0%	3.0%	3.0%	3.0%
8	SJW Corporation	1.2%	1.2%	3.1%	3.3%	2.8%	2.3%	3.0%	3.5%	3.5%	3.3%
9	York Water Company	1.9%	2.7%	2.5%	2.4%	2.4%	2.4%	3.5%	3.5%	4.0%	3.7%
10											
11											
12	Average						**2.9%**				**4.4%**
13											
14											
15	Source: Value Line Investment Survey October 17, 2014										
16											
17											
18											
19											
20											

PROXY GROUP -- CAPITAL ASSET PRICING MODEL

Line No	Proxy Group Companies	(A) Risk Free Rate	(B) BETA		(C) Risk Premium		(D) CAPM Rates	(E) CAPM Cost of Equity Capital
1	American States Water Co.	2.91%	0.70	X	6.53%	=	4.57%	7.48%
2	American Water Works Co., Inc	2.91%	0.70	X	6.53%	=	4.57%	7.48%
3	Aqua America, Inc.	2.91%	0.70	X	6.53%	=	4.57%	7.48%
4	Artesian Resources Corp.	2.91%	0.60	X	6.53%	=	3.92%	6.83%
5	California Water Service Group	2.91%	0.70	X	6.53%	=	4.57%	7.48%
6	Connecticut Water Service, Inc.	2.91%	0.65	X	6.53%	=	4.24%	7.15%
7	Middlesex Water	2.91%	0.70	X	6.53%	=	4.57%	7.48%
8	SJW Corporation	2.91%	0.85	X	6.53%	=	5.55%	8.46%
9	York Water Company	2.91%	0.70	X	6.53%	=	4.57%	7.48%
10								
11	Average							7.48%
12								
13								
14								

Line No	20 year Treasury Bonds		30 year Treasury Bonds
15			
16	August, 2014	2.94%	3.20%
17	September, 2014	3.01%	3.26%
18	October, 2014	2.77%	3.04%
19	Average	2.91%	3.17%
20			
21			

22 **REFERENCES**

23 Column (A) - Federal Reserve Selected Interest Rates H.15 - Attachment 2

24 Column (B) - Value Line Investment Survey - October 17, 2014 - Attachment 1

25 Column (C) - RBM - 4, Page 2 of 2

STANDARD & POOR'S 500 COMPOSITE
20-YEAR U.S. TREASURY BOND YIELDS
RISK PREMIUMS

Line No.	Year	EPS	BVPS	ROE	20-YEAR T-BOND	RISK PREMIUM
1	1977		$79.07			
2	1978	$12.33	$85.35	15.00%	7.90%	7.10%
3	1979	$14.86	$94.27	16.55%	8.86%	7.69%
4	1980	$14.82	$102.48	15.06%	9.97%	5.09%
5	1981	$15.36	$109.43	14.50%	11.55%	2.95%
6	1982	$12.64	$112.46	11.39%	13.50%	-2.11%
7	1983	$14.03	$116.93	12.23%	10.38%	1.85%
8	1984	$16.64	$122.47	13.90%	11.74%	2.16%
9	1985	$14.61	$125.20	11.80%	11.25%	0.55%
10	1986	$14.48	$126.82	11.49%	8.98%	2.51%
11	1987	$17.50	$134.04	13.42%	7.92%	5.50%
12	1988	$23.75	$141.32	17.25%	8.97%	8.28%
13	1989	$22.87	$147.26	15.85%	8.81%	7.04%
14	1990	$21.73	$153.01	14.47%	8.19%	6.28%
15	1991	$16.29	$158.85	10.45%	8.22%	2.23%
16	1992	$19.09	$149.74	12.37%	7.29%	5.08%
17	1993	$21.89	$180.88	13.24%	7.17%	6.07%
18	1994	$30.60	$193.06	16.37%	6.59%	9.78%
19	1995	$33.96	$215.51	16.62%	7.60%	9.02%
20	1996	$38.73	$237.08	17.11%	6.18%	10.93%
21	1997	$39.72	$249.52	16.33%	6.64%	9.69%
22	1998	$37.71	$266.40	14.62%	5.83%	8.79%
23	1999	$48.17	$290.68	17.29%	5.57%	11.72%
24	2000	$50.00	$325.80	16.22%	6.50%	9.72%
25	2001	$24.69	$338.37	7.43%	5.53%	1.90%
26	2002	$27.59	$321.72	8.36%	5.59%	2.77%
27	2003	$48.73	$367.17	14.15%	4.80%	9.35%
28	2004	$58.55	$414.75	14.98%	5.02%	9.96%
29	2005	$69.93	$453.06	16.12%	4.69%	11.43%
30	2006	$81.51	$504.39	17.03%	4.68%	12.35%
31	2007	$66.17	$529.59	12.49%	4.86%	7.63%
32	2008	$14.88	$451.37	3.03%	4.45%	-1.42%
33	2009	$50.97	$513.58	10.56%	3.47%	7.09%
34	2010	$77.35	$579.14	14.16%	4.25%	9.91%
35	2011	$86.58	$613.14	14.52%	3.81%	10.71%
36	2012	$86.51	$666.97	13.52%	2.40%	11.12%
37	2013	$100.20	$715.84	14.49%	2.66%	11.83%
38	2014	$103.12	$733.84	14.23%	2.94%	11.29%
39	Average			**13.75%**	**6.89%**	**6.86%**
40						
41						
42						
43	Note - 2014 data through June 30, 2014					
44						
45						
46	Sources: Standard & Poor's Analysts' Handbook and Morningstar 2013 Yearbool					

PROXY COMPANY'S - COMPARABLE EARNINGS COMPUTATION
RATES OF RETURN ON COMMON EQUITY

Company	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Average 1992 - 2001
American States Water Co.	14.0%	11.7%	9.5%	10.3%	10.0%	9.4%	9.5%	10.2%	9.6%	10.5%	10.5%
American Water Works	10.9%	11.3%	10.8%	11.3%	10.4%	10.5%	10.7%	9.5%	9.5%	9.7%	10.5%
Aqua America, Inc.	11.0%	11.4%	11.2%	12.0%	11.8%	12.5%	14.2%	13.8%	13.0%	14.0%	12.5%
Artesian Resources							9.8%	9.7%	8.1%	9.4%	9.3%
California Water Service Group	10.4%	12.6%	10.6%	10.0%	12.6%	14.5%	11.0%	11.4%	10.3%	7.5%	11.1%
Connecticut Water Service, Inc.	12.1%	12.5%	12.6%	12.7%	12.4%	12.3%	12.2%	12.4%	11.8%	13.3%	12.4%
Middlesex Water	11.7%	12.6%	12.1%	12.0%	10.3%	11.2%	10.7%	10.2%	6.5%	9.0%	10.6%
SJW Corporation	11.8%	11.8%	9.6%	10.8%	16.2%	12.0%	11.6%	11.1%	9.6%	9.5%	11.4%
York Water	11.9%	12.6%	11.7%	10.7%	11.1%	10.9%	10.3%	10.3%	11.9%	11.5%	11.3%
Mean	11.7%	12.1%	11.0%	11.2%	11.9%	11.7%	11.1%	11.0%	10.0%	10.5%	11.1%
Median	11.8%	12.2%	11.0%	11.1%	11.5%	11.6%	10.7%	10.3%	9.6%	9.7%	11.1%

Source: AUS Utility Reports and Value Line Investment Survey.

Company	2002	2003	2004	2005	2006	2007	2008	Average 2002-2008
American States Water Co.	9.6%	5.6%	8.0%	10.4%	8.2%	9.3%	7.2%	8.3%
American Water Works								
Aqua America, Inc.	13.9%	12.3%	11.4%	11.5%	11.0%	10.0%	9.6%	11.4%
Artesian Resources	9.6%	7.4%	7.6%	8.9%	10.2%	8.5%	7.4%	8.5%
California Water Service Group	9.6%	8.7%	9.8%	9.3%	7.6%	4.9%	10.1%	8.6%
Connecticut Water Service, Inc.	11.6%	11.2%	11.4%	12.0%	7.5%	8.9%	9.2%	10.3%
Middlesex Water	9.8%	8.2%	8.3%	8.4%	8.6%	8.8%	8.8%	8.7%
SJW Corporation	9.4%	9.8%	11.3%	11.5%	18.2%	8.3%	11.2%	11.4%
York Water	16.7%	11.7%	12.2%	11.8%	10.5%	9.7%	9.4%	11.7%
Mean	11.3%	9.4%	10.0%	10.5%	10.2%	8.6%	9.1%	9.9%
Median	9.7%	9.3%	10.6%	11.0%	9.4%	8.9%	9.3%	9.5%

Company	2009	2010	2011	2012	2013	Average 2009-2013	2014	2015	2017 - 2018
American States Water Co.	8.8%	9.0%	11.7%	11.8%	12.7%	10.8%	11.5%	12.5%	12.5%
American Water Works		9.6%	15.8%	9.9%	7.8%	10.8%	9.0%	9.5%	10.5%
Aqua America, Inc.	9.6%	10.9%	11.8%	13.0%	13.4%	11.7%	13.5%	14.5%	14.0%
Artesian Resources	8.1%	8.2%	6.5%	8.7%	6.8%	7.7%			
California Water Service Group	7.4%	8.8%	8.5%	9.8%	7.9%	8.5%	8.0%	9.0%	10.0%
Connecticut Water Service, Inc.	9.7%	8.8%	9.7%	11.2%	9.2%	9.7%	9.5%	10.0%	10.0%
Middlesex Water	7.0%	9.0%	7.6%	7.5%	8.7%	8.0%	9.0%	9.5%	9.5%
SJW Corporation	6.0%	9.6%	8.0%	8.6%	7.3%	7.9%	7.5%	8.0%	8.0%
York Water	9.6%	10.0%	9.7%	9.1%	9.3%	9.5%	11.0%	12.5%	12.5%
Mean	8.3%	9.3%	9.9%	10.0%	9.2%	9.4%	9.9%	10.7%	10.9%
Median	8.5%	9.0%	9.7%	9.8%	8.7%	9.5%	9.3%	9.8%	10.3%

ECONOMIC INDICATORS

Line No	Year	Real GDP Growth	Industrial Production Growth	Unemploy-ment Rate	Consumer Price Index	Producer Price Index
1	1975	-1.1%	-8.9%	8.5%	7.0%	6.6%
2	1976	5.4%	10.8%	7.7%	4.8%	3.7%
3	1977	5.5%	5.9%	7.0%	6.8%	6.9%
4	1978	5.0%	5.7%	6.0%	9.0%	9.2%
5	1979	2.8%	4.4%	5.8%	13.3%	12.8%
6	1980	-0.2%	-1.9%	7.0%	12.4%	11.8%
7	1981	1.8%	1.9%	7.5%	8.9%	7.1%
8	1982	-2.1%	-4.4%	9.5%	3.8%	3.6%
9	1983	4.0%	3.7%	9.5%	3.8%	0.6%
10	1984	6.8%	9.3%	7.5%	3.9%	1.7%
11	1985	3.7%	1.7%	7.2%	3.8%	1.8%
12	1986	3.1%	0.9%	7.0%	1.1%	-2.3%
13	1987	2.9%	4.9%	6.2%	4.4%	2.2%
14	1988	3.8%	4.5%	5.5%	4.4%	4.0%
15	1989	3.5%	1.8%	5.3%	4.6%	4.9%
16	1990	1.8%	-0.2%	5.6%	6.1%	5.7%
17	1991	-0.5%	-2.0%	6.8%	3.1%	-0.1%
18	1992	3.0%	3.1%	7.5%	2.9%	1.6%
19	1993	2.7%	3.4%	6.9%	2.7%	0.2%
20	1994	4.0%	5.5%	6.1%	2.7%	1.7%
21	1995	3.7%	4.8%	5.6%	2.5%	2.3%
22	1996	4.5%	4.3%	5.4%	3.3%	2.8%
23	1997	4.5%	7.3%	4.9%	1.7%	-1.2%
24	1998	4.2%	5.8%	4.5%	1.6%	0.0%
25	1999	3.7%	4.5%	4.2%	2.7%	2.9%
26	2000	4.1%	4.0%	4.0%	3.4%	3.6%
27	2001	1.1%	-3.4%	4.7%	1.6%	-1.6%
28	2002	1.8%	0.2%	5.8%	2.4%	1.2%
29	2003	2.8%	1.2%	6.0%	1.9%	4.0%
30	2004	3.8%	2.3%	5.5%	3.3%	4.2%
31	2005	3.4%	3.2%	5.1%	3.4%	5.4%
32	2006	2.7%	2.2%	4.6%	2.5%	1.1%
33	2007	1.8%	2.5%	4.6%	4.1%	6.2%
34	2008	-0.3%	-3.4%	5.8%	0.1%	-0.9%
35	2009	-2.8%	-11.3%	9.3%	2.7%	4.3%
36	2010	2.5%	5.7%	9.6%	1.5%	3.8%
37	2011	1.8%	3.4%	8.9%	3.0%	4.7%
38	2012	2.8%	3.6%	8.1%	1.7%	1.4%
39	2013	2.6%	3.5%	8.1%	1.5%	4.4%
40	2014	2.7%	5.2%	NA	1.1%	1.4%

Source: Council of Economic Advisors, Economic Indicators, various issues.

ECONOMIC INDICATORS

Line No	Year	Real GDP* Growth	Industrial Production Growth	Unemploy-ment Rate	Consumer Price Index	Producer Price Index
1	2002					
2	1st Qtr.	2.7%	-3.8%	5.6%	2.8%	4.4%
3	2nd Qtr.	2.2%	-1.2%	5.9%	0.9%	-2.0%
4	3rd Qtr.	2.4%	0.8%	5.8%	2.4%	1.2%
5	4th Qtr.	0.2%	1.4%	5.9%	1.6%	0.4%
6	2003					
7	1st Qtr.	1.2%	1.1%	5.8%	4.8%	5.6%
8	2nd Qtr.	3.5%	-0.9%	6.2%	0.0%	-0.5%
9	3rd Qtr.	7.5%	-0.9%	6.1%	3.2%	3.2%
10	4th Qtr.	2.7%	1.5%	5.9%	-0.3%	2.8%
11	2004					
12	1st Qtr.	3.0%	2.8%	5.6%	5.2%	5.2%
13	2nd Qtr.	3.5%	4.9%	5.6%	4.4%	4.4%
14	3rd Qtr.	3.6%	4.6%	5.4%	0.8%	0.8%
15	4th Qtr.	2.5%	4.3%	5.4%	3.6%	7.2%
16	2005					
17	1st Qtr.	4.1%	3.8%	5.3%	4.4%	5.6%
18	2nd Qtr.	1.7%	3.0%	5.1%	1.6%	-0.4%
19	3rd Qtr.	3.1%	2.7%	5.0%	8.8%	14.0%
20	4th Qtr.	2.1%	2.9%	4.9%	-2.0%	4.0%
21	2006					
22	1st Qtr.	5.4%	3.4%	4.7%	4.8%	-0.2%
23	2nd Qtr.	1.4%	4.5%	4.6%	4.8%	5.6%
24	3rd Qtr.	0.1%	5.2%	4.7%	0.4%	-4.4%
25	4th Qtr.	3.0%	3.5%	4.5%	0.0%	3.6%
26	2007					
27	1st Qtr.	0.9%	2.5%	4.5%	4.8%	6.4%
28	2nd Qtr.	3.2%	1.6%	4.5%	5.2%	6.8%
29	3rd Qtr.	2.3%	1.8%	4.6%	1.2%	1.2%
30						
31	2008					
32	1st Qtr.	-1.8%	1.9%	4.9%	2.8%	9.6%
33	2nd Qtr.	1.3%	0.2%	5.3%	7.6%	14.0%
34	3rd Qtr.	-3.7%	-3.0%	6.0%	2.8%	-0.4%
35	4th Qtr.	-8.9%	6.0%	6.9%	-13.2%	-28.4%
36	2009					
37	1st Qtr.	-5.3%	-11.6%	8.1%	2.4%	-0.4%
38	2nd Qtr.	-0.3%	-12.9%	9.3%	3.2%	9.2%
39	3rd Qtr.	1.4%	-9.3%	9.6%	2.0%	-0.8%
40	4th Qtr.	4.0%	-4.5%	10.0%	2.5%	8.8%
41	2010					
42	1st Qtr.	1.6%	2.7%	9.7%	0.9%	6.5%
43	2nd Qtr.	3.9%	6.5%	9.7%	-1.2%	-2.4%
44	3rd Qtr.	2.8%	6.9%	9.6%	2.8%	4.0%
45	4th Qtr.	2.8%	6.2%	9.6%	2.8%	9.2%
46	2011					
47	1st Qtr.	-1.3%	5.4%	9.0%	4.8%	9.6%
48	2nd Qtr.	3.2%	3.6%	9.0%	3.2%	3.6%
49	3rd Qtr.	1.4%	3.3%	9.1%	2.4%	6.4%
50	4th Qtr.	4.9%	4.0%	8.7%	0.4%	-1.2%
51	2012					
52	1st Qtr.	3.7%	4.5%	8.3%	3.2%	2.0%
53	2nd Qtr.	1.2%	4.7%	8.2%	0.0%	-2.8%
54	3rd Qtr.	2.8%	3.4%	8.1%	4.0%	9.6%
55	4th Qtr.	0.1%	2.8%	7.8%	0.0%	-3.6%
56	2013					
57	1st Qtr.	1.1%	2.5%	7.7%	2.0%	1.2%
58	2nd Qtr.	2.5%	2.0%	7.6%	0.8%	2.4%
59	3rd Qtr.	2.8%	2.5%	7.3%	2.0%	80.0%
60	4th Qtr.	3.0%	2.6%			
61	2014					
62	1st Qtr.	-2.1%	3.3%	6.7%	1.6%	N/A
63	2nd Qtr.	4.0%	4.2%	6.2%	4.0%	N/A
64	3rd Qtr.	4.2%	4.0%	6.0%	3.9%	N/A
65	4th Qtr.					

*GDP=Gross Domestic Product

Source: Council of Economic Advisors, Economic Indicators, various issues.

INTEREST RATES

Line No	Year	Prime Rate	US Treasury T Bills 3 Month	US Treasury T Bonds 10 Year	Utility Bonds Aaa	Utility Bonds Aa	Utility Bonds A	Utility Bonds Baa
1	1975	7.86%	5.84%	7.99%	9.03%	9.44%	10.09%	10.96%
2	1976	6.84%	4.99%	7.61%	8.63%	8.92%	9.29%	9.82%
3	1977	6.83%	5.27%	7.42%	8.19%	8.43%	8.61%	9.06%
4	1978	9.06%	7.22%	8.41%	8.87%	9.10%	9.29%	9.62%
5	1979	12.67%	10.04%	9.44%	9.86%	10.22%	10.49%	10.96%
6	1980	15.27%	11.51%	11.46%	12.30%	13.00%	13.34%	13.95%
7	1981	18.89%	14.03%	13.93%	14.64%	15.30%	15.95%	16.60%
8	1982	14.86%	10.69%	13.00%	14.22%	14.79%	15.86%	16.45%
9	1983	10.79%	8.63%	11.10%	12.52%	12.83%	13.66%	14.20%
10	1984	12.04%	9.58%	12.44%	12.72%	13.66%	14.03%	14.53%
11	1985	9.93%	7.48%	10.62%	11.68%	12.06%	12.47%	12.96%
12	1986	8.33%	5.98%	7.68%	8.92%	9.30%	9.58%	10.00%
13	1987	8.21%	5.82%	8.39%	9.52%	9.77%	10.10%	10.53%
14	1988	9.32%	6.69%	8.85%	10.05%	10.26%	10.49%	11.00%
15	1989	10.87%	8.12%	8.49%	9.32%	9.56%	9.77%	9.97%
16	1990	10.01%	7.51%	8.55%	9.45%	9.65%	9.86%	10.06%
17	1991	8.46%	5.42%	7.86%	8.85%	9.09%	9.36%	9.55%
18	1992	6.25%	3.45%	7.01%	8.19%	8.55%	8.69%	8.86%
19	1993	6.00%	3.02%	5.87%	7.29%	7.44%	7.59%	7.91%
20	1994	7.15%	4.29%	7.09%	8.07%	8.21%	8.31%	8.63%
21	1995	8.83%	5.51%	6.57%	7.68%	7.77%	7.89%	8.29%
22	1996	8.27%	5.02%	6.44%	7.48%	7.57%	7.75%	8.16%
23	1997	8.44%	5.07%	6.35%	7.43%	7.54%	7.60%	7.95%
24	1998	8.35%	4.81%	5.26%	6.77%	6.91%	7.04%	7.26%
25	1999	8.00%	4.66%	5.65%	7.21%	7.51%	7.62%	7.88%
26	2000	9.23%	5.85%	6.03%	7.88%	8.06%	8.24%	8.36%
27	2001	6.91%	3.44%	5.02%	7.47%	7.59%	7.78%	8.02%
28	2002	4.67%	1.62%	4.61%	[1]	7.19%	7.37%	8.02%
29	2003	4.12%	1.01%	4.01%		6.40%	6.58%	6.84%
30	2004	4.34%	1.38%	4.27%		6.04%	6.16%	6.40%
31	2005	6.19%	3.16%	4.29%		5.44%	5.65%	5.93%
32	2006	7.96%	4.73%	4.80%		5.84%	6.07%	6.32%
33	2007	8.05%	4.41%	4.63%		5.94%	6.07%	6.33%
34	2008	5.09%	1.48%	3.66%		6.18%	6.53%	7.25%
35	2009	3.25%	0.16%	3.26%		5.75%	6.04%	7.06%
36	2010	3.25%	0.14%	3.22%		5.24%	5.46%	5.96%
37	2011	3.25%	0.06%	2.78%		4.78%	5.04%	5.57%
38	2012	3.25%	0.09%	1.80%		3.83%	4.13%	4.86%
39	2013	3.25%	0.06%	2.35%		4.24%	4.47%	4.98%
40	2014	3.25%	NA	NA		NA	NA	NA

[1] Note: Moody's has not published Aaa utility bond yields since 2001.

Sources: Council of Economic Advisors, Economic Indicators; Moody's Bond Record; Federal Reserve Bulletin; various issues.

INTEREST RATES

Line No		Prime Rate	US Treasury T Bills 3 Month	US Treasury T Bonds 10 Year	Utility Bonds Aa	Utility Bonds A	Utility Bonds Baa
1	**2007**						
2	Jan	8.25%	4.96%	4.76%	5.78%	5.96%	6.16%
3	Feb	8.25%	5.02%	4.72%	5.73%	5.90%	6.10%
4	Mar	8.25%	4.97%	4.56%	5.66%	5.85%	6.10%
5	Apr	8.25%	4.88%	4.69%	5.83%	5.97%	6.24%
6	May	8.25%	4.77%	4.75%	5.86%	5.99%	6.23%
7	June	8.25%	4.63%	5.10%	6.18%	6.30%	6.54%
8	July	8.25%	4.84%	5.00%	6.11%	6.25%	6.49%
9	Aug	8.25%	4.34%	4.67%	6.11%	6.24%	6.51%
10	Sept	7.75%	4.01%	4.52%	6.10%	6.18%	6.45%
11	Oct	7.50%	3.97%	4.53%	6.04%	6.11%	6.36%
12	Nov	7.50%	3.49%	4.15%	5.87%	5.97%	6.27%
13	Dec	7.25%	3.08%	4.10%	6.03%	6.16%	6.51%
14	**2008**						
15	Jan	6.00%	2.86%	3.74%	5.87%	6.02%	6.35%
16	Feb	6.00%	2.21%	3.74%	6.04%	6.21%	6.60%
17	Mar	5.25%	1.38%	3.51%	5.99%	6.21%	6.68%
18	Apr	5.00%	1.32%	3.68%	5.99%	6.29%	6.82%
19	May	5.00%	1.71%	3.88%	6.07%	6.27%	6.79%
20	June	5.00%	1.90%	4.10%	6.19%	6.38%	6.93%
21	July	5.00%	1.72%	4.01%	6.13%	6.40%	6.97%
22	Aug	5.00%	1.79%	3.89%	6.09%	6.37%	6.98%
23	Sept	5.00%	1.46%	3.69%	6.13%	6.49%	7.15%
24	Oct	4.00%	0.84%	3.81%	6.95%	7.56%	8.58%
25	Nov	4.00%	0.30%	3.53%	6.83%	7.60%	8.98%
26	Dec	3.25%	0.04%	2.42%	5.93%	6.54%	8.13%
27	**2009**						
28	Jan	3.25%	0.12%	2.52%	6.01%	6.39%	7.90%
29	Feb	3.25%	0.31%	2.87%	6.11%	6.30%	7.74%
30	Mar	3.25%	0.25%	2.82%	6.14%	6.42%	8.00%
31	Apr	3.25%	0.17%	2.93%	6.20%	6.48%	8.03%
32	May	3.25%	0.15%	3.29%	6.23%	6.49%	7.76%
33	June	3.25%	0.17%	3.72%	6.13%	6.20%	7.30%
34	July	3.25%	0.19%	3.56%	5.63%	5.97%	6.87%
35	Aug	3.25%	0.18%	3.59%	5.33%	5.71%	6.36%
36	Sept	3.25%	0.13%	3.40%	5.15%	5.53%	6.12%
37	Oct	3.25%	0.08%	3.39%	5.23%	5.55%	6.14%
38	Nov	3.25%	0.05%	3.40%	5.33%	5.64%	6.18%
39	Dec	3.25%	0.07%	3.59%	5.52%	5.79%	6.26%
40	**2010**						
41	Jan	3.25%	0.06%	3.73%	5.55%	5.77%	6.16%
42	Feb	3.25%	0.10%	3.69%	5.69%	5.87%	6.25%
43	Mar	3.25%	0.15%	3.73%	5.64%	5.84%	6.22%
44	Apr	3.25%	0.15%	3.85%	5.62%	5.81%	6.19%
45	May	3.25%	0.16%	3.42%	5.29%	5.50%	5.97%
46	June	3.25%	0.12%	3.20%	5.22%	5.46%	6.18%
47	July	3.25%	0.16%	3.01%	4.99%	5.26%	5.98%
48	Aug	3.25%	0.15%	2.70%	4.75%	5.01%	5.55%
49	Sept	3.25%	0.15%	2.65%	4.74%	5.01%	5.53%
50	Oct	3.25%	0.13%	2.54%	4.89%	5.10%	5.62%
51	Nov	3.25%	0.13%	2.76%	5.12%	5.37%	5.85%
52	Dec	3.25%	0.15%	3.29%	5.32%	5.56%	6.04%

EPCOR Water Arizona, Inc.
Test Year Ending June 30, 2013
Docket No. WS-01303A-14-0010

Schedule RBM - 8
Pages 4 & 5 of 8

INTEREST RATES

Line No		Prime Rate	US Treasury T Bills 3 Month	US Treasury T Bonds 10 Year	Utility Bonds Aa	Utility Bonds A	Utility Bonds Baa
53	**2011**						
54	Jan	3.25%	0.15%	3.39%	5.29%	5.57%	6.06%
55	Feb	3.25%	0.14%	3.58%	5.42%	5.68%	6.10%
56	Mar	3.25%	0.11%	3.41%	5.33%	5.56%	5.97%
57	Apr	3.25%	0.06%	3.46%	5.32%	5.55%	5.98%
58	May	3.25%	0.04%	3.17%	5.08%	5.32%	5.74%
59	June	3.25%	0.04%	3.00%	5.04%	5.26%	5.67%
60	July	3.25%	0.03%	3.00%	5.05%	5.27%	5.70%
61	Aug	3.25%	0.05%	2.30%	4.44%	4.69%	5.22%
62	Sept	3.25%	0.02%	1.98%	4.24%	4.48%	5.11%
63	Oct	3.25%	0.02%	2.15%	4.21%	4.52%	5.24%
64	Nov	3.25%	0.01%	2.01%	3.92%	4.25%	4.93%
65	Dec	3.25%	0.02%	1.98%	4.00%	4.33%	5.07%
66	**2012**						
67	Jan	3.25%	0.02%	1.97%	4.03%	4.34%	5.06%
68	Feb	3.25%	0.08%	1.97%	4.02%	4.36%	5.02%
69	Mar	3.25%	0.09%	2.17%	4.16%	4.48%	5.13%
70	Apr	3.25%	0.08%	2.05%	4.10%	4.40%	5.11%
71	May	3.25%	0.09%	1.80%	3.92%	4.20%	4.97%
72	June	3.25%	0.09%	1.62%	3.79%	4.08%	4.91%
73	July	3.25%	0.10%	1.53%	3.58%	3.93%	4.85%
74	Aug	3.25%	0.11%	1.68%	3.65%	4.00%	4.88%
75	Sept	3.25%	0.10%	1.72%	3.69%	4.02%	4.81%
76	Oct	3.25%	0.10%	1.75%	3.68%	3.91%	4.54%
77	Nov	3.25%	0.11%	1.65%	3.60%	3.84%	4.42%
78	Dec	3.25%	0.08%	1.72%	3.75%	4.00%	4.56%
79	**2013**						
80	Jan	3.25%	0.07%	1.91%	3.90%	4.15%	4.66%
81	Feb	3.25%	0.10%	1.98%	3.95%	4.18%	4.74%
82	Mar	3.25%	0.09%	1.96%	3.90%	4.15%	4.66%
83	Apr	3.25%	0.06%	1.76%	3.74%	4.00%	4.49%
84	May	3.25%	0.05%	1.93%	3.91%	4.17%	4.65%
85	June	3.25%	0.05%	2.30%	4.27%	4.53%	5.08%
86	July	3.25%	0.04%	2.58%	4.44%	4.68%	5.21%
87	Aug	3.25%	0.04%	2.74%	4.53%	4.73%	5.28%
88	Sept	3.25%	0.02%	2.81%	4.58%	4.80%	5.31%
89	Oct	3.25%	0.06%	2.62%	4.48%	4.70%	5.17%
90	Nov	3.25%	0.07%	2.72%	4.56%	4.77%	5.24%
91	Dec	3.25%	0.07%	2.90%	4.90%	4.81%	5.25%
92	**2014**						
93	Jan	3.25%	0.05%	2.86%	4.44%	4.63%	5.09%
94	Feb	3.25%	0.06%	2.71%	4.38%	4.53%	5.01%
95	Mar	3.25%	0.05%	2.72%	4.40%	4.51%	5.00%
96	Apr	3.25%	0.04%	2.71%	4.30%	4.41%	4.85%
97	May	3.25%	0.03%	2.56%	4.16%	4.26%	4.69%
98	June	3.25%	0.03%	2.60%	4.26%	4.29%	4.73%
99	July	3.25%	0.03%	2.54%	4.16%	4.23%	4.66%
100	Aug	3.25%	0.03%	2.50%	4.07%	4.13%	4.65%
101	Sept	3.25%	0.03%	2.50%	4.06%	4.23%	4.55%
102	Oct	3.25%	0.02%	2.49%	4.10%	4.13%	4.55%
103	Nov	3.25%	NA	NA	NA	NA	NA
104	Dec	3.25%	NA	NA	NA	NA	NA

[1] Note: Moody's has not published Aaa utility bond yields since 2001.

Sources: Council of Economic Advisors, Economic Indicators; Moody's Bond Record; Federal Reserve Bulletin; various issues.

STOCK PRICE INDICATORS

Line No	Year	S&P Composite	NASDAQ Composite	DJIA	S&P D/P	S&P E/P
1	1975			802.49	4.31%	9.15%
2	1976			974.92	3.77%	8.90%
3	1977			894.63	4.62%	10.79%
4	1978			820.23	5.28%	12.03%
5	1979			844.40	5.47%	13.46%
6	1980			891.41	5.26%	12.66%
7	1981			932.92	5.20%	11.96%
8	1982			884.36	5.81%	11.60%
9	1983			1,190.34	4.40%	8.03%
10	1984			1,178.48	4.64%	10.02%
11	1985			1,328.23	4.25%	8.12%
12	1986			1,792.76	3.49%	6.09%
13	1987			2,275.99	3.08%	5.48%
14	1988			2,060.82	3.64%	8.01%
15	1989	322.84		2,508.91	3.45%	7.41%
16	1990	334.59		2,678.94	3.61%	6.47%
17	1991	376.18	491.69	2,929.33	3.24%	4.79%
18	1992	415.74	$599.26	3,284.29	2.99%	4.22%
19	1993	451.21	715.16	3,522.06	2.78%	4.46%
20	1994	460.42	751.65	3,793.77	2.82%	5.83%
21	1995	541.72	925.19	4,493.76	2.56%	6.09%
22	1996	670.50	1,164.96	5,742.89	2.19%	5.24%
23	1997	873.43	1,469.49	7,441.15	1.77%	4.57%
24	1998	1,085.50	1,794.91	8,625.52	1.49%	3.46%
25	1999	1,327.33	2,728.15	10,464.88	1.25%	3.17%
26	2000	1,427.22	2,783.67	10,734.90	1.15%	3.63%
27	2001	1,194.18	2,035.00	10,189.13	1.32%	2.95%
28	2002	993.94	1,539.73	9,226.43	1.61%	2.92%
29	2003	965.23	1,647.17	8,993.59	1.77%	3.84%
30	2004	1,130.65	1,986.53	10,317.39	1.72%	4.89%
31	2005	1,207.23	2,099.32	10,547.67	1.83%	5.36%
32	2006	1,310.46	2,263.41	11,408.67	1.87%	5.78%
33	2007	1,477.19	2,578.47	13,169.98	1.86%	5.29%
34	2008	1,220.04	2,161.65	11,252.62	2.37%	3.54%
35	2009	948.05	1,845.38	8,876.15	2.40%	1.86%
36	2010	1,139.97	2,349.89	10,662.80	1.98%	6.04%
37	2011	1,268.89	2,677.44	11,966.36	2.05%	6.77%
38	2012	1,379.35	2,965.56	12,967.08	2.24%	6.20%
39	2013	1,462.51	3,537.69	14,999.67	2.14%	5.57%
40	2014	2,058.90	4,690.03	17,630.15	NA	NA

Source: Council of Economic Advisors, Economic Indicators, various issues.

