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Transcript Exhibit(s)

Docket #(s): WS-01303A-14-0010

Arizona Corporation Commission
DOCKETED
MAR 30 2015
DOCKETED BY

Exhibit #: Part 9 of 9

R33; Magruder 1-6; Magruder 9-10;

Resorts 1; Eastes 1-2; SCVCC 1-5;

SGHOA 1-2

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AZ CORP COMMISSION
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[redacted]

EXHIBIT R-33 ADMITTED

			Decision 68858	Decision 71410	Per Decision 71410			2008 January								2008 July							
Line No.	NARUC Account No.	Description	Annual Depre. Rate Thru 11/30/2009	Annual Depre. Starting 12/1/2009	Plant at 12/31/2007	Accum. Deprec. At 12/31/2007	Net Plant at 12/31/2007	Plant Additions (Per Books)	Plant Retirements	Plant JE's and Adjustments	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant	Plant Additions (Per Books)	Plant Retirements	Plant JE's and Adjustments	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301000	Organization	0.00%	0.00%	$ 15,350	$ 477,283	$ 492,633	$ -	$ -	$ -	$ -	$ 15,350	$ 477,283	$ 492,633	$ -	$ -	$ -	$ -	$ 15,272	$ 477,283	$ 492,554
2	303500	Land & Land Rights T&D	0.00%	0.00%	8,324	(30)	8,294	-	-	-	-	8,324	(30)	8,294	-	-	-	-	8,324	(30)	8,294
3	304100	Structures & Improvements Supply	14.59%	2.50%	16,976,165	(363,723)	16,612,442	20,834	-	-	206,402	16,996,999	(570,125)	16,426,874	(7,516)	-	-	103	969	(206,169)	(205,200)
4	304200	Structures & Improvements Pumping	3.99%	3.99%	-	85,611	85,611	-	-	-	-	-	85,611	85,611	18,479	-	-	-	18,479	85,611	104,090
5	304300	Structures & Improvements Treatment	2.00%	2.00%	3,003,090	(611,538)	2,391,552	-	-	-	5,005	3,003,090	(616,544)	2,386,546	-	-	-	33,338	20,002,845	(1,175,927)	18,826,918
6	304400	Structures & Improvements Trans & Dist	1.50%	1.50%	23,764	(1,864)	21,900	-	-	-	30	23,764	(1,894)	21,870	-	-	-	30	23,764	(2,072)	21,692
7	304500	Structures & Improvements General	3.99%	3.99%	5,732	4,674	10,406	-	-	-	19	5,732	4,655	10,387	-	-	-	19	5,732	4,541	10,273
8	304600	Structures & Improvements Offices	0.00%	0.00%	-	-	-	-	-	-	[illegible]	-	-	-	-	-	-	-	-	-	-
9	304620	Structures & Improvements Leasehold	0.00%	0.00%	0	-	0	-	-	-	-	0	-	0	616	-	-	-	616	-	616
10	304700	Structures & Improvements Store,Shop,Gge	3.99%	3.99%	3,036	18,889	21,925	-	-	-	10	3,036	18,879	21,915	1,232	-	-	10	4,267	18,819	23,086
11	304800	Structures & Improvements Miscellaneous	3.99%	3.99%	(8,633)	131,856	123,223	-	-	-	(29)	(8,633)	131,885	123,252	-	-	-	(29)	(8,633)	132,057	123,424
12	307000	Wells & Springs	2.48%	2.48%	1,519,916	(657,472)	862,443	82,886	-	-	3,141	1,602,802	(660,614)	942,188	128,969	(967)	-	3,243	1,697,333	(679,262)	1,018,071
13	309000	Supply Mains	2.00%	2.00%	14,058	(51)	14,008	36,424	-	-	23	50,483	(74)	50,406	23,272	-	-	67	63,414	(540)	62,875
14	310000	Power Production Equipment	4.39%	4.39%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	310100	Power Generation Equip Other	4.39%	4.39%	554,631	(24,070)	530,561	-	-	-	2,029	554,631	(26,099)	528,532	-	-	-	2,029	554,631	(38,273)	516,358
16	311200	Pumping Equipment Electric	4.39%	4.39%	3,487,801	(630,130)	2,857,671	30,210	-	-	12,760	3,518,011	(642,889)	2,875,122	56,569	(133,009)	-	12,809	3,424,950	(587,013)	2,837,937
17	311300	Pumping Equipment Diesel	4.39%	4.39%	190	62,459	62,649	-	-	-	1	190	62,458	62,649	-	-	-	1	190	62,454	62,644
18	311530	Pumping Equipment Water Treatment	0.00%	4.39%	-	-	-	-	-	-	[illegible]	-	-	-	-	-	-	-	-	-	-
19	320100	Water Treatment Equipment Non-Media	7.06%	7.06%	9,826,155	(4,349,738)	5,476,417	10	-	-	57,811	9,826,165	(4,407,549)	5,418,616	(24,669)	-	-	57,811	9,801,496	(4,754,413)	5,047,083
20	320200	Water Treatment Equipment Filter Media	4.00%	5.00%	-	-	-	(0)	-	-	-	(0)	-	(0)	(7,610)	-	-	(0)	(7,610)	0	(7,610)
21	330000	Distribution Reservoirs & Standpipes	3.15%	3.15%	2,115,946	(199,447)	1,916,499	2,423	-	-	5,554	2,118,369	(205,002)	1,913,367	(36)	(68,702)	-	5,560	2,049,350	(169,662)	1,879,688
