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BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman

AZ CORP COMMISSION
DOCKET CONTROL

BOB STUMP
Commissioner

BOB BURNS
Commissioner

Arizona Corporation Commission

DOCKETED

DOUG LITTLE
Commissioner

MAR 06 2015

TOM FORESE
Commissioner

DOCKETED BY
Rtu

IN THE MATTER OF THE APPLICATION
OF EPCOR WATER ARIZONA, INC. 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
TESTIMONY SUMMARIES

Attached are the testimony summaries of the following witnesses:

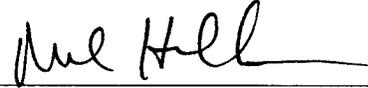
1. Sheryl L. Hubbard
2. Pauline Ahern
3. John Guastella
4. Shawn Bradford
5. Thomas Bourassa
6. Candace Coleman
7. Troy Day (including Mr. Worlton's testimony, which he will adopt)
8. Jake Lenderking
9. Sandra L. Murrey
10. Jeffrey W. Stuck

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LEWIS ROCA
ROTHGERBER

1 RESPECTFULLY SUBMITTED this 6th day of March, 2015.

2 LEWIS ROCA ROTHGERBER, LLP

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13 6th day of March, 2015, to:

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18 Copy of the foregoing hand-delivered
19 this 6th day of March, 2015, to:

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Testimony Summary of Sheryl L. Hubbard

Direct Testimony

Sheryl L. Hubbard testifies that EPCOR Water USA's corporate culture stressing customer service, operational safety, and keeping costs at or below budget for capital projects was integrated into the operations of all of the operating units acquired from American Water Company in early 2012. Annually, all employees develop measurable goals to provide safe and reliable water and wastewater services to our customers. These goals focus on customer service targets for responding to customer calls or service requests, reducing avoidable accidents and injuries, and monitoring disbursements to meet daily operations and capital expenditure programs. This new corporate culture not only improves the workplace for our employees, but it first and foremost provides benefits to customers of EPCOR Water USA.

This case includes the water districts of Mohave Water, Paradise Valley Water, Sun City Water, Tubac Water, and Mohave Wastewater.

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.

The primary increased investment and expenses in the years since the previous test years for these districts include investments in wells, an arsenic treatment plant, additional depreciation expense associated with additional utility plant in service, and increased labor and labor related expenses associated with increased activities across many functions resulting from a reduction in management fees from American Water and the establishment of services in Phoenix.

The five district total requested revenue increase based on the Company's October 14, 2014 filing is **\$5,276,122**, and the test year is the period ending June 30, 2013.

EWAZ's cost of capital is not less than 6.87%. The average cost of long-term debt is 4.29% and the cost of equity is 10.70%.

EWAZ's proposed rate case expense is \$650,000.

Rebuttal Testimony

Ms. Hubbard first describes the challenges that led to EPCOR Water Arizona Inc. ("EWAZ" or "Company") filing revised schedules on October 14, 2014. Ms. Hubbard also responds to concerns raised by ACC Staff and RUCO regarding the Company's accounting records.

Ms. Hubbard then presents the Company's revised requested annual revenue increase of **\$4,443,437**, or a 15.9% increase, highlighting the major changes from the October 14, 2014 filing in response to issues raised by other parties to this case.

Ms. Hubbard next addresses recommendations by ACC Staff and RUCO witnesses to the Company's proposed Rate Base components and several adjustments to expenses level in the proposed Adjusted Test Year Operating Income. Specifically, she addresses adjustments proposed by ACC Staff and RUCO to the Company's request for the expense categories identified as Depreciation and Amortization, Labor (specifically incentive compensation

expense), and Corporate Allocation (specifically at-risk compensation and public and governmental affairs expenses).

Finally, Ms. Hubbard responds to certain recommendations relating to the Company's proposed adjustor mechanisms.

Rejoinder Testimony

Sheryl L. Hubbard supports the Company's revised requested annual revenue increase of **\$4,302,011**, or a 15.37% increase.

Ms. Hubbard then responds to the surrebuttal testimony of certain witnesses for ACC Staff and RUCO. Ms. Hubbard first responds to RUCO and ACC Staff on the issue of accumulated depreciation. She explains that portions of the debit balances that have raised concerns for ACC Staff and RUCO were approved by the Commission in prior rate cases. She then explains that debit balances since the prior rate cases are primarily caused by early retirements in the Mohave Wastewater District. Ms. Hubbard then addresses Mr. Coley's arguments as to the causes of these debit balances.

Ms. Hubbard next addresses Staff's cash working capital arguments in relation to rate case expense and explains that these expenses are a normal operating expense requiring the expenditure of investor capital.

Next, Ms. Hubbard addresses RUCO's arguments in relation to CIAC attributed to CWIP. As set forth in her testimony, the concerns raised by RUCO are fully addressed by the segregation of developer funded CWIP from Company funded CWIP. She also notes Staff's support for the Company's position.