STOCK PRICE INDICATORS

Line No		S&P Composite	NASDAQ Composite	DJIA	S&P D/P	S&P E/P
1	**2004**					
2	1st Qtr.	1,133.29	2,041.95	10,488.43	1.64%	4.62%
3	2nd Qtr.	1,122.87	1,984.13	10,289.04	1.71%	4.92%
4	3rd Qtr.	1,104.15	1,872.90	10,129.85	1.79%	5.18%
5	4th Qtr.	1,162.07	2,050.22	10,362.25	1.75%	4.83%
6						
7	**2005**					
8	1st Qtr.	1,191.98	2,056.01	10,648.48	1.77%	5.11%
9	2nd Qtr.	1,181.65	2,012.24	10,382.35	1.85%	5.32%
10	3rd Qtr.	1,225.91	2,144.61	10,532.24	1.83%	5.42%
11	4th Qtr.	1,262.07	2,246.09	10,827.79	1.86%	5.60%
12						
13	**2006**					
14	1st Qtr.	1,283.04	2,287.97	10,996.04	1.85%	5.61%
15	2nd Qtr.	1,281.77	2,240.46	11,188.84	1.90%	5.86%
16	3rd Qtr.	1,288.40	2,141.97	11,274.49	1.91%	5.88%
17	4th Qtr.	1,389.48	2,390.26	12,175.30	1.81%	5.75%
18						
19	**2007**					
20	1st Qtr.	1,425.30	2,444.85	12,470.97	1.84%	5.85%
21	2nd Qtr.	1,496.43	2,552.37	13,214.26	1.82%	5.65%
22	3rd Qtr.	1,490.81	2,609.68	13,488.43	1.86%	5.15%
23	4th Qtr.	1,494.09	2,701.59	13,502.95	1.91%	4.51%
24						
25	**2008**					
26	1st Qtr.	1,350.19	2,332.91	12,383.86	2.11%	4.55%
27	2nd Qtr.	1,371.65	2,426.26	12,508.59	2.10%	4.05%
28	3rd Qtr.	1,251.94	2,290.87	11,322.40	2.29%	3.94%
29	4th Qtr.	909.80	1,599.64	8,795.61	2.98%	1.65%
30						
31	**2009**					
32	1st Qtr.	809.31	1,485.14	7,774.06	3.00%	0.86%
33	2nd Qtr.	892.23	1,731.41	8,327.83	2.45%	0.82%
34	3rd Qtr.	996.68	1,985.25	9,229.93	2.16%	1.19%
35	4th Qtr.	1,088.70	2,162.33	10,172.78	1.99%	4.57%
36						
37	**2010**					
38	1st Qtr.	1,121.60	2,274.88	10,454.42	1.94%	5.21%
39	2nd Qtr.	1,135.25	2,343.40	10,570.54	1.97%	6.51%
40	3rd Qtr.	1,096.39	2,237.97	10,390.24	2.09%	6.30%
41	4th Qtr.	1,204.00	2,534.62	11,236.02	1.95%	6.15%
42						
43	**2011**					
44	1st Qtr.	1,302.74	2,741.01	12,024.62	1.85%	6.13%
45	2nd Qtr.	1,319.04	2,766.64	12,370.73	1.97%	6.35%
46	3rd Qtr.	1,237.12	2,613.11	11,671.47	2.15%	7.69%
47	4th Qtr.	1,225.65	2,600.91	11,798.65	2.25%	6.91%
48						
49	**2012**					
50	1st Qtr.	1,347.44	2,902.90	12,839.80	2.12%	6.29%
51	2nd Qtr.	1,350.39	2,928.62	12,765.58	2.30%	6.45%
52	3rd Qtr.	1,402.21	3,029.86	13,118.72	2.27%	6.00%
53	4th Qtr.	1,418.21	3,001.69	13,142.91	2.28%	6.07%
54						
55	**2013**					
56	1st Qtr.	1,514.41	3,177.10	14,000.30	2.21%	5.59%
57	2nd Qtr.	1,609.77	3,369.49	14,961.28	2.15%	5.66%
58	3rd Qtr.	1,675.31	3,643.63	15,255.25	2.14%	5.65%
59	4th Qtr.	1,770.45	3,960.54	15,751.96	2.06%	5.42%
60						
61	**2014**					
62	1st Qtr.	1,834.30	4,210.05	16,170.26	2.04%	5.38%
63	2nd Qtr.	1,990.37	4,195.81	16,603.50	2.06%	,
64	3rd Qtr.	2,001.47	4,436.11	17,930.00	NA	NA
65	4th Qtr.	2058.90	4690.03	17630.15	NA	NA

Source: Council of Economic Advisors, Economic Indicators, various issues.

PROXY GROUP EQUITY RATIOS

Company	2009	2010	2011	2012	2013	2014
American States Water Co.	54.1%	55.7%	54.6%	57.8%	60.2%	60.0%
American Water Works Co., Inc	43.1%	43.2%	44.2%	46.1%	47.6%	46.0%
Aqua America, Inc.	44.4%	43.4%	47.3%	47.3%	51.1%	49.0%
Artesian Rtesources Corp.	46.2%	47.5%	51.5%	52.7%	53.6%	
California Water Service Group	52.9%	47.6%	48.3%	52.2%	58.4%	57.0%
Connecticut Water Service, Inc.	49.1%	50.2%	46.5%	50.8%	52.9%	52.5%
Middlesex Water	52.1%	55.8%	56.6%	57.4%	58.7%	59.0%
SJW Corporation	50.6%	46.3%	43.4%	45.0%	48.9%	49.5%
York Water Company	54.3%	51.7%	52.9%	54.0%	54.9%	54.0%
Average	49.6%	49.0%	49.5%	51.5%	54.0%	53.4%

Source: Value Line October 17, 2014

EPCOR WATER ARIZONA, INC.

DOCKET NO. WS-01303A-14-0010

DIRECT TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 20, 2015

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EXECUTIVE SUMMARY
EPCOR WATER ARIZONA, INC.
DOCKET NO. WS-01303A-14-0010

EPCOR Water Arizona Inc. ("EWAZ" or "Company") is an Arizona "C" Corporation.[1] EPCOR is a for profit certificated Arizona public service corporation that provides water and wastewater utility service to various communities throughout the State of Arizona. On March 10, 2014, the Company filed an application for a permanent rate increase for its Mohave Water, Paradise Valley Water, Sun City Water, Tubac Water, and Mohave Wastewater Districts. EWAZ's corporate business office is located at 2355 W. Pinnacle Peak Road, Suite 300 Phoenix, Arizona 85027.

The Residential Utility Consumer Office ("RUCO") filed for intervention with the Arizona Corporation Commission ("ACC" or "Commission") on April 7, 2014, in the case on behalf of residential ratepayers, and the ACC granted RUCO's request to intervene on April 28, 2014. The Administrative Law Judge ("ALJ") also issued a Procedural Order on April 28, 2014.

The Company stated, "The Company has continued to make necessary capital investments to adequately provide water and wastewater service to its customers, and it has experienced increases in its operations and maintenance expenses since the previous test years for these districts." EWAZ's rate Application utilized a test year ("TY') ended June 30, 2013.

The Company served the approximate number of customers in each of the following districts during the TY ended June 30, 2013:[2]

Mohave Water District – 16,067;
Paradise Valley Water District – 4,862;
Sun City Water District – 23,004;
Tubac Water District – 596; and
Mohave Wastewater – 1,448

The Company's ratepayers are currently being charged rates that were previously approved for each district in the following Commission Decisions:

Mohave Water District – Decision No. 73145, dated May 1, 2012 (Docket No. W-01303A-10-0448);
Paradise Valley Water District – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227);

[1] On February 1, 2012, EPCOR Water (USA) Inc. acquired all of Arizona American Water Company's Districts in Arizona and in New Mexico.
[2] Based on the Company's H-2 Schedule.

Sun City Water District – Decision No. 72047, dated January 6, 2011 (Docket No. W-01303A-09-0343);
Tubac Water District – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227); and
Mohave Wastewater – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227).

The Company filed revised rate schedules on October 14, 2014. The revised rate schedules consisted of the same five operating districts as shown above. EWAZ filed the revised schedules that utilized the same TY that ended June 30, 2013 for all five districts. EWAZ did not request a Reconstruction New less Depreciation ("RCND") rate base and requested its Original Cost Rate Base ("OCRB") be used as its Fair Value Rate Base ("FVRB") in determining its required operating income for all five districts as filed on a going-forward basis in this case.

Rate Application[3]:

Mohave Water District

The Company-proposed rates, as filed, produce total operating revenue of $8,327,207, an increase of $1,972,914 or 31.05 percent, over adjusted test year revenue of $6,354,293. The Company-proposed revenue will provide operating income of $1,614,211 and a 6.87 percent rate of return on its proposed $23,496,514 fair value rate base ("FVRB"), which is its original cost rate base ("OCRB").

RUCO recommends rates that produce total operating revenue of $6,725,901, which is an increase of $270,426 or 4.19 percent, from RUCO's adjusted TY revenue of $6,455,475. RUCO's recommended revenue will provide operating income of $984,707 and a 6.09 percent return on RUCO's recommended $16,169,248 adjusted TY FVRB / OCRB.

Paradise Valley Water District

The Company-proposed rates, as filed, produce total operating revenue of $10,489,588, an increase of $841,337 or 8.72 percent, over adjusted test year revenue of $9,648,251. The Company-proposed revenue will provide operating income of $2,705,436 and a 6.87 percent rate of return on its proposed $39,380,442 fair value rate base ("FVRB"), which is its original cost rate base ("OCRB").

[3] As revised by the Company on October 14, 2014.

RUCO recommends rates that produce total operating revenue of $9,166,851, which is a decrease of ($630,585) or (6.44) percent, from RUCO's adjusted TY revenue of $9,797,436. RUCO's recommended revenue will provide operating income of $2,161,740 and a 6.09 percent return on RUCO's recommended $35,496,554 adjusted TY FVRB / OCRB.

Sun City Water District

The Company-proposed rates, as filed, produce total operating revenue of $11,871,945, an increase of $1,606,392 or 15.65 percent, over adjusted test year revenue of $10,265,553. The Company-proposed revenue will provide operating income of $1,814,318 and a 6.87 percent rate of return on its proposed $26,409,285 fair value rate base ("FVRB"), which is its original cost rate base ("OCRB").

RUCO recommends rates that produce total operating revenue of $10,495,284, which is a decrease of ($3,514) or (0.03) percent, from RUCO's adjusted TY revenue of $10,498,798. RUCO's recommended revenue will provide operating income of $1,385,109 and a 6.09 percent return on RUCO's recommended $22,743,995 adjusted TY FVRB / OCRB.

Tubac Water District

The Company-proposed rates, as filed, produce total operating revenue of $981,067, an increase of $401,874 or 69.38 percent, over adjusted test year revenue of $579,194. The Company-proposed revenue will provide operating income of $110,454 and a 6.87 percent rate of return on its proposed $1,607,775 fair value rate base ("FVRB"), which is its original cost rate base ("OCRB").

RUCO recommends rates that produce total operating revenue of $770,633, which is an increase of $233,244 or 43.40 percent, from RUCO's adjusted TY revenue of $537,388. RUCO's recommended revenue will provide operating income of $89,885 and a 6.09 percent return on RUCO's recommended $1,475,945 adjusted TY FVRB / OCRB.

Mohave Wastewater District

The Company-proposed rates, as filed, produce total operating revenue of $1,509,477, an increase of $453,638 or 42.96 percent, over adjusted test year revenue of $1,055,839. The Company-proposed revenue will provide operating income of $364,459 and a 6.87 percent rate of return on its proposed $5,305,082 fair value rate base ("FVRB"), which is its original cost rate base ("OCRB").

RUCO recommends rates that produce total operating revenue of $1,310,557, which is an increase of $254,718 or 24.12 percent, from RUCO's adjusted TY revenue of $1,055,839. RUCO's recommended revenue will provide operating income of $273,730 and a 6.09 percent return on RUCO's recommended $4,494,753 adjusted TY FVRB / OCRB.

Plant Additions, Retirements, Adjustments, and Accumulated Depreciation:
RUCO recommends that EPCOR include in all future rate case applications (for all districts) plant schedules that include plant additions, retirements, adjustments, and accumulated depreciation balances by month/year for each plant account that reconciles to and starts with the prior Commission decision authorized balances accordingly.

I. INTRODUCTION

Q. Please state your name, position, employer and address.

A. My name is Timothy J. Coley. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate cases and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's rate base recommendations regarding EPCOR Water Arizona, Inc. ("EWAZ" or "Company") Water and Wastewater Districts' rate Application for a determination of the current fair value of its utility plant and property and for a permanent increase in its rates and charges based thereon for the provision of utility service. The Test Year ("TY") utilized by EWAZ in connection with the preparation of this Application is the 12-month period ending June 30, 2013.

Q. What is the scope of your testimony in this case?

A. I am presenting RUCO's rate base analysis and recommendations regarding EPCOR Water Arizona Inc.'s ("Company") application for a permanent rate increase for five of its thirteen districts located in Arizona. I am also presenting rate base testimony and schedules addressing utility plant in service ("UPIS") and accumulated depreciation ("A/D") as filed by the Company. RUCO analyst, Mr. Jeffery Michlik, is addressing ratemaking items regarding operating revenues and expenses proposed by the Company. Mr. Ralph Smith, RUCO's professional rate consultant, is addressing corporate expense allocations along with accumulated deferred income taxes ("ADIT"). Mr. Frank Radigan, RUCO's professional engineering consultant, is addressing post-test year plant as well as theoretical issues raised by me regarding over-depreciation of certain asset groups. Mr. Robert B. Mease, RUCO's Chief Accounting & Rates, is sponsoring RUCO's cost of capital ("COC") and position on the System Improvement Benefit ("SIB") that are proposed by the Company.

Q. What is the basis of your testimony in this case?

A. I performed a regulatory audit of the Company's plant and records as they pertained to UPIS and A/D balances filed in its rate Application. The regulatory audit consisted of examining and testing financial information, current and past accounting records and other supporting documentation. This was done to verify that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USOA").

Q. How is your testimony organized?

A. My testimony is organized into six sections. Section I is this introduction. Section II provides a background of the Company's revised rate Application. Section III is a summary of the Company's revenue requirements filing. Section IV is a summary of RUCO's recommended revenue requirements for each district. Section V is RUCO's summary of recommended rate base adjustments. Section VI presents RUCO's detailed recommendations regarding UPIS and A/D adjustments as well as other rate base components contained in the Company's revised rate Application.

II. BACKGROUND

Q. Please summarize the background of EWAZ's rate Application.

A. EWAZ is an Arizona "C" Corporation.[4] EPCOR is a for profit certificated Arizona public service corporation that provides water and wastewater utility service to various communities throughout the State of Arizona. On March 10, 2014, the Company filed an Application for a permanent rate increase for its Mohave Water, Paradise Valley Water, Sun City Water, Tubac Water, and Mohave Wastewater

[4] On February 1, 2012, EPCOR Water (USA) Inc. ("EWUS") acquired Arizona American Water Company's entire operating districts in the States of Arizona and New Mexico.

Districts that utilized a TY ending June 30, 2013. EWAZ's corporate business office is located at 2355 W. Pinnacle Peak Road, Suite 300 Phoenix, Arizona 85027.

The Company served approximately 46,000 customers in the following districts as filed by the Company during the TY:[5]

Mohave Water District – 16,067
Paradise Valley Water District – 4,862
Sun City Water District – 23,004
Tubac Water District – 596
Mohave Wastewater – 1,448

The Company's present rates were approved for each district in the following Commission Decisions:

Mohave Water District – Decision No. 73145, dated May 1, 2012 (Docket No. W-01303A-10-0448);

Paradise Valley Water District – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227);

Sun City Water District – Decision No. 72047, dated January 6, 2011 (Docket No. W-01303A-09-0343);

[5] This information is based on the Company's respective H-2 Schedules as filed on October 14, 2014.

Tubac Water District – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227); and

Mohave Wastewater District – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227).

Q. Please explain the relationship between EPCOR Utilities, the City of Edmonton, and EPCOR Water Arizona, Inc. ("EWAZ").

A. RUCO analyst, Mr. Michlik, fully addresses the relationships, uses for the source of income, and the financial impacts between the EPCOR's sister companies of EWAZ as previously mentioned in this direct testimony.

III. SUMMARY OF EWAZ's REVISED RATE APPLICATION

Q. Please summarize the Company's requested proposals for each of the five districts in its filing.

A. ***Mohave Water District***

The Company-proposed rates, as filed, produce total operating revenue of $8,327,207, an increase of $1,972,914 or 31.05 percent, over adjusted test year revenue of $6,354,293. The Company-proposed revenue will provide operating income of $1,614,211 and a 6.87 percent rate of return on its proposed $23,496,514 fair value rate base ("FVRB"), which is its original cost rate base ("OCRB") as requested by the Company in this filing.

Paradise Valley Water District

The Company-proposed rates, as filed, produce total operating revenue of $10,489,588, an increase of $841,337 or 8.72 percent, over adjusted test year revenue of $9,648,251. The Company-proposed revenue will provide operating income of $2,705,436 and a 6.87 percent rate of return on its proposed $39,380,442 fair value rate base ("FVRB"), which is its original cost rate base ("OCRB") as requested by the Company in this filing.

Sun City Water District

The Company-proposed rates, as filed, produce total operating revenue of $11,871,945, an increase of $1,606,392 or 15.65 percent, over adjusted test year revenue of $10,265,553. The Company-proposed revenue will provide operating income of $1,814,318 and a 6.87 percent rate of return on its proposed $26,409,285 fair value rate base ("FVRB"), which is its original cost rate base ("OCRB") as requested by the Company in this filing.

Tubac Water District

The Company-proposed rates, as filed, produce total operating revenue of $981,067, an increase of $401,874 or 69.38 percent, over adjusted test year revenue of $579,194. The Company-proposed revenue will provide operating income of $110,454 and a 6.87 percent rate of return on its proposed $1,607,775 fair value rate base ("FVRB"), which is its original cost rate base ("OCRB") as requested by the Company in this filing.

Mohave Wastewater District

The Company-proposed rates, as filed, produce total operating revenue of $1,509,477, an increase of $453,638 or 42.96 percent, over adjusted test year revenue of $1,055,839. The Company-proposed revenue will provide operating income of $364,459 and a 6.87 percent rate of return on its proposed $5,305,082 fair value rate base ("FVRB"), which is its original cost rate base ("OCRB") as requested by the Company in this filing.

IV. SUMMARY OF RUCO RECOMMENDED REVENUE REQUIREMENTS

Q. Please summarize RUCO's recommended revenue requirements for each of the five districts in this case.

A. ***Mohave Water District***

RUCO recommends rates for the Mohave Water District that produce total operating revenue of $6,725,901, which is an increase of $270,426 or 4.19 percent, from RUCO's adjusted test year revenue of $6,455,475. RUCO's recommended revenue will provide operating income of $984,707 and a 6.09 percent overall rate of return on RUCO's recommended rate base of $16,169,248.

Paradise Valley Water District

RUCO recommends rates for the Paradise Valley Water District that produce total operating revenue of $9,166,851, which is a decrease of ($630,585) or (6.44) percent, from RUCO's adjusted test year revenue of $9,797,436. RUCO's recommended revenue will provide operating income of $2,161,740 and a 6.09 percent overall rate of return on RUCO's recommended rate base of $35,496,554.

Sun City Water District

RUCO recommends rates for the Sun City Water District that produce total operating revenue of $10,495,284, which is a decrease of ($3,514) or (0.03) percent, from RUCO's adjusted test year revenue of $10,498,798. RUCO's recommended revenue will provide operating income of $1,385,109 and a 6.09 percent overall rate of return on RUCO's recommended rate base of $22,743,995.

Tubac Water District

RUCO recommends rates for the Tubac Water District that produce total operating revenue of $770,633, which is an increase of $233,244 or 43.40 percent, from RUCO's adjusted test year revenue of $537,388. RUCO's recommended revenue will provide operating income of $89,885 and a 6.09 percent overall rate of return on RUCO's recommended rate base of $1,475,945.

Mohave Wastewater District

RUCO recommends rates for the Tubac Water District that produce total operating revenue of $1,310,557, which is an increase of $254,718 or 24.12 percent, from RUCO's adjusted test year revenue of $1,055,839. RUCO's recommended revenue will provide operating income of $273,730 and a 6.09 percent overall rate of return on RUCO's recommended rate base of $4,494,753.

Q. What TY did the Company use in its revised rate Application filing?

A. The Company's revised rate Application filing used the previous twelve months that ended on June 30, 2013.

V. RUCO RECOMMENDED SUMMARY RATE BASE ("RB") ADJUSTMENTS

Q. What schedule(s) are RUCO's recommended summary RB adjustments shown on?

A. RUCO's recommended summary RB adjustments are shown on RUCO Schedule 4 for each respective district accordingly.

Q. How many summary RB adjustments are reflected on RUCO Schedule 4?

A. RUCO's recommended summary RB adjustments are a compilation of eleven recommended summary adjustments. Each of RUCO's eleven recommended summary adjustments are compiled of a number of subsidiary adjustments, which will be discussed in more detail in section VI of this testimony.

Q. Please summarize each of RUCO's eleven recommended summary RB adjustments in chronological order as they appear on RUCO Schedule 4 for the respective districts.

A. Some of RUCO's eleven recommended summary rate base adjustments apply to all five districts filed in this case while other adjustments are specific to individual districts. If the amount below and on the following pages indicate a zero, that specific summary adjustment does not apply to that district. Any amounts shown in parenthesis in the tables below and on the following pages indicate a decrease to RB while positive amounts indicate an increase to RB. RUCO's summary of RB adjustments are presented in chronological order as they appear on the five districts respective RUCO Schedules 4 as illustrated below:

RUCO SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

<u>Mohave Water District</u>

RB Adj. #1 – Direct Utility Plant Adjustments	$ 0
RB Adj. #2 – Direct Utility Plant Acc. Dep. Adjustments	$ 545,562
RB Adj. #3 – AZ Corporate Plant Adjustments	$ 0
RB Adj. #4 – AZ Corporate Plant Acc. Dep. Adjustments	$ 376,174
RB Adj. #5 – Post-Test Year Adjustments (Net less Depre.)	($ 6,026,224)
RB Adj. #6 – Regulatory Liability Over-Collection Dep. Direct Plant (Net less Amortization)	($ 658,725)
RB Adj. #7 – Regulatory Liability Over-Collection Dep. Corporate Plant (Net less Amortization)	($ 353,366)
RB Adj. #8 – Reverse Unexpended CIAC Adjustment	($ 69,169)
RB Adj. #9 – Reverse 24-Months of AFUDC	($ 806,861)

RB Adj. #10 – Cash Working Capital Allowance	($ 14,591)
RB Adj. #11 – Regulatory Asset Adjustments	($ 67,042)

Paradise Valley Water District

RB Adj. #1 – Direct Utility Plant Adjustments	$ 15,161
RB Adj. #2 – Direct Utility Plant Acc. Dep. Adjustments	($ 1,018,116)
RB Adj. #3 – AZ Corporate Plant Adjustments	$ 0
RB Adj. #4 – AZ Corporate Plant Acc. Dep. Adjustments	$ 3,791
RB Adj. #5 – Post-Test Year Adjustments (Net less Depre.)	($ 1,601,236)
RB Adj. #6 – Regulatory Liability Over-Collection Dep. Direct Plant (Net less Amortization)	($ 318,463)
RB Adj. #7 – Regulatory Liability Over-Collection Dep. Corporate Plant (Net less Amortization)	($ 107,883)
RB Adj. #8 – Reverse Unexpended CIAC Adjustment	($ 43,632)
RB Adj. #9 – Reverse 24-Months of AFUDC	($ 427,597)
RB Adj. #10 – Cash Working Capital Allowance	($ 34,825)
RB Adj. #11 – Regulatory Asset Adjustments	($ 351,088)

Sun City Water District

RB Adj. #1 – Direct Utility Plant Adjustments	$ 247,990
RB Adj. #2 – Direct Utility Plant Acc. Dep. Adjustments	$ 2,038,336
RB Adj. #3 – AZ Corporate Plant Adjustments	$ 0
RB Adj. #4 – AZ Corporate Plant Acc. Dep. Adjustments	$ 18,075
RB Adj. #5 – Post-Test Year Adjustments (Net less Depre.)	($ 2,128,789)
RB Adj. #6 – Regulatory Liability Over-Collection Dep. Direct Plant (Net less Amortization)	($ 2,218,405)

RB Adj. #7 – Regulatory Liability Over-Collection Dep. Corporate Plant (Net less Amortization)	($ 514,314)
RB Adj. #8 – Reverse Unexpended CIAC Adjustment	($ 845,933)
RB Adj. #9 – Reverse 24-Months of AFUDC	($ 225,112)
RB Adj. #10 – Cash Working Capital Allowance	($ 37,140)
RB Adj. #11 – Regulatory Asset Adjustments	$ 0

Tubac Water District

RB Adj. #1 – Direct Utility Plant Adjustments	($ 249,315)
RB Adj. #2 – Direct Utility Plant Acc. Dep. Adjustments	$ 276,778
RB Adj. #3 – AZ Corporate Plant Adjustments	$ 0
RB Adj. #4 – AZ Corporate Plant Acc. Dep. Adjustments	$ 469
RB Adj. #5 – Post-Test Year Adjustments (Net less Depre.)	($ 21,365)
RB Adj. #6 – Regulatory Liability Over-Collection Dep. Direct Plant (Net less Amortization)	($ 42,651)
RB Adj. #7 – Regulatory Liability Over-Collection Dep. Corporate Plant (Net less Amortization)	($ 13,338)
RB Adj. #8 – Reverse Unexpended CIAC Adjustment	($ 74,010)
RB Adj. #9 – Reverse 24-Months of AFUDC	($ 27,978)
RB Adj. #10 – Cash Working Capital Allowance	($ 6,377)
RB Adj. #11 – Regulatory Asset Adjustments	$ 25,958

Mohave Wastewater District

RB Adj. #1 – Direct Utility Plant Adjustments	$ 0
RB Adj. #2 – Direct Utility Plant Acc. Dep. Adjustments	($ 413,165)
RB Adj. #3 – AZ Corporate Plant Adjustments	$ 0
RB Adj. #4 – AZ Corporate Plant Acc. Dep. Adjustments	$ 1,109
RB Adj. #5 – Post-Test Year Adjustments (Net less Depre.)	($ 99,345)

RB Adj. #6 – Regulatory Liability Over-Collection Dep. Direct Plant (Net less Amortization)	$ 0
RB Adj. #7 – Regulatory Liability Over-Collection Dep. Corporate Plant (Net less Amortization)	($ 31,559)
RB Adj. #8 – Reverse Unexpended CIAC Adjustment	($ 227,674)
RB Adj. #9 – Reverse 24-Months of AFUDC	($ 28,717)
RB Adj. #10 – Cash Working Capital Allowance	($ 10,979)
RB Adj. #11 – Regulatory Asset Adjustments	$ 0

VI. DETAIL OF RUCO RECOMMENDED SUMMARY RB ADJUSTMENTS

Q. Does RUCO want to make any general comments or observations regarding the *Company's plant records* as filed with the ACC in both its original and revised rate Applications on March 10, 2014 and October 14, 2014 respectively?

A. Yes.

Q. Please proceed with RUCO's general comments and observations pertaining to the Company's plant records that were filed in its original and revised rate Applications while being as brief as possible.

A. After RUCO filed its request for intervention in this rate proceeding and received the Company's rate Application through discovery, my initial review immediately initiated a discussion with my accounting manager, Mr. Robert Mease, concerning the Company's original rate Application.

Q. What was your general substantive discussion with Mr. Mease after your initial review of the Company's original rate Application?

A. Our general discussion consisted of me acknowledging to him of how many errors and abnormal utility plant in service ("UPIS") and accumulated depreciation ("A/D") balances that existed in the required filing schedules as filed on March 10, 2014. From my recollection of that discussion, which Mr. Mease can further substantiate, my general comment consisted of how ten top-tier rate analysts could enter ten separate rooms and upon completion of their analysis exit with completely different results. For instance, EPCOR's Paradise Valley Water District B-2 Schedules did not tie with its G-5 Schedules in the original Application as filed with the ACC on March 10, 2014. To exacerbate the situation, the Company's B-2 Schedule did not tie to its C-2 Schedule for Depreciation Expense. In the Tubac District, the Company's trial balance plant balances did not tie with the B-2 Schedules as filed on the same date. These examples are not intended to be an all-inclusive or exhaustive listing of all the accounting errors found in the Company's original rate Application filed on March 10, 2014. RUCO witnesses' Mr. Mease and Mr. Michlik references this sloppy accounting and record keeping in their testimonies also.

Q. Mr. Coley, for brevity sake, is there any further issues that RUCO would like to bring forth in this testimony.

A. Yes. There is one other monumental concern that arose once RUCO issued its first data request ("DR").

Q. Please proceed and be as brief as possible but at the same time provide adequate detail for the record.

A. The enormity of the UPIS and A/D balance problems as filed on March 10, 2014 escalated at the issuance of RUCO DR 1.52. That DR was submitted to the Company on April 15, 2014 and is stated verbatim below:

> <u>Plant Additions and Retirements</u> – Please provide a schedule of plant additions and retirements by year and by line item (e.g., 307 Wells and Springs) in excel format, for each of the intervening years since the test year in the Company's prior rate case through the end of the test year in the current filing. In addition, provide the invoices and other supporting documentation for all of these additions and Retirements.
>
> In addition, please include post-test year invoices.

The Company did not provide a response to this DR until approximately one-month later in mid-May 2014. The response provided in May was essentially an unworkable product as provided by the Company. In the meantime, EPCOR's attorney implied that some of the information that RUCO sought in DR 1.52 was information that RUCO could obtain on its own from previous rate proceedings' prior records. The Company's response as provided in mid-May included some unworkable attachments and included the written response below:

> Attached are the authorized depreciation rates for Mohave Water (Docket 10-0448; Decision No. 73145), Sun City Water (Docket 09-0343; Decision No. 72047), and Paradise Valley Water, Tubac Water and Mohave Wastewater (Docket 08-0227; Decision No. 71410). The plant additions, retirements, and adjustments by year and NARUC plant account number for the period February 1, 2012 through the end of the test year June 30, 2013 are attached and labeled "RUCO 1.52 PPE Rollforward – Feb '12-Jun '13.xlsx". The Company is preparing the requested information for the period

> between the test year in each district's last rate case through January 31, 2012 in the same format as is provided with this response.
>
> The invoices for the February 1, 2012 through June 30, 2013 period were provided on a CD in response to the Arizona Corporation Commission Staff's data request number STF 1.3.
>
> This response will be supplemented as soon as the remaining outstanding information is completed.

At this juncture, RUCO filed a Motion to Compel with the Commission in order to obtain the requested information that most all other companies provide when initially submitting a rate Application or at least upon submittal of an intervening party's first DR. This type of data is imperative since UPIS is often 75 to 90 percent of total rate base from which the required operating income is computed.

On June 30, 2014, the Company finally provided what first appeared to RUCO as a workable format for UPIS and A/D since the districts last rate case through the current TY end of June 30, 2013. RUCO withdrew its Motion to Compel roughly one-week after receiving the June 30th data from the Company. However, RUCO found shortly thereafter that the information provided by the Company on June 30th was not sufficient to perform the analysis in order for RUCO to ascertain reliable UPIS information as it pertained to the current rate Application.

Q. What was not sufficient about the information as provided by the Company on June 30th that prohibited RUCO from performing its UPIS and A/D analysis?

A. The plant balances did not properly roll-forward from month-to-month neither did the beginning UPIS nor A/D balances tie-back to the previous districts' approved balances from the prior case as authorized by the Commission. RUCO filed a continuance of its Motion to Compel for those reasons.

Q. Can you please provide an example of how one-month of UPIS balances did not roll-forward to the subsequent month UPIS balances correctly?

A. Yes. The Company's Tubac plant roll-forward schedules provided to RUCO on June 30th did not roll-forward correctly from January 2012 to February 2012. In January, the total UPIS balance for Tubac was $6,212,361. The following month, February, the UPIS balance was $6,287,928 or a difference of $75,567 with no plant additions, retirements, and/or adjustments reflected for the month of February to account for the difference. There was no reason whatsoever that the February UPIS balance should differ from the January balances in this instance. Throughout the remainder of this testimony, there will be a number of instances of accounting errors occurring in previous rate case proceedings for specific districts filed in this current case.

Q. When did the Company finally provide RUCO a complete set of plant schedules that was in a workable format?

A. After approximately fifteen different iterations of plant schedules, the Company provided a complete set of plant schedules on or around October 2, 2014 or approximately six-months after RUCO issued DR 1.52.

Q. What was the primary cause of the six-month delay in receiving a workable format of the Company's plant schedules?

A. That question is best asked of the Company. In my opinion, the Company struggled to obtain the correct starting point from the previously approved rate proceeding. Apparently, their plant accounting system and/or general ledger did not account for prior Commission decisions adjustments. The Company must have ignored the Commission approved adjustments. Apparently, the Company never recorded the prior Commission adjustments into their plant accounting system.

SUMMARY RATE BASE ("RB") ADJUSTMENT #1 – DIRECT PLANT

Q. What direct plant adjustments were necessary to account for RUCO summary RB adjustment #1 introduced earlier for each of the five districts?

A. The sum of the subsequent nine direct plant balance adjustments totals to RUCO rate base #1 as follows:

RB Adj. No. 1 – Direct Plant Balance Adjustments

This adjustment applies only to the Tubac Water District. The adjustment removes $249,315 that appears to have been disallowed in Commission Decision No. 71867 dated September 1, 2010, which was Tubac's ACRM filing (See Commission Decision No. 71867).

RB Adj. No. 2 – Direct Plant Balance Adjustments

This adjustment applies only to the Tubac Water District. The adjustment reclassifies $1,675,646 of ACRM plant from account 320100 – Water Treatment Equipment Non-Media to the Water Treatment Equipment Filter Media account that was approved by the Commission in Decision No. 71867 dated September 1, 2010, which was Tubac's ACRM filing. From a logical standpoint, the ACRM plant is definitely media related because the Company's income statement adjustment #SM-31 is for arsenic media replacement for this district. That decision approved a depreciation rate of 3.92 percent (See RUCO Attachment 1) for the ACRM plant in the Company's Step-1 ACRM filing. The Company originally recorded the ACRM plant to the Water Treatment Equipment Filter Media account but transferred it four-months later to the Water Treatment Equipment Non-Media account, which had a depreciation rate that was approximately two-times greater, 7.06 percent, than the rate of 3.92 percent approved by the Commission in the ACRM decision.

RB Adj. No. 3 – Direct Plant Balance Adjustments – Not Used.

RB Adj. No. 4 – Direct Plant Balance Adjustments – Not Used.

RB Adj. No. 5 – Direct Plant Balance Adjustments – Not Used.

RB Adj. No. 6 – Direct Plant Balance Adjustments – This adjustment applies only to the Paradise Valley and Sun City Water Districts. For Paradise Valley, the adjustment removes two negative plant balances. There is no logical reason for a plant account to have a negative balance. There are three reasons 1) plant additions, 2) retirements, and/or 3) transfers/adjustments that cause a plant balance to change from one period to another. None of those three reasons should make a plant account result in a negative balance (i.e., maybe zero but not negative). This adjustment removes two negative plant account balances totaling $15,161 and increases rate base accordingly. These two adjustments are shown on RUCO Schedule 5 in column [G] and are summarized on RUCO Schedule 4 in adjustment #1 with the details shown on RUCO Schedule 5 on page 1 of 2 in column [G] as adjustment #6.