22	331001	TD Mains Not Classified by Size	1.53%	1.53%	2,395,291	2,972,766	5,368,057	-	-	-	3,054	2,395,291	2,969,712	5,365,003	761,358	-	-	3,054	3,156,646	2,951,388	6,108,035
23	331100	TD Mains 4in & Less	4.17%	4.17%	114,959	57,012	171,971	210	-	-	399	115,169	56,612	171,782	8,791	(931)	-	411	126,211	55,094	181,305
24	331200	TD Mains 6in to 8in	2.52%	2.52%	5,046,296	(2,385,106)	2,661,189	1,213	-	-	10,597	5,047,508	(2,395,703)	2,651,805	(36,482)	(369)	-	12,077	5,714,004	(2,465,780)	3,248,244
25	331300	TD Mains 10in to 16in	2.34%	2.34%	9,132,418	(4,764,161)	4,368,257	242	-	-	17,808	9,132,660	(4,781,970)	4,350,691	(23,158)	102,654	-	17,809	9,212,349	(4,991,486)	4,220,863
26	331400	TD Mains 18in & Grtr	2.34%	2.00%	-	-	-	-	-	-	-	-	-	-	(735,715)	-	-	-	(735,715)	-	(735,715)
27	332000	Fire Mains	1.53%	2.00%	14,058	(51)	14,008	-	-	-	18	14,058	(69)	13,990	-	-	-	18	14,058	(176)	13,882
28	333000	Services	4.72%	4.72%	2,719,168	(1,257,986)	1,461,182	23,365	-	-	10,695	2,742,533	(1,268,682)	1,473,851	14,144	(30,959)	-	11,079	2,799,849	(1,303,395)	1,496,454
29	334100	Meters	7.21%	6.67%	356,460	(123,946)	232,514	609	-	-	2,142	357,069	(126,088)	230,982	(3,083)	(4,201)	-	2,271	370,677	(135,189)	235,488
30	334200	Meter Installations	1.51%	1.51%	148,304	(11,495)	136,809	-	-	-	187	148,304	(11,681)	136,623	-	-	-	187	148,304	(12,801)	135,503
31	335000	Hydrants	2.10%	2.10%	1,054,322	(426,283)	628,038	472	-	-	1,845	1,054,794	(428,128)	626,665	(2,652)	(4,980)	-	1,860	1,055,050	(434,280)	620,770
32	339600	Other P/E-CPS	3.31%	3.31%	10,520	589,386	599,906	-	-	-	29	10,520	589,357	599,877	-	-	-	29	10,520	589,183	599,703
33	340100	Office Furniture & Equipment	4.04%	4.04%	58,812	(20,121)	38,691	-	-	-	198	58,812	(20,319)	38,493	-	-	-	198	58,812	(21,507)	37,305
34	340200	Computer & Periphal Equipment	15.89%	10.00%	38,293	(71,949)	(33,656)	6,854	-	-	507	45,147	(72,456)	(27,309)	(103)	-	-	587	44,246	(76,033)	(31,787)
35	340300	Computer Software	37.71%	25.00%	14,711	(137,437)	(122,725)	-	-	-	462	14,711	(137,899)	(123,188)	-	-	-	462	14,711	(140,673)	(125,961)
36	340330	Computer Software Other	37.71%	25.00%	-	-	-	5	-	-	-	5	-	5	(6,533)	-	-	0	(6,528)	(1)	(6,529)
37	340500	Other Office Equipment	7.13%	7.13%	674	14,328	15,002	-	-	-	4	674	14,324	14,998	-	-	-	4	674	14,300	14,974
38	341100	Transportation Equip Light Duty Truks	28.05%	20.00%	(0)	(14,917)	(14,917)	-	-	-	(0)	(0)	(14,917)	(14,917)	-	-	-	(0)	(0)	(14,917)	(14,917)
39	341300	Transportation Equipment Autos	7.80%	7.80%	3,541	23,621	27,162	-	-	-	23	3,541	23,598	27,139	-	-	-	23	3,541	23,460	27,001
40	341400	Transportation Equipment Other	0.93%	16.67%	27,905	(4,142)	23,763	84,108	-	-	22	112,014	(4,164)	107,850	(1,395)	-	-	85	108,572	(4,711)	103,861
41	342000	Stores Equipment	3.92%	4.00%	-	-	-	3,747	-	-	-	3,747	-	3,747	(34)	-	-	6	1,943	(58)	1,885
42	343000	Tools,Shop,Garage Equipment	3.61%	3.61%	111,116	(29,938)	81,178	-	-	-	334	111,116	(30,272)	80,844	-	-	-	334	111,116	(32,278)	78,838
43	344000	Laboratory Equipment	3.71%	10.00%	17,620	(64)	17,556	0	-	-	54	17,620	(118)	17,502	-	-	-	54	17,620	(445)	17,175
44	345000	Power Operated Equipment	4.64%	4.64%	96,131	(13,765)	82,366	-	-	-	372	96,131	(14,136)	81,995	-	(67,006)	-	372	29,125	50,839	79,764
45	346100	Communication Equipment Non-Telephone	9.76%	9.76%	386,889	(217,692)	169,197	-	-	-	3,147	386,889	(220,839)	166,050	69,867	-	-	3,147	456,755	(239,719)	217,037
46	346190	Remote Control & Instrument	9.76%	9.76%	-	-	-	-	-	-	-	-	-	-	6,533	-	-	-	6,533	-	6,533
47	346300	Communication Equipment Other	7.91%	4.93%	58,841	(30,623)	28,218	-	-	-	388	58,841	(31,011)	27,830	-	-	-	388	58,841	(33,338)	25,503
		Reconciling Adjustment											-	-						-	-
60					$ 59,351,855	$ (11,909,856)	$ 47,441,999	$ 293,612	$ -	$ -	$ 345,042	$ 59,645,467	$ (12,254,898)	$ 47,390,569	$ 240,841	$ (208,470)	$ -	$ 169,447	$ 60,433,304	$ (13,055,297)	$ 47,378,007