Ms. Hubbard then provides further support for the Company's request for a 24-month deferral of post in service AFUDC and depreciation. As she explains, this is a means to further address regulatory lag that will allow the Company to recover amounts that are otherwise permanently foregone.

Ms. Hubbard responds to the testimony of RUCO witness Ralph Smith on the issue of ADIT and the bonus depreciation deduction for income tax purposes and identifies the inaccuracies of his analysis.

On the issue of depreciation expense, Ms. Hubbard explains that although the Company has agreed to change its approach going forward, under this approach, customers will no longer benefit from the reduction to rate base if depreciation expense ends when the asset is fully depreciated between rate cases.

Ms. Hubbard explains that with regard to incentive compensation, the recommendations of ACC Staff and RUCO with regard to this labor expense are inconsistent with prior Commission decisions addressing this issue for the Company's predecessor, Arizona-American Water.

Lastly, Ms. Hubbard responds to the phase-in proposal of the SCVCC and to RUCO's testimony regarding the rate impact of the Company's SIB proposal.

Testimony Summary for Pauline M. Ahern

Direct Testimony

Ms. Ahern supports EPCOR Water Arizona Inc. ("EWAZ" or the "Company") relative to the common equity cost rate that would afford EWAZ the opportunity to earn a fair return on its jurisdictional rate base.

Ms. Ahern recommends common equity cost rate is 10.70% resulting from the application of market-based cost of common equity models, the Discounted Cash Flow ("DCF") approach, the Risk Premium Model ("RPM") and the Capital Asset Pricing Model ("CAPM"), to the market data of the proxy group of nine water companies of similar risk to that of EWAZ. Since EWAZ's common stock is not publicly traded, it is necessary to rely upon the market data of a proxy group of water companies of similar, but not necessarily identical, risk in determining a recommended common equity cost rate. Using the market data of a proxy group of relatively similar companies as well as using multiple common equity cost rate models adds reliability to the informed expert judgment applied in arriving at a recommended common equity cost rate.

Rebuttal Testimony

Ms. Ahern's rebuttal testimony responds to certain aspects of the direct testimony of ACC Staff Witness John A. Cassidy, RUCO Witness Robert B. Mease, SCVVC Witness James S. Patterson, and The Resorts Witness John S. Thornton, Jr. on the following issues:

Common Equity Cost Rate

Ms. Ahern provides evidence that both Mr. Cassidy's and Mr. Mease's single-stage Discounted Cash Flow model results, 8.6% and 8.74%, respectively, significantly understate the investors' required return when applied to an original cost less depreciation rate base, i.e., book value. In addition, Ms. Ahern's rebuttal testimony provides evidence in support of the exclusive reliance upon security analysts' forecasts of growth in earnings per share ("EPS") in contrast to the various historical and projected growth rates used by both Mr. Cassidy and Mr. Mease. As noted in Ms. Ahern's testimony, these forecasts are reasonable indicators of investor expectations and are more accurate than forecasts that rely on historical growth. Mr. Cassidy's and Mr. Mease's cost of common equity analyses will be discussed in further detail below.

Ms. Ahern also points out that Mr. Patterson's comments regarding a small size premium should be disregarded. Finally, Ms. Ahern demonstrates that Mr. Thornton's discussion of expected returns on the market of 8.8% - 9.1% are not consistent with the expected returns on the market of 12.05%, 10.24% and 14.35% relied upon by Ms. Ahern in her updated common equity cost rate analysis.

Credit Risk Adjustment

As noted in her rebuttal testimony, Ms. Ahern explains that neither Mr. Cassidy nor Mr. Mease included an adjustment to reflect the greater credit risk of the Company, as evidenced by its likely bond rating of Moody's A3 / S&P A- as indicated by EPCOR Utilities upgraded S&P bond / credit rating of A-, notwithstanding the level of common equity. An indication of the magnitude of such an adjustment is 0.24 basis points.

Business Risk Adjustment

Ms. Ahern also explains that neither Mr. Cassidy nor Mr. Mease included an adjustment to reflect the greater business risk of the Company, as evidenced by its smaller size relative to the water utilities upon whose market data their respective recommended common equity cost rates were based. Based upon her analysis, Ms. Ahern supports a conservative adjustment of 30 basis points based upon the size of the Company.

Mr. Cassidy's Common Equity Cost Rate

Ms. Ahern provides evidence that Mr. Cassidy's exclusive reliance upon the common equity cost rate Discounted Cash Flow Model ("DCF") is inconsistent with the Efficient Market Hypothesis ("EMH") upon which the DCF is predicated. Consistent with the EMH, multiple cost of common equity models should be relied upon.