For Sun City, the adjustment also removes two negative plant balances. There is no logical reason for a plant account to have a negative balance for the same reasons as provided above.[6] This adjustment removes two negative plant account balances totaling $247,990 and increases rate base accordingly. These two

[6] One of the Sun City negative plant balances appeared to be a non-investor supplied plant item (i.e., CIAC / AIAC) that dates back to some unknown time period.

adjustments are shown on RUCO Schedule 5 in column [G] and are summarized on RUCO Schedule 4 in adjustment #1 with the details shown on RUCO Schedule 5 on page 1 of 2 in column [G] as adjustment #6.

RB Adj. No. 7 – Direct Plant Balance Adjustments – Not Used.

RB Adj. No. 8 – Direct Plant Balance Adjustments – Not Used.

RB Adj. No. 9 – Direct Plant Balance Adjustments – Not Used.

SUMMARY RATE BASE ("RB") ADJUSTMENT #2 – DIRECT PLANT A/D

Q. What direct plant accumulated depreciation ("A/D") adjustments were necessary to account for RUCO summary RB adjustment #2 introduced earlier for each of the five districts?

A. The sum of the subsequent nine direct plant A/D balance adjustments totals to RUCO rate base #2 as follows:

RB Adj. No. 1 – Direct Plant A/D Balance Adjustments – This adjustment applies only to the Tubac Water District. The adjustment removes $70,762 of accumulated depreciation for what appears to be related to the Commission's UPIS disallowance in Decision No. 71867 dated September 1, 2010, which was Tubac's ACRM filing.

RB Adj. No. 2 – Direct Plant A/D Balance Adjustments - This adjustment applies only to the Paradise Valley and Tubac Water District. The adjustment corrects a past accounting error. See RUCO Attachment 2 to aid the reader of this testimony in identifying and understanding the accounting error that will be explained here. In 2006, the Company transferred $2,981,428 of assets from the TD Mains – Not Classified account to TD Mains 6 to 8-inch in the amount of $5,879 and to TD Mains 6 to 16-inch in the amount of $2,975,550. Those accounting entries are proper to account for the transfer of those assets. The Company errs when it records the transfer of depreciation expense to accumulated depreciation as if it were a retirement rather than properly transferring only the plant and any prior accumulated depreciation associated with the transfer of assets. This is simply sloppy accounting or an error on behalf of the person's knowledge that made these entries as though it was a retirement rather than a transfer of assets. The TD Mains – Not Classified account has a zero percent depreciation rate. Therefore, there is no depreciation amount to transfer. This adjustment corrects and removes the debit A/D balance created in this accounting error and restores the proper accumulated depreciation balance to the two accounts that the transfers were made to and from, which the Company reduced when making the errant accounting entries. These adjustments are shown on RUCO Schedule 6 in column [C] as adjustment #2.

For the Tubac Water District, this is a companion adjustment to A/D to account for RUCO's reclassification of the ACRM plant from the non-media account to the media account. The adjustment removes $384,477 of A/D associated with the Company's misclassification of plant to non-media equipment plant and recalculates the depreciation of $229,899 that should be associated with the media equipment plant using the correct depreciation rate of 3.92 percent as approved by the Commission in Decision No. 71867. These adjustments are shown on RUCO Schedule 6 in column [C] as adjustment #2.

<u>RB Adj. No. 3 – Direct Plant A/D Balance Adjustments</u> - This adjustment applies only to the Mohave Water, Tubac Water, and Mohave Wastewater Districts. The adjustment simply allocates items such as removal costs and/or reconciling items that only affect accumulated depreciation balances that the Company failed to allocate to any particular accounts. This is simply an accounting housekeeping adjustment that allocates those unassigned amounts that impacts accumulated depreciation to accounts that have normal credit accumulated depreciation balances. The adjustment allocates removal costs of $6,584 for Mohave Water, $407 of unreconciled accumulated depreciation amounts to Tubac Water, and $1,145 of unreconciled amounts to Mohave Wastewater Districts. These adjustments are shown on the respective RUCO Schedules 6 in column [D] as adjustment #3 for those three districts.

<u>RB Adj. No. 4 – Direct Plant A/D Balance Adjustments</u> - This adjustment applies to all the districts with the lone exception of Mohave Wastewater. The adjustment

removes the excess accumulated depreciation related to the Company's over-depreciation of specific groups of assets. For Mohave Water, it reduces the accumulated depreciation balance by $756,159 and increases rate base accordingly. For Paradise Valley Water, it reduces the accumulated depreciation balance by $274,675 and increases rate base accordingly. For Sun City Water, it reduces the accumulated depreciation balance by $2,299,255 and increases rate base accordingly. For Tubac Water, it reduces the accumulated depreciation balance by $46,181 and increases rate base accordingly. These adjustments are shown on the respective RUCO Schedules 6 in column [E] as adjustment #4 for those four districts.

<u>RB Adj. No. 5 – Direct Plant A/D Balance Adjustments</u> - This adjustment applies to all the districts with the lone exception of Mohave Wastewater. The adjustment removes the post-test year excess accumulated depreciation for the two-year period from the end of the TY through June 2015. June 2015 was the period ending used by RUCO as the approximate time a decision in this case would be rendered. This adjustment is similar to RUCO adjustment #4 above except it goes out to the estimated period when new rates would go into effect for this rate proceeding. For Mohave Water, it reduces the accumulated depreciation balance by $67,247 and increases rate base accordingly. For Paradise Valley Water, it reduces the accumulated depreciation balance by $123,403 and increases rate base accordingly. For Sun City Water, it reduces the accumulated depreciation balance

by $473,751 and increases rate base accordingly. For Tubac Water, it reduces the accumulated depreciation balance by $7,134 and increases rate base accordingly. These adjustments are shown on the respective RUCO Schedules 6 in column [F] as adjustment #5 for those four districts.

<u>RB Adj. No. 6 – Direct Plant A/D Balance Adjustments</u> – This is a companion adjustment for accumulated depreciation that was discussed in direct plant adjustment #6 and applies only to the Paradise Valley and Sun City Water Districts. Since RUCO removed the two negative plant balances in that prior adjustment, it is also necessary to remove the accumulated depreciation balances associated with those negative plant balances. For Paradise Valley, this companion adjustment removes the accumulated depreciation balances for the two negative plant account balances. Paradise Valley carried abnormal A/D balances or debits for those two accounts. The adjustment increases the accumulated depreciation balance by $142,880 due to the abnormal A/D debit balances contained in those two accounts. These two adjustments are shown on RUCO Schedule 6 in column [G] as adjustment #6.

For Sun City, this companion adjustment removes the two accumulated depreciation balances related to RUCO's two negative plant balance adjustments that were discussed earlier. These two A/D balance adjustments total a net adjustment of $308,192, which decreases the overall district's accumulated depreciation balance. These two adjustments are shown on RUCO Schedule 6 in column [G] as adjustment #6.

RB Adj. No. 7 – Direct Plant A/D Balance Adjustments – This adjustment applies only to the Paradise Valley Water District. The adjustment removes a $30 of a normal credit accumulated depreciation balance from a non-depreciable Land & Land Rights account that has a zero depreciation balance. There should not be any accumulated depreciation in a non-depreciable account such as land. This can only be due to an accounting error since land is non-depreciable account and should not have any depreciation associated with it.

RB Adj. No. 8 – Direct Plant A/D Balance Adjustments - This adjustment applies to all the districts with the lone exception of Mohave Wastewater. The adjustment removes several abnormal debit accumulated depreciation balances that have been created through accounting errors, have existed for years that have no value for the EPCOR ratepayers, or have debit accumulated depreciation balances in accounts that have zero depreciation rates. RUCO recommends that all of those amounts be written-off to the acquisition premium. RUCO asked the Company in DR's, as did Commission Staff, what has contributed to these abnormal debit accumulated depreciation balances or in essence phantom assets in A/D balances. The Company's response was essentially that those balances were approved in prior Commission decisions and/or they were created through early retirements.

These adjustments are shown on RUCO Schedule 6 in column [I] as adjustment #8.

RB Adj. No. 9 – Direct Plant A/D Balance Adjustments – This is an accounting housekeeping adjustment that applies only to Mohave and Paradise Valley Water Districts. The adjustments affect several accounts but all are less than $1. The purpose of the adjustment was to adjust the TY ending accumulated depreciation balances to zero from small debit balances due to rounding issues. Therefore, it is immaterial in nature and deserves nothing more than mention as done here. However, those adjustments are shown on RUCO Schedule 6 in column [J] as adjustment #9.

SUMMARY RATE BASE ("RB") ADJUSTMENT #3 – CORPORATE PLANT

Q. Does RUCO recommend any corporate plant account balance adjustments shown on RUCO Schedule 7 in direct testimony at this time?

A. No, RUCO does not recommend any adjustments at this time. This schedule is a currently a placeholder schedule if RUCO concludes an adjustment is necessary during the course of this rate proceeding. Therefore, RUCO summary RB adjustment #3 is not used at this time as reflected in Section V of this testimony earlier.

SUMMARY RATE BASE ("RB") ADJUSTMENT #4 – CORPORATE PLANT A/D

Q. What allocated corporate plant accumulated depreciation ("A/D") adjustments were necessary to account for RUCO summary RB adjustment #4 introduced earlier for each of the five districts?

A. The sum of the subsequent nine allocated corporate plant A/D balance adjustments totals to RUCO rate base #4 as follows:

<u>RB Adj. No. 1 – Corporate Plant A/D Balance Adjustments</u> – This adjustment applies to all five districts. The adjustment corrects a line item for a reconciling amount of $1,053 that the Company failed to roll-forward from its starting point from June 30, 2010. RUCO notified the Company of this error shortly after EPCOR filed its revised schedules on October 14, 2014. The Company was in agreement with RUCO that the amount did not roll-forward correctly in its plant schedules. Those adjustments are shown on the respective RUCO Schedules 8 in column [C] as adjustment #1.

<u>RB Adj. No. 2 – Corporate Plant A/D Balance Adjustments</u> – This adjustment applies to all five districts. The adjustment allocates the $1,053 that the Company failed to roll-forward in its plant schedules discussed in adjustment #1 above. The $1,053 is an allocated amount and has an insignificant impact once allocated to each of the five districts. RUCO allocated the $1,053 to the accumulated depreciation balances with normal credit accumulated depreciation balances.

Those adjustments are shown on the respective RUCO Schedules 8 in column [D] as adjustment #2.

<u>RB Adj. No. 3 – Corporate Plant A/D Balance Adjustments</u> – This adjustment applies to all five districts. The adjustment allocates a line item for salvage proceeds for $73,699 that the Company did not allocate to the accounts. When the Company was asked to allocate the amounts, the Company stated it did not know to which account(s) to allocate it. If the amount is not allocated, it will exist into perpetuity since it has no depreciation rate assigned to it. RUCO allocated the $73,699 to the accumulated depreciation balances with normal credit accumulated depreciation balances. Those adjustments are shown on the respective RUCO Schedules 8 in column [E] as adjustment #3.

<u>RB Adj. No. 4 – Corporate Plant A/D Balance Adjustments</u> – This adjustment applies to all five districts. The adjustment removes the excess accumulated depreciation related to the Company's over-depreciation of specific groups of assets. For Mohave Water, it reduces the accumulated depreciation balance by $314,262 and increases rate base accordingly. For Paradise Valley Water, it reduces the accumulated depreciation balance by $95,944 and increases rate base accordingly. For Sun City Water, it reduces the accumulated depreciation balance by $457,399 and increases rate base accordingly. For Tubac Water, it reduces the accumulated depreciation balance by $11,862 and increases rate base accordingly.

For Mohave Wastewater, it reduces the accumulated depreciation balance by $28,067 and increases rate base accordingly. These adjustments are shown on the respective RUCO Schedules 8 in column [F] as adjustment #4 for each of the five districts.

<u>RB Adj. No. 5 – Corporate Plant A/D Balance Adjustments</u> – This adjustment applies to all five districts. The adjustment removes the post-test year excess accumulated depreciation for the two-year period from the end of the TY through June 2015. June 2015 was the period ending used by RUCO as the estimated time a decision in this case would be rendered. This adjustment is similar to RUCO adjustment #4 above except it goes out to when new rates would go into effect for this rate proceeding. For Mohave Water, it reduces the accumulated depreciation balance by $73,499 and increases rate base accordingly. For Paradise Valley Water, it reduces the accumulated depreciation balance by $22,439 and increases rate base accordingly. For Sun City Water, it reduces the accumulated depreciation balance by $106,975 and increases rate base accordingly. For Tubac Water, it reduces the accumulated depreciation balance by $2,774 and increases rate base accordingly. For Mohave Wastewater, it reduces the accumulated depreciation balance by $6,564 and increases rate base accordingly. These adjustments are shown on the respective RUCO Schedules 8 in column [G] as adjustment #5 for each of the five districts.

RB Adj. No. 6 – Corporate Plant A/D Balance Adjustments – Not Used.

RB Adj. No. 7 – Corporate Plant A/D Balance Adjustments – Not Used.

RB Adj. No. 8 – Corporate Plant A/D Balance Adjustments – This adjustment applies to all five districts. The adjustment removes three abnormal debit accumulated depreciation balances that have been created through accounting errors or have existed for years that have no value to the EPCOR ratepayers and should not be in rates. RUCO recommends that all of those amounts be written-off to the acquisition premium. RUCO asked the Company in DR's, as did Commission Staff, what has created these abnormal debit accumulated depreciation balances or in essence phantom assets in A/D balances. The Company's responded by essentially stating that those balances were approved in prior Commission Decisions and/or they were created through early retirements. These adjustments are shown on the respective RUCO Schedules 8 in column [J] as adjustment #8.

RB Adj. No. 9 – Corporate Plant A/D Balance Adjustments – This adjustment applies to all five districts. This is an accounting housekeeping adjustment. The adjustments affect three accounts and are insignificant once allocated to the districts. The purpose of the adjustment was to adjust the TY ending accumulated depreciation balances to zero due to account for RUCO's previous eight corporate plant A/D adjustments. These adjustments are shown on the respective RUCO Schedules 8 in column [K] as adjustment #9.

SUMMARY RATE BASE ("RB") ADJUSTMENT #5 – POST-TEST YEAR PLANT

Q. Please explain RUCO summary RB adjustment #5.

A. This adjustment relates to RUCO's post-test year plant adjustments. RUCO's engineering consultant, Mr. Radigan, fully explains and provides details for this adjustment in his testimony. However, Mr. Radigan has recommended post-test year adjustments for each of the five districts as follows:

District	Amount
Mohave Water	($ 6,026,224)
Paradise Valley	($ 1,601,236)
Sun City	($ 2,128,789)
Tubac	($ 21,375)
Mohave Wastewater	($ 99.345)

SUMMARY RATE BASE ("RB") ADJUSTMENT #6 – REGULATORY LIABILITY DIRECT PLANT

Q. Please explain the components to RUCO summary RB adjustment #6 for the direct regulatory liability.

A. This adjustment is the sum of RUCO direct plant accumulated depreciation adjustments #4 and #5 for each district excluding the Mohave Wastewater District.

Mohave Wastewater did not have any over-depreciated groups of assets. Therefore, this adjustment does not apply to Mohave Wastewater.

The adjustment to the other four districts is the sum of RUCO direct plant accumulated depreciation adjustments #4 and #5. It is the excess accumulated depreciation over the book value of the asset groups that RUCO removed in adjustments #4 and #5. RUCO recorded a regulatory liability for the excess depreciation on which ratepayers has paid through present rates today. There are two components to the direct plant regulatory liability.

The first component of the direct regulatory liability is the excess accumulated depreciation over the book value of each group of assets through TY end. The second component is the amount of excess depreciation that RUCO estimates the ratepayers will have paid once new rates are authorized by the Commission in this proceeding at the estimated date of June 30, 2015 for each of the four districts to which this adjustment applies. The gross regulatory liability amount recorded by RUCO for each district is as follows:

District	Amount
Mohave Water	$ 823,406
Paradise Valley	$ 398,078
Sun City	$ 2,773,006

Tubac	$ 53,314

Q. How long does RUCO recommend the regulatory liability be amortized over?

A. RUCO recommends a five-year amortization period or 20 percent per annum, which has an equivalency of how long the assets have been over-depreciated, and thus, ratepayers have been paying in their current rates.

Q. Has RUCO recognized any amortization expense for the gross regulatory liability shown above?

A. Yes. RUCO has recognized one-year of amortization expense through a credit to depreciation expense in Mr. Michlik's depreciation expense schedule. One-year of the credit depreciation expense has also been recognized on RUCO Schedule 4, which results in a net regulatory liability of 20 percent less than the gross regulatory liability shown above earlier. These adjustments are shown on RUCO Schedules 10 for each of the four respective districts to which it applies.

SUMMARY RATE BASE ("RB") ADJUSTMENT #7 – REGULATORY LIABILITY CORPORATE PLANT

Q. Please explain the components to RUCO summary RB adjustment #7 for the corporate regulatory liability.

A. The components are similar to the direct regulatory liability but apply to the over-depreciation of the allocated corporate group of assets. The regulatory liability for the over-depreciation of the corporate group of assets has a component through TY end plus the component for the over-depreciation through June 30, 2015. The ratepayers' rates are currently providing an excess of depreciation for fully depreciated assets. The shareholders are entitled to an opportunity to earn a return on and of their capital investments but not in excess of their capital investments, which over-depreciated assets clearly do and have in this case. In addition to the two components of the corporate regulatory liability already addressed above, there is a third component to the corporate regulatory liability.

In the Company's revised filing, EPCOR proposed a retirement of corporate plant in February 2012. RUCO makes the same retirement as proposed by the Company but at the end of the TY.

Q. Did the Company propose a retirement to the corporate plant in its original filing?

A. No. That is why RUCO did not recognize the retirement until TY end rather than a retroactive retirement in February 2012 as the Company proposed in it revised filing.

Q. What is the third component of the corporate regulatory liability that RUCO recommends?

A. There was an intangible software asset shown in the Company's trial balance that has been over-depreciated in excess of 26 times (See RUCO Attachment 3). This asset was included as a component of UPIS in the original filing on March 10, 2014. The ratepayers were asked by the Company in that filing for further depreciation expense in rates for an asset that ratepayers have provided for over 25 times already. RUCO's recommended corporate regulatory liability accounts for and incorporates that item into the corporate regulatory liability here.

Q. Does RUCO's gross regulatory liability as shown on RUCO Schedule 4 include the direct and corporate components just discussed as one line item in its recommended rate base?

A. Yes.

SUMMARY RATE BASE ("RB") ADJUSTMENT #8 – REVERSE UNEXPENDED CIAC

Q. Please explain RUCO summary RB adjustment #8 for unexpended contributions in aid of construction ("CIAC").

A. RUCO reversed the Company's pro forma adjustment to remove unexpended CIAC from the CIAC balance.

Q. What rationale does RUCO have to reverse the Company's pro forma adjustment to remove unexpended CIAC?

A. Until the adverse housing economy became a reality around 2007, the CIAC balance was whatever amount there was in the account. When the housing downtown hit in Arizona, many of the utility companies had enormous amounts of CIAC on their books that had been received from developers. The Commission found it to be a proper adjustment to remove any unexpended funds that were recorded as CIAC because nobody knew exactly how long the housing market would remain in the crisis that it had experienced. In RUCO's opinion, this was at most a temporary type of allowed adjustment. The housing industry in Arizona has now stabilized. There is no need for this temporary relief any longer. Arizona utilities are experiencing growth again unless the utility in in a built-out situation. If the utility is built-out, there are not any scenarios that the utility is receiving an excessive amount of CIAC non-investor funds. The amounts of unexpended CIAC funds must vary significantly from month to month not to mention year to year. RUCO finds this adjustment unsupported in today's housing market.

Q. Are there any other reasons that RUCO finds that its reversal of the Company's adjustment is appropriate?

A. Yes. The Company stated in response to RUCO DR 1.27, "The Company does not maintain records to track the plant accounts to which the contributions were used to fund." Cash is a fungible item. It can be spent on numerous expenditures that a utility encounters on a daily basis. CIAC by its very definition is non-investor supplied capital. NARUC's guidelines specifically state CIAC is to be recorded as CIAC upon receipt and should be treated as a deduction to rate base. Just because the Company has not expended the funds today does not mean it will not be expended next week or month. The Company has an obligation to spend the funds when the developer provides the funds. The ratepayers should receive an offset to rates base especially when the Company does not maintain a separate bank account to keep track of those specific funds.[7]

SUMMARY RATE BASE ("RB") ADJUSTMENT #9 – REVERSES 24-MONTHS OF AFUDC

Q. Please explain RUCO summary RB adjustment #9 for 24-months of additional AFUDC.

A. The additional 24-months of AFUDC, after the plant has been placed in service, that the Company requested was an optional alternative ratemaking possibility the Commission Staff proposed absence the approval of a System Improvement Benefit ("SIB"). The Company has requested both a SIB and the additional 24-months of AFUDC post in service plant in this case.

The Company proposes to defer AFUDC and depreciation expense related to plant in service for a period of 24 months. Put another way, the Company wants to

[7] The Company's response to RUCO DR # 6.03 stated, "The Company does not use a separate bank account to track cash received from CIAC transactions (such as hook-up fees).

include, as a deferred regulatory asset, an additional return of AFUDC on its plant that is in service but has not yet been rate based in a rate case along with the associated depreciation expense.

Q. Please explain AFUDC.

A. Construction work in progress ("CWIP") is generally not included in rate base because it violates the used and useful principle. However, companies are allowed to earn a return, and include the financing cost as part of their plant that will be rate based in a future rate case through AFUDC. As long as plant items are included in construction work in progress ("CWIP"), the Company may apply an AFUDC rate to the CWIP account.

Typically, utilities apply the debt and equity components of their rate of return on rate base approved in their last rate case decision to the CWIP balance. As soon as the plant goes into service, the AFUDC stops.

Q. Is the Company wanting to defer an additional amount of AFUDC up to 24-months on plant that is in service but not included in rate base.

A. Yes, plus the depreciation expense up to 24 months that is generated once the plant goes into service.

Q. What is RUCO's recommendation?

A. Putting aside the fact that RUCO disagrees with the adoption of a SIB, RUCO recommends the removal of the Company's deferred assets as shown on the respective RUCO Schedules 4 in adjustment #9. RUCO witness, Mr. Michlik, removed the amortization of the deferred assets. RUCO's reversal of the Company's deferred AFUDC resulted in decreases to the respective rate base as follows:

District	Amount
Mohave Water	($ 806,861)
Paradise Valley	($ 427,597)
Sun City	($ 225,112)
Tubac	($ 27,978)
Mohave Wastewater	($ 28,717)

SUMMARY RATE BASE ("RB") ADJUSTMENT #10 – CASH WORKING CAPITAL

Q. Is Cash Working Capital just one component of the Company's working capital allowance?

A. Yes, the other components of the Company's working capital allowance are required bank balances, materials and supplies inventories, and prepayments.

Q. What basis did the Company use for its proposed cash working capital?

A. The Company's proposed cash working capital is based on a lead-lag study.

Q. Please explain the concept of cash working capital.

A. A company's cash working capital requirement represents the amount of cash the company must have on hand to cover any differences in the time period between when revenues are received and expenses must be paid. The most accurate way to measure the cash working capital requirement is via a lead/lag study. The lead/lag study measures the actual lead and lag days attributable to the individual revenues and expenses.

Q. Did RUCO make any adjustments to the Company's lead/lag study?

A. Yes.

Q. Does RUCO agree with the Company's revenue lag days?

A. Yes.

Q. Does RUCO agree with the Company's expense lead / lag days?

A. RUCO agrees with all the expense lead / lag days with the exception of the interest expense lag days.

Q. What interest expense lag days did RUCO utilize?

A. RUCO utilized the standard industry lag days of 91.25 days, which assumes interest expense is paid semi-annually rather than the Company's 74.50 days.

Q. Does RUCO recommend any other adjustments to the Company's revenues and/or expenses?

A. Yes. RUCO recommends the exclusion of bad debt expense from the customer accounting expense. The Company's collection days within its revenue lag days has already accounted for the bad debt expense in the methodology used to calculate its overall revenue lag days.

Q. What is RUCO's rationale to support the exclusion of the bad debt expense?

A. First, bad debt expense may not have been collected, but it is a non-cash expense outlay just like depreciation expense. Therefore, both expenses should be removed from the lead / lag study. Second, the book titled "Accounting for Public Utilities" further supports RUCO's recommendation. See RUCO Attachment 4 for further supporting evidence.

Q. Did removing the bad debt expense from the lead / lag study increase or decrease the Company's request for cash working capital?

A. It increased the Company's cash working capital as did several other of RUCO's recommended adjustments.

Q. What adjustment to the Company's cash working capital does RUCO recommend utilizing RUCO's recommended level of expenses as Mr. Michlik recommends?

A. RUCO recommends adjustments to the Company's requested cash working capital as follows:

District	Amount
Mohave Water	($ 14,591)
Paradise Valley	($ 34,825)
Sun City	($ 37,140)
Tubac	($ 6,377)
Mohave Wastewater	($ 10,979)

Q. Please explain RUCO's recommendation to reduce the Company's regulatory asset balances.

A. In response to a Staff data request 12.2 revised, the Company indicated that upon a closer review that the following adjustments to the Company's regulatory assets need to be made in its rebuttal testimony as follows:

District	Amount
Mohave Water	($ 67,041.96)
Paradise Valley	($ 351,088.39)
Tubac	($ 55,412.07)

Q. Does this conclude your direct testimony?

A. Yes, it does.

RUCO ATTACHMENT

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BEFORE THE ARIZONA CORPORATION C...

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

Arizona Corporation Commission
DOCKETED
SEP -1 2010
DOCKETED BY ne

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, FOR AUTHORITY TO IMPLEMENT STEP ONE OF ITS ARSENIC COST RECOVERY MECHANISM FOR ITS TUBAC WATER DISTRICT	DOCKET NOS. WS-01303A-02-0867 WS-01303A-02-0869 WS-01303A-02-0870 W-01303A-05-0280 DECISION NO. **71867** ORDER

Open Meeting
August 24 and 25, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

A. Introduction

1. Pursuant to Decision Nos. 67093, 67593, 68310, 68825, and 71410, Arizona-American Water Company ("Company" or "AAW") filed an application on March 5, 2010, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-One of the Arsenic Cost Recovery Mechanism ("ACRM") for its Tubac Water District.

2. The monthly surcharge per customer was established to aid the Company in its efforts to comply with the Environmental Protection Agency's ("EPA") new arsenic maximum contaminant level ("MCL") of 10 particles per billion ("ppb") which went into effect on January 23, 2006.

...

Arizona-American Water Company
Tubac Water District
Docket No. W-01303A-02-0867 et al
12 Month Period Ending December, 2009
Revenue Requirement

Revised 8/18/10

Line No.		[A]	[B]	[C]
1	Arsenic Plant Revenue Requirement			
2	Gross Arsenic Plant in Service/Rate Base Step 1	$ 525,646		
3	Accumulated Depreciation of Arsenic Plant Step 1	-		
4	Net Arsenic Plant in Service/Rate Base Step 1	$ 525,646		
5	Depreciation rate on Step 1 arsenic plant[1]	3.92%		
6	Depreciation expense Step 1	20,630		
7	Depreciation expense net of tax savings[2]	14,453		
8	Recoverable O&M costs - Ongoing	-		
9	Recoverable O&M costs - Ongoing net of tax savings	-		
10	Arsenic Operating Income Step 1	$ (14,453)		
11	Rate of return	-2.75%		
12	Required Rate of Return[3]	7.330%		
13	Required Operating Income on Net Arsenic Plant in Service Step 1	38,530		
14	Operating Income Deficiency Step 1	52,983		
15	Gross revenue conversion factor[2]	1.4274		
16	Revenue Deficiency	$ 75,628		
17				
18				
19				
20				
21				
22			Proposed	
23		Current Base	ACRM Step 1	Total
24	Rates	Rates	Surcharge	Proposed
25	Minimum 5/8" Meter	$ 24.70	$ 3.56	$ 28.26
26	Commodity Rate 0 to 3,000 gallons	1.9000	0.4273	$ 2.33
27	Commodity Rate 3,001 to 10,000 gallons	3.0000	0.4273	$ 3.43
28	Commodity Rate 10,001 - 20,000 gallons	4.0000	0.4273	$ 4.43
29	Commodity Rate 20,001 gallons and over	6.0000	0.4273	$ 6.43
30				
31				
32				
33				
34				
35				

36 [1] This depreciation rate is derived from Step 1 workpaper "Step 1 Depr Rate" and reflects the depreciation expense of specific utility plant accounts using authorized depreciation rates for
37 those specific accounts, per Decision No. 71410
38 [2] 29.9409% tax rate, and gross-up factor per Decision No. 71410
39 [3] Per Decision No. 71410
40

RUCO ATTACHMENT

2

LINE NO.	G/L ACCT. NO.	DESCRIPTION	12/10/2004 UPIS BALANCE	12/10/2004 ACC.DEP BALANCE	Rate	12/9/2005 ADD	12/9/2005 G/L RET	12/9/2005 ADJ	12/9/2005 BALANCE	2005 DEPR EXPENSE	12/29/2006 ADD	12/29/2006 G/L RET	12/29/2006 ADJ	12/29/2006 BALANCE	2006 DEPR EXPENSE	12/31/2007 ADD	12/31/2007 G/L RET	12/31/2007 ADJ	12/31/2007 BALANCE	2007 DEPR EXPENSE	12/31/2007 ACC.DEP BALANCE
1		Intangible																			
2	301000	Organization	15,350	(477,338)	0.00%	-	-	-	15,350	-	-	-	-	15,350	-	-	-	-	15,350	-	(477,338)
3	302000	Franchises			0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4		Miscellaneous Intangibles		(589,424)	0.00%	-	-	-	-	-	8,390	-	-	8,390	-	2,130	-	-	10,520	-	(589,424)
5		Subtotal Intangible	15,350	(1,066,762)		-	-	-	15,350	-	8,390	-	-	23,740	-	2,130	-	-	25,870	-	(1,066,762)
6																					
7		Source of Supply																			
8	303200	Land & Land Rights			0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	304100	Structures & Improvements	7,953	13,190	1.22%	-	-	-	7,953	1,160	12,636,814	(6,984)	-	12,637,784	289,534	4,338,382	-	-	16,976,166	1,882,433	2,186,318
10	305000	Collecting & Impounding Reservoirs			0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	306000	Lakes, Rivers, Other Intakes			0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	307000	Wells and Springs	1,252,563	526,585	0.21%	-	-	-	1,252,563	31,249	-	-	30,684	1,283,247	62,001	152,883	-	-	1,436,130	32,140	651,976
13		Subtotal Source of Supply	1,260,516	539,775		-	-	-	1,260,516	32,410	12,636,814	(6,984)	30,684	13,921,031	351,536	4,491,264	-	-	18,412,295	1,914,574	2,838,294
14																					
15		Pumping																			
16	303300	Land & Land Rights			0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	304200	Structures & Improvements	69,131	(22,038)	0.33%	-	-	-	69,131	2,800	-	(69,131)	-	-	(66,373)	-	-	-	-	-	(85,611)
18	310000	Other Power Production			0.00%	1,632	-	-	1,632	-	418,265	-	-	419,897	3,132	134,734	-	-	554,631	18,932	22,064
19	311200	Electric Pumping Equipment	3,337,081	993,356	0.37%	147,829	-	-	3,484,910	149,647	533,932	(682,711)	71,604	3,407,735	(562,187)	192,479	(199)	-	3,600,015	148,915	729,731
20	311300	Diesel Pumping Equipment	59,421	18,735	0.37%	-	-	-	59,421	2,609	26,435	(85,719)	-	137	(83,812)	53	-	-	191	8	(62,460)
21	311500	Gas Engine Pumping Equipment			0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22		Subtotal Pumping	3,465,633	990,053		149,461	-	-	3,615,094	155,055	978,632	(837,560)	71,604	3,827,769	(709,239)	327,267	(199)	-	4,154,837	167,856	603,725
23																					
24		Water Treatment																			
25	303400	Land & Land Rights			0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	304300	Structures & Improvements	3,038,848	454,776	0.17%	-	-	-	3,038,848	60,822	-	(35,758)	-	3,003,090	25,019	-	-	-	3,003,090	60,062	600,679
27	320100	Water Treatment Equipment	5,825,149	2,867,630	0.59%	-	-	-	5,825,149	411,285	2,791,581	(21,682)	-	8,595,048	421,796	1,237,150	(795)	(5,249)	9,826,155	613,494	4,314,205
28		Subtotal Water Treatment	8,863,996	3,322,406		-	-	-	8,863,996	472,107	2,791,581	(57,440)	-	11,598,138	446,815	1,237,150	(795)	(5,249)	12,829,244	673,556	4,914,883
29																					
30		Transmission & Distribution																			
31	303500	Land & Land Rights	8,324.25		0.00%	-	-	-	8,324	0.00	-	-	-	8,324	0.00	-	-	-	8,324	0.00	0.00
32	304400	Structures & Improvements	23,864	806	0.13%	-	-	-	23,864	358	-	(100)	-	23,764	258	-	-	-	23,764	356	1,778
33	330000	Distribution Reservoirs & Standpipes	912,619	140,643	0.26%	-	-	-	912,619	28,747	1,011,606	-	-	1,924,225	38,533	269,135	(8,442)	(271)	2,184,647	52,573	260,497
34	332000	Fire Mains			0.00%	-	-	-	-	-	-	-	-	-	-	14,058	-	-	14,058	-	-
35	333000	Services	2,178,857	924,802	0.39%	145,598	(271)	-	2,324,184	105,460	150,668	-	-	2,474,852	113,608	267,515	(14,553)	(3,055)	2,724,758	104,283	1,248,153
36	334100	Meters	328,579	90,243	0.60%	17,430	(16,511)	-	329,498	7,467	7,014	(15,107)	-	321,406	8,195	36,806	(10,668)	3,326	350,870	16,753	122,657
37	334200	Meter Installation	103,799	7,074	0.13%	6,866	-	-	110,665	1,646	29,223	(217)	-	139,670	1,676	10,309	(1,675)	-	148,304	562	10,959
38	335000	Hydrants	746,904	362,444	0.18%	259,257	-	-	1,006,162	17,028	19,521	-	-	1,025,683	21,324	28,639	-	-	1,054,322	21,674	422,471
39	331001	TD Mains - Not Classified			0.00%	2,886,702	-	-	2,886,702	-	2,480,295	-	(2,981,428)	2,385,569	(2,981,428)	9,722	-	-	2,395,291	-	(2,981,428)
40	331100	TD Mains 4in & Less	706,252	488,966	0.35%	8,271	-	-	714,523	29,633	728	(610,233)	-	105,018	(580,425)	10,011	(70)	-	114,959	4,398	(57,428)
41	331200	TD Mains 6 in to 8in	3,974,977	2,012,781	0.21%	648,009	-	-	4,622,986	104,719	104,433	-	5,879	4,733,298	122,997	307,751	(1)	5,249	5,046,296	126,361	2,366,858
42	331300	TD Mains 10 in to 16 in	5,485,424	1,392,736	0.20%	9,217	-	-	5,494,641	128,484	11,811	-	2,975,550	8,482,002	3,135,546	776,025	######	-	9,132,418	74,370	4,731,137
43		Subtotal Transmission & Distribu.	14,469,600	5,420,495		3,981,350	(16,781)	-	18,434,168	423,543	3,815,299	(625,657)	-	21,623,810	(119,715)	1,729,971	######	5,249	23,198,012	401,331	6,125,653
44																					
45		General - Allocated Common Plant																			
46	303600	Land & Land Rights			0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
47	304500	Structures & Improvements	15,173	3,295	0.33%	-	-	-	15,173	617	-	(9,442)	-	5,731	(8,836)	-	-	-	5,731	229	(4,695)
48	304600	Structures & Improvements Offices			0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
49	304700	Structures & Improvements - Stores	93,285	63,784	0.33%	-	-	-	93,285	3,722	-	(90,249)	-	3,035	(86,527)	-	-	-	3,035	121	(18,900)
50	304800	Structures & Improvements - Misc.	149,284	14,179	0.33%	-	-	-	149,284	5,956	-	(149,284)	-	-	(143,328)	-	(8,633)	-	(8,633)	(8,633)	(131,825)
51	340100	Office Furniture and Equipment	43,931	19,546	0.34%	-	-	-	43,931	1,775	20,853	(1,821)	-	62,963	93	(106)	(4,045)	-	58,812	(1,505)	19,909
52	340200	Computer Equipment	98,019	114,016	1.32%	1,747	-	-	99,766	15,725	802	(93,975)	18,710	25,304	(62,038)	6,529	-	-	31,833	4,107	71,810
53	340300	Computer Software	134,174	171,171	3.14%	13,862	-	-	148,036	51,637	846	(134,174)	-	14,708	(90,972)	2	-	-	14,710	5,547	137,383
54	340500	Other Office Equipment	25,224	7,015	0.59%	-	-	-	25,224	1,803	-	(5,840)	(18,710)	674	(23,196)	-	-	-	674	48	(14,330)
55	341100	Transportation Equipment - Light Trucks	2,882	20,122	2.34%	5,219	-	-	8,101	1,234	-	(2,882)	(5,219)	-	(6,439)	-	-	-	-	-	14,917
56	341300	Transportation Equipment - Automobiles	19,307	16,087	0.65%	-	(19,307)	-	-	(17,801)	-	(19,307)	-	(19,307)	(20,582)	22,848	-	-	3,541	(1,357)	(23,634)
57	341400	Transportation Equipment - Other	13,606	1,857	0.08%	-	-	-	13,606	127	356	(3,466)	5,219	15,715	1,900	12,190	-	-	27,905	157	4,041
58	343000	Tools, Shop, & Garage Equipment	83,291	24,816	0.30%	1,319	-	-	84,610	3,011	14,703	(5,358)	-	93,954	(2,167)	13,419	-	-	107,373	3,876	29,536
59	344000	Laboratory Equipment			0.00%	-	-	-	-	-	16,552	-	-	16,552	-	1,068	-	-	17,620	-	-
60	345000	Power Operated Equipment	147,066	46,243	0.39%	-	-	-	147,066	6,825	-	(50,935)	-	96,131	(44,111)	-	-	-	96,131	4,460	13,417
61	346100	Communication Equipment	284,556	140,452	0.81%	-	-	-	284,556	27,773	75,930	(7,655)	-	352,831	21,282	44,971	(10,913)	-	386,888	26,786	216,293
62	346300	Miscellaneous Equipment	81,331	35,285	0.66%	-	-	-	81,331	6,433	-	(26,090)	3,600	58,841	(15,962)	-	-	-	58,841	4,654	30,411
63		Subtotal General	1,191,128	677,868		22,146	(19,307)	-	1,193,968	108,837	130,042	(600,478)	3,600	727,132	(480,862)	100,922	(23,591)	-	804,462	38,491	344,333
64		TOTAL	29,266,223	9,883,835		4,152,957	(36,089)	-	33,383,092	1,191,951	20,360,759	(2,128,119)	105,888	51,721,620	(511,467)	7,888,704	######	-	59,424,721	3,195,807	13,760,127