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
Susan Bitter Smith, Chairman
Bob Burns
Tom Forese
Doug Little
Bob Stump

EXHIBIT
Magruder-1
ADMITTED

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

23 January 2015
(with errata entered)

Notice of Filing
Direct Testimony (including rate design issues)
by Marshall Magruder

The proposed rate design is unsatisfactory. It fails to comply with the Arizona Constitution by not providing fair rates for the same services for all ratepayers, regardless of location. It is not just or fair for all ratepayer classes and needlessly burdens the Company based on legacy convolutions. This results in multiple cases for the Commission staff, RUCO and all parties instead of a single integrated case. It conflicts with Arizona's water goals by not aiding water conservation. We must preserve our diminishing water resources that are critical for the growth and development by not rewarding the highest consuming users with low rates and rate increases. It does not provide equitable relief for lowest income ratepayers.

Most importantly, solutions for these issues do not impact the company's revenue.

This testimony discussed and provides solutions to three issues by fair and reasonable recommendations for the Company to revise its rate design in its Rebuttal in order to

a. Combine rates for ALL locations to comply with the Arizona Constitution, to
b. Provide equitable and fair rates for Lower Income customers, and to
c. Conserve water by using Cost as a key driver for water volumetric rates.

RESPECTFULLY SUBMITTED on this 23rd day of January 2015.

By ______________________________

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DIRECT TESTIMONY
(INCLUDING RATE DESIGN ISSUES)

by

MARSHALL MAGRUDER

23 JANUARY 2015

In

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.

ACC Docket No. SW-01303A-14-0010

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Table of Contents

EXECUTIVE SUMMARY

ES-1 The Three Major Issues in this Case.

Q. Can you summarize the issues in this case?

A. This summary provides an overview for each issue presented by this party including preliminary conclusions and recommendations. There are three Issues that directly involve ratepayers in this case.

ES-2.1 Issue 1 – Combine Rates for Customers to Comply with Arizona Constitution.

All customers receive the same water products but with significant differences in Service Charges and Volumetric Rate structures, other charges and Rules and Regulations. This is a continuation of a discriminatory a rate design process that is not fair or reasonable. Consolidation is a Company goal and all parties agree is right, but it is the implementation details are where differences occur. A solution is presented to start this implementation as part of this rate case, as ordered by the Commission the "last rate case".

ES-2.2 Issue 2 – Provide Equitable and Fair rates for Lower income Customers.

There is no uniform mechanism proposed to provide lower income customers with an equitable and fair process. In general, who would qualify for lower income rates, do not apply, and thus, do not receive this benefit? This application process shown in other cases, that about 20% of those eligible, actually receive these lower rates. By having a low "First Tier", say for the first 3,000 gallons, and then all customers will receive adequate water for basic needs at a low cost. Additional water usage will be at the Second and higher tiers with a higher rate as a result. By designing the "First Tier" to have a very low cost for all ratepayers, then ALL customers would benefit; and any lost revenue is shifted to higher rate tiers because the Company needs to meet its total revenue requirements.

ES-2.3 Issue 3 – Conserve Water is the Key Driver for Water Volumetric Rates.

This concerns using realistic price signals in the rate structure design to encourage water conservation. Using low rates for the lowest consuming users and increasingly higher rates for higher consuming users. This sends multiple price signals to users that make it clearly more costly for those with higher usage. These price signals, at break points between the rate tier blocks, must be spread across the higher usage parts of the consumption curve, with ten or more, to make these price change points very obvious.

ES-3 Preliminary Conclusions.

Q. What are your preliminary conclusions?

A. Based on the following and previous testimonies, the following conclusions, including those in the following three Sections, are that:

1. The Company's *Total Revenue*, for all the water "districts," is the compulsory revenue requirement for a Rate Design needed to comply with the Arizona Constitution.