Thus, Mr. Cassidy's exclusion of the Capital Asset Pricing Model ("CAPM") in this proceeding is not only inconsistent with Staff's previous position but with the EMH upon which his DCF analysis is predicated. Ms. Ahern provides evidence that the rationale Mr. Cassidy used for not relying upon a CAPM analysis in this proceeding is applicable as well to the DCF model when he stated that "forecasted dividend yields [are] continuing to remain at low levels" resulting in abnormally low DCF cost of common equity estimates.

Likewise, Mr. Cassidy's rationale for using a group of sample utilities, that a group of utilities can reduce the sampling error in the estimation of common equity cost rate, can also be applied to the use of multiple models which also reduces the sampling error from the application of a single cost of common equity model, *e.g.* the DCF.

Ms. Ahern's testimony, both this rebuttal and her direct, provide evidence that upward credit risk and business risk adjustments to the common equity cost rate based upon and small size as discussed below. Mr. Cassidy did not include such adjustments.

Properly including these adjustments, coupled with a properly applied CAPM analysis and a properly applied DCF analysis based upon Mr. Cassidy's DCF results in a 10.34% common equity cost rate, only slightly higher than her updated common equity cost rate of 10.25% discussed below. Adding Mr. Cassidy's 60 basis points upward economic assessment adjustment to the risk-adjusted corrected common equity cost rate of 10.34% results in a 10.94% common equity cost rate, for a range of 10.34% - 10.94% with a midpoint of 10.64%.

Mr. Mease's Common Equity Cost Rate

Ms. Ahern's rebuttal testimony also provides evidence which indicates that Mr. Mease's application of the Capital Asset Pricing Model ("CAPM") is flawed in several respects and therefore should not be relied upon. Mr. Mease's CAPM is flawed because:

- 1) He has incorrectly relied upon an historical risk-free rate despite the fact that both ratemaking and the cost of capital are prospective;

- 2) He has incorrectly calculated his market equity risk premium by relying upon:
- a. The historical total return on U.S. Treasury securities; and,
 - b. Not employing a prospective or forward-looking equity risk premium. EWAZ' likely bond rating and small size as discussed below. Mr. Mease did not include such adjustments.

Properly including these adjustments, coupled with a properly applied CAPM analysis as well as Mr. Mease's DCF and Comparable Earnings ("CE") analyses results in a 10.33% common equity cost rate, only slightly higher than her updated common equity cost rate of 10.25% discussed below. Adding Mr. Cassidy's 60 basis points upward economic assessment adjustment to the risk-adjusted corrected common equity cost rate of 9.79% results in a 10.39% common equity cost rate, for a range of 9.79% - 10.39% with a midpoint of 10.09%.

Updated Common Equity Cost Rate

Finally, Ms. Ahern's rebuttal testimony provides an updated common equity cost rate of 10.25%. Adding Mr. Cassidy's 60 basis points upward economic assessment adjustment to the updated common equity cost rate of 10.25% results in a 10.85% common equity cost rate, for a range of 10.25% - 10.85% with a midpoint of 10.55%, which Ms. Ahern opines is a reasonable common equity cost rate for EWAZ in the current economic and capital market environment.

Rejoinder Testimony

Ms. Ahern's rejoinder testimony responds to certain aspects of the surrebuttal testimonies of ACC Staff Witness John A. Cassidy and RUCO Witness Robert B. Mease:

Common Equity Cost Rate

Ms. Ahern provides evidence that Mr. Cassidy's assertion that he did not rely exclusively upon the results of his Discounted Cash Flow ("DCF") analysis is incorrect. She also provides supporting information that Mr. Cassidy's criticisms of the Predictive Risk Premium Model ("PRPMTM") are without merit based on her reliance on data from the Center for Research in Security Prices ("CRSP®") which are consistently and continually maintained through the dedicated efforts of world class scholars and analysts and relied upon through academia. In addition, Ms. Ahern demonstrates that Mr. Cassidy's attempt to discredit the predictive nature of equity risk premium variances is not statistically robust and demonstrates a lack of understanding of GARCH methodology because he relied upon the predicted variances derived through the GARCH process to test whether the variances are predictable. GARCH uses the fact that ACTUAL variances can be used to predict variance. She provides a correct and statistically robust analysis of the ACTUAL variances of the returns of the nine water companies which demonstrates that the ACTUAL variances are predictable and therefore GARCH is appropriate for the analysis used to derive her PRPMTM results.

Ms. Ahern also provides evidence that Mr. Mease's assertion that her comments regarding the misspecification of the DCF model when market-to-book ratios differ from 1.0 were not directed

to his DCF analysis but rather apply to all DCF analyses. Ms. Ahern also provides evidence that it is indeed appropriate to use forecasted data as the risk-free rate and in determining the market equity risk premium in a Capital Asset Pricing Model ("CAPM") because both the cost of capital and ratemaking are prospective in natures. In addition, she provides evidence that indicates that it is the income return on U.S. Government bonds, and not the total, return which is appropriate for cost of capital purposes. She also demonstrates that Mr. Mease's Comparable Earnings ("CE") result of 10.5% is nearly identical to the midpoint of her updated range of common equity cost rate, 10.55%.