LINE NO.	G/L ACCT. NO.	DESCRIPTION	12/10/2004 UPIS BALANCE	12/9/2005 ADD	G/L RET	ADJ	BALANCE	12/29/2006 ADD	G/L RET	ADJ	BALANCE	12/31/2007 ADD	G/L RET	ADJ	BALANCE
1		Intangible													
2	301000	Organization	15,350	-	-	-	15,350	-	-	-	15,350	-	-	-	15,350
3	302000	Franchises		-	-	-	-	-	-	-	-	-	-	-	-
4		Miscellaneous Intangibles		-	-	-	-	8,390	-	-	8,390	2,130	-	-	10,520
5		Subtotal Intangible	15,350	-	-	-	15,350	8,390	-	-	23,740	2,130	-	-	25,870
6															
7		Source of Supply													
8	303200	Land & Land Rights		-	-	-	-	-	-	-	-	-	-	-	-
9	304100	Structures & Improvements	7,953	-	-	-	7,953	12,636,814	(6,984)	-	12,637,784	4,338,382	-	-	16,976,166
10	305000	Collecting & Impounding Reservoirs		-	-	-	-	-	-	-	-	-	-	-	-
11	306000	Lakes, Rivers, Other Intakes		-	-	-	-	-	-	-	-	-	-	-	-
12	307000	Wells and Springs	1,252,563	-	-	-	1,252,563	-	-	30,684	1,283,247	152,883	-	-	1,436,130
13		Subtotal Source of Supply	1,260,516	-	-	-	1,260,516	12,636,814	(6,984)	30,684	13,921,031	4,491,264	-	-	18,412,295
14															
15		Pumping													
16	303300	Land & Land Rights		-	-	-	-	-	-	-	-	-	-	-	-
17	304200	Structures & Improvements	69,131	-	-	-	69,131	-	(69,131)	-	-	-	-	-	-
18	310000	Other Power Production		1,632	-	-	1,632	418,265	-	-	419,897	134,734	-	-	554,631
19	311200	Electric Pumping Equipment	3,337,081	147,829	-	-	3,484,910	533,932	(682,711)	71,604	3,407,735	192,479	(199)	-	3,600,015
20	311300	Diesel Pumping Equipment	59,421	-	-	-	59,421	26,435	(85,719)	-	137	53	-	-	191
21	311500	Gas Engine Pumping Equipment		-	-	-	-	-	-	-	-	-	-	-	-
22		Subtotal Pumping	3,465,633	149,461	-	-	3,615,094	978,632	(837,560)	71,604	3,827,769	327,267	(199)	-	4,154,837
23															
24		Water Treatment													
25	303400	Land & Land Rights		-	-	-	-	-	-	-	-	-	-	-	-
26	304300	Structures & Improvements	3,038,848	-	-	-	3,038,848	-	(35,758)	-	3,003,090	-	-	-	3,003,090
27	320100	Water Treatment Equipment	5,825,149	-	-	-	5,825,149	2,791,581	(21,682)	-	8,595,048	1,237,150	(795)	(5,249)	9,826,155
28		Subtotal Water Treatment	8,863,996	-	-	-	8,863,996	2,791,581	(57,440)	-	11,598,138	1,237,150	(795)	(5,249)	12,829,244
29															
30		Transmission & Distribution													
31	303500	Land & Land Rights	8,324.25	-	-	-	8,324	-	-	-	8,324	-	-	-	8,324
32	304400	Structures & Improvements	23,864	-	-	-	23,864	-	(100)	-	23,764	-	-	-	23,764
33	309000	Supply Mains										14,058	-	-	14,058
34	330000	Distribution Reservoirs & Standpipes	912,619	-	-	-	912,619	1,011,606	-	-	1,924,225	269,135	(8,442)	(271)	2,184,647
35	331001	TD Mains - Not Classified		2,886,702	-	-	2,886,702	2,480,295	-	(2,981,428)	2,385,569	9,722	-	-	2,395,291
36	331100	TD Mains 4in & Less	706,252	8,271	-	-	714,523	728	(610,233)	-	105,018	10,011	(70)	-	114,959
37	331200	TD Mains 6 in to 8in	3,974,977	648,009	-	-	4,622,986	104,433	-	5,879	4,733,298	307,751	(1)	5,249	5,046,296
38	331300	TD Mains 10 in to 16 in	5,485,424	9,217	-	-	5,494,641	11,811	-	2,975,550	8,482,002	776,025	(125,608)	-	9,132,418
39	332000	Fire Mains		-	-	-	-	-	-	-	-	14,058	-	-	14,058
40	333000	Services	2,178,857	145,598	(271)	-	2,324,184	150,668	-	-	2,474,852	267,515	(14,553)	(3,055)	2,724,758
41	334100	Meters	328,579	17,430	(16,511)	-	329,498	7,014	(15,107)	-	321,406	36,806	(10,668)	3,326	350,870
42	334200	Meter Installation	103,799	6,866	-	-	110,665	29,223	(217)	-	139,670	10,309	(1,675)	-	148,304
43	335000	Hydrants	746,904	259,257	-	-	1,006,162	19,521	-	-	1,025,683	28,639	-	-	1,054,322
44		Subtotal Transmission & Distribu.	14,469,600	3,981,350	(16,781)	-	18,434,168	3,815,299	(625,657)	(0)	21,623,810	1,744,029	(161,017)	5,249	23,212,070
45															
46		General - Allocated Common Plant													
47	303600	Land & Land Rights		-	-	-	-	-	-	-	-	-	-	-	-
48	304500	Structures & Improvements	15,173	-	-	-	15,173	-	(9,442)	-	5,731	-	-	-	5,731
49	304600	Structures & Improvements Offices		-	-	-	-	-	-	-	-	-	-	-	-
50	304700	Structures & Improvements - Stores	93,285	-	-	-	93,285	-	(90,249)	-	3,035	-	-	-	3,035
51	304800	Structures & Improvements - Misc.	149,284	-	-	-	149,284	-	(149,284)	-	-	-	(8,633)	-	(8,633)
52	340100	Office Furniture and Equipment	43,931	-	-	-	43,931	20,853	(1,821)	-	62,963	(106)	(4,045)	-	58,812
53	340200	Computer Equipment	98,019	1,747	-	-	99,766	802	(93,975)	18,710	25,304	6,529	-	-	31,833
54	340300	Computer Software	134,174	13,862	-	-	148,036	846	(134,174)	-	14,708	2	-	-	14,710
55	340500	Other Office Equipment	25,224	-	-	-	25,224	-	(5,840)	(18,710)	674	-	-	-	674
56	341100	Transportation Equipment - Light Trucks	2,882	5,219	-	-	8,101	-	(2,882)	(5,219)	-	-	-	-	-
57	341300	Transportation Equipment - Automobiles	19,307	-	(19,307)	-	-	-	(19,307)	-	(19,307)	22,848	-	-	3,541
58	341400	Transportation Equipment - Other	13,606	-	-	-	13,606	356	(3,466)	5,219	15,715	12,190	-	-	27,905
59	343000	Tools, Shop, & Garage Equipment	83,291	1,319	-	-	84,610	14,703	(5,358)	-	93,954	13,419	-	-	107,373
60	344000	Laboratory Equipment		-	-	-	-	16,552	-	-	16,552	1,068	-	-	17,620
61	345000	Power Operated Equipment	147,066	-	-	-	147,066	-	(50,935)	-	96,131	-	-	-	96,131
62	346100	Communication Equipment	284,556	-	-	-	284,556	75,930	(7,655)	-	352,831	44,971	(10,913)	-	386,888
63	346300	Miscellaneous Equipment	81,331	-	-	-	81,331	-	(26,090)	3,600	58,841	-	-	-	58,841
64		Subtotal General	1,191,128	22,146	(19,307)	-	1,193,968	130,042	(600,478)	3,600	727,132	100,922	(23,591)	-	804,462
64		TOTAL	29,266,223	4,152,957	(36,089)	-	33,383,092	20,360,759	(2,128,119)	105,888	51,721,620	7,902,762	(185,602)	-	59,438,780

RUCO ATTACHMENT

3

EUSA Trial Balance by BU (Rate)
EPCOR USA
Current Period: JUN-13
Currency: USD

		TO BE ALLOCATED TO BUs		
Account	Description	BU 7A		FINAL BU 7A
----	------------------------------	AZ Corporate	ADJUSTMENTS	AZ Corporate TO BE ALLOCATED
1009	US O/S Cheques			0.00
1021	General Account			0.00
1030	Petty Cash	0.00		0.00
1041	Trust Accounts	0.00		0.00
1102	Allowance for Doubtful Accounts	-176,318.20		-176,318.20
1110	Accrued Revenues	0.00		0.00
1121	Miscellaneous Receivable	91,666.45		91,666.45
1142	Regulatory Deferral	4,802,042.99	-4802042.99	0.00
1150	GST-Full ITD			0.00
1151	HST/GST-Partial ITC (CUS)			0.00
1173	Due to/from SOB	0.00		0.00
1201	CUS Accounts Rec.	8,313,153.57		8,313,153.57
1211	Cash Clearing	-253,431.87		-253,431.87
1212	Charge Back Cheques	11,079.03		11,079.03
1300	Intracompany Rec/Pay	248,576,807.19		248,576,807.19
1301	Intercompany Receivables	563,801,393.50		563,801,393.50
1302	Intercompany Payables	-498,417,408.08		-498,417,408.08
1410	General Stock	0.00		0.00
1411	Inventory Contra Account	0.00		0.00
1425	Chemicals	0.00		0.00
1510	Prepaid Insurance			0.00
1540	Other Prepaids	251,977.25		251,977.25
1568	Software Intangibles	21,439.34		21,439.34
1569	Software Intangibles-Accum Amort	-571,917.82		-571,917.82

RUCO ATTACHMENT

4

billed. In those cases, revenues must have the sales tax added before the comparison of receivables to revenues is made. Any other differences in what is included either in revenues or receivables should be considered before making the calculation.

When the comparison of average daily revenues to average daily receivables is used to calculate the collection lag, the effects of budget billing or similar plans are already considered in the calculated answer. If the budget billing customer has paid more than the value of service received the resulting credit is reflected in the daily receivable balance. If the customer has paid less than the value of service received, the larger receivable balance is included. The effects of budget billing are therefore incorporated into the collection lag when the average revenue to average receivable comparison is made.

Using this procedure for calculating the collection lag also eliminates the need for any special treatment of bad debts. The receivable balance is included until it is written off. When the bad debt expense item is considered, the average time frame is measured from when a provision for bad debts is charged to expense until it is used to reduce the receivable balance. This calculation is most easily made by dividing the average day's expense provision for bad debts into the average balance in the reserve for bad debts.

Figure 5-1 is an example of an exhibit filed in a rate proceeding to show the calculation of a lead time from the rendering of service to receipt of revenues. In the case presented, it should be noted that adding the service period, the reading to billing, and collection lags produces a revenue lag of 42.3 days.

More detailed analyses of revenue lags by classes of customers can be made if the receivable balances and revenue amounts can be segregated. Normally, this has not been the case, however, because few companies have segregated their receivable balances by customer classes. As a result, a total company calculation of cash working capital is completed and an allocation to

[b] Expense Lag

[i] Operating and Maintenance Lag

After determining the lead time from rendering service to receipt of revenues, determining the lag time in payment of expenses is the next step. Figure 5-2 presents an example of the kind of exhibit that might be presented to show the lag time from when services are rendered and expenses incurred until payments are made. For an electric company, the major expense item is fuel cost. Typically, this would be the first item in the exhibit. In measuring lag time in payment of the fuel expense, fuel costs would generally be segregated by type—coal, natural gas, oil, or nuclear. Added together, these items produce the total electric fuel expense. A typical fuel expense lag calculation is presented in Figure 5-3. In measuring lag time for each of these types of fuel, individual analyses of the purchases from each of the suppliers of the various types of fuel must be prepared. Because fuel cost is such a large percentage of total operating expenses and generally a limited number of suppliers of each type of fuel exist, all fuel invoices (for the year) generally are reviewed when measuring the appropriate lag from the time that the fuel was received and charged to inventory or burned until the time it was paid for. By weighting each of the suppliers for a particular

Figure 5-1
Calculation of Number of Days
from Service to Collection

Line No.	Description	Number of Days
	Total Company	
1	Service period to date meter is read (365 ÷ 12 = 30.4 ÷ 2)	15.2
2	Reading date to date billing is prepared	5.0
3	Billing date to date collection is received	22.1
4	Total	42.3

The second time frame to be considered is from the meter reading date until the time the bill is prepared and rendered. This varies among utilities, but most companies have a specific schedule showing when meters are read and billings prepared. Those schedules are on file and maintained in an orderly fashion. Absent significant problems, such as delays in meter reading or billing due to strikes or computer down time, it is relatively simple to take the billings for 12 months (generally 20 to 22 cycles per month) and determine the average period from reading date to billing date. (See Line 2 of Figure 5-1.)

Determination of the third period to be measured—the time from the billing date to the date cash collections are received—is more complicated due to the large number of customer payment patterns that must be analyzed. Occasionally, statistical samples have been selected and individual analyses prepared of a large number of customers' bills for an entire historical year. However, these studies have provoked much discussion as to the validity of the samples, and they have consumed a significant amount of review and hearing time.

The easiest way to determine the average collection lag (billing to collection) is to use an overall system-wide basis. This can be done if the utility either produces a daily accounts receivable balance or has the information to produce such a number with a computer used to gather the data. In some cases, this can even be done manually. Once the average daily balance of accounts receivable is known, dividing the daily balance of accounts receivable by the average daily revenues produces the average number of days of revenue in the average receivable balance. This number is the average collection lag, typically in the 18- to 30-day range. Some practitioners are concerned that in a period of increasing rates, such a calculation over time may tend to slightly understate the collection lag, because the starting receivable balance is based on previous lower rates, and each time rates are increased, it takes time for the receivable balance to reflect the new rates properly. However, the effect is typically less than one tenth or one fifth of a day and therefore, in most cases, it has been ignored.

In the measurement process, the receivable balance and the average revenues must be presented on the same basis. Many states have a sales tax added to the revenues

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

IN THE MATTER OF THE APPLICATION OF EPCOR WATER ARIZONA, INC., 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 FOR UTILITY SERICES BY ITS MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WATER DISTRICT, TUBAC WATER DISTRICT, AND MOHAVE WASTEWATER DISTRICT.	DOCKET NO. WS-01303A-14-0010

DIRECT

TESTIMONY OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 20, 2015

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ATTACHMENTS

EXECUTIVE SUMMARY
EPCOR WATER ARIZONA, INC.
DOCKET NO. WS-01303A-14-0010

EPCOR Water Arizona Inc. ("EWAZ" or "Company") is an Arizona "C" Corporation.[1] EPCOR is a for profit, certificated Arizona public service corporation that provides water and wastewater utility service to various communities throughout the State of Arizona. On March 10, 2014, the Company filed an application for a permanent rate increase for its Mohave Water District, Paradise Valley Water District, Sun City Water District, Tubac Water District and Mohave Wastewater District. EWAZ's corporate business office is located at 2355 W. Pinnacle Peak Road, Suite 300 Phoenix, Arizona 85027.

The Company utilized a test year ended June 30, 2013.

The Company filed revised schedules for all of its districts on October 14, 2014.

The Company served the approximate number of customers in the following districts during the test year ended June 30, 2013:[2]

Mohave Water District – 16,067
Paradise Valley Water District – 4,862
Sun City Water District – 23,004
Tubac Water District – 596
Mohave Wastewater – 1,448

The Company's current rates were approved for each district in the following Commission Decisions:

Mohave Water District – Decision No. 73145, dated May 1, 2012 (Docket No. W-01303A-10-0448)
Paradise Valley Water District – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227)
Sun City Water District – Decision No. 72047, dated January 6, 2011 (Docket No. W-01303A-09-0343)
Tubac Water District – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227)
Mohave Wastewater – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227)

The Company filed revised rate schedules on October 14, 2014.

[1] On February 1, 2012, EPCOR Water (USA) Inc. acquired all of Arizona American Water Company's Districts in Arizona and in New Mexico.
[2] Based on the Company's H-2 Schedule.

Rate Application:

Mohave Water District

The Company-proposed rates, as filed, produce total operating revenue of $8,327,207, an increase of $1,972,914 or 31.05 percent, over adjusted test year revenue of $6,354,293. The Company-proposed revenue will provide operating income of $1,614,211 and a 6.87 percent rate of return on its proposed $23,496,514 fair value rate base ("FVRB") which is its original cost rate base ("OCRB").

The Residential Utility Consumer Office ("RUCO") recommends rates that produce total operating revenue of $6,725,901 an increase of $270,426 or 4.19 percent, from the RUCO-adjusted test year revenue of $6,455,475. RUCO's recommended revenue will provide operating income of $984,707 and a 6.09 percent return on the $16,169,248 RUCO-adjusted FVRB and OCRB.

Paradise Valley Water District

The Company-proposed rates, as filed, produce total operating revenue of $10,489,588, an increase of $841,337 or 8.72 percent, over adjusted test year revenue of $9,648,251. The Company-proposed revenue will provide operating income of $2,705,436 and a 6.87 percent rate of return on its proposed $39,380,442 FVRB which is its OCRB.

RUCO recommends rates that produce total operating revenue of $9,166,851 a decrease of $630,585 or negative 6.44 percent, from the RUCO-adjusted test year revenue of $9,797,436. RUCO's recommended revenue will provide operating income of $2,161,740 and a 6.09 percent return on the $35,496,554 RUCO-adjusted FVRB and OCRB.

Sun City Water District

The Company-proposed rates, as filed, produce total operating revenue of $11,871,945, an increase of $1,606,392 or 15.65 percent, over adjusted test year revenue of $10,265,553. The Company-proposed revenue will provide operating income of $1,814,318 and a 6.87 percent rate of return on its proposed $26,409,285 FVRB which is its OCRB.

RUCO recommends rates that produce total operating revenue of $10,495,284 a decrease of negative $3,514 or 0.03 percent, from the RUCO-adjusted test year revenue of $10,498,798. RUCO's recommended revenue will provide operating income of $1,385,109 and a 6.09 percent return on the $22,743,995 RUCO-adjusted FVRB and OCRB.

Tubac Water District

The Company-proposed rates, as filed, produce total operating revenue of $981,067, an increase of $401,874 or 69.38 percent, over adjusted test year revenue of $579,194. The Company-proposed revenue will provide operating income of $110,454 and a 6.87 percent rate of return on its proposed $1,607,775 FVRB which is its OCRB.

RUCO recommends rates that produce total operating revenue of $770,633 an increase of $233,244 or 43.40 percent, from the RUCO-adjusted test year revenue of $537,388. RUCO's recommended revenue will provide operating income of $89,885 and a 6.09 percent return on the $1,475,945 RUCO-adjusted FVRB and OCRB.

Mohave Wastewater District

The Company-proposed rates, as filed, produce total operating revenue of $1,509,477, an increase of $453,638 or 42.96 percent, over adjusted test year revenue of $1,055,839. The Company-proposed revenue will provide operating income of $364,459 and a 6.87 percent rate of return on its proposed $5,305,082 fair value rate base ("FVRB") which is its original cost rate base ("OCRB").

RUCO recommends rates that produce total operating revenue of $1,310,557 an increase of $254,718 or 24.12 percent, from the RUCO-adjusted test year revenue of $1,055,839. RUCO's recommended revenue will provide operating income of $273,730 and a 6.09 percent return on the $4,494,753 RUCO-adjusted FVRB and OCRB.

Declining Usage:

If the Commission is inclined to approve a declining usage adjustment, RUCO recommends the Company file an annual report by March 30th of each year in this docket showing the increase/decrease in water usage for each customer class and meter size using a calendar year starting with the 2014 information.

In addition, RUCO recommends that the Company should file a Plan of Administration to explain how customers will be refunded if there is an increase in customer usage in future years.

Other Items:

Power Cost Adjustment Mechanism ("PCAM"):

RUCO recommends denial of the PCAM. Based on not meeting adjustor mechanism criteria laid-out by the Commission.

Affordable Care Surcharge Mechanism ("RCSM"):

RUCO recommends denial of the RCSM. Based on lack of information provided by the Company.

Low Income Program:

RUCO recommends the establishment of a low income program.

RUCO also recommends that the Company file a plan of administration that addresses how the low income program will operate in this docket, and provide an example(s) how the Company intends to fund the low income program (e.g. through a high block usage surcharge).

Plant additions and Deletions:

RUCO recommends that EPCOR include in all future rate case applications (for all districts) plant schedules that include plant additions, retirements, and accumulated depreciation balances by year and by plant account number that reconcile to the prior Commission decision.

RUCO recommends EPCOR file an accounting action plan that will correct its lack of internal controls over its plant schedules and records, within 90 days of a decision in this docket.

I. INTRODUCTION

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

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the Arizona Residential Utility Consumer Office ("RUCO"). My business address is 1110 West Washington Street, Suite 220, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst V.

A. In my capacity as a Public Utilities Analyst V, I analyze and examine accounting, financial, statistical and other information and prepare reports based on my analyses that present RUCO's recommendations to the Arizona Corporation Commission ("Commission") on utility revenue requirements, rate design and other matters. I also provide expert testimony on these same issues.

Q. Please describe your educational background and professional experience.

A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business Administration Degree in Accounting and Finance, and I am a Certified Public Accountant with the Arizona State Board of Accountancy. I have attended the National Association of Regulatory Utility Commissioners' ("NARUC") Utility Rate School, which presents general regulatory and business issues. I have also attended various other NARUC sponsored events.

I joined RUCO as a Public Utilities Analyst V in September of 2013. Prior to my employment with RUCO, I worked for the Arizona Corporation Commission in the

Utilities Division as a Public Utilities Analyst for a little over seven years. Prior to employment with the Commission, I worked one year in public accounting as a Senior Auditor, and four years for the Arizona Office of the Auditor General as a Staff Auditor.

Q. What is the scope of your testimony in this case?

A. I am presenting RUCO's analysis and recommendations regarding the revenue requirement for EPCOR Water Arizona Inc.'s ("Company" or "EWAZ") application for a permanent rate increase for five of its districts. I am also presenting testimony and schedules addressing operating revenues and expenses, and rate design. Mr. Ralph Smith is addressing corporate expense allocations. Mr. Timothy Coley is addressing rate base. Mr. Frank Radigan is addressing post-test year plant, and Mr. Robert B. Mease is addressing cost of capital, and the System Improvement Benefit ("SIB") Mechanism.

Q. What necessitated RUCO's hiring of an engineer in this case?

A. For years RUCO has relied on Staff's engineering expertise in the areas of water testing, used and useful plant determination, and plant overcapacity issues in rate cases. However, in the Chaparral City Water Company case,[3] Staff's engineer made no used and useful determination of post-test year plant that was placed into service after the first 6 months of the test-year. In defense, Staff suggested RUCO could hire its own engineer. So RUCO took Staff's suggestion, and hired an

[3] Chaparral City Water Company is a sister company to EWAZ, and both companies are ultimately owned by EPCOR, Inc.

engineer in this case, in order to protect ratepayers. RUCO feels it is ***too important*** not to look at post-test year plant, and make used and useful and other engineering determinations on plant at any time; but especially in this case where the Company has filed rate cases for five of its districts. In this case the Company has asked for $15,318,135 in post-test year plant additions.

Q. What necessitated RUCO's hiring of a consultant to examine corporate allocation expenses in this case?

A. During the Chaparral case, RUCO uncovered invoices for Edmonton Oiler tickets, parties, and other corporate events that EPCOR was trying to pass down to ratepayers through its corporate allocations. RUCO deemed it necessary to hire a consultant to take a closer look at the corporate allocations that the Company was trying to pass down to ratepayers. Further it has always been the water industries contention that these shared service models provide ratepayers better service at a reduced cost than on a stand-alone basis.

Q. What is the basis of your testimony in this case?

A. I performed a regulatory audit of the Company's application and records. The regulatory audit consisted of examining and testing financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USOA").

Q. How is your testimony organized?

A. My testimony is presented in six sections. Section I is this introduction. Section II provides a background of the Company. Section III is a summary of the Company's filing and RUCO's rate base and operating income adjustments. Section IV presents RUCO's rate base recommendations. Section V presents RUCO's operating income recommendations. Section VI presents RUCO's recommendations on other issues identified during our review.

II. BACKGROUND

Q. Please review the background of this application.

A. EPCOR Water Arizona Inc. ("EWAZ" or "Company") is an Arizona "C" Corporation.[4] EPCOR is a for profit, certificated Arizona public service corporation that provides water and wastewater utility service to various communities throughout the State of Arizona. On March 10, 2014, the Company filed an application for a permanent rate increase for its Mohave Water District, Paradise Valley Water District, Sun City Water District, Tubac Water District and Mohave Wastewater District. EWAZ's corporate business office is located at 2355 W. Pinnacle Peak Road, Suite 300 Phoenix, Arizona 85027.

The Company utilized a test year ended June 30, 2013.

The Company filed revised schedules for all of its districts on October 14, 2014.

[4] On February 1, 2012, EPCOR Water (USA) Inc. ("EWUS") acquired all of Arizona American Water Company's District in Arizona and in New Mexico.

The Company served the approximate number of customers in the following districts during the test year ended June 30, 2013:[5]

Mohave Water District – 16,067

Paradise Valley Water District – 4,862

Sun City Water District – 23,004

Tubac Water District – 596

Mohave Wastewater – 1,448

The Company's current rates were approved for each district in the following Commission Decisions:

Mohave Water District – Decision No. 73145, dated May 1, 2012 (Docket No. W-01303A-10-0448)

Paradise Valley Water District – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227)

Sun City Water District – Decision No. 72047, dated January 6, 2011 (Docket No. W-01303A-09-0343)

Tubac Water District – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227)

Mohave Wastewater – Decision No. 71410, dated December 8, 2009 (Docket No. SW-01303A-08-0227)

[5] Based on the Company's H-2 Schedule.

Q. Please explain the relationship between EPCOR Utilities, the City of Edmonton, and EPCOR Water Arizona, Inc.?

A. Based on the Company's organizational chart (shown in attachment A to my testimony) the City of Edmonton is EPCOR Utilities, Inc.'s sole shareholder. Going down the organizational chart, we find that EPCOR Water Services, Inc. is under the City of Edmonton; EPCOR Water Development (West), Inc. is under EPCOR Water Services, Inc.; EPCOR Water (USA), Inc. is under EPCOR Water Development (West), Inc.; EPCOR Water (Arizona), Inc. is under EPCOR Water (USA); and finally, underneath all these layers are the individual districts (Agua Fria, Anthem, Havasu, Mohave, Paradise Valley, Sun City and Sun City West) which are under EPCOR Water (Arizona), Inc.

Q. Please explain in more detail the City of Edmonton's relationship and history with EPCOR Utilities, Inc.?

A. In 1996, the City of Edmonton transferred its assets to EPCOR an incorporated private for profit organization that is owned by the city. EPCOR operates under an independent board of directors and has the power to restructure, purchase and divest in utilities. In 2009, the EPCOR board of directors exercised this authority in its decision to spin off its power generating operations Capital Power Corporation (see attachment B). After litigation brought forth by the Alberta Federation of Labour, which attempted to block the Initial Public Offering ("IPO") of Capital Power on the Canadian market failed (see attachment C), the IPO went forward, and EPCOR decided to invest in less risky water/wastewater and wire companies, and subsequently acquired the Arizona water and wastewater districts from Arizona-American water (see attachment D).

Q. Does the City of Edmonton as the Company' sole shareholder receive dividends from EPCOR?

A. Yes. As illustrated in attachment E, the City of Edmonton receives both EPCOR dividends and franchise fees, in 2012 the actual amounts were $141.021 mil and $66.924 mil respectively.

Q. Of the total amount of EPCOR dividends that the City of Edmonton receives, how much was received from EPCOR Water (Arizona), Inc.?

A. I cannot say with certainty how much is passed on from EPCOR Utilities, Inc. to the City of Edmonton, as EPCOR Utilities, Inc., may withhold a portion or all of the dividends it receives from EPCOR Water (Arizona), Inc. However, the Company did state in a response to RUCO data request 14.03 that since the Company took over operations from Arizona American Water Company in February 2012, the following dividend payments have been made:

December 2012	$ 10,378,122
March 2014	3,691,533
June 2014	9,892,890
Total	$ 23,962,545

Further, EPCOR Water (Arizona), Inc. stated it targets 75 percent of their net income from dividends to its parent Company.

Q. How does this benefit the citizens of Edmonton?

A. Assuming even a portion of the dividends from Arizona flow to the City of Edmonton's operating budget, the City may not have to raise property taxes. In fact, one report stated that "Between 1996 and 2008 the utility paid the City of Edmonton, EPCOR's sole shareholder, more than $1.8 billion in dividends, franchise fees and taxes. The dividend increased for nine consecutive years and reached an all-time high of $134 million in 2009, a figure that constituted approximately eight per cent of the city's overall budget and by some estimates kept property taxes 25 per cent below where they would otherwise have to be. EPCOR was a cash cow, and it was keeping the City of Edmonton well fed." (see attachment F).

Q. So what is the effect of the Commission passing adjustor mechanisms, and surcharges such as the System Improvement Benefit surcharge?

A. One can certainly make the argument that it accelerates the benefits the citizens of the City of Edmonton realize at the expense of ratepayers here in Arizona.

III. SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS.

Q. Please summarize the Company's proposals in this filing.

A. Based on the Company's revised schedules filed on October 14, 2014, the Company has proposed the following for its districts:

Mohave Water District

The Company-proposed rates, as filed, produce total operating revenue of $8,327,207, an increase of $1,972,914 or 31.05 percent, over adjusted test year revenue of $6,354,293. The Company-proposed revenue will provide operating income of $1,614,211 and a 6.87 percent rate of return on its proposed $23,496,514 fair value rate base ("FVRB") which is its original cost rate base ("OCRB").

Paradise Valley Water District

The Company-proposed rates, as filed, produce total operating revenue of $10,489,588, an increase of $841,337 or 8.72 percent, over adjusted test year revenue of $9,648,251. The Company-proposed revenue will provide operating income of $2,705,436 and a 6.87 percent rate of return on its proposed $39,380,442 FVRB which is its OCRB.

Sun City Water District

The Company-proposed rates, as filed, produce total operating revenue of $11,871,945, an increase of $1,606,392 or 15.65 percent, over adjusted test year revenue of $10,265,553. The Company-proposed revenue will provide operating income of $1,814,318 and a 6.87 percent rate of return on its proposed $26,409,285 fair value rate base FVRB which is its OCRB.

Tubac Water District

The Company-proposed rates, as filed, produce total operating revenue of $981,067, an increase of $401,874 or 69.38 percent, over adjusted test year revenue of $579,194. The Company-proposed revenue will provide operating income of $110,454 and a 6.87 percent rate of return on its proposed $1,607,775 FVRB which is its OCRB.