2. The Rate Design needs multiple Tiers to cover the range of water usage in each rate user category, with realistic tier price breakpoints, as price signals for ratepayers to conserve water consumption.

3. The Rate Design needs to include a low-cost "First" Tier for the first 3,000 gallons or so, for all ratepayers to meet their basic needs including those with the lowest income.

4. The Second and higher Tiers have increasingly higher rates to ensure "price signals" become ratepayer markers for lower costs analogous lower consumption.

5. The Company is requested to provide one combined Rate Design for the four water districts to all parties in its Rebuttal or sooner.

ES-4 Preliminary Recommendations are recommended

Q. What are your preliminary recommendations?

A. It is recommended, including those in the following three Sections, that:

1. The combined Total Revenue for all the water "districts" shall be the Company's required operational revenue requirement for one proposed Rate Design.

2. The Rate Design shall include at least five, with ten tiers being better, in each rate class and category, with most tiers for Residential Rate Categories and at least five tiers for all Commercial Rate Categories. In general, the tier break points should be between 5% and 20% of consumption for each in each Rate Category.

3. Both the Residential the Commercial Rate Categories (1-inch and smaller) should have a low rate (suggest below $1.50/1000 gallons) up to 3,000 gallons and Service Charge (suggest less than $20.00).

4. The Second and higher tiers rates shall be normalized to ensure the Company's Total Revenue requirements are summed Rate Class in the Rate Design.

5. This case does not include all ratepayers with contracts for water rate changes.

6. The Company provides a combined Rate Design in its Rebuttal that generally meets the recommendations herein, so that all parties can respond in their Surrebuttal.

Section I – BACKGROUND AND INTRODUCTION

1.1 INTRODUCTION

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

A. My name is Peyton Marshall Magruder, Jr. I am a customer and ratepayer for EPCOR Arizona, (formerly the Arizona-American Water Company, AAWC), public service company that serves the Tubac Water District, where I been active in various community projects including serving as the County and City of Nogales Energy Commissioner for eight years, as a volunteer tax preparer for the AARP Volunteer In Tax Assistance (VITA) for the last fifteen years and now am the county's VITA Instructor, and as a Director for the Tubac Community Center Foundation. I am a graduate of the Nogales Border Patrol Station Citizen's Academy and am a member of Its Border Patrol Citizens Advisory Board.

I recently held part-time jobs as a Senior Scientist and Information Systems Architect for Integrated Systems Improvement Services, Inc. in Sierra Vista, Arizona, involving information warfare, systems architectures, electronic and communications intelligence systems, test plans, information assurance, and information technology services. I have consulted as a Systems Engineer and Training Systems consultant at the Raytheon Naval and Maritime Systems in San Diego with engineering work involving US and Royal Navy aircraft carrier and amphibious warfare ship command, control, communications, computers, intelligence, surveillance and reconnaissance systems and training systems programs.

I worked as a Senior Tax Advisor Level 3 for H&R Block, for 14 years, retired from Raytheon/Hughes Aircraft Company as a Senior Systems Engineer after nearly 18 years, and am a retired Naval Officer with over 25 years service. Please see Appendix 1 for additional work experience descriptions.

As an instructor in the University of Phoenix MBA programs, I taught courses on Operations Management for Total Quality and Managing R&D and Innovation Processes. I have prepared a DoD architecture framework systems engineering process curriculum.

I serve as the Vice President of the Martin B-26 Marauder Historical Society and am the Fund Raising Chairman for an ongoing five million dollar "Lasting Legacy" fund drive to endow the MHS Marauder International Archive and restore a B-26 Marauder at the Pima Air and Space Museum, in Tucson. I am the coordinator for its annual Reunion this fall in Tucson and am writing a book on B-26 Marauders during the Battle of Midway.

My office and home address is PO Box 1267, Tubac, Arizona, 85646.

Q. Have you previously testified before this Commission?

A. Yes, I have participated in prior water, wastewater, electric, and natural gas rate cases, line siting cases, and others as shown in Appendix 1. In all the cases, I filed testimony and made appearances, either as a party or as an individual.

Q. What is your educational background and technical society memberships?

A. My latest degree is a Master of Science in System Management with majors in human factors and R&D from the University of Southern California with straight "As". My first graduate degree is from the Naval Postgraduate School, Monterey, California, in Physical Oceanography, the study of the physics of the ocean with electrical engineering courses involving underwater acoustics. I have taken advanced graduate-level EE courses at the University of Rhode Island involving acoustic array design, electronic beam forming and steering. I was awarded a Bachelor of Science Degree and commission in the United States Navy by the United States Naval Academy with extra courses in Operations Research/Analysis and History of Russian and Soviet Naval Tactics.

I am Golden (50-year) life-members of the Naval Institute and U.S. Naval Academy Alumni Association, a life-member of the Navy League, and Naval Surface Warfare Association and a member of the U.S. Naval Submarine League.

I have taken additional courses and held additional positions in Appendix 1.