Finally, Ms. Ahern provides evidence that both a credit and a business risk adjustment are warranted, despite Mr. Cassidy's and Mr. Mease's criticisms.

Testimony of John G. Guastella

Rebuttal Testimony

Mr. Guastella testifies that EWAZ filed an application for rate increases for its Mohave Water, Paradise Valley Water, Sun City Water, Tubac Water and Mohave Wastewater districts on the basis of a test year ended June 30, 2013.

He has reviewed certain testimony of the Arizona Corporation Commission (“ACC” or “Commission”) Staff and the Residential Utility Consumer Office (“RUCO”) witnesses regarding depreciation issues. On the basis of that review, he recommends that the following proposed ACC Staff and RUCO adjustments to the Company’s rate filing be rejected by the Commission:

RUCO

Mohave Water:

RUCO’s proposal to reduce rate base by \$1,265,114 for “Regulatory Liability - Over-Collected Dep. Exp”. RUCO’s proposal to reduce depreciation expense by \$253,023 for the “Amortization of Regulatory Liability over 5 Years”. Note, unlike the other districts, RUCO’s schedules for Mohave Water related to this rate base adjustment do not net the first year amortization of its total Regulatory Liability.

Paradise Valley Water:

RUCO’s proposal to reduce rate base by \$426,346 for “Net Regulatory Liability - Over-Collected Dep. Exp”. RUCO’s proposal to reduce depreciation expense by \$106,586 for the “Amortization of Regulatory Liability over 5 Years”.

Sun City Water:

RUCO’s proposal to reduce rate base by \$2,732,719 for “Net Regulatory Liability - Over-Collected Dep. Exp”. RUCO’s proposal to reduce depreciation expense by \$883,180 for the “Amortization of Regulatory Liability over 5 Years”.

Tubac Water:

RUCO’s proposal to reduce rate base by \$55,990 for “Net Regulatory Liability - Over-Collected Dep. Exp”. RUCO’s proposal to reduce depreciation expense by \$13,997 for the “Amortization of Regulatory Liability over 5 Years”.

Mohave Wastewater:

RUCO’s proposal to reduce rate base by \$31,559 for “Net Regulatory Liability - Over-Collected Dep. Exp”. RUCO’s proposal to reduce depreciation expense by \$7,889.82 for the “Amortization of Regulatory Liability over 5 Years”.

RUCO’s recommendation that debit balances in accumulated depreciation be eliminated by increasing the acquisition premium associated with the purchase of Arizona American Water Company by EPCOR Water USA.

ACC Staff

ACC Staff's proposal to decrease rate base by increasing accumulated depreciation for "Phantom Assets" on accounts with debit accumulated balances, as follows:

Mohave Water - \$279,644

Paradise Valley Water - \$1,416,273

Sun City Water - \$715,283

Tubac Water - \$1,877

Mohave Wastewater - \$413,326

Rejoinder Testimony

Mr. Guastella explains that, except for one calculation related to RUCO's Mohave Water rate base adjustment, RUCO did not agree to make corrections to its adjustments for debit balances in accumulated depreciation or treatment of the depreciation expense on fully depreciated individual units of assets as a regulatory liability.

Mr. Guastella also explains that ACC Staff also did not agree to correct its rate base adjustment related to debit balances in accumulated depreciation for certain accounts.

Mr. Guastella's rejoinder testimony provides further analysis of these issues. He explains that the approach by RUCO and ACC Staff to reduce rate base for deferred debit balances is inconsistent with depreciation concepts supported by NARUC. RUCO's creation of a regulatory liability is also inconsistent with these concepts. Mr. Guastella also testifies that the approach by ACC Staff and RUCO with regard to these balances constitutes retroactive rate setting.

Testimony of Shawn Bradford

Direct Testimony

Mr. Bradford describes the service areas and facilities for two of the districts that are included in this case: Sun City Water District and Tubac Water District. He also quantifies the arsenic media costs incurred to replace the media in two vessels in the Tubac arsenic reclamation facility. In addition, he sponsors testimony in support of changes in the tariffs for all of the districts in this proceeding related to miscellaneous service fees.

Rebuttal Testimony

Mr. Bradford testifies that EWAZ has reviewed the testimony provided by ACC Staff and RUCO and has revised its requested recovery for arsenic media costs in Tubac. The Company agrees with ACC Staff's recommendation for additional storage in Tubac but wishes to conduct a hydraulic analysis to determine the volume of storage that is needed. The Company also agrees with ACC Staff's recommended changes associated with miscellaneous service charges.