Mohave Wastewater District

The Company-proposed rates, as filed, produce total operating revenue of $1,509,477, an increase of $453,638 or 42.96 percent, over adjusted test year revenue of $1,055,839. The Company-proposed revenue will provide operating income of $364,459 and a 6.87 percent rate of return on its proposed $5,305,082 FVRB which is its OCRB.

Q. Please summarize RUCO's recommendations.

A. RUCO recommends the following for each of the Company's districts:

Mohave Water District

The Residential Utility Consumer Office ("RUCO") recommends rates that produce total operating revenue of $6,725,901 an increase of $270,426 or 4.19 percent, from the RUCO-adjusted test year revenue of $6,455,475. RUCO's recommended revenue will provide operating income of $984,707 and a 6.09 percent return on the $16,169,248 RUCO-adjusted FVRB and OCRB.

Paradise Valley Water District

RUCO recommends rates that produce total operating revenue of $9,166,851 a decrease of $630,585 or negative 6.44 percent, from the RUCO-adjusted test year revenue of $9,797,436. RUCO's recommended revenue will provide operating income of $2,161,740 and a 6.09 percent return on the $35,496,554 RUCO-adjusted FVRB and OCRB.

Sun City Water District

RUCO recommends rates that produce total operating revenue of $10,495,284 a decrease of negative $3,514 or 0.03 percent, from the RUCO-adjusted test year revenue of $10,498,798. RUCO's recommended revenue will provide operating income of $1,385,109 and a 6.09 percent return on the $22,743,995 RUCO-adjusted FVRB and OCRB.

Tubac Water District

RUCO recommends rates that produce total operating revenue of $770,633 an increase of $233,244 or 43.40 percent, from the RUCO-adjusted test year revenue of $537,388. RUCO's recommended revenue will provide operating income of $161,347 and a 6.09 percent return on the $1,475,945 RUCO-adjusted FVRB and OCRB.

Mohave Wastewater District

RUCO recommends rates that produce total operating revenue of $1,310,557 an increase of $254,718 or 24.12 percent, from the RUCO-adjusted test year revenue of $1,055,839. RUCO's recommended revenue will provide operating income of $273,730 and a 6.09 percent return on the $4,494,753 RUCO-adjusted FVRB and OCRB.

Q. What test year did the Company use in this filing?

A. The Company's rate filing is based on the twelve months ended June 30, 2013 ("test year").

Q. Please summarize RUCO's rate base adjustments.

A. The eleven rate base adjustment(s) are presented below along with the individual sponsoring the testimony:

Direct Utility Plant in Service – These adjustments apply to the Sun City water district, Paradise Valley water district, and Tubac water district. These adjustments increase direct plant by $247,990 for the Sun City water district; by $15,161 for the Paradise Valley water district; and decrease direct plant by $249,315 for the Tubac water district. See the direct testimony of Tim Coley.

Direct Utility Plant Accumulated Depreciation – These adjustments apply to all districts. These adjustments decrease direct utility plant accumulated depreciation by $545,562 for the Mohave water district; by $2,038,336 for the Sun City water district; by $276,778 for the Tubac water district; and increase accumulated depreciation by $1,018,116 for the Paradise Valley water district; and by $413,165 for the Mohave wastewater district. See the direct testimony of Tim Coley.

AZ Corporate Plant Adjustments – Not Used

AZ Corporate Plant Accumulated Depreciation Adjustments – These adjustments apply to all districts. These adjustments decrease AZ Corporate Plant Accumulated Depreciation by $376,174 for the Mohave water district; by $3,791 for the Paradise Valley water district; by $18,075 for the Sun City water district; by $469 for the Tubac water district; and by $1,109 for the Mohave wastewater district. See the direct testimony of Tim Coley.

Post-Test Year Plant Adjustments – These adjustments apply to all districts. These adjustments decrease post-test year plant net of accumulated depreciation by $6,026,224 for the Mohave water district; by $1,601,236 for the Paradise Valley water district; by $2,128,789 for the Sun City water district; by $21,365 for the Tubac water district; and by $99,345 for the Mohave wastewater district. See the direct testimony of Frank Radigan.

Regulatory Liability – Over Collection of Depreciation Expense Direct Plant – These adjustments apply to all districts, except the Mohave wastewater district. These adjustments create a regulatory liability net of amortization expense and decrease rate base by $658,725 for the Mohave water district; by $318,463 for the Paradise Valley water district; by $2,218,405 for the Sun City water district; and by $42,651 for the Tubac water district. See the direct testimony of Tim Coley.

Regulatory Liability – Over Collection of Depreciation Expense Corporate Plant – These adjustments apply to all districts. These adjustments create a regulatory liability net of amortization expense and decrease rate base by $353,366 for the Mohave water district; by $107,883 for the Paradise Valley water district; by $514,314 for the Sun City water district; by $13,338 for the Tubac water district; and by $31,559 for the Mohave wastewater district. See the direct testimony of Tim Coley.

Reverse Unexpended Contributions in Aid of Construction ("CIAC") Adjustment – These adjustments apply to all districts and reverse the Company's adjustment to unexpended CIAC and reduce rate base by $69,169 for the Mohave water district; by $43,632 for the Paradise Valley water district; by $845,933 for the Sun City water district; by $74,010 for the Tubac water district; and by $227,674 for the Mohave wastewater district. See the direct testimony of Tim Coley.

Reverse 24 Month Deferral of Allowance for Funds Used During Construction ("AFUDC") – These adjustments apply to all districts and reverse the Company's 24 months deferral of AFUDC and reduce rate base by $806,861 for the Mohave water district; by $427,597 for the Paradise Valley water district; by $225,112 for the Sun City water district; by $27,978 for the Tubac water district; and by $28,717 for the Mohave wastewater district. See the direct testimony of Tim Coley.

Cash Working Capital - These adjustments apply to the cash working capital component of the Company's working capital allowance for all of its districts, and decreases cash working capital by $14,591 for the Mohave water district; by $34,825 for the Paradise Valley water district; by $37,140 for the Sun City water district; by $6,377 for the Tubac water district; and by $10,979 for the Mohave wastewater district. See the direct testimony of Tim Coley.

<u>Regulatory Asset Adjustments</u> - These adjustments remove regulatory assets that the Company has included in its rate application without Commission approval and relate to Mohave water district, the Paradise valley water district, and the Tubac water district, and decrease rate base by $67,042 for the Mohave water district; and by $351,088 for the Paradise Valley water district; and increase rate base net of amortization by $25,958 for the Tubac water district. See the direct testimony of Tim Coley.

Q. Please summarize RUCO's operating revenue and expense adjustments.

A. The eleven operating adjustment(s) are presented below, my testimony addresses the following adjustments, unless otherwise noted:

<u>Annualizations</u> – These adjustments relates to all the districts except the Mohave wastewater district. These adjustments decrease operating net income (revenue from annualizations less expenses from annualizations) for the Mohave water district by $11,032, and increase operating net income for the Paradise Valley water district by $71,230, Sun City water district by $81,322, and for Tubac water district by $2,281.

<u>Reversal of Declining Usage Adjustment</u> – These adjustments apply to all districts except the Mohave wastewater district, and reverse the effects of the Company's declining usage adjustment, and increase operating net income (metered water sales less purchased water, fuel and power, and chemicals) for the Mohave water

district by $114,427, for the Paradise Valley water district by $43,787, Sun City water district by $102,693, Tubac water district by $19,607.

Purchased Water Expense – These adjustments relate to the Sun City water district and Paradise Valley water district. These adjustments were necessary to bring the Company into compliance with Commission Decision Nos. 71841 and 72046, and increase purchased water expense by $138,082 for Paradise Valley water district, and $549,527 for Sun City water district.

Remove Projected Power Costs – These adjustments relate to all districts and remove the Company's pro-forma adjustments related to an Arizona Public Service Company Study that estimated an increase in 2014 of 3.56 percent, which is not known and measureable, and decrease project power costs for the Mohave water district by $128, for the Paradise Valley water district by $41,231, Sun City water district by $53,302, Tubac water district by $13, and Mohave wastewater district by $22.

Remove ACRM Surcharge and Deferred O&M Charges –This adjustment only applies to the Tubac water district, and removes the ACRM surcharge of $68,193 and also removes chemical expenses related to deferred ACRM O&M charges of $50,856.

Corporate Allocation Expense – These adjustments reduces corporate allocation expenses based on RUCO's analysis. These adjustments decrease the corporate allocation expense for the Mohave water district by $134,211, for the Paradise Valley water district by $118,248, Sun City water district by $190,111, Tubac water district by $14,980, and Mohave wastewater district by $21,553. See the direct testimony of Ralph Smith.

Rate Case Expense – These adjustments relate to all districts, and reduce rate case expense based on RUCO's analysis. These adjustments decrease rate case expense for the Mohave water district by $29,720, for the Paradise Valley water district by $26,922, Sun City water district by $43,684, Tubac water district by $2,982, and Mohave wastewater district by $5,027.

Tank Maintenance Expense – This adjustment decreases maintenance expense by $185,851 to remove projected costs that are not known and measureable (in the Paradise Valley water district only).

Depreciation Expense – These adjustments decrease depreciation expense based on RUCO's recommended rate base adjustments, and other adjustments. These adjustments decrease the depreciation expense for the Mohave water district by $501,828, for the Paradise Valley water district by $277,730, Sun City water district by $1,015,921, Tubac water district by $90,770, and Mohave wastewater district by $24,120.

Property Tax Expense – These adjustments decrease property taxes to adjust property taxes to RUCO's adjusted test year amount. These adjustments decrease the property tax expense for the Mohave water district by $1,159, for the Paradise Valley water district by $2,503, Sun City water district by $153, Tubac water district by $2,821, and Mohave wastewater district by $1,209.

Income Tax Expense – These adjustments increase income taxes to adjust income taxes to RUCO's adjusted test year amount. These adjustments increase the income tax expense for the Mohave water district by $367,109, for the Paradise Valley water district by $275,720, Sun City water district by $394,111, Tubac water district by $55,788, and Mohave wastewater district by $28,236.

IV. RATE BASE

Fair Value Rate Base

Q. Did the Company prepare a schedule showing the elements of Reconstruction Cost New Rate Base?

A. No, the Company did not. The Company's filing treats the OCRB the same as the FVRB.

Rate Base Summary

Q. Please summarize RUCO's adjustments to the Company's rate base.

A. RUCO's adjustments to the Company's rate base resulted in a net decrease of $7,327,266, from $23,496,514 to $16,169,248 for the Mohave water district; a net decrease of $3,883,888 from $39,380,442 to $35,496,554 for the Paradise Valley water district; a net decrease of $3,665,291 from $26,409,286 to $22,743,995 for the Sun City water district; a net decrease of $131,831 from $1,607,775 to $1,475,945 for the Tubac water district; and a net decrease of $810,329 from $5,305,082 to $4,494,753 for the Mohave wastewater district. The decreases were primarily due to RUCO's adjustments: (1) to plant and accumulated depreciation, (2) to corporate plant and accumulated depreciation, (3) to post-test year plant and accumulated depreciation, (4) to over collection of depreciation expense for both direct and corporate plant, (5) to unexpended contributions in aide of construction, (6) to reverse the 24 months of allowance for funds used during construction, and (7) to cash working capital, as shown on RUCO schedules 3, and 4.

For the individual rate base adjustments, see the testimony of Timothy Coley, and for Post-Test Year adjustments see the testimony of Frank Radigan, which explain RUCO's adjustments to the Company's rate base.

V. OPERATING INCOME

Operating Income Summary

Q. What are the results of RUCO's analysis of test year revenues, expenses, and operating income?

A. RUCO's analysis resulted in adjusted test year operating revenues of $6,455,475, operating expenses of $5,635,878 and operating income of $819,596 for the Mohave Water District; adjusted test year operating revenues of $9,797,436, operating expenses of $7,250,012 and operating income of $2,547,424 for the Paradise Valley Water District; adjusted test year operating revenues of $10,498,798, operating expenses of $9,111,554 and operating income of $1,387,245 for the Sun City Water District; adjusted test year operating revenues of $537,388, operating expenses of $608,851 and negative operating income of $71,462 for the Tubac Water District; adjusted test year operating revenues of $1,055,839, operating expenses of $941,345 and operating income of $114,492 for the Mohave Wastewater District, as shown on RUCO schedules 16 and 17. RUCO made eleven adjustments to operating expenses, as presented in the table below.

RUCO Adjustments	Mohave Water District	Paradise Valley Water District	Sun City Water District	Tubac Water District	Mohave Wastewater District
Company Operating Income as Filed	$416,266	$2,193,723	$843,696	($131,793)	$90,799
Adjustment No. 1 Annualizations	(11,032)	71,230	81,322	2,281	N/A
Adjustment No. 2 Reverse Declining Usage	114,427	43,787	102,693	19,607	N/A
Adjustment No. 3 Include CAP Costs in Base Rates	N/A	(138,082)	(549,527)	N/A	N/A
Adjustment No. 4 Remove APS Estimated Power Costs	128	41,231	53,302	13	22
Adjustment No. 5 Remove ACRM Surcharge and Deferred O&M Costs	N/A	N/A	N/A	(17,337)	N/A
Adjustment No. 6 Corporate Allocation Expense	134,211	118,248	190,111	14,980	21,553
Adjustment No. 7 Rate Case Expense	29,720	26,922	43,684	2,982	5,027
Adjustment No. 8 Tank Maintenance Expense	N/A	185,851	N/A	N/A	N/A
Adjustment No. 9 Depreciation Expense	501,828	277,730	1,015,921	90,770	24,120
Adjustment No. 10 Property Tax Expense	1,159	2,503	153	2,821	1,209
Adjustment No. 11 Income Tax Expense	(367,109)	(275,720)	(394,111)	(55,788)	(28,236)
Total Operating Adjustments 1 - 11	$403,332	$353,700	$543,548	$60,329	$23,695
RUCO Adjusted Operating Income (Rounded)	$819,596	$2,547,424	$1,387,245	($71,462)	$114,492

Operating Income Adjustment No. 1 – Customer Annualizations (all districts except Mohave wastewater)

Q. Has the Company proposed an adjustment to account for additional customers that come onto the system in the test-year?

A. Yes.

Q. What do the Company's H-1 schedules indicate concerning customer annualizations?

A. The Company states on its H-1 schedules in the title "With Annualized Revenues to Year End Number of Customers".

Q. Is this true?

A. No, the Company used the average number of customers not the year end customer count. The Company used the average number of customers during the year which works to their advantage by reducing revenues generated from the customer annualizations.

Q. How was this uncovered?

A. Unlike the previous cases (e.g. Arizona-American Water and the more recent Chaparral City Water case), the Company hired a consultant Mr. Bourassa to develop their billing determinates and ultimately their rate design in this case.

Q. To your knowledge has Mr. Bourassa used the average customers during the year and not the end of year customers to calculate his annualizations?

A. Not to my knowledge, and RUCO even asked this question to the Company. The Company responded by stating that "Mr. Bourassa has not used an average customer test year annualization in the past."

Q. Putting aside the annualization methodology issue, does RUCO agree with the way the Company adjusted expenses to account for the additional customers that have come onto the system?

A. Yes and No. The Company states "for each district, Purchased Water, Fuel & Power, and Chemicals expenses were adjusted based on the change in sales volumes per customer bill, whereas Postage and Customer Accounting expenses were updated based on the change in the number of customer bills".

RUCO agrees on the cost drivers, however the Company used the change in sales volume per customer bill, as their cost drivers for postage and customer accounting expenses instead of the change in customer bills.

Q. What is RUCO's recommendation?

A. RUCO recommends the use of the end of year customer annualization methodology, which the Company's consultant Mr. Bourassa has used in the past. RUCO's recommendation (revenue from annualizations less purchased water, fuel & power, chemicals, postage, and customer accounting expenses), results in a net operating decrease for the Mohave water district of $11,032; and a net operating increase for the Paradise Valley water district of $71,230, a net increase for the Sun City water district of $81,322, and a net increase for the Tubac water district of $2,281, as shown in RUCO schedule 18.

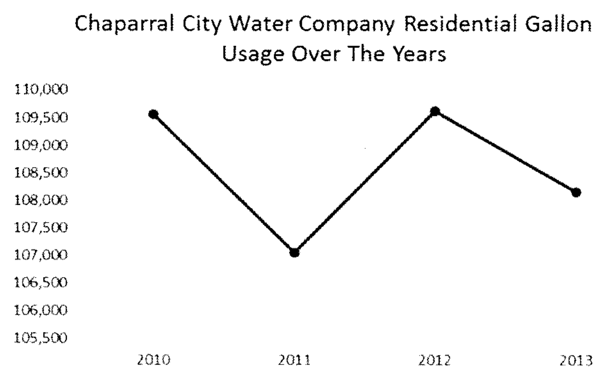
Operating Income Adjustment No. 2 – Reversal of Declining Usage Adjustment (all districts except Mohave wastewater)

Q. Has the Company proposed a pro-forma declining usage adjustment?

A. Yes. The Company has again changed methodologies in its calculation of the declining usage from the Chaparral City Water case to this case.

Q. What was the methodology used in the Chaparral City Water Case?

A. The main driver was residential customer usage. No other customer classes were used. In that case, as presented in the graph below, the Commission determined that there was declining usage.



Q. What is the new declining methodology that is being proposed in this case by the Company's consultant Mr. Bourassa?

A. First - Mr. Bourassa has included all customer classes (e.g. residential, Commercial, Other Public Authority, Fire, etc.), which ***was contrary*** to the Company's position in the Chaparral City Water Company case in which they insisted on only using residential customers.

Second - Mr. Bourassa uses a single point in time, the Company's last rate case for comparison purposes which varies by district. It ignores increases and decreases in customer consumption between the years.

Third - Mr. Bourassa takes the revenue from each customer class by meter size (e.g. 3/4 inch residential) and divides the revenue by the year end customer count. He then takes the quotient of the current case and compares it against the quotient of the last rate case (point in time).

Q. Does RUCO agree with Mr. Bourassa's methodology?

A. No, because it allows for data manipulation, as will be demonstrated below. Based on a Company response (see attachment G), it's pretty clear to see why. When you compare the Paradise Valley water district both the total usage of 2,960,427 gallons, and the individuals customer classes in 2008 it's crystal clear, that total customer usage in 2013 was 3,093,276 gallons and more usage was consumed in every single customer class (e.g. residential, Commercial, Other Public Authority, Fire, etc.) than in 2008. The same holds true for 2009, and 2010 with the exception of commercial customers. However, the Company claims there is declining usage in Paradise Valley.

Q. Let's talk about looking at single points in time for comparison purposes.

A. Sure, again referring to attachment G, if you compare the 2012 and 2013 usage for the Tubac water district, you can make the argument that both the residential and commercial classes of customers usage has increased, and therefore there must be inclining usage. However, the usage may go up or down in 2014. This then begs the question - what about 2015 and 2016?

Q. Didn't Staff use this methodology in the Chaparral Case[6]?

A. Yes.

> ***"Q. Did the Company propose a declining usage adjustment?***
>
> *Yes. In its application, the Company proposes a declining usage adjustment based on events that occurred before the test year.*
>
> ***Q. Does Staff agree with the adoption of a declining usage adjustment?***
>
> *Yes, but for reasons that are different from those offered by the Company. Staff recommends that events prior to the test year are already reflected in test year results and warrant no adjustment. Instead, Staff bases its recommendation on the Company's response to a Staff data request which sought information and confirmation that consumption patterns had continued to change during the post-test year period. Based on its review of this information, Staff recommends adoption of a declining usage adjustment proposed by the Company but on the basis of the adjustment being a post-test year event. As a post-test year event, this adjustment is based on a known and measurable change to the test year activity rather than on events that predate and are already reflected in the test year results."*

Q. Please comment on Staff's methodology used in that case?

A. RUCO agrees with Staff that past consumption results are already reflected in the test year, so you don't have to do some type of comparison to the last rate case to

[6] See page 26, line 1 of the Direct Testimony of Staff witness Gerald Becker in Docket No.W-02113A-13-0118.

make a further adjustment. However, you start to go down the slippery slope when you make adjustments for known and measureable changes outside the test year, by picking and choosing which revenue and expense items to update outside the test year. This begs the question - if you want to go outside the test year to account for decreased customer usage, shouldn't you also include adjustments for increased customer growth which are also known and measureable?

Q. What is RUCO's recommendation?

A. RUCO recommends the reversal of the Company's declining usage adjustment which is based on past data, and projected forward to future years which are not known and measureable. These adjustments apply to all districts except the Mohave wastewater district, and reverse the effects of the Company's declining usage adjustment, and increase net operating income (metered water sales less purchased water, fuel and power, and chemicals) for the Mohave water district by $114,427, for the Paradise Valley water district by $43,787, Sun City water district by $102,693, and Tubac water district by $19,607, as shown in RUCO schedule 19.

Q. What if the Commission is inclined to approve a declining usage adjustment similar to the one approved in the Chaparral City Water Company Decision.

A. If the Commission is inclined to approve a declining usage adjustment, RUCO recommends the Company file an annual report by March 30th of each year in this docket showing the increase/decrease in water usage for each customer class and meter size using a calendar year starting with the 2014 information similar to what was decided in the Chaparral City Water Company case.

In addition, RUCO recommends that the Company should file a Plan of Administration to explain how customers will be refunded if there is an increase in customer usage in future years. For example, if commercial usage increases, but residential usage stays the same, should only commercial customers receive refunds? In addition, over what period should ratepayers be repaid, or do the refunds roll-over into the next year?

Operating Income Adjustment No. 3 – Reversal of Central Arizona Project "CAP" Expense (Sun City and Paradise Valley water district only)

Q. Please explain the Sun City Groundwater Savings Fee ("GSF") and Paradise Valley Central Arizona Project ("CAP") Surcharge Mechanism?

A. <u>Sun City GSF Surcharge Mechanism</u>

Even though the Company does not take direct delivery of CAP water in Sun City it does recharge its CAP allocation back into the aquifer. In Decision No. 65655 (dated February 20, 2003), the Commission authorized recovery of Maintenance and Industrial ("M&I") capital and delivery costs associated with using the CAP allocation through a GSF surcharge mechanism.

Paradise Valley CAP Surcharge Mechanism

In Decision No. 62293 (dated February 1, 2000), the Commission authorized recovery of Maintenance and Industrial ("M&I") capital and delivery costs associated with using the CAP allocation through a CAP surcharge mechanism.

Q. How does the Company account for the recovery of CAP charges in its Sun City and Paradise Valley water districts?

A. Based on a Staff data request, the Company states that:

> *"Prior to January 2012, the surcharge revenues and refunds were recorded as Other Revenue and the purchased water expenses were recorded in the Purchased Water expense account. Beginning in January 2012, the revenue was mapped directly to a balancing account (a regulatory asset account) on the balance sheet and were no longer recorded as Other Revenue. Likewise, the purchased water expense accounting was revised to record the purchased water expenses directly to the balancing account."*

Q. Did the Company ask the Commission to change its accounting methodology, and was it approved by the Commission?

A. It does not appear so, based on the following Staff data request, and response by the Company.

> ***"Q. <u>Sun City Water – Purchased Water Revenues</u> - In response to Data Request CLP 7.19 Company response states "beginning January, 2012, the Purchased Water surcharge revenue adjustor is mapped directly to a balancing account (a regulatory asset account)". Please explain the following and provide a detailed listing for this regulatory asset account:***
>
> ***a. What is the NARUC regulatory asset account number?***

b. When did the Purchase Water surcharge start and what is Decision Number?

c. Was there Commission permission to set up a regulatory asset account?

A. a. The NARUC regulatory asset account number is account 186 (EPCOR Water Arizona's account number is 1142).

b. Sun City Water's purchased water surcharge was initially authorized in Decision Number 62293 and the first surcharge was implemented in March 2000.

c. Decision No. 60172 authorized the deferral of Central Arizona Project Costs in a regulatory asset account while Decision No. 62293 commenced the recovery of the costs."

Q. Did RUCO inquire about the Company's adjustments to its Paradise Valley water district?

A. Yes.

"Q: Ground Water Fee and Central Arizona Project Surcharges ***– Based on the Company's response to RUCO data request 5.05, 5.06, and Staff data request 15.10 related to the Sun City Water District Ground Water Savings Fee and Paradise Valley Water District Central Arizona Project ("CAP"), please answer the following:***

a. Why is there an adjustment to remove the CAP surcharge and CAP expense in the Paradise Valley Water District, and not in the Sun City Water District?

b. Please provide the amount of the CAP surcharge (revenue) collected in the Sun City Water District.

c. Please provide a CAP expense break-out (i.e. excel spreadsheet) along with the associated invoices for both the Paradise Valley and Sun City Water Districts.

A: a. The Company is not requesting to remove the CAP surcharge in the Paradise Valley Water District. However, the Company did make two adjustments on Schedule C-2 related *to the CAP surcharge. First, adjustment SM-26 on Schedule C-2 is needed to properly reclass several CAP related expense items that were incorrectly booked to the purchased water expense account. Since these items are CAP related expenses, this adjustment moves those items to the deferred account so they can be recovered through the CAP surcharge. The other adjustment, SM-25, relates to recovery of deferred CAP costs that were allowed in Decision No. 59079. Per this decision, the Company was authorized to recover $118,436 over twenty-five years via a once a year surcharge applicable to all customer billings in January of each year. This annual amortization is $4,737.44. This adjustment removes the impact of this surcharge from both the purchased water expense account and other revenues.*

b. The Company performs annual reconciliations for the CAP surcharge. Please see the attached file labeled "RUCO 16.03 CAP Reconciliation.xlsx" for the 2013 annual reconciliation by district.

c. Please see Company's response to part b. Also, the invoices are located in the file labeled "RUCO 16.03 Invoices.pdf"."

Q. What is RUCO's conclusion about the accounting treatment?

A. It appears the Company is changing is accounting methodology without Commission approval, and combining prior decisions with more recent ones pulling them into the surcharge mechanism, but then treating them like a regulatory asset.

Q. Have you reviewed the testimony of Company witness Jake Landerking?

A. Yes. Mr. Landerking spoke about the requirements set forth by the Commission in Decision No. 72046, dated December 10, 2010, which required the Company to include the CAP costs in its costs included in base rates. Similarly, Mr. Landerking also spoke about the requirements set forth by the Commission in Decision No.

71841, dated August 10, 2010, which also required the Company to include the CAP costs in its costs included in base rates.

Q. Did the Company propose a methodology to recover CAP charges in base rates in this case?

A. No. The Company responded as follows to RUCO data request 5.05, 5.06 and Staff data request 15.10.

> ***"Q. <u>Sun City Water District Ground Water Savings Fee ("GSF")</u> – Please identify the Company adjustment(s) in the Sun City Water District schedules that comply with Decision No. 72046 dated December 10, 2010, which ordered the Company to include the CAP capital and delivery charges and the offsetting replenishment credits in its costs included in its base rates, thereby eliminating the need for the GSF surcharge in the future.***
>
> *A. Please see the direct testimony of Jake Lenderking at 4-10."*
>
> ***"Q. <u>Paradise Valley Water District Central Arizona Project ("CAP") Surcharge</u> – Please identify the Company adjustment(s) in the Paradise Valley Water District schedules that comply with Decision No. 71841 dated August 10, 2010, which ordered the Company to include the CAP capital and delivery charges and eliminate the CAP surcharge in its next rate case.***
>
> *A. The Company, through the direct testimony of Mr. Jake Lenderking, has provided a very detailed discussion why elimination of the CAP surcharge at this time is not the appropriate thing to do. Not only is elimination of the CAP surcharge inconsistent with the Commission's recent decisions and policies intended to reduce regulatory lag and implement rate gradualism in the recovery of costs, it reduces the ability to send proper pricing signals to customers."*

"Q: Central Arizona Project (CAP) and Groundwater Savings Fee (GSF) Surcharges – In Decision No. 72046 (December 19, 2010), the Company was ordered by the Commission to .... "include the CAP capital and delivery charges and the offsetting replenishment credits and costs in its base rates". Further, the Commission ordered the Company to eliminate the Groundwater Savings Fee ("GSF") in the next rate case which is acknowledged in the testimony of Jake Lenderking (page 4, lines 7&8). Please describe how the Company plans to include the CAP capital and delivery charges in base rates as per Decision No. 72046 and why there is no mention of eliminating the GSF mechanism in the testimony.

OBJECTION: Staff's claim that there is no mention of eliminating the GSF mechanism in testimony is inaccurate. The Company first acknowledges this requirement imposed by Decision No. 72046, as stated in the Data Request, and then proceeds to explain why the Company is requesting to retain the GSF mechanism (Direct Testimony of Jake Lenderking at 5-11).

A: Please see Jake Lenderking's testimony for an explanation of the Company's position."

RUCO has reviewed the testimony of Mr. Lenderking and believes that the Company has not complied with the two previous Commission decisions. Instead the Company makes arguments on why they shouldn't have to comply with the two prior Commission decisions.

Q. Why did RUCO make an adjustment to the Company's Paradise Valley water district's CAP related expenses and Sun City GSF?

A. In order to bring the Company into compliance with the prior Commission Decision Nos. 71841 and 72046.

Q. What adjustment did RUCO make?

A. Based on a data response from the Company, the Company has (which consists of $4,737 in CAP expenses related to Decision No. 59079, and $133,345 in test year expenses) in CAP related expenses for its Paradise Valley water district, and $549,527 in CAP related expenses for its Sun City water district.

Q. Is RUCO aware that the CAP water charges are continually rising?

A. Yes.

Q. How then can the Company recover its CAP M&I costs between rate cases?

A. Through a deferral of CAP costs that are examined and trued-up in the Company's next rate case. Based on the Company's ***disregard*** of prior Commission orders, and changes to prior Commission orders made on their own accord, RUCO believes this is the proper course of action for the Commission to follow. It is also the fairest way to allow for recovery under the circumstances of this case.

Operating Income Adjustment No. 4 – Remove APS Forecasted Expenses (all districts)

Q. Has the Company asked for an increase in its purchased power for all districts?

A. Yes. Based on known and measureable changes and projected costs from Arizona Public Service ("APS"), which they have shared with the Company.

Q. Does RUCO agree with the adjustments?

A. Yes and No. RUCO agrees with the known and measureable rate increases that have been approved by the Commission for Mohave Electric Cooperative and UniSource Electric be included in rates, but disagrees with including projected costs from a study by APS which is not known and measureable. APS is the electric service provider to the Arizona Corporate Office, and as such passes its costs onto all the districts in Arizona and Mexico.

Q. What is RUCO's recommendation?

A. RUCO, recommends the removal of the Company's projected purchased power increases. These adjustments decrease purchased power for the Mohave water district by $128; for the Paradise Valley water district by $41,231; for the Sun City water district by $53,302; for the Tubac water district by $13; and Mohave Wastewater district by $22, as shown in RUCO schedule 21.

Operating Income Adjustment No. 5 – Remove Arsenic Cost Recovery Mechanism ("ACRM") Surcharge and ACRM Deferred Costs (Tubac water district only)

Q. Please provide a little history on the ACRM surcharge?

A. On January 23, 2006, new rules from the Environmental Protection Agency (EPA) became effective reducing the permissible arsenic contamination level in drinking water from 50 to 10 parts per billion. Due to the anticipated high arsenic treatment costs, related financial burdens for water utilities and the large number of affected utilities, the Commission authorized special processes to allow recovery of arsenic treatment costs. Although these processes must be authorized within a rate case, they provide utilities a more timely and efficient means to recover arsenic remediation costs than is available through normal ratemaking procedures. The special process established for the Company is referred to as an Arsenic Cost Recovery Mechanism, or simply an ACRM. An ACRM provides for recovery of arsenic related capital improvements and narrowly defined "allowable" O&M expenses (i.e., media replacement, media disposal and media regeneration), between rate cases.

Q. How does the ARCM process work?

A. The ACRM process requires a Company to obtain authorization of an ACRM in the context of a general rate case, and to subsequently apply for approval of up to two ACRM surcharges, referred to as a Step-One and Step-Two ACRM surcharge. Usually in Step-One of the ACRM process the Company requests recovery of the Arsenic treatment plant, and then in Step-Two the Company requests recovery of O&M costs related to arsenic media.

Q. Did the Company ask for a Step-One ACRM for its Tubac water district?

A. Yes. In Decision No. 71867. The Company stated it has yet to recover all its costs related to the arsenic treatment plant. In addition, the Company states it is still owed $101,712 in deferred costs related to O&M.

Q. Can the Company ask for recovery of Step-Two charges in a general rate case?

A. Yes.

Q. Why hasn't the Company eliminated its ACRM for Tubac?

A. I don't know. However, the Company did state in a data request that it has removed the ACRM surcharge in its rate design.

Part one of the RUCO's adjustment removes the ACRM surcharge of $68,193 from test year revenues, as the ACRM surcharge only serves as a bridge between rate cases. The Company has rate based the $1,696,187 authorized in Decision No. 71867, and there is no need to continue the ACRM surcharge.

Q. What about the second part of RUCO's adjustment the $101,712 in deferred costs related to O&M that the Company claims it has not collected.

A. Based on the Company's response to a Staff data request 12.2 revised, the $101,712 has been double counted, once as a regulatory asset which was not approved by the Commission, and once in chemical expenses as will be explained later.

> *"Q. <u>Regulatory Assets</u> - Please identify the Commission authority for all regulatory assets included in your application. Please include decisions numbers.*
>
> *A. The table below details the regulatory assets included in the calculation of the revenue requirements in this docket. Upon closer examination, it has been determined that the amounts included as regulatory assets were related to*

deferrals including deferred rate case expense (Mohave Water), deferred Central Arizona Project Water costs (Paradise Valley Water), and deferred arsenic media replacement costs (Tubac) that are not eligible for inclusion in rate base and, accordingly, an adjustment will be made in the Company's rebuttal testimony to remove these balances."

Mohave Water	*$ 67,041.96*
Paradise Valley Water	*351,088.39*
Tubac Water	*55,412.07"*

Q. Did the Company make these adjustments to its revised schedules that it docketed on October 14, 2014, as requested by RUCO and Staff?

A. No.

Q. Please reconcile the components of the $55,412?

A. The $55,412 consists of the following components, $50,856 (i.e. $101,712/2) Deferral of ACRM O&M Costs, and the remainder $4,556 unknown.

The Company is also amortizing the $55,412 through depreciation and amortization expense.

Q. Has the Company requested on-going O&M costs related to arsenic media in this rate case?

A. Yes, the Company has asked for $46,000 of on-going O&M costs, which is based on the yearly replacement of Arsenic Media. But has also included $50,856 (i.e. $101,712/2) in chemical expenses for a total of $96,856 less test year expense of $811 for a pro-forma total adjustment of $96,045.

Q. What does RUCO recommend to correct the double count of the arsenic O&M deferred costs of $101,712?

A. RUCO recommends the following:

1. Removing the $50,856 from chemical expense, as shown in RUCO schedule 22.
2. Removing the $50,856 from depreciation and amortization expense, as shown in RUCO schedule 26.
3. Reclassifying and including the $101,712 as a regulatory asset to be amortized over 5 years, as shown in RUCO schedule 15 and in RUCO schedule 26.