Q. Could you explain what you do as a Systems Engineer?

A. A Systems Engineer coordinates, plans, schedules, integrates, and manages engineers of other technical disciplines. The Systems Engineer is a technical lead or director for a reasonably-sized project to determine the customer's needs, analyzes the requirements, usually writes the system/subsystem specifications, prepares and makes important trade-off decisions, manages the entire system development process, and leads the system/subsystem tests to ensure the product (e.g., the system) accomplishes the customer's requirements to satisfy a need. The integration and synthesis of multiple disciplines uses inputs from mechanical, electrical, civil, safety, human factors, integrated logistics, maintenance, reliability, operator and maintenance training, aerospace, acoustic, computer systems and networks, software, hardware, structural, reliability, production, test and test equipment engineers and other specialist disciplines are the primary roles for a

Systems Engineer. System Engineering tasks may involve developing the system architecture, evaluating the design and development processes, performing trade-studies, determining performance criteria, updating design characteristics, managing cost-schedule-performance risks, estimating costs including life-time costs while tracking and monitoring all of the other tasks involving the system. The Systems Engineer ensures adequate parts are ordered, spares built, oversees production and assembly processes, develops and manages unit and system tests, ensures that the product is properly packaged, transported, delivered with appropriate operational and logistics support, training and preventative and corrective maintenance planning established to ensure the customer receives a quality product, on-time, within-budget that achieves all performance criteria. I was a Systems Engineer for many diverse projects summarized in Appendix 1.

The EPCOR and my local Tubac water systems are rather simple, straightforward systems, when compared to more complex ones; however, all systems require expert and continual attention in many disciplines to reliably and efficiently operate.

Q. How long have you been interested in the matter in this hearing?

A. I appeared before the Commission's Public Comments session two water rate cases ago, including presentation of a paper concerning rate structure, attached herein as Appendix 2 in 2003. In the "last rate case" ACC Docket No W/SW-01303A-08-0227, I was an active intervening party, again submitting Appendix 2. This is my third consecutive water rate case that involves my local water system. In general, my positions remain as descried in great detail in my Testimonies and Briefs in the "last rate case".

In general, my interests in these matters continue to look for viable alternatives and efficiencies in order to reduce Company's costs and the resultant overall rate impacts. Water conservation measures should be used at a primary component for rate design with customers who use the most water should pay higher cost/gallon that those who consume less.

Conservation of our limited surface and ground water resources is critical for survival in Arizona.

Q. Are you employed or paid by any one for your testimony in this proceeding?

A. No. I am doing this as a service to my community, without compensation.

Q. Will you have any witnesses on your behalf?

A. There are some in Tubac who have expressed interest in joining with me. I would like to retain an option to include their witness testimony when presenting my case. During the pre-hearing Procedural Conference, I will provide a witness list if other that I will testify.

1.2 Purpose of this Testimony.

Q. What is the purpose of this testimony in this proceeding?

A. The purpose of this testimony is to present three issues in that are important for all EPCOR Water Districts including Tubac as discussed in the Sections that follow.

- **Issue 1 – Combine rates for all customers to comply with the Arizona Constitution.**
- **Issue 2 – Provide equitable and fair rates for all lower income customers.**
- **Issue 3 – Conserve water as a Key Driver for Water Volumetric rates.**

Section II - Issue 1

COMBINE RATES FOR ALL CUSTOMERS TO COMPLY WITH THE ARIZONA CONSTITUTION.

2.1 The Arizona Constitution Compliance Requirements.

A. This issue concerns compliance with the Arizona Constitution, in particular Title XV, Section 12 that reads as follows

> ***"Charges for service; discrimination; free or reduced rate transportation***
>
> ***"Section 12. All charges made for service rendered, or to be rendered, by public service corporations within this state shall be just and reasonable, and no discrimination in charges, service, or facilities shall be made between persons or places for rendering a like and contemporaneous service, ..."*** [Emphasis added]

Q. Can you explain why you feel the proposed rate structure fails to comply with the Arizona Constitution?

A. Let us look at the Section 12 and deconstruct its wording.

First, the title indicates "**charges for service**" and "**discrimination**" is in the section. A "free or reduced rate for transportation" does not pertain to the issue at hand.

Second, the first two words, "**ALL charges**" is clear, it means ALL and not some or anything less than "all" charges, specifically the price, cost or expense.[1]

Third, "**made for service rendered, or to be rendered,**" is clear, when a service is provided, such as for water, removal of wastewater, electricity, communications, or natural gas, then this is the charge for a "service" rendered, thus, for the service of delivering water to a customer.[1]

Fourth, **by a public service corporation**," means "a" company, the EPCOR company, and does not mean or imply by administrative districts, e.g., but this is ONE company, one public service corporation, and not many administrative subdivisions, as defined in the Arizona Revised Statutes Title 40, Chapter 2.

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[1] *Black's Law Dictionary* (abridged 6th ed.) defines "service charge" as "price, cost or expense."