Rejoinder Testimony

Mr. Bradford responds to the surrebuttal testimony of ACC Staff and RUCO in relation to the Tubac Water District. Specifically, Mr. Bradford responds to the surrebuttal testimony of ACC Staff and RUCO on the issue of the treatment of arsenic media replacement costs. Mr. Bradford also describes the Company's position in relation to additional storage capacity in the Tubac Water District.

Testimony of Thomas J. Bourassa

Direct Testimony

Mr. Bourassa reports on the results of his cost of service studies (G Schedules) for the Mohave Water District, Paradise Valley Water District, Sun City Water District, Tubac Water District and the Mohave Wastewater District. The cost of service study provides a starting point for determining how proposed revenues should be allocated to the customer classes within each district (residential, commercial, irrigation, and other public authority) based on their respective costs of service. The cost of service study results provides meaningful information in the determination of rates for the customers of each district.

Mr. Bourassa's testimony explains the monthly minimum and commodity rate for a customer on a 5/8x3/4 inch meter when the allocations for expenses and plant for the functions of demand, customer, meters and services are included. He summarizes the cost of service results and recommends the indicated monthly minimums and single-tier commodity rates for each district and their respective customer classes.

Mr. Bourassa also discusses the present and proposed rates portions of the H Schedules. He explains the proposed rate designs for each district and the impact on customers. He compares the proposed rates to the results of his cost of service study. Generally, the Company's proposed monthly minimums are less than the indicated monthly minimums and below actual cost for the monthly minimum. The proposed lower tier commodity rates are discounted below the indicated commodity cost of water. As Mr. Bourassa explains, inverted multi-tiered rate designs as proposed in this case encourage conservation but this goal should be balanced with revenue stability. If conservation is actually achieved, usage will decline and it will cause a substantial shortfall in the revenues the Company collects, which means it will be impossible to actually achieve the authorized return.

Rebuttal Testimony:

Mr. Bourassa responds to the RUCO testimony on the declining usage adjustment. He explains that the differences in methods used between the Chaparral City Water Company case and the instant case do not mean the method proposed in the instant case is any less reasonable or appropriate. Each method has its own ways of estimating declining usage from conservation. Mr. Bourassa explains that the method used in the instant case removes weather related changes in usage and recognizes non-weather related changes in usage (conservation, demographics, and structural changes in the commercial sector).

Mr. Bourassa reports on the results of his rebuttal cost of service studies (G Schedules) for the Mohave Water District, Paradise Valley Water District, Sun City Water District, Tubac Water District and the Mohave Wastewater District. He also reports that the Staff has accepted the allocation factors used in his study. He summarizes the rebuttal cost of service results and explains what the indicated monthly minimums and single tier commodity rates should be for each district and their respective customer classes.

Mr. Bourassa also discusses the proposed rates portions of the H Schedules. He explains the proposed rate designs for each district and the impact on customers. He discusses how the Company's rate design compares to the ACC Staff's and RUCO's rate designs. He compares the proposed rates to the results of his cost of service study. Generally, the Company's proposed monthly minimums continue to be less than the indicated monthly minimums and below actual cost for the monthly minimum. The proposed lower tier commodity rates continue to be discounted below the indicated commodity cost of water.

Mr. Bourassa reports that the Company has adopted ACC Staff's recommendation to eliminate Establishment Fees – After Hours and Reconnection fees – After hours and adopted an After Hours charge which applies to all services performed after hours at the customer's request and/or convenience in addition to the service charge.

Rejoinder Testimony

Mr. Bourassa responds to the RUCO surrebuttal testimony on the declining usage adjustment. He explains the declining usage adjustment is based upon known and measurable changes to customer usage that have occurred since the last rate case due the implementation and continued use of conservation oriented rates. He explains the goal of conservation rates is to reduce customer usage.

Mr. Bourassa responds to Mr. Magruder's surrebuttal testimony on rate discrimination. He explains that each district has its own cost of service which reflects differences in the facilities necessary to provide service to customers in each district as well as the mix of customer classes, among other things.

Mr. Bourassa reports on the results of his rejoinder cost of service studies (G Schedules) for the Mohave Water District, Paradise Valley Water District, Sun City Water District, Tubac Water District and the Mohave Wastewater District. He summarizes the rejoinder cost of service results and explains what the indicated monthly minimums and single tier commodity rates should be for each district and their respective customer classes.

Mr. Bourassa also discusses the proposed rates portions of the H Schedules. He explains the proposed rate designs for each district and the impact on customers. He discusses how the Company's rate design compares to the ACC Staff's and RUCO's rate designs. He compares the proposed rates to the results of his cost of service study. Generally, the Company's proposed monthly minimums continue to be less than the indicated monthly minimums and below actual cost for the monthly minimum. The proposed lower tier commodity rates continue to be discounted below the indicated commodity cost of water.