Operating Income Adjustment No. 6 – Corporate Allocation Expense (all districts)

Q. Has RUCO reviewed the Company's Corporation Allocations?

A. Yes. For the results of RUCO's analysis and recommendations, please see the direct testimony of RUCO witness Ralph Smith.

Q. What is RUCO's recommendation?

A. RUCO recommends the removal of $134,211 in corporate allocation expenses from the Mohave water district; $118,248 from the Paradise Valley water district; $190,111 from the Sun City water district; $14,980 from the Tubac Water district; and $21,553 from the Mohave wastewater district.

Operating Income Adjustment No. 7 – Rate Case Expense

Q. How much is the Company asking for in rate case expense?

A. $650,000.

Q. Does RUCO believe this is reasonable?

A. No. Based on the table of recent Commission Decision presented below, the rate case expense is out of the range of reasonability.

Company	Docket No.	Decision No.	Date	No. of Systems Districts or Divisions	Rate Case Expense authorized by Commission
Chaparral City Water Company	W-02113A-13-0118	74568	June 20, 2014	1	$275,000
Arizona Water Company	W-01445A-11-0310	73736	February 20, 2013	6	$350,000
Liberty Utilities (Bella Vista)	W-02465A-09-0411, ET AL.	72251	April 7, 2011	3	$300,000

Q. What is RUCO's recommendation for rate case expense?

A. RUCO recommends a reasonable rate case expense amount of $325,000 normalized over 3 years, which decreases the annual rate case expense for the Mohave water district by $29,720; for the Paradise Valley water district by $26,922;

for the Sun City water district by $43,684; for the Tubac water district by $2,982; and for the Mohave wastewater district by $5,027, as shown on RUCO schedules 16 and 17 with the details reflected on the respective schedule 24.

Q. Is the Company asking for anything new that it did not ask for in the Chaparral City Water Case?

A. Yes. An Affordable Care Adjustor, and a Purchased Power Adjustor, as will be explained below.

Q. Does this warrant an increase of 2.36 times?

A. No, besides the two new adjustors mentioned above, and additional schedules for the other four districts, nothing is extraordinary.

Operating Income Adjustment No. 8 – Tank Maintenance Expense (Paradise Valley water district only)

Q. Did the Company make a pro-forma adjustment to include tank maintenance expense of $185,851 in its application?

A. Yes.

Q. What is the Company's proposal?

A. The Company has proposed a tank maintenance plan to cover the costs associated with the stripping, treating and coating of the tanks, over a 14 year period. The estimated cost of the 14 year plan is approximately $2,601,914 or $185,851 per year.

Q. Does RUCO agree with this proposal?

A. No. The major problem with this proposal which will be described below is the ***known and measureable*** standard. It is not known whether the tank maintenance will follow the schedule attached to Company witness Mr. Stuck's testimony. Nor is it measureable since the numbers are estimates, also the costs have not already occurred or will occur before rates go into effect.

The length of the 14 year plan is also highly problematic. The further you move from a historical test year, the greater the imbalances become between rate base, revenues, and expenses.

In Decision No. 71845, (dated August 25, 2010) beginning at page 26, line 26, the Commission stated:

> *"Despite the Company's claims, we do not believe there is any valid reason for treating tank maintenance expenses differently from other properly incurred costs. Although we recognize that these costs tend to be cyclical in nature, that fact alone does not justify requiring ratepayers to support the Company's accrual account methodology that would allow recovery in this case based solely on estimates adjusted by an inflation factor."*

The Commission made a similar finding in Decision No. 71410, (dated December 8, 2009), for Arizona American Water Company (now EPCOR Water of Arizona Inc.). Beginning at page 37, line 7 the Commission stated:

> *"We are not opposed to the Company instituting a 14-year interior coating and exterior painting program for its water tanks. However, we do not believe that it is necessary or reasonable to adopt the Company's proposal for advance funding of a Reserve for Tank Maintenance at this time. Because the tank maintenance expense reserve account balance proposed by the Company is not based on known and measurable Company expenditures, we find the normalization maintenance expenses proposed by Staff, which is based on a three year average of expenses for each district to be the more reasonable alternative. Staffs normalization adjustment will therefore be adopted for each of the six water districts."*

Q. Has RUCO analyzed the effects of the projected tank maintenance expense in the Company's other districts?

A. Yes. In response to a RUCO data request, tank maintenance was authorized for Sun City in Decision No. 72047, page 58. Both Havasu and Mohave Water districts were authorized in Decision No. 73145. Decision No. 73145 was a result of a settlement agreement.

Q. What were the results of the Company requiring ratepayers to pre-pay for tank maintenance expenses in those decisions?

A. The Tank maintenance expense was less than the level authorized by the Commission, and as a result ratepayers have overpaid, as shown below:

	Amount Approved	Decision No.	Decision Date	Period Ending	Difference in days	Days in Year	Years	Average Amount that should have been expended	Amount that Company has expended	Rate Payers shorted	Percentage Difference
Sun City Water	$362,000	72047	6/1/2011	10/31/2014	1248	365	3.419178	$ 1,237,742.47	$ 1,122,939	$ 114,803.72	9.28%
Havasu Water	$ 76,320	73145	5/1/2012	10/31/2014	913	365	2.50137	$ 190,904.55	$ 74,000	$ 116,904.55	61.24%
MohaveWater	$244,608	73145	5/1/2012	10/31/2014	913	365	2.50137	$ 611,855.08	$ 399,579	$ 212,276.53	34.69%

Q. Has the Company explained why these costs must be pre-paid by ratepayers, and not recovered through a deferral or averaging of tank maintenance expenses?

A. No. In addition, the Company has not shown that they are in financial distress, in fact the opposite appears to be true.

Q. What is RUCO's recommendation?

A. RUCO recommends removing the tank maintenance expense by $185,851 as shown on RUCO schedule 25. If the Commission is inclined to have customers pre-pay for tank maintenance expense, then any ratepayer money over-collected at the end of some future period, in this case 14 years, be refunded to ratepayers with interest.

Operating Income Adjustment No. 9 – Depreciation and Amortization Expense (all districts)

Q. Did RUCO make an adjustment to depreciation and amortization expense?

A. Yes.

Q. Has RUCO accounted for several accounting adjustments on this schedule?

A. Yes. In addition, to the typical adjustments made to depreciation expense as a result of plant-in-service adjustments (e.g. Post-Test Year Plant).

RUCO has also removed the amortization expense related to the 24 month deferral of Allowance for Funds Used During Construction ("AFUDC"), as reflected in RUCO rate base adjustment no. 9, and described in Mr. Coley's testimony.

In addition, RUCO has also included the amortization of the regulatory liability created by the Company's poor plant record keeping and abuse of the group depreciation methodology for both direct and corporate plant, as reflected in RUCO rate base adjustments no. 6 and no. 7, and described in Mr. Coley's testimony.

Q. What is RUCO's recommendation?

A. RUCO recommends decreasing depreciation expense by $501,828 for the Mohave water district; by $277,730 for the Paradise Valley water district; by $1,015,921 for the Sun City water district; by $90,770 for the Tubac water district; and by $24,120 for the Mohave wastewater district.

Operating Income Adjustment No. 10 – Property Tax Expense (all districts)

Q. What method has the Commission typically adopted to determine property tax expense for ratemaking purposes for Class C and above water utilities?

A. The Commission's practice in recent years has been to use a modified Arizona Department of Revenue ("ADOR") methodology for water and wastewater utilities.

Q. Did RUCO calculate property taxes using the modified ADOR method?

A. Yes. As shown on RUCO schedule 27, RUCO calculated property tax expense using the modified ADOR method for both test year and RUCO-recommended revenues. Since the modified ADOR method is revenue dependent, the property tax is different for test year and recommended revenues. RUCO has included a factor for property taxes in the gross revenue conversion factor that automatically adjusts the revenue requirement for changes in revenue in the same way that income taxes are adjusted for changes in operating income.

Q. Has RUCO also made an adjustment to the property tax assessment ratio?

A. Yes. Based on House Bill 2001, RUCO has adjusted the property tax assessment ratio to 18.056 percent. The Company in its filing used an 18.50 percent assessment ratio.

Q. How did RUCO derive its property tax assessment ratio?

A. Based on ***known and measureable*** rates from House Bill 2001, and following the methodology that was approved in Decision No. 74568 (dated June 20, 2014).

Q. Please explain the methodology used in Decision No. 74568?

A. In that case an average of known and measurable property taxes were used to derive a property tax assessment ratio.

Q. Does RUCO propose a similar methodology in this case?

A. Yes. The Property tax assessment ratio is 18.5 percent after December 31, 2014 and 18.0 percent after December 31, 2015. Assuming three years between rate cases, and anticipating that Company rates would go into effect by September 1, 2015, barring any more delays, RUCO has calculated the average to be 18.056 percent (i.e. 4 months at 18.5 percent and 32 months at 18.0 percent).

Q. What does RUCO recommend for test year property tax expense?

A. RUCO recommends decreasing test year property tax expense by $1,159 for the Mohave water district; by $2,503 for the Paradise Valley water district; by $153 for the Sun City water district; by $2,821 for the Tubac water district; and by $1,209 for the Mohave wastewater district.

Operating Income Adjustment No. 11 – Income Tax Expense (all districts)

Q. Did RUCO make an adjustment to income tax expense?

A. Yes, based on RUCO's recommended revenue requirement.

Q. How did RUCO calculate income tax expense for the Company?

A. RUCO applied the statutory state and federal income tax rates to RUCO's taxable income. Income tax expenses for the test year and recommended revenues are shown on RUCO schedule 28.

Q. Has RUCO also made an adjustment to the state income tax rate?

A. Yes. Based on House Bill 2001, RUCO has adjusted the state income tax rate to 6.00 percent. The Company in its filing used a 6.50 state income tax rate.

Q. Please elaborate on the provision contained in HB 2001.

A. H.B. 2001 maintains the current State corporate income tax rate of 6.968% through December 31, 2013. Thereafter, H.B. 2001 reduces the rate as follows:

- 6.5% for taxable years beginning from and after December 31, 2013 through December 31, 2014
- 6.0% for taxable years beginning from and after December 31, 2014 through December 31, 2015
- 5.5% for taxable years beginning from and after December 31, 2015 through December 31, 2016
- 4.9% for taxable years beginning from and after December 31, 2016

Q. What is RUCO's recommendation?

A. Based on ***known and measureable*** rates from House Bill 2001. RUCO recommends a state income tax rate of 6.00 percent.

Q. What adjustment does RUCO recommend for test year income tax expense for the Company?

A. RUCO recommends increasing test year income tax expense by $367,109 for the Mohave water district; by $275,720 for the Paradise Valley water district; by

$394,111 for the Sun City water district; by $55,788 for the Tubac water district; and by $28,236 for the Mohave wastewater district.

VI. OTHER ISSUES

Power Cost Adjustment Mechanism ("PCAM")

Q. Has the Company provided any evidence that it's purchased power bills are skyrocketing, and the costs now must be passed through to ratepayers?

A. No. Only that another water company was authorized a PCAM in a settlement agreement, and now all water companies are entitled to this adjustor.

Q. Has the cost of power increased?

A. Yes, just as virtually every other expense.

Q. Has the Commission in the past laid-out criteria for water and wastewater utility companies on which to judge whether a Company should receive an Adjustor mechanism or not?

A. Yes. In Decision No. 68302,[7] the Commission noted the following:

> *"Staff states that adjustment mechanisms have traditionally been used to mitigate the regulatory lag for volatile, very large expense items, and are useful when a commodity constitutes a utility's largest expense, such as for electric utilities where purchased power is the utility's single largest expense."*

Further in that case,[8] the Commission stated the following:

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[7] See Arizona Water Company, Docket No. W-01445A-04-0650, page 44 line 2.
[8] Ibid. page 45 line 21.

> *"There is a danger of piecemeal regulation inherent in adjustment mechanisms. Because they allow automatic increases in rates without a simultaneous review of a utility's unrelated costs, adjustment mechanisms have a built-in potential of allowing a utility to increase rates based on certain isolated costs when its other costs are declining, or when overall revenues are increasing faster than costs due to customer growth. Adjustment mechanisms should therefore be used only in extraordinary circumstances to mitigate the effect of uncontrollable price volatility or uncertainty in the marketplace."*

In that case the Company's purchased power Adjustor was denied.

Q. Based on prior Commission criteria, does RUCO believe a PCAM is warranted in this case?

A. No.

Q. Has the Company already asked for pro-forma adjustments to its power costs?

A. Yes, and RUCO has accepted the ***known and measureable*** adjustments to power costs.

Q. What is RUCO's recommendation?

A. RUCO recommends denial of the PCAM, based on no meeting adjustor mechanism criteria laid-out by the Commission, and there simply has not been shown that there is a need for it.

Affordable Care Act Adjustment Mechanism ("ACAM")

Q. Has the Company submitted evidence that because of the passage of Obama care insurance premiums have skyrocketed, and the costs now must be passed onto ratepayers?

A. No.

Q. Have the cost of health care increased?

A. Yes, just as virtually every other expense, the Company has conveniently used the passage of this legislation to ask for another handout from the Commission.

Q. Is this a cost that the Company can control?

A. Yes.

Q. Were you able to evaluate this new proposed adjustor mechanism, against any criteria laid-out by the Commission in prior decisions?

A. No. The Company has not provided any information, studies or data, and there are no costs to compare.

Q. Has the Company already asked for pro-forma adjustments to its salaries and benefits?

A. Yes, and RUCO has accepted these adjustments.

Q. What is RUCO's recommendation?

A. RUCO recommends denial of the ACAM, based on lack of information provided by the Company.

Low Income Program

Q. Has the Company asked for a low income program to assist residential customers in its other service areas?

A. Yes. The Company has existing low income programs in its Mohave Water and Sun City Water Districts. The Company wants to establish programs that are similar to these programs in its Tubac Water, Paradise Valley Water, and Mohave Wastewater Districts.

Q. What is RUCO's recommendation?

A. RUCO recommends the establishment of a low income program.

RUCO also recommends that the Company file a plan of administration that addresses how the low income program will operate in this docket, and provide an example(s) how the Company intends to fund the low income program (e.g. through a high block usage surcharge).

Utility Plant-In-Service Records

Q. Is it customary for Utility Companies to provide in their rate case applications, schedules supporting their plant additions and retirements for each plant account, dating back to the last rate case?

A. Yes. In fact it is part of the required schedule for smaller utilities using Staff's short form rate application.

Q. Are you aware of any A size utility companies not filing these schedules as part of their rate case application or shortly thereafter?

A. Only EPCOR, as they did in the Chaparral case.[9]

Q. What was RUCO's recommendation in the Chaparral case?

A. RUCO recommended that EPCOR include in all future rate case applications (for all districts) plant schedules that include plant additions, retirements, and accumulated depreciation balances by year and by plant account number that reconcile to the prior Commission decision.

Q. Why did RUCO not pursue this issue in its legal briefs?

A. RUCO backed off its original position, as the Chaparral Water Company complained it was previously run by Golden States Water Company and not Arizona American, and they were having trouble receiving plant records from Golden States

[9] See direct and surrebuttal testimony of Jeffrey M. Michlik in Docket No. W-02113A-13-0118.

Water Company. Through informal conversations with representatives from the Company they assured RUCO this would not be a problem in future rate cases.

Q. Were the problems encountered in this case the same as those encountered in the Chaparral City Water Case?

A. Yes,[10] in that case RUCO and Staff were chasing plant balances into the hearing, and in fact the hearing had to be moved back in order to reconcile the plant schedules.

Q. So now there is an established pattern of EPCOR, Inc. not providing plant schedules to support their rate case application?

A. Yes.

Q. So why is this a problem?

A. First, the Company's plant is a primary driver of the Company's overall revenue increase. Under the rate of return on rate base methodology, the revenue requirement is based in large part on the Company's investment in its plant between rate cases. If the Company cannot support its plant balances, it means its revenue requirement and rate design are also flawed. This may be why Staff recommended that the Company file a new rate application.

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[10] See Direct and Surrebuttal Testimony of RUCO witness Jeffrey M. Michlik in Docket No. W-02113A-13-0118.

Second if there are no plant schedules in which to perform audit procedures. This delays the nature, timing and extent of the audit.

Q. Please explain further?

A. As mentioned earlier most Companies with the exception of EPCOR, file plant addition and retirement schedules on or soon after they file a rate case application. RUCO, Staff and other intervenors, then select plant balances by year and NARUC account number for audit work, which requires the Company to support its plant additions usually through invoices or other supporting documentation.

However, RUCO could not get to this point, because the Company was continually ***correcting*** its plant numbers. For example, in the Paradise Valley Water District the amount presented by the Company for NARUC account 331 Transmission and Distribution Mains (TD Mains 10 inch to 16 inch) was $8,382,610 in a prior iteration, and in a later iteration the balance was $9,382,610 at the end of calendar year 2011. This error was not just isolated to a specific NARUC account or district, but was prevalent throughout the Company's continual revision of its schedules. After submitting the first version of the 6th iteration, the Company stopped updating the numbering of future revised iterations, but continued to provide updates to all of its district plant schedules (RUCO estimates the Company submitted a total of 15 iterations). The rate case process simply cannot work, when the Company is creating new and supplemental plant schedules during the rate case. This ultimately led to a new procedural order being issued by the hearing division that moved back the filing dates and hearing.

As RUCO stated in the Chaparral case, not providing plant schedules that support the Company's rate application is ***frankly inexcusable***.[11]

Q. Do EWAZ's comments we don't know what Staff and RUCO want,[12] surprise RUCO?

A. Yes. The Company's predecessor Arizona-American always filed plant addition/retirement and accumulated depreciation schedules by year and by NARUC account number that tied to the beginning balances from the last rate case. So this begs the question - what has changed?

Q. Has this been a problem with other large water and wastewater companies in Arizona?

A. No, not to my knowledge, Liberty Utilities, and Global Water Company file these plant schedules with their initial application.

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[11] Ibid.
[12] As was stated by the Company's council in the procedural conference held on September 12, 2014.

Q. Does the Company's corporate attitude surprise RUCO?

A. Yes. In the Company's pleading they are more concerned about corporate profit, rather than correct plant balances and accounting records.[13]

Q. What does the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts (USoA) state?

A. *"All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda and information useful in determining the facts regarding a transaction."*[14]

Q. What does the ACC administrative code state?

A. A. *"A.A.C. R14-2-102 provides in relevant part:*

B. All public service corporations shall maintain adequate accounts and records related to depreciation practices, subject to the following:

1. Annual depreciation accruals shall be recorded.

2. A separate reserve for each account or functional account shall be maintained.

3. The cost of depreciable plant adjusted for net salvage shall be distributed in a rational and systemic manner over the estimated service life of such plant.

4. Public service corporations having less than $250,000 in annual revenue shall not be required to maintain depreciation records by separate accounts but shall make annual composite

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[13] See the Company's response to RUCO's motion to compel, page 1, line 18 docketed on August 25, 2014.

[14] NARUC USoA - Accounting Instructions for Class A Water Utilities.

accruals to accumulated depreciation for total depreciable plant."

"A.A.C. R14-2-411 also states the following:

D. Accounts and records

1. Each utility shall keep general and auxiliary accounting records reflecting the cost of its properties, operating income and expense, assets and liabilities, and all other accounting and statistical data necessary to give complete and authentic information as to its properties and operations.

2. Each utility shall maintain its books and records in conformity with the NARUC Uniform Systems of Accounts for Class A, B, C and D Water Utilities.

3. A utility shall produce or deliver in this state any or all of its formal accounting records and related documents requested by the Commission. It may, at its option, provide verified copies of original records and documents."

Q. In Summary, does RUCO have concerns about the Company's internal controls over their plant records, and lack of compliance with both NARUC USoA and the ACC administrative code?

A. Yes.

Q. What are RUCO's recommendations to address these problems?

A. RUCO recommends that:

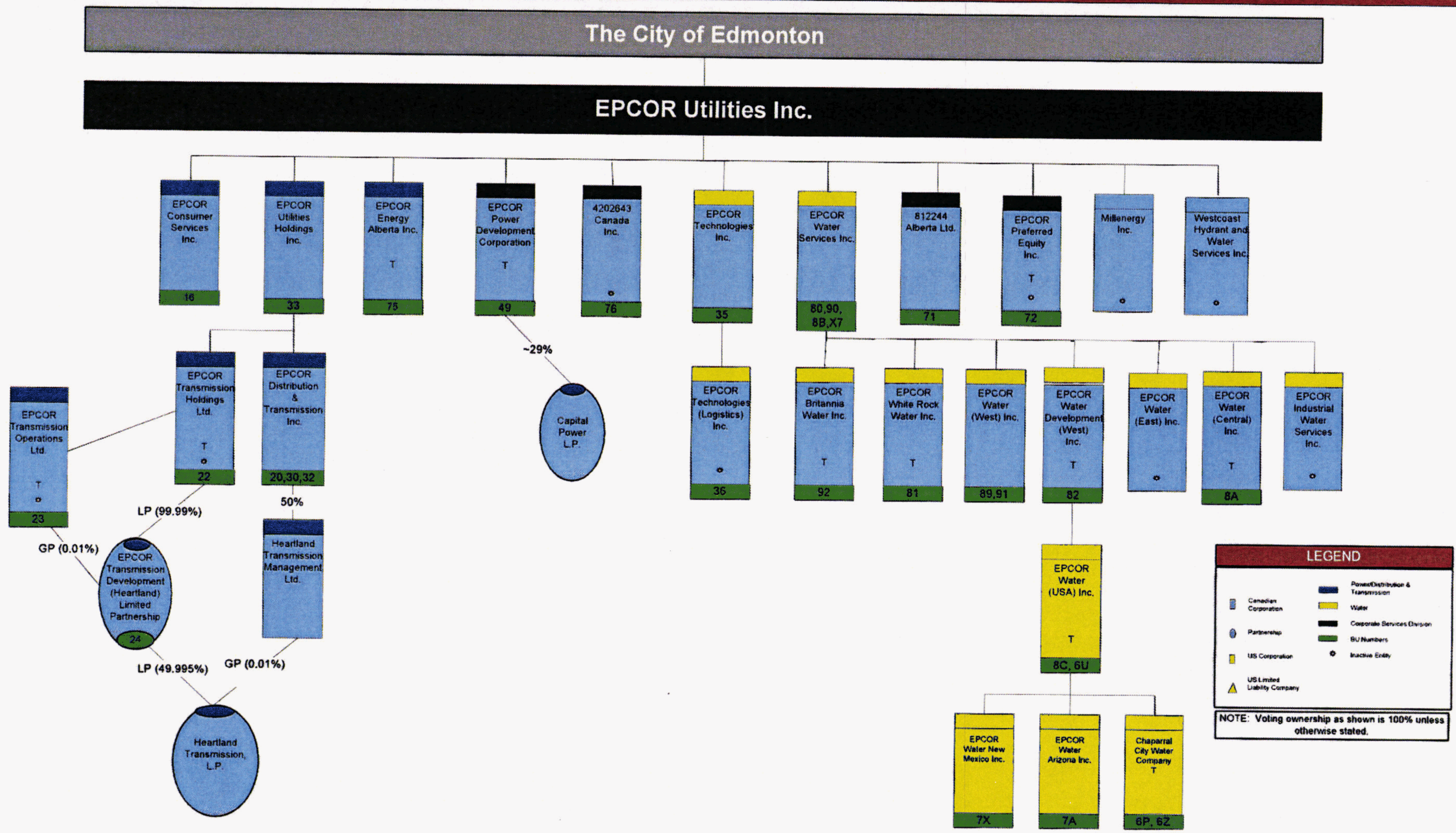
1. EPCOR include in all future rate case applications (for all districts) plant schedules that include plant additions, retirements, and accumulated depreciation balances by year and by NARUC plant account number that reconcile to the prior Commission decision.

2. EPCOR file an accounting action plan that will correct its lack of internal controls over its plant schedules and records, within 90 days of a decision in this docket.

Q. Does this conclude your direct testimony?

A. Yes, it does.

ATTACHMENT A


The City of Edmonton
EPCOR Utilities Inc.
EPCOR Consumer Services Inc. 16
EPCOR Utilities Holdings Inc. 33
EPCOR Energy Alberta Inc. T 75
EPCOR Power Development Corporation T 49
4202643 Canada Inc. 76
EPCOR Technologies Inc. 35
EPCOR Water Services Inc. 80,90, 8B,X7
812244 Alberta Ltd. 71
EPCOR Preferred Equity Inc. T 72
Millenergy Inc.
Westcoast Hydrant and Water Services Inc.
EPCOR Transmission Operations Ltd. T 23
EPCOR Transmission Holdings Ltd. T 22
EPCOR Distribution & Transmission Inc. 20,30,32
~29%
Capital Power L.P.
LP (99.99%)
GP (0.01%)
50%
EPCOR Transmission Development (Heartland) Limited Partnership 24
Heartland Transmission Management Ltd.
LP (49.995%)
GP (0.01%)
Heartland Transmission, L.P.
EPCOR Technologies (Logistics) Inc. 36
EPCOR Britannia Water Inc. T 92
EPCOR White Rock Water Inc. T 81
EPCOR Water (West) Inc. 89,91
EPCOR Water Development (West) Inc. T 82
EPCOR Water (East) Inc.
EPCOR Water (Central) Inc. T 8A
EPCOR Industrial Water Services Inc.
EPCOR Water (USA) Inc. T 8C, 6U
EPCOR Water New Mexico Inc. 7X
EPCOR Water Arizona Inc. 7A
Chaparral City Water Company T 6P, 6Z
LEGEND
Canadian Corporation
Partnership
US Corporation
US Limited Liability Company
Power/Distribution & Transmission
Water
Corporate Services Division
BU Numbers
Inactive Entity
NOTE: Voting ownership as shown is 100% unless otherwise stated.

ATTACHMENT B

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EPCOR

SELLING EPCOR WATER OR WIRES WOULD COME TO COUNCIL (HTTP://DONIVESON.CA/2009/10/01/SELLING-EPCOR-WATER-OR-WIRES/)

posted October 1st, 2009 in 2007-2010 Term (http://doniveson.ca/2007-2010-term/), A fiscally responsible city (http://doniveson.ca/fiscal/), A functional city (http://doniveson.ca/services/), EPCOR (http://doniveson.ca/epcor/), Taxation (http://doniveson.ca/taxation/)

A report arrived at Council today on how any future decisions would be made regarding the sale or transfer of major assets still in EPCOR that Edmontonians depend on. The report responded to a motion I put forward in the summer asking for this information. [Download the report here (http://webdocs.edmonton.ca/OcctopusDocs/Public/Complete/Reports/CC/CSAM/2009-09-30/2009COL018.doc).]

[Clarification added Oct 3: Just to be clear, I asked these questions as a hypothetical. There are no proposals that I'm aware of to sell EPCOR as a whole or any part of the Water, Wastewater or Electricity Distribution & Transmission assets in Edmonton. The Capital Power spin-off was it.]

In a nutshell, the city regulates water and wastewater, and as regulator approval would be required if ownership of the potable water plants, the water pipes, or the wastewater plant were proposed to change. This decision would come to a council meeting.

Furthermore, even though Electricity distribution is regulated by the province, there is a franchise agreement in place for the use of right of way for power lines and any change to this agreement would also have to

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come to council for approval. Electricity transmission assets (high voltage) are treated differently in terms of regulation and other legalities, so the sale of such might not come to a Council meeting.

The report indicates that EPCOR would also need to seek approval from its shareholder (also the City), which it normally would do at a closed meeting, to sell any major assets.

So what we've learned is that the process might start behind closed doors between company and shareholder, but in the case of the utilities that people have expressed concern to me about losing (namely, water, wastewater and power distribution) there would be a Council debate on the matter – one would hope that this would not occur in private.

Councillor Henderson proposed a motion aimed at changing some of the governing documents to explicitly require that there be a Council meeting to consider any proposed sale of major assets in Edmonton, but it was defeated 7 to 5. I supported his motion.

In fairness, there was disagreement among councillors about the practical realities of owning a competitive business, and how this conflicts with our desire for transparency as elected officials. In this instance I leaned toward transparency going forward, having learned a valuable lesson about what a relative lack of transparency in the Capital Power decision process led to in terms of confusion and angst among the public.

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EPCOR: RISK AND THE BEST INTERESTS OF THE CITY (HTTP://DONIVESON.CA/2009/07/20/EPCOR-RISK-AND-THE-BEST-INTERESTS-OF-THE-CITY/)

posted July 20th, 2009 in 2007-2010 Term (http://doniveson.ca/2007-2010-term/), A fiscally responsible city (http://doniveson.ca/fiscal/), Environment (http://doniveson.ca/the-environment/), EPCOR (http://doniveson.ca/epcor/)

This post is a follow up to a previous post (http://www.doniveson.ca/2009/05/15/what-can-happen-when-you-semi-privatize-things/) on the decision to spin off the power generating wing of EPCOR as the new Capital Power Corporation, and to authorize the sale of shares in that new company to the market. The proceeds of this sale of shares will be used by EPCOR to build the water, wastewater and electricity distribution and transmission businesses.

It's now possible for me to say more about the rationale for the decision since the Initial Public Offering (IPO) of shares is complete. During that 90-day period it was critical that the City not act as a 'promoter' of the

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ENVIRONMENT (/THE-ENVIRONMENT)
EPCOR (/EPCOR)
PARKS & RECREATION (/PARKS)
ROAD MAINTENANCE (/ROADS)
SMARTER PLANNING (/PLANNING)
SNOW REMOVAL (/SNOW)
TAXATION (/TAXATION)
TRANSIT (/TRANSIT)

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2010 Campaign (/campaign-2010)
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2007 Campaign (/campaign07)

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IPO, so we couldn't talk plainly about the risks and strategic assumptions. Remaining neutral on the promotion of the IPO was part of the motivation for taking the decision in private – becoming a promoter has *legal risk* attached to it, and the City could be an attractive target for shareholder litigation.

MEDIA RESOURCES
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It has been argued by critics of the decision that the dividend (which is forecast by the city to be $133 million this year) will fall because of this sale. This argument makes an assumption that the dividend would have continued to grow steadily as it has for many years, or at least remain constant. This should not be assumed. The first bit of fine print on every risk-bearing investment is 'past performance does not guarantee future results'.

There is also *regulatory risk* to consider: if and when stronger environmental regulations & pollution pricing come to bear on high emissions industries, the power business could change significantly – and the kinds of strong, growing returns EPCOR has seen from that line of business could at the very least become more volatile, which would not be in the city's interest.[I've quoted the relevant paragraphs from the prospectus below.]

The *investment risk* is lower in the water, wastewater and electricity distribution and transmission businesses, all of which are regulated and provide a stable return. Truthfully, EPCOR was becoming generating-heavy and as an investment, EPCOR needed to be rebalanced toward lower risk. This decision, I think, was in the best interests of the city from a *risk management* perspective.

I believe the main concern, however, is the way in which the decision was made. The legality of the process in the Capital Power decision is now before the courts. In ruling on an application for interim injunction to stop the IPO, Justice Hawco's of the Court of Queen's Bench made some widely reported remarks to the effect that some of the reasons for privacy displayed 'a lack of faith in the intelligence or common sense of the citizens', (as reported, p11-12 of the ruling) but he also ruled that there did appear to be "valid concerns by EPCOR about going public before the prospectus was filed." Justice Hawco also indicated, and this also was not widely reported, that "The sale of the electrical business of the city as managed by EPCOR could have been more transparent, but the sale was made in the best interests of EPCOR and the best interests of the citizens of Edmonton." [I've uploaded a PDF of the full ruling here: CQB decision Pidruchney vs. COE et al (http://www.doniveson.ca/wp-content/uploads/2009/07/CQB-decision-Pidruchney-vs.-COE-et-al.pdf).] I understand this litigation is continuing.

I am on record saying that that I reluctantly supported taking the decision in private. I am also bringing a motion to Council on the 22nd of July designed to ensure that any decision to sell any former city-owned assets, or EPCOR asset that directly serves Edmontonians (i.e. the water and wastewater plants, water pipes and electrical distribution and transmission infrastructure) cannot be sold using the same process. I've been accused of inconsistency in pushing for this but supporting, albeit reluctantly, the behind-closed-doors process for the Capital Power decision. However, the complications I described in my previous post do not apply with the regulated parts of EPCOR. I hope my motion will pass and provide reassurance that these municipal services will remain with EPCOR.

The Capital Power prospectus includes the following about environmental risks:

“Many of the Company’s operations are subject to extensive environmental laws, regulations and guidelines relating to the generation and transmission of electricity, pollution and protection of the environment, health and safety, GHG and other air emissions, water usage, wastewater discharges, hazardous material handling, storage, treatment and disposal of waste and other materials and remediation of sites and land-use responsibility. These regulations can impose liability for costs to investigate and remediate contamination without regard to fault and under certain circumstances, liability may be joint and several resulting in one contributing party being held responsible for the entire obligation.

“On April 29, 2009, the Canadian Environment Minister announced in a media interview that the Canadian Federal Government is planning new climate change regulations aimed at coal-fired power in Canada’s electricity sector. The regulations would purportedly require all newly constructed coal generation plants to use technology to capture GHG and inject it underground for permanent storage. Compliance with this and other known and unknown environmental regulations may require material capital and operating expenditures and failure to comply with such regulations could result in fines, penalties or the forced curtailment of operations. Further, there can be no assurances that compliance with and/or changes to environmental regulations will not materially adversely impact the Company’s business, prospects, financial conditions, operations or cash flow.

“The Company’s business is a significant emitter of CO2, NOx, SO2 and mercury and is required to comply with all licenses and permits and existing and emerging federal, provincial and state requirements, including programs to reduce or offset GHG emissions.

“EPLP’s wood waste plants may also be subject to SO2 and mercury reduction requirements within the next five to seven years. In addition, the decreased availability in waste heat used by EPLP’s Ontario plants may lead to increased emissions and decreased allowances being allocated with respect to these facilities. There are a number of uncertainties associated with the estimated cost of compliance with these existing and emerging requirements. It is not yet clear as to the form in which the new carbon and GHG regulations will be implemented or whether such regulations, when implemented, will reflect the proposed regulatory aims. In addition, the Company is not able to determine the extent to which future compliance costs will be recoverable from customers or whether such costs may be shared among emitters, customers and stakeholders. Other unknown factors include the future composition of the Company's generation assets, the future production of electricity from the Company's generation assets, the extent and timing of the development of carbon offset markets, whether economically feasible emission-reducing technology will emerge, the market price for carbon offset credits and other measures that the Company might undertake to reduce its emissions. Compliance with new regulatory requirements may require EPLP to incur significant capital expenditures and/or additional operating expenses."