Fifth, "**shall be**", based on my business and engineering experiences, the verb "shall" always means is required, mandatory, and compulsory to meet a requirement.[2]

Sixth, "**just and reasonable**", means, equitable, legally right, lawful, fair, proper.[3] Further, to emphasize this Constitutional requirement that unreasonable and unjust charges are prohibited and unlawful and that all charges and services to the public shall be "just and reasonable." The Arizona Revised Statutes §40-361A and §40-361C state:

> "A. Charges demanded or received by a public service corporation for any commodity or service shall be just and reasonable. Every unjust or unreasonable charge demanded or received is prohibited and unlawful."
>
> . . .
>
> C. All rules and regulations made by a public service corporation affecting or pertaining to its charges or service to the public shall be just and reasonable."

Seventh, "**and no DISCRIMINATION in charges, service or facilities**" means that treatment for charges is not to be different for different persons in terms of charges, service or facilities.[4]

Eight, "**shall be made between PERSONS and PLACES**" means it is mandatory and required that discrimination in charges and services will not be different between "persons" and "places". Utility regulations generally use "persons" for more than one individual, to include business companies, organizations, and all others served by a utility. "Place" is not defined in *Black's* however, does define "place of delivery" to mean: "The place where goods are to be sent by the seller". This clearly can be interpreted to mean the "location of the ratepayer," that is where the water is delivered.

Ninth, "**for rendering a like and contemptuous service**" is for delivery of a "like" and at the same time to customers. "Like" customers, such residential, commercial, fire main water, and other Rate Classes are used by EPCOR; however, all their Rate Classes are not standard or the same throughout the company as discussed below. There are mandatory standards required for the water by various federal, state, county and municipal water authorities, including the US Environmental Protection Agency (EPA), Arizona

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[2] *Id.* defines "service charge" as "a charge assessed for the performing of a service." Further, "render" is defined as "to transmit or deliver".

[3] *Id,* defines "just" as "legally right; lawful; equitable" and reasonable as "fair; proper; or moderate under the circumstances."

[4] *Id.* defines "discrimination" as "**differential treatment**; esp., a failure to treat all persons equally when no reasonable distinction can be found between those favored and those not favored" that is clarified in the rest of this clause.

Department of Environmental Quality (ADEQ) and for water resources by the Arizona Department of Water Resources (ADWR), that EPCOR and other water utilities are required to meet. These standards apply equally to all "like" customers by Rate Class.

Therefore, based in the above discussion, any deviation from this section of the Arizona Constitution and Arizona Statues is illegal and needs to be remedied. Because of this rate discrimination, some are being over charged, others under charged, right now

2.2 Compliance with a Commission Order.

Q. What has the Commission done to remedy this compliance discrepancy with the Arizona Constitution?

A. In the "last rate case", the Commission ordered the Company (at that time, American Arizona Water Company) to submit a consolidated (meaning one) rate schedule showing the rate classes and categories for all of its administrative districts. The last rate case for these and other water/wastewater districts resulted in Commission Order 71410 in Docket No. W/WS-01303A-08-0227 (page 78 at 14-23), states the following

> ***IT IS FURTHER ORDERED that this docket shall remain open for the limited purpose of consolidation in the Company's next rate case with a separate docket in which a revenue-neutral change to rate design of all Arizona-American Water Company's water districts or other appropriate proposals or all Arizona-American's water and wastewater districts or other appropriate proposals may be considered simultaneously, after appropriate public notice, with appropriate opportunity for informed public comment and participation.***
>
> ***IT IS FURTHER ORDERED that the Company shall commence a dialogue with its customers as soon as practicable, and will initiate town hall-style meetings in all of its service territories to begin communicating with consumers the various impacts of system consolidation in each of those service territories, and to collect feed-back from consumers on such consolidation.*** (Page 78 at 14-23) [Emphasis added]

Q. Did the Company (AAWC or EPCOR) comply with this Order?

A. No. It is clear that NONE of these requirements have been accomplished including the Rate Application in the present rate case that does not comply with consolidated rates for all districts, holding town hall-style meetings, or collecting public comments. EPCOR acts as it this order does not pertain.

2.3 Precedence for Combining or Consolidating Rates from Different Locations.

Q. Is there a precedent for a Commission action to Combine Rates?

A. Yes, in a similar rate case for UNS Electric in Docket No. E-04204A-06-0783, different electricity rates had been being charged for over a half-century in Mohave and Santa Cruz Counties for the residential and small business rate categories. This Party's requested for consolidation of these rate categories (the others rate classes had previously been combined) so the resultant rates would be fair, reasonable, and NOT discriminate between person and place. This was approved by the Commissioners in Decision No. 70360 (27 May 2008) that states:

> ***"IT IS FURTHER ORDERED that UNS Electric, Inc., shall consolidate the rates for customers in Mohave and Santa Cruz Counties into a single rate structure."*** (Decision No. 70360 at 88)

Similarly, the UNS Gas service area is in five different, non-contiguous counties. APS service area is located in ten counties, all with consolidated rates or the same rates in Douglas and Flagstaff. Those electricity and gas rate cases have identical factors to consider for rate consolidation as water and wastewater cases.