Testimony Summary for Candace Coleman

Direct Testimony

Ms. Coleman testifies that EWAZ has requested a System Improvement Benefits (SIB) mechanism for its Mohave Water, Paradise Valley Water, and Sun City Water districts in order to facilitate the financing and replacement of aging infrastructure assets. This will ensure adequate and reliable water service while reducing large bill increases for ratepayers such as those that occur from infrequent and irregular rate case cycles.

The proposed SIBs contain criteria that have previously been adopted by the Commission for other similarly situated utilities.

The SIB for the Mohave Water District will include the replacement of mains, services, meters, and valves.

The SIB for the Paradise Valley Water District will include the replacement of mains, services, and valves.

The SIB for the Sun City Water District will include the replacement of mains, services, valves, and meters.

Detailed engineering reports, including costs estimates for all plant anticipated to be included in future SIB filings, have also been prepared to support the SIB.

Rebuttal Testimony

Ms. Coleman testifies that EWAZ qualifies for a SIB for its Mohave, Paradise Valley, and Sun City districts based on the SIB eligibility requirements established by Commission. A SIB is intended to benefit the ratepayer by reducing the rate shock typically seen due to the frequency and processing time of rate cases. The Company has no intention of replacing assets that are not in need of replacement due to an increase in failures and repairs.

Testimony of Troy Day

Direct Testimony (Mike Worlton)

Mr. Day adopts the direct testimony of Mr. Worlton which supports the following post-test year projects be included in rate base:

Sun City Water District

- Replacement of well #8.3
- Tools and Equipment
- Vehicles
- 2013 Recurring Projects - Distribution
- 2013 Recurring Projects – Facilities
- Comprehensive Planning Study

Mohave Water

- Laredo Vista well #2
- Well #16.4
- Camp Mohave Manganese
- Old Bullhead City Main Replacements
- Mohave to North Mohave Interconnect
- Tools and Equipment
- Vehicles
- 2013 Recurring Projects - Distribution
- 2013 Recurring Projects – Facilities

Paradise Valley Water

- Country Club Booster Pump Station
- 2013 Recurring Projects – Distribution
- 2013 Recurring Projects – Facilities

Tubac Water

- 2013 Recurring Projects – Distribution
- 2013 Recurring Projects – Facilities

Mohave Wastewater

- Tools and Equipment
- Vehicles
- 2013 Recurring Projects – Distribution
- 2013 Recurring Projects – Facilities

Rebuttal Testimony (Mike Worlton)

Mr. Day will adopt the rebuttal testimony of Mr. Worlton in which he explains that the post-test year plant additions included in the filing are vital to providing continued reliable, safe and efficient service to our customers. All investment projects included in the filing were completed within 12 months from the end of the test year. The recurring projects included in the filing are a significant investment for the Company needed to continue to provide uninterrupted service to existing customers.

Rejoinder Testimony

Mr. Day testifies that post test year plant additions, both investment projects (IP) and recurring projects (RP), are significant capital investments that are necessary to continue to provide safe, reliable drinking water to our customers. Much of the RP investment discussed is for the replacement of aging or failing infrastructure which not only helps provide uninterrupted service but also helps control maintenance and power expense which directly benefits the customers.

Testimony Summary of Jake Lenderking

Direct Testimony

Mr. Lenderking testifies that the Groundwater Savings Fee (“GSF”) in the tariffs of the Sun City Water District and the CAP Surcharge in the tariffs of Paradise Valley Water District are annually adjusting pass-through mechanisms that allow the Company to fully recover all costs associated with CAP water. The surcharges allow for the actual cost to be recovered each year, after it has been paid. Further, Mr. Lenderking testifies that there are issues facing the Navajo Generating Station (“NGS”) which will increase its generating costs. As the NGS is the primary source of power for the Central Arizona Project (“CAP”), cost increases at NGS will likely affect CAP water prices in the future. The GSF and the CAP Surcharge mechanisms will enable the recovery of changes in purchased water costs associated with CAP water without multiple rate cases sending the appropriate price signal to customers, and should be retained. Additionally, in regards to the Paradise Valley Water CAP surcharge, Mr. Lenderking also testifies that power cost savings have been carried forward since 2008 even though the SRP-Paradise Valley Water exchange that led to the savings has not been in effect since 2008 and proposes to correct it.

Rebuttal Testimony

Mr. Lenderking responds to the testimony of the Residential Utility Consumer Office (“RUCO”) in relation to EPCOR Water Arizona Inc.’s (“EWAZ” or “Company”) proposal to continue its GSF surcharge in the Sun City Water District and its CAP surcharge in the Paradise Valley Water District. Mr. Lenderking discusses the continued rising prices of CAP water and the policy reasons in favor of the continued use of these mechanisms. Mr. Lenderking also discusses concerns raised regarding the Company’s compliance with prior decisions in relation to these surcharges.