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WHAT CAN HAPPEN WHEN YOU SEMI-PRIVATIZE THINGS: (HTTP://DONIVESON.CA/2009/05/15/WHAT-CAN-HAPPEN-WHEN-YOU-SEMI-PRIVATIZE-THINGS/)

posted May 15th, 2009 in 2007-2010 Term (http://doniveson.ca/2007-2010-term/), A fiscally responsible city (http://doniveson.ca/fiscal/), EPCOR (http://doniveson.ca/epcor/)

[Revised for clarity at 8:28pm same day]

I'm limited in the aspects of the recent EPCOR restructuring decision (http://www.epcor.ca/en-ca/about-epcor/news-publications/NewsReleases/2009/Pages/050809a.aspx) I can discuss, which — let me tell you — is an incredibly frustrating position for a public official to find himself in.

I can say that I supported the decision and that I think it's the right move for EPCOR, and by extension for the city. I might not have supported privatizing the assets back in 1996, but with that decision long behind us, this was the right move now given the context.

Now, By way of background to the decision making process, the first thing to understand about the relationship between the Municipal Corporation of the City of Edmonton (the City) and EPCOR Utilities Inc. is that the latter is an incorporated private for-profit business that happens to be owned by the City, and operates as such with some specific conditions that were imposed when the city transferred the assets over to EPCOR in 1996. Some of these conditions, which also limit the City's powers, are found in a contract called the Unanimous Shareholder Agreement, which the City Council of the day agreed to; in it the Shareholder (the City) grants control of the company to the Board of Directors (which the City also appoints) to direct the company – and reserves powers related to, among other things, authorization of any restructuring, major purchases and/or divestitures (sales).

Since 1996, several significant things occurred that ultimately shaped our decision to authorize the restructuring of the company and permit a spinoff of the electricity generating component:

1. The province deregulated electricity generation in 2000, which changed the risk profile of that part of EPCOR's business.

2. In 2005 EPCOR, with the approval of the shareholder (i.e. the City) authorized the sale of units in the EPCOR Power LP (Limited Partnership) which is an income trust. Units of the trust are traded in US and Canada making all decisions and communication regarding decisions subject to securities law (including minority shareholder protection) in both countries — which regiments disclosure of decisions affecting the business.

3. The federal government announced changes to tax law in 2006 to tax income trusts, impairing some of the advantage of the trust model for raising money to invest in the growth of all parts of the company.

In other words, a series of Council decisions stretching back to 1996 created the room, then closed the door behind which my colleagues and I, acting as EPCOR Shareholder representatives, came to the decision to authorize the restructuring. Changes in the regulatory and tax environment initiated by other governments also contributed to the situation.

Scott McKeen wrote an interesting piece in the Journal about the peculiar duality of our duties as a Council and as EPCOR's Shareholder, which you can find here (http://www.edmontonjournal.com/opinion/Epcor+deal+shines+light+voters+need+stay+alert+involved/1599350/story.htn

If you want to know more about how Capital Power will operate, and what EPCOR – as the majority owner – expects of it, please refer to the prospectus for the Initial Public Offering (IPO) of shares, which can be accessed here (http://www.sedar.com/DisplayProfile.do?lang=EN&issuerType=03&issuerNo=00028458).

As an appendix, I'd like to set some myths to rest that I've encountered:

1. *Absolutely nothing is being "given away," proceeds from the sale of shares of Capital Power will be used by EPCOR to expand the potable water, waste water treatment and power transmission businesses.*

2. *Payments from Capital Power to EPCOR will allow EPCOR to continue to furnish the City with a dividend.*

3. *This decision was not connected to the Gold Bar Waste Water Treatment Plant transfer to EPCOR earlier this year, and neither move was conditional on the other.*

4. *Contrary to some reports, the mechanisms for ensuring the head office of Capital Power remains in Edmonton are much stronger than the provisions that failed to keep Telus here after EdTel was privatized.*

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ATTACHMENT C

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EPCOR and Capital Power dispute legal claim

EDMONTON, July 7, 2009 /PRNewswire via COMTEX News Network/ --On June 30, 2009, an action was commenced in the Court of the Queen's Bench of Alberta, Judicial District of Edmonton by Gil McGowan on his own behalf and on behalf of all of the affiliates of the Alberta Federation of Labour, Terry Jardine on his own behalf and on behalf of all of the members of the Canadian Union of Public Employees, Local 30, and Leo Derkach on his own behalf and on behalf of all of the members of Civic Service Union 52, making claims relating to Capital Power Corporation's proposed initial public offering and related transactions.

The claim names The City of Edmonton, EPCOR Utilities Inc. and Capital Power Corporation as defendants and alleges, among other things, that certain purported actions taken by the City of Edmonton in connection with the proposed initial public offering were outside the jurisdiction of the municipality under the Municipal Government Act. Based on its review of the available information, Capital Power Corporation believes that this claim is without merit and intends to vigorously defend itself.

This communication does not constitute an offer of securities for sale in the United States, and the securities referred to in this communication may not be offered or sold in the United States absent registration or any exemption from registration.

About EPCOREPCOR's wholly-owned subsidiaries build, own and operate power plants, electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure in Canada and the United States. EPCOR, headquartered in Edmonton, Alberta, has been named one of Canada's Top 100 employers for nine consecutive years, and was selected one of Canada's 10 Most Earth-Friendly Employers.

Stockhouse.com, Tues July 7 2009

Tagged under: Privatization and Deregulation EPCOR

2009 July Presentation City Council Public Hearing Transfer of Drainage Assets to EPCOR

Gil McGowan, President of the Alberta Federation of Labour

Good afternoon. In a way, I am here today in two capacities.

I'm here first as the President of the Alberta Federation of Labour, which is our province's largest labour organization, representing 29 unions and 115,000 members.

As a provincial advocacy organization, our focus is usually on issues of provincial policy.

But every once in a while, a local issue comes along that has the potential to affect a broad range of our members, not just as workers and union members, but also as taxpayers and citizens.

The proposal in front of us today - to transfer $8 billion of City owned and controlled assets to EPCOR - is one of those issues. That's the first reason I'm here.

The second reason I'm here is more personal. As some of you may remember, up until very recently, I was chair of community planning for the Strathcona Community League. Even though I've moved on from that position, I'm still a proud Edmontonian and issues of municipal planning and development are still near and dear to my heart.

Given my background, and the magnitude of the decision Council is about to make, I simply could not remain on the sidelines.

At this point I'll admit that there are probably many other people better versed in the technical details of this proposal. So I won't try to delve into the intricacies of the transfer.

Instead, I simply want to raise a few questions that continue to float in my head (pardon the pun).

The first question is this: why are we trying to fix something isn't broken?

The Drainage Branch is a very well run city service. It's regarded as one of the highest quality systems in North America. The Goldbar plant is one of the best examples of environmental stewardship and effective water treatment on the continent. And even more importantly, Edmontonians, are very satisfied with the service.

So why, if we've got such a good thing going, do we want to mess with it?

EPCOR has indicated it wants to combine its expertise with the expertise from the Drainage Branch to create a Centre of Excellence. What I don't understand is why we need amalgamation to have cooperation. Surely EPCOR and the Drainage Brach can collaborate within the existing corporate structures.

My second question comes in two parts: why does EPCOR want the assets? And what's in it for citizens?

Reading the Price Waterhouse report and hearing the discussions up to this point it seems to me that this proposal is about two things - getting lower interest rates on loans for EPCOR, and making EPCOR more competitive for contracts outside of Edmonton.

But, is what's good for EPCOR necessarily good for the citizens of Edmonton? Is it really worth giving up direct control of our City's largest asset in order to help EPCOR shave a quarter point off the loans they need for corporate expansion?

On the subject of loans, I'm also concerned that any gain for EPCOR might be balanced by a loss for the City. If they get lower interest because of increased assets couldn't the city face higher rates because of reduced assets? Just as importantly, this proposal would essentially mean that our public assets would be turned into debt to help finance corporate expansion. I'm pretty sure that most taxpayers would feel justifiably uncomfortable having their public assets used to underwrite potentially risky business ventures.

The third big question I have is: how is all of this going to affect the City's future development planning?

If EPCOR owns the drainage assets, then they control the decisions about how those assets will be deployed, expanded and updated.

This has huge ramifications for Edmontonians for future development.

What leaves me feeling particularly unsettled is knowing, as I do, that not a single City Councillor sits on the EPCOR board - and that all interaction between EPCOR and City Councillors as shareholders is secret.

As a citizen, I would feel much more comfortable knowing that decisions about the future development of the city will be made here in this chamber, in an open forum and by people who are directly accountable to voters - rather than by corporate managers behind closed doors.

The fourth unanswered question I have is this: how is this transfer in the public interest?

When preparing for this presentation, I went searching for tangible ways that Edmontonians would benefit from the transfer. And you know, I was hard pressed to find any.

Will it lead to lower rates for taxpayers? Apparently not.

Will it lead to better service? I've seen no evidence it will. EPCOR's plan is to use the new assets to build its portfolio outside of Edmonton. Improving service here in the City is secondary.

Will it help us plan for our future better? No, it will actually take planning power away from accountable, elected officials and put it in the hands of unelected corporate managers whose interests may not coincide with the public's interest.

In the end, I think there are simply too many troubling questions attached to this proposal.

I urge you to think about these questions, and only move forward if you are completely confident about the answers. Let's not sacrifice public control over development for the sake of corporate empire-building.

Thank you.

Tagged under: Privatization and Deregulation EPCOR

Capital Power Plant Acquisition Challenged by Alberta Unions

Sept. 10 (Bloomberg) -- Capital Power Corp.'s purchase of electricity-generating plants from the City of Edmonton, which led to a C$500 million ($463 million) initial share sale in June, is being challenged by Alberta unions.

The Alberta Federation of Labour and the city's two biggest unions plan to ask a provincial judge tomorrow to block the sale of the plants that had been owned by Epcor Utilities Inc., the city-owned utility, the unions said in a statement today.

"We are arguing that city council had no legal authority to make the decision to privatize Epcor's power generation," Gil McGowan, AFL's president, said in the statement. "If they did not have the legal right to make the decision, the decision cannot be considered valid."

Capital Power, in the biggest IPO in Canada in 18 months, sold 21.8 million shares at C$23, and used the money to buy Epcor's power-generating business. The company produces about 3,300 megawatts from 31 plants in Canada and the U.S.

An Alberta judge on July 3 denied the unions' request to delay the closing of the IPO, ruling that he wasn't satisfied that there was any real merit in the unions' application, according to July 7 statement from Capital Power.

Capital Power and Epcor have denied any wrongdoing.

Bloomberg.com, Thurs Sept 10 2009Byline: Joe Schneider

Tagged under: Privatization and Deregulation EPCOR

Capital Power Spinoff Challenged In Court

Three labour unions challenged city council's private approval of a multi-billion-dollar deal involving Epcor shares at the Alberta Court of Queen's Bench last week.

The Alberta Federation of Labour, with Civic Service Union 52 and the Canadian Union of Public Employees 30, attacked the behind-closed-doors approach of councillors and Mayor Stephen Mandel in April to help place the municipally owned utility's power generation branch with a new company, Capital Power, and offer public shares.

"We believe city council acted illegally," Alberta Federation of Labour president Gil McGowan says. "We argued that the process followed by council contravened important sections of the Municipal Government Act, in particular the sections requiring council to make their decisions in public forums and the sections related to delegation."

Bill Pidruchney, a local lawyer and former head of the Alberta Securities Commission, attempted to get an injunction against the sale of shares in Capital Power on similar gounds in July, and lost.

Councillors have argued they are exempt from making decisions in the public domain while acting as shareholders, as they do with Epcor. However, McGowan thinks the shareholder title does little to defend their private actions.

"The MGA says that the council has to meet in public, but it doesn't say anything about shareholders," he explains. "The shareholders group has no legal existence under the MGA, which clearly states that city council can only delegate its decision making authority to committees of council, or the chief administrative officer.

"Therefore any decision made by that group is not valid."

Epcor spokesperson Tim le Riche disagrees: "The only thing we can say is what we've been saying all along, and that is that Epcor believes the claims are without merit, and we will vigourously defend ourselves as we have done."

With arguments from Epcor, city council, and the union coalition completed, the case now awaits Justice Stephen Hillier's deliberation.If he decides the union coalition's claims do have merit, it is possible the sale of shares may be declared invalid.

McGowan recognizes the huge implications of such a ruling.

"There's absolutely no doubt that a declaration from the court nullifying the privatization will cause a huge headache for everyone who bought shares in the initial public offering," he says. "But in our perspective, the interests of investors have to take a back seat to the interests of the people who own the assets and didn't have a say in their sale."A ruling is expected to come down in the coming weeks.

See Magazine, Thurs Sept 17 2009Byline: Tim Cooper

Tagged under: Privatization and Deregulation EPCOR

City Council had no legal right to privatize EPCOR's power generation assets

Closed-door meetings breach Municipal Government Act, group charges in lawsuit

The Alberta Court of Queen's Bench today is hearing a case that could potentially overturn the multi-billion-dollar deal that saw EPCOR's power generation capacity spun off into a new company and a portion of the shares sold to investors in a public offering. The case has been launched by three labour union groups, including the Alberta Federation of Labour, CUPE 30 and CSU 52.

The case revolves around whether Edmonton City Council acted in a legal manner when it held a "behind-closed-doors" shareholders' meeting to make the decision to spin off the assets, valued at $2.8 billion.

"The legal point, at its core, is both simple and important," says AFL President Gil McGowan. "Municipalities are required under law to operate in particular ways. We suggest that when it made the EPCOR privatization decision, the City failed to meet its obligations to the public under the Municipal Government Act."

The Municipal Government Act (MGA) requires that all decisions by a City Council be made in public. It also clearly restricts to whom a City Council can delegate its authority. A City Council cannot delegate its decision-making powers to anyone it chooses - there are strict limitations to whom it may delegate, namely only to a Council Committee, the Chief Administrative Officer or Designated Officer.

The City argues that when making decisions about EPCOR, Council is not acting as a City Council under the MGA, but as a "shareholder," and therefore the rules under the MGA do not apply. The legal validity of this "shareholder" status is the key point at issue in the lawsuit. The groups contend that the "shareholder" has no legal validity under the MGA, as the Council is prohibited from delegating to such a collection of individuals.

"For years, City Council has ducked public accountability for its EPCOR decisions by hiding behind the cloak of 'the shareholder'," says Dave Loken, spokesperson for the Coalition of Edmonton Civic Unions. "As it turns out, this cloak may be illegal."

If the court declares the decision invalid, it is unclear what will happen next. Potentially the judge could order the share offering invalid, and the Capital Power deal would have to be reversed.

"There's no doubt this could cause a huge headache for the big institutional investment outfits that bought stocks in Capital Power," says McGowan. "But, frankly, the interests of investors need to take a back seat to the interests of the citizens of Edmonton who own the assets in question. The most important thing to come out of this case would be public accountability. City Council does not get to act with disregard to the public interest. And they don't get to use their so-called delegation powers to do an end run around the democratic process."

"The citizens of Edmonton were shut out of the decision to privatize one of our most important assets. We need to get those assets back - or at the very least, make sure this never happens again," concludes Loken.

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For more information call:

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Tagged under: Privatization and Deregulation EPCOR

EPCOR debate goes to court

The law courts are the scene of a legal showdown over EPCOR today.Union groups are trying to convince a Court of Queen's Bench judge that the city had no legal right to privatize EPCOR's power generation assets. Union leaders say it's all about the public interest, not about jobs or union contracts. "We're paying thousands of dollars in lawyers to fight this kind of thing. They have a whole army of lawyers to fight this kind of thing, of which actually they're using our taxpayers' money to fight us with," says Dave Loken of the Coalition of Edmonton Civic Unions. "The whole things stinks to high heaven."

"Our case is really about democracy," says Alberta Federation of Labour president Gil McGowan (above). "There is a process the city should have followed, and that process is outlined in the Municipal Government Act."EPCOR is taking a wait-and-see approach."EPCOR believes the case is without merit and we will vigorously defend ourselves," says Tim LeRiche with EPCOR. "Beyond that, the proper place for the issue to be discussed is in the courtroom."Court is hearing arguments from lawyers on all sides today.

iNews880, Fri Sept 11 2009

Tagged under: Privatization and Deregulation EPCOR

EPCOR's dismal 3rd quarter results prove Edmonton City Council should never have relinquished control of power generation assets

EPCOR CEO Don Lowry is living in fantasy world if he thinks his dramatically diminished corporation will ever generate $130 million in dividends for the citizens of Edmonton again, says AFL president

Financial results showing that EPCOR lost $56 million in the third quarter of 2009 should be a wake-up call for members Edmonton City Council who voted six months ago to relinquish control over $5 billion worth of electrical power generation assets previously owned by the citizens of Edmonton through EPCOR.

"In 2008, before the City spun off EPCOR's power generation assets, EPCOR was so profitable that it generated a $130 million dividend for the City of Edmonton which allowed them to keep municipal taxes 25 per cent lower than they would have been otherwise," said Gil McGowan, president of the Alberta Federation of Labour, one of three union groups that took the City of Edmonton to court in a bid to stop the spin off.

"Without the power generation assets, which were responsible for something like 70 or 80 per cent of EPCOR's profits, EPCOR will never be the cash cow that it was for the citizens of Edmonton. And that means the City will either have to increase taxes dramatically or consider deep cuts to basic services. Obviously, neither of these options is particularly appealing."

McGowan says the 3rd quarter results are illuminating not only because they show that EPCOR lost $56 million (compared to a profit of $76 million for the same three months last year) but also because they show that EPCOR has been dramatically diminished as a corporation.

"With the spin-off of power assets to Capital power and the privatization of 30 per cent of those assets, EPCOR has been transformed from a corporation with nearly a billion dollars worth of revenue each quarter to a corporation with only about $350 million of revenue each quarter," says McGowan.

"EPCOR CEO Don Lowry called a news conference today to reassure Edmontonians that the new EPCOR, minus its most valuable assets, will somehow continue to generate similar level s of income for the City. But he's living in a fantasy world if he thinks his dramatically diminished corporation will ever generate $130 million in dividends for the citizens of Edmonton. You can't give away the assets responsible for 80 per cent of your profits and expect to continue making the same kind of money. The numbers just don't add up."

McGowan says he hopes EPCOR's dismal results will convince members of City Council to admit a mistake was made and stop the anticipated sale of the 70 per cent of power generation assets that have not yet been privatized by Capital Power.

"The good news is that there's still a chance for City Council to do the right thing and reassert their control over our city's remaining power assets. But that will require strong leadership and political will. Let's hope that members of Council have the internal fortitude to do the right thing."

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For more information call: Gil McGowan, AFL President @ (780) 218-9888

Tagged under: Privatization and Deregulation EPCOR

Labour groups say council broke law

Several labour groups allege Edmonton city council broke the law when it voted behind closed doors to sell off some publicly owned assets.Lawyers for the groups will be in court tomorrow to argue that the privatization of Epcor's power generation should be declared invalid. The assets were spun into a new publicly traded company called Capital Power.The Alberta Federation of Labour and the city's two largest unions are among the groups challenging the sale.

iNews880.com, Thurs Sept 10 2009

Tagged under: Privatization and Deregulation EPCOR

Labour groups take EPCOR to court

A trio of labour groups took EPCOR to court today to challenge the sale of the company's publicly owned power generation assets.

The Alberta Federation of Labour, the Canadian Union of Public Employees Local 30, and the Civic Service Union 52 took issue with the city's April 17 decision to spin off EPCOR's power-generating assets and sell them without first consulting Edmonton citizens.

"We believe city council acted illegally when they met behind closed doors to spin off EPCOR's power generating assets," said Gil McGowan, president of the Alberta Federation of Labour.

McGowan said the city contravened sections of the Municipal Government Act that requires city council to make decisions in public forums and through motions or bylaws, and restricts council from delegating decision-making powers to whomever they choose.

The union groups are now asking the court to declare the multi-billion-dollar deal void and have it potentially overturned.

McGowan insists the case is not about jobs or union contracts but about protecting the democratic process.

"We obviously have problems with the whole idea of privatization, we don't support it. But the arguments we made in court were not so much about the merits of the decision but rather focused on the process that was followed."

EPCOR spokesman Tim LeRiche declined to comment on the specifics of the case.

"The arguments have been made," LeRiche said. "We'll just have to wait to see what the judge's ruling is."

Edmonton Sun, Fri Sept 11 2009Byline: Clara Ho

Tagged under: Privatization and Deregulation EPCOR

Legality of EPCOR privatization in court

It'll be a long day at court tomorrow as the City of Edmonton, EPCOR and various labour unions argue whether or not the decision to privatize EPCOR's power generation assets was legal.The group of labour organizations, which includes the Alberta Federation of Labour and CUPE Local 30, argues that city council breached key provisions of the Municipal Government Act when they decided on the sale behind closed doors last April."If they did not have the legal right to make the decision, the decision cannot be considered valid," AFL President Gil McGowan in a release.Both EPCOR and the City of Edmonton have filed extensive responses to the group's statement of claim, but spokesman Tim Le Riche told Metro EPCOR was ready for its day in court."EPCOR believes this claim is without merit and we will vigorously defend ourselves," he said.The hearing begins at 10 a.m. today.

Metro News, Fri Sept 11 2009Byline: Carmen Wall

Tagged under: Privatization and Deregulation EPCOR

Plug pulled on lawsuit challenging EPCOR privatization

A retired lawyer's legal fight with the city and EPCOR ended after his lawsuit challenging EPCOR's multibillion-dollar sale of their power-generating assets was dismissed in court yesterday.

"I think I've done my duty as a citizen to bring this forward, put some sunlight on the situation," said Bill Pidruchney, former head of Alberta Securities Commission, outside the courthouse.

CLOUD OVER COUNCIL

"However, the unhappy thing is that there is a cloud hanging over city council and over the city with respect to this transaction."

The city and EPCOR were successful in their application to have Pidruchney's legal action dismissed. Pidruchney was also ordered in court to cover some associated legal costs.

Pidruchney had launched legal action after alleging that the city had made the April 17 decision behind closed doors to spin off its publicly owned Canadian and U.S. power-generation assets into a new local company called Capital Power Corporation.

He tried to obtain an injunction to stop the sale but was denied in July.

A trio of labour groups, including the Alberta Federation of Labour, later also tried to challenge the sale in court but were unsuccessful.

"There will be no more legal steps from my point of view, but there are plenty of practical steps that should be taken in dealing with council," Pidruchney said. '

"There are questions that must be answered before the next election. We'll keep digging from a citizen's point of view now and see what comes up."

UNMERITED CLAIM

EPCOR spokesman Tim le Riche said Pidruchney's claim was without merit and that the court has upheld the process used to create Capital Power.

"We uphold that the creation of Capital Power is a benefit to EPCOR and to its sole shareholder, the citizens of Edmonton," le Riche said.

Edmonton Sun, Thurs Dec 24 2009Byline: Clara Ho

Tagged under: Privatization and Deregulation EPCOR

Privatization of EPCOR's power generation challenged

The Alberta Federation of Labour and the city's two largest unions will be in an Edmonton courtroom on Friday.They'll be arguing that the privatization of EPCOR's power generation should be declared invalid according to the president of the Alberta Federation of Labour."Basically what were saying is that those asset's have been owned by the citizens of Edmonton for the last 118 years," says Gill McGowan. "And that under all the legislation governing the way that city council does its business, they had no right under that legislation to make a decision of this magnitude without going back to the people who own the assets, and that's the citizens of Edmonton."McGowan says they're asking the court to reverse the sale and put the question of privatization back into the hands of citizens.

iNews880, Thurs Sept 10 2009

Tagged under: Privatization and Deregulation EPCOR

Spin-Off And Sale Of Epcor Assets Stand: Union group loses their bid to shut down deal as judge rules in favour of city council

The mayor and city councillors acted legally when they privately approved the sale of Epcor shares in April, the Alberta Court of Queen's Bench announced Friday, Sept. 25.

The court decided council could act as shareholders outside public scrutiny because "natural person powers" provided under legislation allowed for them to bypass sections of the Municipal Government Act.

Gil McGowan, president of the Alberta Federation of Labour, expressed dismay at the ruling. He teamed up with Civic Service Union 52 and the Canadian Union of Public Employees 30 two weeks ago to contest council's private vote to support the multibillion-dollar deal placing Epcor's power generation branch with Capital Power and offering public shares.

"We're deeply troubled by this decision," he said in a statement released the same day. "It seems to imply that there are no limits to the powers of city council to delegate important civic functions and decisions to individuals and bodies that are not accountable to the public. It's a blank cheque for politicians who want to make unpopular decisions without any public input."

However, Darrell Lopushinsky, a lawyer with the city law branch, said "natural person powers" is not an official excuse for council to do whatever it pleases.

"It means," he says, "that unless there's some statutory prohibition, a municipality, acting through city council, can do things that any natural person or corporation could do."

Such legislation was introduced to move municipalities out of the strict confines of statutes.

"The idea," Lopushinsky says, "is that municipalities are given a bit more freedom to do things, but it doesn't give them carte blanche to do whatever they want."

Still, McGowan says representatives should not act separately from the public.

"Ruling or no ruling," he said in the press release, "the fact remains that major assets owned by the citizens of Edmonton were sold off in secret and without any public consultation. The mayor and senior managers from Epcor and Capital Power can now say that what was done is technically legal, but that doesn't make it morally or ethically right."The loss marks another failed attempt to challenge the Epcor spinoff and city council's role as private shareholder since local lawyer Bill Pidruchney tried unsuccessfully for an injunction against the sale of shares in July.

That has not discouraged McGowan from tackling the matter further. According to the press release, the union coalition plans to pursue the issue, possibly through an appeal of the court decision, or the union group could push city counillors by making Epcor's privatization a major issue in the next municipal election.

See Magazine, Thurs Oct 1 2009Byline: Tim Cooper

Tagged under: Privatization and Deregulation EPCOR

TSX's lone IPO this year seen as encouraging

A single stock issue in June by a company new to the TSX was the first initial public offering (IPO) since mid-2008, PricewaterhouseCoopers said Tuesday.

The $500 million IPO by Capital Power Corp. of Edmonton doesn't show the IPOs are bouncing back, but may be one of several "hopeful signs" for the market, Ross Sinclair, leader of the consulting company's income trust and IPO services, said in a news release.

"We're starting to see the market regain some of its appetite," he said. "The volumes are still very small but the Capital Power issue, along with some significant activity in secondary equity offerings and debt issues across the markets, point to a level of financing activity that has been absent for some time."

In fact, two other IPOs closed Tuesday, but missed the PricewaterhouseCoopers' report, which covered the first half of the year.About $850 million worth of stock in mortgage insurer Genworth MI Canada Inc. began trading Tuesday. Most of the shares were sold by its U.S. parent company.

Issued at $19 each, the stock slid 61 cents to $18.39.

Magma Energy Corp., a geothermal power company, said it raised $100 million selling stock at $1.50 a share. It fell two cents to $1.48.Companies that are not publicly traded are considering IPOs, and investors, looking for better returns than the low interest rates on bonds, are becoming more open to equity issues, Sinclair said.

The Capital Power issue was sold at $23 a share and began trading on the TSX on June 26, exchange data show. It has dropped since, falling 60 cents to $21.05 Tuesday.

Capital Power, an electricity generating company spun out of Epcor, the utility owned by the city of Edmonton, was the only TSX IPO in the second quarter this year and first since the comparable period on 2008, PricewaterhouseCoopers said.

Including the TSX junior venture exchange and "other" issues, total IPOs were $514.8 million in the quarter.

There were seven TSX IPOs worth $434 million in the second quarter of 2008.

The figures do not include issues of stock by companies which were already publicly traded, and do not include mutual funds — which raise money to invest in existing listed companies — which have come bounding back in the second quarter of 2009 after sagging at the end of 2008 and the first quarter of 2009.

Capital Power will use the money raised to buy Epcor's power generation business, including its 30.6 per cent interest in Epcor Power LP. Epcor has about 3,300 megawatts of owned and/or operated generation capacity at 31 plants in Canada and the United States.The Alberta Federation of Labour has tried to block the sale legally, but failed, Epcor said.

CBC News, Tues July 7 2009

Tagged under: Privatization and Deregulation EPCOR

Union coalition to consider options in light of EPCOR court decision

Ruling doesn't change the fact that Edmonton city council did an end run around the democratic process, says AFL Sep 25, 2009

EDMONTON - The labour unions that launched a legal challenge aimed at reversing the secretive privatization of hundreds of millions of dollars worth of power generating assets owned by the citizens of Edmonton will meet next week to consider their options for appeal now that a lower court has ruled against them.

On September 11th, the Alberta Federation of Labour, along with two unions representing City of Edmonton employees (Civic Service Union Local 52 and Canadian Union of Public Employees Local 30) asked the Alberta Court of Queen's Bench to make a declaration on whether or not Edmonton City Council had followed the proper process when they decided behind closed doors to spin-off $3 billion worth of power generation assets owned by Epcor and sell about $500 million worth of those assets to private investors.

In a decision released this afternoon, the court ruled that, thanks to the "natural person powers" granted to the City under legislation, members of City Council didn't have to abide by sections of the Municipal Government Act which say all decisions made by municipal councils have to be made in public forums.

"We're deeply troubled by this decision," says AFL president Gil McGowan. "It seems to imply that there are no limits to the powers of City Council to delegate important civic functions and decisions to individuals and bodies that are not accountable to the public. It's a blank cheque for politicians who want to make unpopular decisions without any public input or scrutiny."

McGowan says that he and other union leaders involved in the court challenge will be meeting next week to consider all of their options - including whether or not to launch an appeal.

"Ruling or no ruling, the fact remains that major assets owned by the citizens of Edmonton were sold off in secret and without any public consultation," says McGowan. "The mayor and senior managers from EPCOR and Capital Power can now say that what was done is technically legal. But that doesn't make it morally or ethically right."

McGowan says he is disappointed that the lower court judge didn't directly address the union coalition's main argument that - in the spirit of promoting democracy - the City's power to delegate decision-making power needs to be interpreted narrowly.

"We frankly continue to believe that the arguments put forward by the City and Epcor are nothing more than flimsy excuses used to justify shutting the public out of this extremely important decision. The bottom line is that they did an end run around the democratic process - and in their heart-of-hearts they all know it."

McGowan says the union coalition remains committed to stopping similar kinds of "abuses of the democratic process" from happening again. That may mean an appeal of today's court decision, says

McGowan, or it may mean making the privatization of Epcor a major issue in the next municipal election campaign.

"The citizen's of Edmonton deserve better from the people they elect to represent them. Citizens deserve transparency and they deserve to be consulted on decisions of this magnitude. We're going to everything we can to make sure voters know which members of Council let this travesty of democracy unfold. And we'll be encouraging voters to hold their elected officials properly accountable."

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For more information call: Gil McGowan, AFL President @ (780) 218-9888

Tagged under: EPCOR privatization

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McGowan says he is disappointed that the lower court judge didn't directly address the union coalition's main argument that - in the spirit of promoting democracy - the City's power to delegate decision-making power needs to be interpreted narrowly.

"We frankly continue to believe that the arguments put forward by the City and Epcor are nothing more than flimsy excuses used to justify shutting the public out of this extremely important decision. The bottom line is that they did an end run around the democratic process - and in their heart-of-hearts they all know it."

McGowan says the union coalition remains committed to stopping similar kinds of "abuses of the democratic process" from happening again. That may mean an appeal of today's court decision, says McGowan, or it may mean making the privatization of Epcor a major issue in the next municipal election campaign.

"The citizen's of Edmonton deserve better from the people they elect to represent them. Citizens deserve transparency and they deserve to be consulted on decisions of this magnitude. We're going to everything we can to make sure voters know which members of Council let this travesty of democracy unfold. And we'll be encouraging voters to hold their elected officials properly accountable."

-30-

For more information call: Gil McGowan, AFL President @ (780) 218-9888

Tagged under: Privatization and Deregulation EPCOR

Unions challenge legality of Epcor spinoff

EDMONTON - The controversial Epcor deal was brought back to court Friday with a coalition of union groups arguing for a judge in the Court of Queen's Bench to review how the deal came together.

"The issue today is not about job and union contracts, the issue is about democracy," Gil McGowan, president of the Alberta Federation of Labour, said before heading into the courthouse.

McGowan, Terry Jardine from the Canadian Union of Public Employees Local 30, and Leo Derkach from the Civic Service Union 52, are bringing the matter to court.

City council in April approved a deal that saw Epcor's power-generating plants carved off into a new company, separate from the city-owned utility. The public officials voted on the deal in a closed meeting on April 17.

Ben Henderson and Amarjeet Sohi were the only city councillors to vote against the deal.

Some councillors have said they were acting as Epcor shareholder representatives, not city councillors, when they made the decision. The city owns Epcor and city council's role is that of sole shareholder, acting on behalf of citizens, they argue.

McGowan said his group is arguing that the way the deal happened contravenes the Municipal Government Act.

"The notion that they can switch their hats and act behind closed doors ... we're challenging their right to do that," McGowan said.

This is at least the second time the Epcor deal has been taken to court. In July, a judge rejected a request for an injunction on the deal by Bill Pidruchney, a former head of the Alberta Securities Commission.

In court, Pidruchney argued taxpayers should be given the opportunity to vote on the sale because they built Epcor over 118 years and benefited from $138 million in dividends last year.

The new company, Capital Power, completed a $500-million IPO (initial public offering) in July and is now the largest publicly traded company based in Edmonton.

Edmonton Journal, Fri Sept 11 2009Byline: Alexandra Zabjek

Tagged under: Privatization and Deregulation EPCOR

Unions go to court to overturn Capital Power decision

A Court of Queen's Bench justice will be hearing arguments tomorrow in a case launched by a group of labour organizations against the sale of EPCOR's publicly-owned power generation assets.

The group includes the Alberta Federation of Labour and the City of Edmonton's two largest unions, CUPE Local 30 and CSU 52.

They argue that Edmonton City Council breached key provisions of the Municipal Government Act when it went behind closed doors to privately decide to privatize EPCOR's power generation assets.

"We are arguing that City Council had no legal authority to make the decision to privatize EPCOR's power generation," says AFL President Gil McGowan. "And if they did not have the legal right to make the decision, the decision cannot be considered valid."

Representatives of the group - including McGowan and Dave Loken from the Coalition of Edmonton Civic Unions - will be available on Friday before and after the hearing to take questions from the media about the case.

Friday, September 11, 2009 Media Availability: 9:30 a.m. Court Hearing Begins: 10:00 a.m. Edmonton Law Courts 1A Sir Winston Churchill Square

Both EPCOR and the city of Edmonton have filed extensive responses to the groups' statement of claim. The hearing is expected to take the bulk of the day.

-30-

For more information call:

Gil McGowan, AFL President @ (780) 218-9888

Dave Loken, Coalition of Edmonton Civil Unions @ (780) 448-8981 (office); (780) 237-8656 (cell)

Tagged under: Privatization and Deregulation EPCOR

Unions lose court battle over EPCOR

It's back to the drawing board, for the unions challenging the city's decision to split up EPCOR.