2.4 A Key Lesson from Being a Party in the Last Rate Case.

Q. What is a key lesson you learn from being a Party in the "last rate case"?

A. There are several important lessons I learned, including the simple fact, that the Company, staff and RUCO are primarily interested in determination of fair and reasonable "operating" or "*total revenue*" for the Company to meet its operating costs and to permit utility and its stockholders reasonable rate of return on the utility's investment or Return On Investment (ROI). The *total revenue* is what the Commission considers as a fair rate of return for the Company. To determine a fair and reasonable *Total Revenue*, the Commission must first determine the "fair value" of the utility's property, then determine a fair and reasonable rate of return, and apply that figure to the rate base to establish just and reasonable tariffs.

Total Revenue is the primary emphasis during rate cases. This is where almost all of the time, testimony and efforts are expended.

This case is typical. The determination of *total revenue* is where most of the time and efforts has expended to date, conducting a detailed forensic audit of the Test Year primarily by the Commission Staff and RUCO, to validate the operating expenses of the Company including all expenses such as the cost of postage, improper use of the "p" card (Company credit card), executive retirement bonuses, cleaning tank costs, electricity costs, employee training, fuel oil, security, pipes, etc., etc. This determination of *total revenue* step is what the Procedural Order is what the Parties direct testimony is expected to address. About two weeks later, the Parties are finally to address "*rate structure*".

This case was submitted on 4 January 2014, over a year ago. This implies over 96% of the time during this rate case has been devoted to determining the *total revenue* to operate and about 4% of the rate case time previously has been devoted to "*rate structure*". Looking back on my participation in other electric, natural gas, water and wastewater rate cases, this minimal emphasis on "*rate structure*" continues.

2.5 "Rate Structure" Does Not impact the Company's Bottom Line"

Q. Why isn't there more emphasis on "*rate structure*"?

A. Simply, the *operating revenue* impacts the bottom line of the Company. *Operating Revenue*. It is the revenue obtained based on the "rate structure." The rate structure determines "who" pays and "how much." The "who" is by Rate Class and by Rate Category within a Rate Class. The "how much" is a fixed, or Service Charge, plus a variable, Volumetric rate, based on the amount of water the ratepayer uses or consumes.

Rate Structure impacts only the ratepayers. All ratepayers must pay for their services no matter if the rate structure does or not comply with the Arizona Constitution, prior Commission Orders, and is fair for all ratepayers. The rate structure is how the *operating revenue is* allocated to ratepayers. The above Commission Order requested a "revenue-neutral" consolidate rate schedule.

Q. What has caused the present perturbations and variances in rate structure?

A. This lack of long-term emphasis over the years on "*rate structure*", in my opinion, this is why EPCOR (and other Arizona utilities) now have rate structures that have become unbalanced which leads to being unfair and not reasonable. Looking at the original and updated proposed rate structures submitted by this Company and the prior Company (AAWC), these faults remain without correction in the proposed rate structure. In general, the present rate structure (and rules and regulations) is more prior-company ownership and legacy-dependent that realistic.

Now, THIS rate case is the time to start eliminating this discrimination deficiency by removing these known rate discriminations between various ratepayers by combining rates for the various Rate Class and Rate Category for these four water districts.

2.6 Another Important Lesson Learned Concerning Cost from Other Rate Cases.

Q. What "*rate structure*" lessons have you learned from prior rate cases?

A. All ratepayers seem to feel that **cost** is their major driver for utility rates, and almost always, the lower the cost, the less they will object. Further, any change in the cost, in particular, if it increases for any reason or for any amount they will object en mass as was done in the last rate case, very few ratepayers will not be upset. Conversely, if the rates decrease, those ratepayers will not object, and usually remain silent, hoping it happens.[5]

Thus, **COST is the dominant factor for all ratepayers**.

2.7 The Two "rate components" and Fees and Charges Impact Ratepayer's Cost.

Q. What are the two "rate components" that directly involve ratepayers.

A. Rates have two components, a fixed Service Charge and a consumption-dependent Volumetric rate charge measured in thousands of gallons consumed during a billing cycle. All ratepayers pay a fixed monthly charge to connect to the Company's water lines, the Service Charge and a variable Volumetric rate, in dollars per thousand of gallons each billing period, usually monthly. This is also described as a consumption charge.

Q. What are the Fees and Charges that Impact Ratepayers?

A. The utility requires Fees and Charges for various customer actions, such as "responding to a "re-read" a meter. In the last rate case, each district had a different set of fees and charges that I objected should be equal, for example, why should there be a different fee for a bounced check in different districts?

The present rate case corrects this by proposing consolidated set of Fees and Charges for all districts. At least I've impacted a small part of consolidating costs.

2.8 Some Rate Classes or Rate Categories are NOT included in this Rate Case.

Q. Why do some customers in various districts NOT have rate increases?

5

A. There are multiple Rate Classes, where similar customers have similar demands and costs for the Company. In this case, the following Rate Classes are indicated in the EPCOR Application, as shown in Table 2.8-1 below.

Table 2.8-1 – Rate Classes in This and the Last Rate Case.