Rejoinder Testimony

Mr. Lenderking responds to the surrebuttal testimony of Mr. Michlik on behalf of RUCO. In his rejoinder testimony, Mr. Lenderking confirms the Company did credit back prior amounts related to the Sun City GSF Surcharge and the Paradise Valley CAP Surcharge. Mr. Lenderking also explains that the Company did not charge improper amounts as alleged by Mr. Michlik.

Testimony Summary of Sandra L. Murrey

Direct Testimony

Sandra L. Murrey testifies as follows in support of EPCOR Water Arizona Inc.'s Operating Income.

Sponsored Schedules

Ms. Murrey sponsors the following schedules for each district in the case:

- Schedule C-1 – Adjusted Test Year Income Statement
- Schedule C-2 – Income Statement Pro Forma Adjustments
- Schedule C-3 – Computation of Gross Revenue Conversion Factor
- Schedule E-1 – Comparative Balance Sheets
- Schedule E-2 – Comparative Income Statements
- Schedule E-3 – Comparative Statement of Changes in Financial Position
- Schedule E-4 – Statement of Changes in Stockholders Equity
- Schedule E-5 – Detail of Plant in Service
- Schedule E-6 – Comparative Departmental Statements of Operating Income Statements
- Schedule E-7 – Operating Statistics
- Schedule E-8 – Taxes Charged to Operations
- Schedule E-9 – Notes to Financial Statements
- Schedule F-1 – Projected Income Statements
- Schedule F-2 – Projected Statement of Changes in Financial Position
- Schedule F-3 – Projected Construction Requirements
- Schedule F-4 – Assumptions Used In Developing Projections

Operating Income Adjustments

Ms. Murrey sponsors the following necessary adjustments to operating income:

- Adjustment SM-1 – Remove Unbilled Revenue
- Adjustment SM-2 – Annualize Year End Customers - Residential
- Adjustment SM-3 – Annualize Year End Customers- Commercial
- Adjustment SM-4 – Annualize Payroll Expense
- Adjustment SM-5 – Annualize Payroll Tax Expense
- Adjustment SM-6 – Annualize 401k and Group Insurance
- Adjustment SM-7 – Amortize Rate Case Expense
- Adjustment SM-8 – Annualize Fuel and Power Expense
- Adjustment SM-9 – Annualize Postage Expense
- Adjustment SM-10 – Miscellaneous Expense Clean-Up
- Adjustment SM-11 – Remove Other Income and Deductions
- Adjustment SM-12 – Annualize Rent Expense
- Adjustment SM-13 – Depreciation and Amortization Expense
- Adjustment SM-14 – Federal and State Income Taxes

- Adjustment SM-15 – Annualize Property Expense
- Adjustment SM-16 – Interest Synchronization
- Adjustment SM-17 – Water Testing Expense
- Adjustment SM-18 – Annualize Corporate Allocation
- Adjustment SM-19 – Declining Usage Adjustment (all districts except Mohave Wastewater)
- Adjustment SM - 20 – Annualize Miscellaneous Revenues
- Adjustment SM - 21 – Reclassify Purchased Water (Mohave Water and Mohave Wastewater only)
- Adjustment SM - 22 – Reclassify Effluent Sales (Mohave Water and Mohave Wastewater only)
- Adjustment SM-23 - Annualize Rate Change (Mohave Water Only)
- Adjustment SM-24 – Tank Maintenance Expense (Paradise Valley Water only)
- Adjustment SM-25 – Remove CAP Expense Surcharge and Associated Expense (Paradise Valley Water only)
- Adjustment SM-26 – Remove CAP Expense Recovered Through Surcharge (Paradise Valley Water only)
- Adjustment SM-27– Adjust for Rate Difference on PVCC (Paradise Valley Water only)
- Adjustment SM-28 – Reclassify 2-inch Irrigation from Other Revenue to Water Revenue (Sun City Water only)
- Adjustment SM-29 – Reclassify Revenues (all districts except Mohave Wastewater and Tubac Water)
- Adjustment SM-30– Reclassify Revenue for ACRM Surcharge (Tubac Water only)
- Adjustment SM-31 – Amortize Arsenic Media Replacement (Tubac Water only)

Rebuttal Testimony

Sandra L. Murrey testifies as follows:

Sponsored Rebuttal Schedules

Ms. Murrey sponsors the following schedules in this case:

- Schedule C-1 Rebuttal: Adjusted Test Year Income Statement
- Schedule C-2 Rebuttal: Income Statement Pro Forma Adjustments
- Schedule C-3 Rebuttal: Computation of Gross Revenue Conversion Factor

Adjusted Operating Income and Operating Expense

EPCOR Water Arizona Inc.'s rebuttal position for Adjusted Operating Income and Expense is:

	EPCOR Water Arizona, Inc.
Adjusted TY Operating Income	\$ 3,840,767
2Adjusted TY Operating Expense	\$ 24,151,356

Operating Income Adjustments

The Company's position on ACC Staff's proposed adjustments. These adjustments apply to all districts unless noted:

- Accept Water Revenue (ACC Staff Adj #1. Mohave Water & Sun City Water only),
- Revised Depreciation Expense (ACC Staff Adj #2),
- Revised Property Tax (ACC Staff Adj #3),
- Revised Income Tax (ACC Staff Adj #4),
- Revised Corporate Allocation (ACC Staff Adj #5),
- Accept Water Testing (ACC Staff Adj #6),
- Revised Rate Case Expense (ACC Staff Adj #7),
- Revised Chemicals (ACC Staff Adj #8. Tubac Water only)

The Company's position on RUCO's proposed adjustments. These adjustments apply to all districts unless noted:

- Oppose Annualization (RUCO Adj #1),
- Oppose Reverse Declining Usage Expense (RUCO Adj #2),
- Oppose Include CAP charges in Base Rates (RUCO Adj #3, Paradise Valley Only),
- Oppose Remove APS Estimated Power Costs (RUCO Adj #4),
- Accept Remove ACRM Surcharge and Deferred O&M Costs (RUCO Adj #5),
- Revised Corporate Allocations (RUCO Adj #6),
- Revised Rate Case Expense (RUCO Adj #7),
- Oppose Tank Maintenance Expense (RUCO Adj #8, Paradise Valley Only),
- Revised Depreciation Expense (RUCO Adj #9),
- Revised Property Tax Expense (RUCO Adj #10),
- Revised Income Tax Expense (RUCO Adj #11)

Company Rebuttal Income Statement Adjustments

- Adj SM – 1R Water Revenue (Mohave Water and Sun City Water only)
- Adj SLH– 2R Depreciation Expense
- Adj SM – 3R Property Tax

- Adj SM – 4R Federal and State Income Tax
- Adj SM – 5R Arizona Corporate
- Adj SM – 6R Water Testing (Water districts only)
- Adj SM – 7R Chemical Expense (Tubac Only)
- Adj SM – 8R Interest Synchronization
- Adj SM – 9R Tank Maintenance
- Adj SM – 10R Promotions, Donations,
- Adj SLH – 11R Corporate Allocations
- Adj SLH– 12R 24-Month Deferral Request
- Adj SM – 13R New Large Customer Annualization
- Adj SM – 14R Customer Accounting / Postage Annualization
- Adj SLH – 15R Arizona Labor Allocation

Rejoinder Testimony

Sandra L. Murrey testifies in her rejoinder testimony as follows:

Sponsored Rejoinder Schedules

Ms. Murrey sponsors the following schedules in this case:

- Schedule C-1 Rejoinder: Adjusted Test Year Income Statement
- Schedule C-2 Rejoinder: Income Statement Pro Forma Adjustments
- Schedule C-3 Rejoinder: Computation of Gross Revenue Conversion Factor

Adjusted Operating Income and Operating Expense

EPCOR Water Arizona Inc.’s rejoinder position for Adjusted Operating Income and Expense is:

	EPCOR Water Arizona, Inc.
Adjusted TY Operating Income	\$ 3,872,108
Adjusted TY Operating Expense	\$ 24,120,016

Company Rejoinder Income Statement Adjustments

- Adj SM – 1RJ Property Tax
- Adj SM – 2RJ Federal and State Income Tax
- Adj SM – 3RJ Interest Synchronization
- Adj SM – 4RJ Remove Acquisition Costs
- Adj SM – 5RJ Update Tank Maintenance Expense (Paradise Valley Water only)
- Adj SM – 6RJ Update Chemical Expense (Tubac Water only)
- Adj SLH – 7RJ Depreciation Expense (Sun City Water and Tubac Water only)

Testimony Summary of Jeffrey W. Stuck

Direct Testimony

Mr. Stuck's testimony in this proceeding describes the service areas and facilities for three of the districts that are included in this case: Paradise Valley Water, Mohave Water, and Mohave Wastewater. In addition, he supports EWAZ's request for the inclusion of tank maintenance expense in the Paradise Valley Water District's cost of service. He also provides a description of the proposed small meter replacement program.

Rebuttal Testimony

Mr. Stuck testifies that EWAZ continues to support inclusion of tank maintenance expense. Based on its review of Staff's testimony and further analysis, EWAZ has adjusted its requested tank maintenance expense to \$135,151 annually, a reduction of \$50,700 per year. Mr. Stuck also responds to the arguments made by RUCO against tank maintenance expense—arguments that the Commission has rejected in recent Commission decisions.

Rejoinder Testimony

Mr. Stuck responds to the surrebuttal testimony of ACC Staff and RUCO on the issue of tank maintenance expense for the Paradise Valley Water District. Mr. Stuck testifies that the Company accepts the modifications to tank maintenance expense made by ACC Staff. Mr. Stuck also responds to Mr. Michlik and explains the Company does not object to making compliance filings showing the amount spent on tank maintenance.