The Alberta Federation of Labour, along with two other city unions took the city to court earlier this month. They asked Court of Queen's Bench to determine whether city council had followed the proper process, when the decision was made behind closed doors to spin off three-billion dollars worth of power-generation assets owned by EPCOR, and sell about half-a-billion worth of those assets to the private sector. Those are assets the unions say belong to the people of Edmonton.

The court ruled that, thanks to the "natural person powers" granted to the City under legislation, members of council didn't have to abide by sections of the Municipal Government Act. Those sections say all decisions made by municipal councils have to be made in public forums.

The unions will meet next week to plot their next move.

iNews880, Fri Sept 25 2009

Tagged under: Privatization and Deregulation EPCOR

2005 September Presentation Edm City Council Transfer of Drainage Assets to EPCOR

Presentation by Gil McGowan September 27, 2005

Tagged under: Privatization and Deregulation EPCOR

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EPCOR USA enters into agreement to acquire water businesses in Arizona and New Mexico

PHOENIX, AZ, Jan. 24 /PRNewswire/ - EPCOR Water (USA) Inc. (EPCOR USA), a wholly owned subsidiary of EPCOR Utilities Inc. (EPCOR), has entered into an agreement for the acquisition of 100% of the stock of Arizona American Water and New Mexico American Water, wholly owned subsidiaries of American Water Works Company Inc. for total consideration of US $470 million, subject to certain adjustments. The transaction is subject to regulatory approvals in both states.

Arizona American Water is a regulated utility that provides water service to approximately 106,000 metered water customers and wastewater services to 51,000 customers. These customers live in 13 municipalities, 90% of which are located within a 20 mile radius in the Phoenix area.

New Mexico American Water provides water and wastewater services to the City of Clovis in eastern New Mexico, and in the greater Edgewood area near Albuquerque, serving more than 17,000 customers.

"This investment is consistent with EPCOR's strategy of redeploying funds from the sale of our investment in Capital Power Corporation into quality rate regulated businesses. When complete, the transaction will provide EPCOR USA with a strong hub in the U.S. southwest," said Don Lowry, EPCOR President and CEO. "This acquisition provides a combination of competent and committed people who have a top notch safety record, solid assets, and presence in a market where we have confidence in the long-term growth prospects."

Mr. Lowry added, "We look forward to continuing the high level of service provided by American Water and participating in the lives of the communities where we will be operating. We will work with American Water and state regulators to make a timely and seamless transition."

The US $470 million acquisition includes the assumption of approximately $10 million of long-term debt by EPCOR Water (USA) Inc. and is subject to regulatory approval by the Arizona Corporation Commission and New Mexico Public Regulation Commission, which is anticipated in the first quarter of 2012. The acquisition will be funded with a combination of cash and debt financing. TD Securities is EPCOR USA's financial advisor on this transaction.

Arizona American Water employs approximately 200 people, while New Mexico American Water has 25 staff. Once the transaction closes, it is anticipated they will continue to operate the utilities within the EPCOR family.

EPCOR USA is in the business of building, owning and operating water and wastewater treatment facilities in the southwestern United States. In 2010, EPCOR USA entered into an agreement with American States Water Company to purchase and operate the Chaparral City Water Company, which serves 13,000 customers in the town of Fountain Hills, Arizona.

About EPCOR Utilities Inc.

EPCOR USA is a wholly owned subsidiary of EPCOR. EPCOR builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure. EPCOR, headquartered in Edmonton, Alberta, is an Alberta Top 50 employer.

About American Water Works Company

Founded in 1886, American Water is the largest investor-owned U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs more than 7,000 dedicated professionals who provide drinking water, wastewater and other related services to approximately 15 million people in more than 30 states and parts of Canada.

Forward-Looking Information

Certain information in this news release relating to EPCOR is forward-looking and related to anticipated events and strategies. When used in this context, words such as "will", "anticipate", "believe", "plan", "intend", "target" and "expect" or similar words suggest future outcomes. By their nature, such statements are subject to significant risks and uncertainties, which include, but are not limited to, regulatory and government decisions, economic conditions, and availability and cost of financing.

Readers are cautioned not to place undue reliance on forward-looking statements as actual results could differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements. Except as required by law, EPCOR disclaims any intention and assumes no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

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ATTACHMENT E

FINANCE

2014 OPERATING BUDGET

AS APPROVED AT
DECEMBER 5, 2013

TRANSFORMING | **EDMONTON**

BRINGING OUR CITY VISION TO LIFE

2014 Budget Overview

Corporate Summary

Approved Tax-supported Operations

($000)	2012 Actual	2013 Budget	2014 Budget	$ Change '13 to '14	% Change '13 to '14
Revenue & Transfers					
Taxation Revenue	1,026,181	1,110,661	1,196,908	86,247	7.8
Assessment Growth	-	-	-	*30,140*	*2.9*
2014 Proposed Tax Increase	-	-	-	*56,107*	*4.9*
User Fees, Fines, Permits, etc.	364,971	382,628	403,377	20,749	5.4
EPCOR Dividends	141,021	141,021	141,021	-	-
Franchise Fees	124,147	131,628	137,902	6,274	4.8
Grants	105,631	102,396	94,401	(7,995)	(7.8)
Investment Earnings & Dividends for Capital Financing	66,262	54,304	55,960	1,656	3.0
Other Revenues	30,190	29,160	34,283	5,123	17.6
Transfers from Reserves*	32,464	38,701	11,926	(26,775)	(69.2)
Total Revenue & Transfers	1,890,867	1,990,499	2,075,778	85,279	4.3
Net Expenditure & Transfers					
Personnel	1,052,739	1,145,655	1,200,969	55,314	4.8
Materials, Goods & Supplies	106,964	102,324	106,195	3,871	3.8
External Services	188,028	179,707	196,707	17,000	9.5
Fleet Services	139,595	140,639	147,288	6,649	4.7
Intra-municipal Services	60,643	72,740	80,619	7,879	10.8
Utilities & Other Charges	459,393	514,639	517,646	3,007	0.6
Transfer to Reserves	50,634	5,553	8,030	2,477	44.6
Intra-municipal Recoveries	(167,129)	(170,758)	(181,676)	(10,918)	6.4
Total Net Expenditure & Transfers	1,890,867	1,990,499	2,075,778	85,279	4.3
Total Net Requirement	-	-	-	-	-
FTEs					
Boards & Commissions					
Economic Development Corporation	272.0	265.0	271.0	6.0	
Police Service	2,220.5	2,294.5	2,320.5	26.0	
Public Library	433.9	442.3	468.4	26.1	
Other Boards & Commissions	58.0	58.0	58.0	-	
Civic Departments					
Community Services	3,170.1	3,252.7	3,415.2	162.5	
Corporate Services	1,001.9	1,020.6	1,021.6	1.0	
Financial Services/Corporate Strategic Planning	470.6	464.5	458.5	(6.0)	
Mayor & Councillor Offices	45.0	49.0	49.0	-	
Office of the City Auditor	14.0	14.0	14.0	-	
Office of the City Manager	77.8	86.4	86.4	-	
Sustainable Development	495.0	559.0	595.0	36.0	
Transportation Services	3,301.9	3,381.9	3,415.4	33.5	
Community Revitalization Levies	5.0	5.0	5.0	-	
Total FTEs	11,565.7	11,892.9	12,178.0	285.1	

* Transfers from Reserves includes 2013 One-time Items and Land Enterprise Dividend.

Program—Corporate Revenues

Approved 2014 Budget Summary

	2012 Actual	2013 Budget	2014 Budget	$ Change '13-'14	% Change '13-'14
Revenue & Transfers					
EPCOR Dividends	$ 141,021	$ 141,021	$ 141,021	$ -	-
EPCOR Franchise Fees	66,924	70,290	73,045	2,755	3.9
Gas Franchise Fees	50,483	53,634	56,468	2,834	5.3
Tax Penalties & Certificates	11,805	10,280	11,410	1,130	11.0
Tag/Fine Revenue	7,925	10,965	10,965	-	-
Business Licensing	9,998	9,930	9,930	-	-
Sanitary Franchise Fee	6,740	7,704	8,389	685	8.9
Central Management Charges	2,136	3,186	3,703	517	16.2
Land Enterprise Dividends	3,397	4,585	1,315	(3,270)	(71.3)
Other Revenues	1,704	877	1,156	279	31.8
Drainage Dividends	2,050	-	-	-	-
Reserves & Surplus	3,827	-	80	80	100.0
Total Revenue & Transfers	308,010	312,472	317,482	5,010	1.6
Expenditure & Transfers					
Transfer to Reserves	-	-	-	-	-
Subtotal	-	-	-	-	-
Intra-municipal Recoveries	-	-	-	-	-
Total Expenditure & Transfers	-	-	-	-	-
Net Operating Requirement (Contribution)	$ (308,010)	$ (312,472)	$ (317,482)	$ (5,010)	1.6
Full-time Equivalents	-	-	-	-	

Budget Changes for 2014 ($000)

Revenue & Transfers - Changes

EPCOR Franchise Fees $2,755

Increase is due to volume and inflationary increases over the prior year. The increase in franchise fees is comprised of $1,841 for power, $555 for wastewater treatment and $359 for water services.

Gas Franchise Fees $2,834

Increase in gas franchise fees is due to a projected volume increase and growth in 2014.

Revenue & Transfers - Changes (Con't)

Tax Penalties & Certificates $1,130

The increase in tax penalties arises from increased rates in 2013 and an increased amount of overdue accounts.

Sanitary Franchise Fee $685

The increase is due to greater Sanitary net income anticipated for 2014 over the prior year. The fee is based on 8% of qualifying revenues as determined by Council through the approved Drainage Services Utility Fiscal Policy (C304C). The increase in Sanitary net income is resulting from recommended increases in customer rates in the utility's Annual Rate Filing, which is to be approved by Council through the Drainage Services 2014 proposed budget.

Central Management Charges $517

Increase is primarily due to additional amount of $414 charged to Current Planning. These are centrally incurred administrative charges to support enterprise, utility, and Current Planning activities.

Land Enterprise Dividends $(3,270)

The decreased dividend is due to Land Enterprises 2013 projected year-end position being lower than 2012. The decline in position arises from decreased sales activity during 2013 as the enterprise continues to purchase and hold land for future development or sale. Land Enterprise operates on a continuous cycle with respect to its land development and sale activities. Inventory and sales levels fluctuate dependant on the availability of land inventory and the demand for redevelped land in the market.

Supplementary Information

EPCOR Dividends

The annual EPCOR Dividend has been calculated using the 2005 base of $122,669 indexed annually for the CPI of 5 major Canadian banks as at October 1. However, going forward the EPCOR dividend has been maintained for 2014 at the 2012 value of $141,021.

EPCOR Franchise Fees

The 2014 Budget includes franchise fees received from EPCOR for power, water and wastewater treatment.

EPCOR Franchise Fees Distribution by Source

$ 54,910	Power
12,934	Water
5,201	Wastewater Treatment
$ 73,045	EPCOR Franchise Fees

4. SUBSIDIARIES

These are companies owned by the City.

EPCOR is the City's main subsidiary. Others like the City of Edmonton Non-Profit Housing Corporation are included within the respective department while Edmonton Economic Development Corporation (EEDC) is covered under Board & Commissions.

EPCOR Utilities Inc. (EPCOR)

EPCOR Utilities Inc. (EPCOR) is a wholly owned subsidiary governed by an independent Board of Directors. Headquartered in Edmonton, EPCOR builds, owns and operates electrical transmission and distribution networks, and water and wastewater treatment facilities and infrastructure in Canada.

The Board submits its budget directly to Council and accordingly its budget is not included in this document. For budget purposes, only the amount paid by EPCOR to the City of Edmonton is shown.

For financial reporting, EPCOR's operational results are reported in the annual financial statements using the modified equity method of accounting. Accounting principles are not adjusted to conform to the City's as a local government and inter-organizational transactions and balances are not eliminated.

5. INVESTMENTS, RESERVES & DEBT

A. Investments

The City maintains investments as established under City Policy C212D. A significant portion of these investments is managed within the Ed Tel Endowment Fund, in accordance with City Bylaw 11713. Investment earnings as well as Ed Tel dividends are directed to Capital under the Pay-As-You-Go program, consistent with the budget strategy to shift volatility of certain revenue streams to Capital.

B. Reserves

Reserves give the City of Edmonton financial sustainability and flexibility to address emerging issues. Governed by City Policy C217B, Reserve establishment and transfers to and from these accounts require Council approval through Budget. Tables describing all Reserve funds and Approved budgeted transfers for each individual Reserve have been provided in this document.

C. Debt

Working under debt and debt service cost limits in the MGA as well as the more conservative Debt Management Fiscal Policy (DMFP), debt is used as a financing source for the City's long-term capital plans and strategies to maintain long-term financial affordability, flexibility and sustainability.

The policy also provides for approval of multi-year debt guidelines with a corresponding debt repayment funding strategy, and added flexibility for the use of freed up debt servicing funding once debt is retired.

Debt principal repayments are accounted for as expenditures for budgetary purposes and as reductions on long-term debt liability for financial reporting purposes.

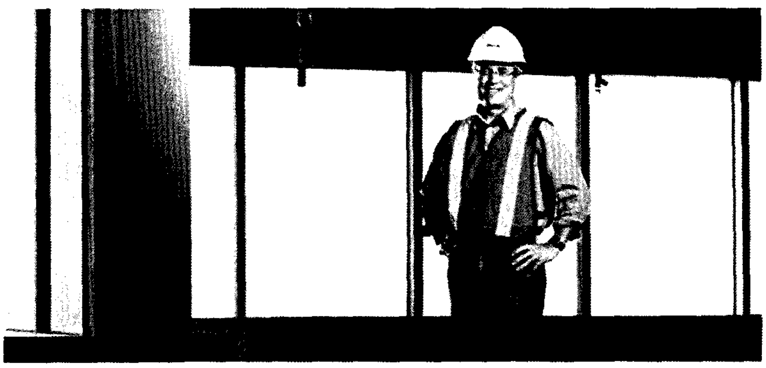
ATTACHMENT F

Business Person of the Year 2010: Don Lowry, EPCOR

Epcor CEO Don Lowry builds a public utility that will stand the test of time

Dec 1, 2010

The 2010 Business Person of the Year is presented in association with the Chartered Accountants of Alberta. On the cover, Don Lowry wears a suit provided by Henry Singer.



On the Rise: Don Lowry standing on the 27th floor of the new Epcor building.
Click here for a behind the scenes photo gallery from the Business Person of the Year photoshoot.
Photography by Curtis Trent

Thirty years ago, a soft-spoken young hockey player from Brantford, Ontario, with the uncanny ability to see how a play would unfold before it actually did, began a remarkable run in Edmonton that would see him lead the Edmonton Oilers to four Stanley Cup victories in five seasons. Don Lowry, the president and CEO of Epcor Utilities Inc. and Alberta's Business Person of the Year for 2010, shares many of the same qualities, from the reserved demeanour to that unique ability to see and understand what lies ahead. But while Wayne Gretzky made his magic on the ice, Lowry's spent the last 12 years doing it in the boardroom on behalf of his company's shareholder.

Between 1996 and 2008 the utility paid the City of Edmonton, Epcor's sole shareholder, more than $1.8 billion in dividends, franchise fees and taxes. The dividend increased for nine consecutive years and reached an all-time high of $134 million in 2009, a figure that constituted approximately eight

per cent of the city's overall budget and by some estimates kept property taxes 25 per cent below where they would otherwise have to be. Epcor was a cash cow, and it was keeping the City of Edmonton well fed.
Then, in 2009, Lowry appeared to abruptly change course.

In the 14 years since its creation, Epcor's portfolio of assets had expanded from three power plants and two water plants in Alberta to more than 50 power and water plants in Canada and the United States. That growth had fuelled the increases in the dividend, but it had also made Epcor dependent on its power generation assets. Meanwhile, without access to capital markets, the company's balance sheets had reached their limits. It was time, Lowry decided, to move in a different direction.

That direction was the creation of an independent power generation company, Capital Power Corporation, which would be able to tap into lucrative capital markets in order to fund its continued growth. Epcor, meanwhile, would focus on the business of "water and wires," while gradually drawing down its investment stake in Capital Power. "When we looked at our shareholder's risk appetite, it's very – and appropriately – low, and their need for a stable and predictable dividend with no volatility is a principal driver," he says. "The power generation business is a growth business, but it's a higher-risk business with higher volatility. We had grown the company such that 70 per cent of the income was coming from outside the City of Edmonton and was primarily driven by power generation. When we stacked them all up, we had to make a decision."

While the decision attracted controversy, Lowry remains convinced that it was the right one to make. The creation of Capital Power has added another head office to Edmonton's corporate landscape, along with all the high-value jobs that come with it. It's not about to go anywhere, either; a social objectives clause ensures that Capital Power's head offices will remain in Edmonton in perpetuity. More importantly, Lowry says, is the fact that Epcor's stake in Capital Power will provide the fuel it needs to grow its new interest in electrical transmission and water management, and protect the dividend that is so important to its shareholder. "We've captured the value we created on power generation," he says, "and used it as a currency to now grow the water business."

It's a bold move, and one that didn't necessarily have to be taken. As Lowry points out, Epcor could have continued to milk its power generation assets for at least three or four years and conceivably increased the dividend over that period. But, he says, that kind of passive approach might have ultimately boxed the company into a corner it couldn't get out of. "If we'd been at a point where the markets collapsed, as in 2008, and we had a major financing or a major cash call, that could have been disastrous." His decision to move Epcor out of the power generation business was driven by the fact that it's easier to make a choice than to have the market make it for you. "Often, the easy things to do aren't the right things to do," he explains. "But at a time when a company for all intents and purposes looks like it's growing exceedingly well and things are going exactly the way they should, often that's the time you should exit the market."

Brian Vaasjo, the president and CEO of Capital Power, believes that Lowry's decision to exit the power generation market before he had to epitomizes his style of leadership. "His greatest strength is clarity of purpose and direction," Vaasjo says. "When it comes to making a decision or arriving at a conclusion and moving forward, it becomes very clear, very straightforward." Hugh Bolton, the chair of Epcor's board of directors, shares Vaasjo's view, noting that this forward-thinking approach is what puts Lowry in the top tier of Alberta's executive community. "He's a strategic thinker," Bolton says. "People talk about strategy and they throw the word around, but Don really understands what it means. He has that wonderful ability to peek around the corner and see what's coming and, more importantly, to marshal his colleagues into action to deal with it."

What Lowry sees around the corner right now, and what he has been seeing for a few years now, is the growing importance of water. "We're very fortunate in Canada that we have a current abundance of water," he says, "but the warning signals are there now, whether it's [David] Schindler's report on the Athabasca [River], whether it's the flood from the Red River in Winnipeg, the boil water advisories, the Walkertons in Ontario – all of those early warning alarm bells are going off. Our message from Epcor is that there's no need for them. We should be ashamed to have boil water advisories in Canada."

There's opportunity here too, of course. "The water business is a good, long-term, stable and regulated business," Bolton says. "That's why we had to get out of the electrical generation business. It requires a huge amount of patient capital, and our shareholder's not patient. They rely on our dividend." But if the water business is a steady and predictable one, it's also one with a lot of untapped potential. Lowry estimates that the financial opportunities associated with water management are in the "billions and billions" of dollars. Still, it's clear that Epcor's interest in water isn't entirely driven by its bottom line. "We have opportunities with our industries to lead with the

deployment of technology and water," Lowry says. "We believe that our responsibility is to take those steps and demonstrate that it can be done. The expertise and the people and the operations that we have here are poised to contribute responsibly to making Alberta better, and then taking that expertise beyond Alberta."

Don Lowry's contributions to Edmonton and Alberta reach far beyond the boardroom

Epcor is already doing that, in fact. From the rehabilitation of the Britannia Mine, one of the continent's biggest sources of heavy metal pollution, to the wastewater treatment plant in Sooke, B.C., the company has a growing resumé of water-related projects. Back home, meanwhile, the Gold Bar Wastewater Treatment Plant, which was transferred by the City of Edmonton to Epcor on April 1, 2009, remains one of North America's most innovative and effective such operations. "We've demonstrated, from the tip of Vancouver Island and our management of water treatment plants, to our first introduction of ultraviolet technology here in Edmonton, that breakthrough will come from innovation and technology," Lowry says. "We see ourselves as positioning Epcor to be a contributor to that." Those contributions won't be constrained to the borders of Alberta or Canada, either. Epcor's decision this past summer to purchase the Chaparral City Water Company in Arizona reflects the increasingly international nature of Epcor's water-related activities.

Not surprisingly, Epcor has identified the oil sands and the companies that do business up there as a major area of opportunity for its water business. In October of 2009 Epcor inked a deal with Suncor worth $100 million that will see it provide potable water and domestic wastewater services to more than 6,000 Suncor oil sands workers through the management of three wastewater treatment plants, two water treatment plants and an assortment of collection and distribution systems. Don Thompson, the president of the Oil Sands Developers Group, is happy to see Epcor doing business in the oil sands. "We welcome somebody with Epcor's obvious strong technical competence with respect to treatment and management of water, because of course water is one of the core issues of concern not just to the industry but all of our stakeholders."

Thompson thinks that the opportunities available to Epcor in the oil sands could be significant. "I would think that every company in the oil sands manages water, and that means there's a considerable market for people with water expertise." Bolton is confident that the new front that Epcor has opened in the oil sands will be a productive one. "There are all sorts of roadblocks to overcome, but so far we've been making inordinate headway, not only with Suncor but several other participants in the oil sands. And really, that's our future."

That's one future, at least. The other is in the residential water market, and it's there that things get more complicated. Most of us still treat water as an inexhaustible free good, and that's an attitude that simply has to change, Lowry says. "There's nothing free in this world, and where we've seen the abuse of water and then its eventual disappearance is when it's been a free good." The solution to Alberta's now-chronic water shortages, he believes, is a move towards pricing and regulating it properly. "You can't introduce good technology, attract smart and committed people and get the capital to maintain and build great infrastructure unless you're repaid for it. I'm not advocating that it should be a gold strike mentality where the highest payer gets all the water, but you can put in mechanisms similar to the power or telecom industries where you have lifeline users and then you price your water accordingly. You work on the demand side through conservation measures, you promote the efficient use and reuse of water and you're going to get to a better place."

Bob Sandford, the Epcor chair of the Canadian Partnership Initiative in support of the United Nations' "Water for Life" Decade, thinks Lowry is ahead of his time when it comes to his views on water management. "I think he understands both the local issues with respect to water and the fact that Canadians take water for granted, but he also understands the global water circumstance, and I think he understands fully how those global circumstances are going to present themselves here over time," Sandford says. "I think that's a valuable asset for a leader to have." Sandford, who got to know Lowry through the invite-only Rosenberg International Forum on Water Policy, which was held in Banff in 2006, says that Lowry is highly respected within the global community of experts and academics who study water policy. "He was the first ever private-sector speaker to open the conference. It's usually a head of state, so that gives you some idea of how well respected he is internationally."

Lowry remains optimistic that sound leadership and good policies could be enough to change our spendthrift approach to water, although he concedes that it may take a crisis to truly alter people's attitudes. Sandford believes that Lowry is one of a half-dozen people in senior executive positions in this country with the leadership capacity to avoid that moment of crisis, but Bolton is a bit more pessimistic. "I say he's an awful good CEO, but he's not the messiah. People take water for granted, and to get people to change their attitude, I think, will require a crisis."

If it comes to that, though, Lowry will be ready. "You can make that crisis a launching pad, or you can make it your Waterloo," he says, noting that the reinvention of Epcor itself was a response to a crisis of another sort, the deregulation of the Alberta electricity market. Bolton, who has seen his fair share of CEOs operate in the heat of battle, believes in Lowry's ability to rise to the occasion. "He's very sentimental, he's very family-oriented, and yet in a real crisis he's as stoic and as calm and as clear-thinking as anybody you'd want to know."

That orientation is what has kept Lowry grounded throughout his career. While it's common to hear about executives willing to lay just about anything, from their own health to that of their family life, at the altar of professional success, Lowry isn't willing to make those sorts of sacrifices. Success, he says, is the ability to create a balance between family, health and work. "It's like juggling three balls," he says, "and you can never let your family or your health ball drop. Work, you know, you can drop that from time to time and get another job or modify it. Where I've seen things go wrong is when people have compromised on the first two. You just can't."

– Click here for a behind the scenes photo gallery from the Business Person of the Year photoshoot.

He's not perfect, mind you. "He's got one fault," Bolton says. "He is terribly modest and shy, and he hates going out and selling the Epcor story. He hates going out and glad-handing at cocktail parties. He hates visiting clients and chitty-chatting about nothing. He really struggles doing those sorts of things." The Epcor story, Bolton says, deserves a wider hearing. "Have we told the Epcor story properly to the citizens of Edmonton? The answer is no. The average Edmontonian has no idea of all the good Epcor does to this city, over and above the financial return."

Don't expect Lowry to turn into a cheerleader any time soon, though. Instead, he's content to continue moving Epcor towards its future in water and wires, while building a company whose influence extends beyond its bottom line. "Whether it was on the power or the water side, people here got a sense that we weren't just building a company to pay a dividend. It's not just a job. It's not just a financial statement. We're doing interesting things."

The School Of Fish

Don Lowry didn't grow up dreaming of a corner office on the 28th floor. Instead, he had designs on a career that would have kept him closer to ground level. "When I was growing up, I was going to become a limnologist," he explains. "That's the study of fresh water biology." But if that's an unusual childhood aspiration for a corporate titan, it's also one that led him, in a roundabout way, to the world of business and the job he has today.

Growing up in a family of modest means that couldn't afford to buy horses for their kids and wasn't particularly interested in dogs, Lowry set his sights a little lower when it came to choosing a pet. He became a guppy enthusiast. "I went to the pet store one day, and there were these really fancy guppies but they cost a buck each," Lowry explains. "I didn't know until then that we were poor, because he [his father] said that I could have whatever fish I wanted but that I had to find a way to pay for them." The young Lowry quickly figured out that the best way to pay for these high-end guppies was to make more of them and sell them back to the very same store.

It wasn't long before he was supplying all of his local pet stores with guppies and other kinds of tropical fish, and it was a pursuit that provided him with both entertainment and extra cash. More important, he says, are the lessons that he learned from them about how the world works. First and foremost among those is the importance of water, a lesson that now informs Epcor's own mission. "It might sound a little bizarre," he says, "but if you are into fish, one thing you learn is the importance of water. It's a base ingredient, and unless your water is clean, it has all the chemical elements, trace and otherwise, and is the right temperature and the right turbidity and flow, your fish will not thrive and propagate."

His fish have even taught him a thing or two about leadership, including the importance of being patient. "Don't expect your fish tank to be magnificent overnight, with the coral reef and the diversity of species," he explains. "You have to work with it, and it's the same with your business. You have to work at your business every day, and be wary of those that say you can hit it out of the block with an investment tomorrow or that suddenly everything's going to change just through working hard at it for a week or a month. Great things in business, as in life, don't happen quickly."

Meanwhile, that carefully cultivated balance can be upset in a nanosecond. "Your aquarium can be upset by a power failure, you can have an intrusion of a pathogen through a new fish, you can have a broken filter – you have to be ready with your fish to accept that you're going to have to work with them continually to keep that environment pure.

It takes years to build culture, it takes 10 years to build a business, and it can be upset in a nanosecond. That's one fish lesson for you."

Special Dividend
While Don Lowry is proud of the financial contributions that Epcor has consistently delivered to its shareholder, he's quick to point out that the utility is more than just the sum of its dividend payments. What follows are just a few of the ways in which Epcor's presence in and influence on communities across Alberta is felt.

Cultural Capital
Epcor is a major supporter of arts and cultural functions and facilities in Alberta. In Calgary, that support is highlighted by its investment in the Epcor Centre for the Performing Arts, while in Edmonton it includes the Epcor Amphitheatre at downtown's Churchill Square and its role as the 2010/11 season sponsor at the nearby Citadel Theatre. Other events and organizations that receive support include the Works Festival, Capital Ex and the Canadian Finals Rodeo.

Culinary Champion
Epcor's philanthropic reach extended all the way to Vancouver last spring, where its fundraising efforts helped support Canada's athletes as they competed at the 2010 Winter Olympics. Epcor's support of our Olympic athletes began back in 2005, when Epcor signed on as a title sponsor of the Gold Medal Plates program, a series of national fundraising dinners that support both the Canadian Olympic athletes and the competing chefs in their respective quests for excellence. Those dinners continue to provide nourishment for both Canada's Olympic and culinary communities.

Charitable Donations
Epcor and its employees participate in a number of fundraising and philanthropic campaigns, from the Comedy Cares program that visited Canmore, Fort McMurray, Okotoks and Strathmore in 2009 to the Donate-A-Ride program and Boyle Street Community Services. Epcor's employees also engage in charitable activities, and they outdid themselves in 2009 by donating a record $421,826 to the United Way in a joint campaign with Capital Power (including a corporate contribution of $125,000). Canmore's Emily Munro, meanwhile, received $2,500 to attend the 2009 National Circus School's Summer Camp in Montreal through Epcor's Sports Excellence and Youth Excellence awards program.

LEEDing the Way
If there's one neighbourhood in particular that's glad to have Epcor around, it's the hardscrabble patch of downtown Edmonton that sits on the edge of the city's Chinatown. A landscape defined by abandoned storefronts and bars with noon-hour drink specials, it is a monument to inner-city decay. But that will almost certainly change with the arrival of Epcor's new corporate headquarters.

The new 28-storey Epcor tower, located near the northeast corner of 104 Avenue and 101 Street, is the first office tower to be built in downtown Edmonton in 22 years, and one that's expected to earn LEED-silver certification for low energy, water and resource use upon its completion.

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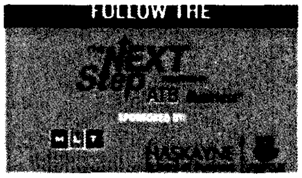

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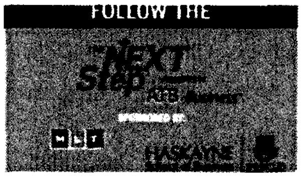

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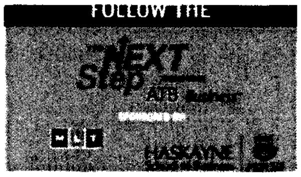
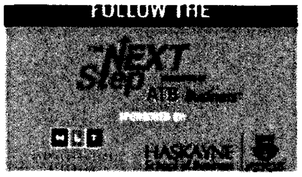


Top 10 Business Stories of the Year 2004



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Senior Development Engineer

NETWORK ANALYST III – Edmonton

Director Chemical Division

Project Manager

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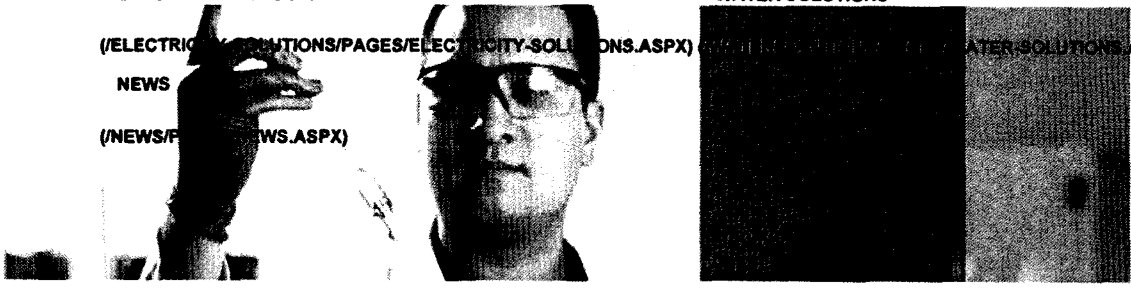
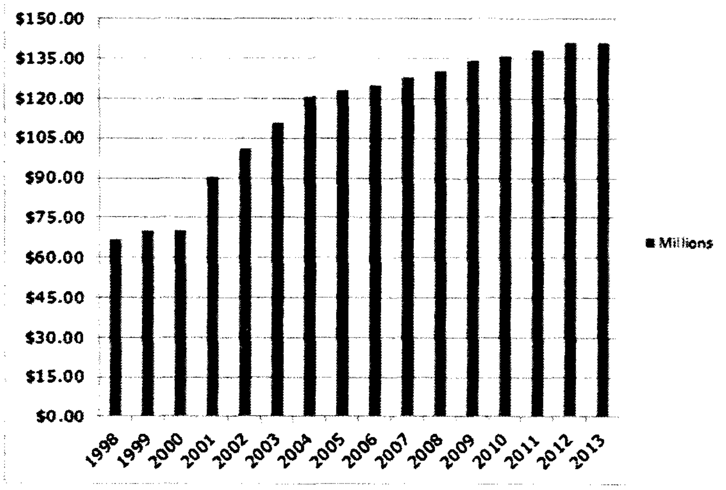


SHAREHOLDER RETURN

EPCOR's common dividend is set by policy. In 2013, EPCOR paid a dividend of $141 million to our Shareholder.

DIVIDENDS PAID TO THE CITY OF EDMONTON - 1998-2013



FINANCIAL INFORMATION

Long-term sustainable financial performance is the foundation for our corporate responsibility. Information about EPCOR's financial performance is listed below including quarterly reports, year-end financial results, credit ratings and other information that may be of particular interest to investors.

REPORTS

Below are our quarterly and annual financial reports.

View our Corporate Accountability Reports (/about/Pages/corporate-accountability.aspx).

2014

- EPCOR Financial Statements Q2 (http://corp.epcor.com/about/Documents/EPCOR-FinancialStatements-Q2-2014.pdf) 166 KB
- EPCOR Financial Statements Q1 (http://corp.epcor.com/about/Documents/EPCOR-FinancialStatements-Q1-2014.pdf) 121 KB
- EPCOR MD&A Q2 (http://corp.epcor.com/about/Documents/EPCOR-MDA-Q2-2014.pdf) 118 KB
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PRESENTATIONS

View presentations about EPCOR's business units and financials.

- Investor Presentation - March 2014 (http://corp.epcor.com/about/Documents/epcor-investor-presentation-march-2014.pdf) 1,558 KB
- Investor Presentation - June 2013 (http://corp.epcor.com/about/Documents/EPCOR-investor-presentation-june-2013.pdf) 1,885 KB
- BMO Investor Presentation (http://corp.epcor.com/about/Documents/EPCOR-BMO-Investor-Presentation.pdf) 588 KB
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- Investor Presentation (http://corp.epcor.com/about/Documents/EPCOR-Investor-Presentation.pdf) 2,981 KB
- Q2 2009 Financial and Operational Highlights (http://corp.epcor.com/about/Documents/EPCOR-Q2-2009.pdf) 578 KB

CREDIT RATINGS

BBB+ by Standard & Poor's

A (low) by Dominion Bond Rating Service Limited

ANNUAL INFORMATION FORMS

Annual Information Forms (AIF), company profiles, and additional information are posted on SEDAR:

EPCOR Company Profile on SEDAR (http://www.sedar.com/DisplayProfile.do?lang=EN&issuerType=03&issuerNo=00012250)

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