Water District / Rate Class	This Rate Case				"Last Rate Case"			
	Tubac	**Mohave**	**Paradise Valley**	**Sun City West**	**Sun City**	**Aqua Fria**	**Anthem**	**Havasu**
Residential	Yes	Yes	Yes	Yes				
Commercial	Yes	Yes	Yes	Yes				
OPA[6]		Yes				Yes		
Apartment		Yes						
Irrigation *			Yes					
Sale for Resale			Yes		Yes	Yes	Yes	
Misc. Non-potable					Yes	Yes	Yes	
Public Interruptible				Yes				
CAP Raw				Yes				
Private (fire) Hydrant[7]		Yes	Yes	Yes	Yes	Yes	Yes	

• = For Paradise Valley "irrigation water" used in public street median.

In addition, some rates in various Rate Categories were NOT included in the Consolidated rate computer programs provided by AAWC in the "last rate case". These are shown in Table 2.8-2 below which equaled about 3% of the total Company Revenue:

Table 2.8-2 – Rates Classes and Categories Not Considered when Consolidating Rates in The Last Rate Case.

Water District / Rate Class	Tubac	Mohave	Paradise Valley	Sun City West	Sun City	Aqua Fria	Anthem	Havasu
Paradise Valley Country Club			P2PVC					
Public Interruptible					A5M1			
Arizona Water Contract						C2M3		
OWU-PI Surprise						C5M1		
Wholesale (Phoenix) OWU							E7M2	
Bullhead Residential Apartment		G1M2A to M2M2G						
Havasau Residential Apartment								H1M3D, F, H, J, to M, P

Note: These were considered by this party in the Consolidated Rates in Appendix 3, herein.

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6 Although not defined, in other rate cases OPA is used as a rate class for government facilities, such as federal, state county or local municipal government facilities including public schools. Justification for one water district to have this rate class when other districts have similar facilities is neither fair nor reasonable for other water districts with similar facilities. Why do some districts include government facilities have this rate class and others do not? This is not clear.

7 A "Private Hydrant" rate class seems unusual, since all districts have fire hydrants, why aren't all fire departments treated similarly, as required by our Constitution? This is a mystery.

From Table 2.8-2, we see that only Paradise Valley and Mohave water districts in the present rate case were excluded the above rate categories in this rate case; however, all the other districts in the last rate case had such exceptions when AAWC presented consolidated rate software. These rate categories did not have any rate increases in the last rate case software used to develop consolidated rates.[8]

It is noted the <u>Paradise Valley Country Club did NOT have any rate increase</u> in the last rate case revenue remained constant at $278,795.67.[9] Why did a county club have unchanged rates in two consecutive rate cases when most others rates largely increased?

The Residential Apartments Rate Class is a bit more complex wherein rates are distributed over multiple residences with maybe one water meter for the entire complex or a building. These Mohave Rate Categories are significant; with over $350,000 dollars in unchanged revenue without a rate increase.

Omitting rate increases for "special" situations appears noncompliant with our Arizona Constitution. In fact, why shouldn't all residential apartment residents have the same rate increases when all other rate paying customers have a rate increase?

Thus, these two tables show that not all ratepayers were considered in rate cases submitted by both AAWC and EPCOR. This appears to violate the Arizona Constitution.

There are no issues with the Residential and Commercial Rate Classes, found in all these water districts in this case. In the last rate case however, the additional Apartment, Irrigation, and Private Hydrant are unique to one water district. Are not there fire departments, apartments, and fire hydrants in all districts?

In the last rate case consolidated rates shown in Appendix C, and assumed here too, why are some customers ignored and not included in a rate case?

2.9 The Company's Position on Combing or Consolidating Rates.

Q. What is the Company's position on combining rates for the districts?

A. Based on the bifurcation from the last rate case, now ACC Docket No. W/SW-01303A-09-0343, EPCOR has submitted detailed testimony on 19 September 2014, that very strongly supports combining or consolidating rates for all wastewater districts.

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[8] In the "last rate case", AAWC provided over 20 integrated Microsoft Excel worksheets (listed in Appendix 3) for all water ratepayers in all water districts. This table shows the individual rate categories that were excluded and annotated as "NOT CONSOLIDATED" and all had zero percent rate increases except for "Sun City Interruptible – Peoria" (rate category A5M1), which increased this minimal volume rate class to $105.72 or 4.51%, which could easily be considered *de minus*.

[9] The AAWC spreadsheet also showed a consumption of 15,453,917 gallons.

Further, in response to a Commissioner's questions, EPCOR filed a letter of 8 December 2014 in the above docket stated:

> *"EPCOR's responses are as follows:*
> *1.* ***EPCOR has supported and continues to support consolidation*** *because it will* ***provide our customers with fair, efficient and predictable rates.***
> *2.* ***EPCOR's position has not changed.****"*

It also should be noted that the AAWC Chief Executive Officer, several times, in the last rate case, testified that he supported consolidated rates. Thus, my position supports both Companies' views.

The same rationale is reflected my testimony, briefs and exceptions filings in the last rate case that emphasized the benefits for the Company, staff and RUCO and most importantly, fairness, equality, and reasonableness for ALL ratepayers. Any other approach for the design of rate structure, in my opinion, is contrary to the Arizona Constitution and specifically, does not comply with the Commission's Orders in the last rate case.

The ongoing wastewater rate case in Docket W/SW-01303A-09-0343 now covers all the EPCOR wastewater districts. On 8 August 2014, EPCOR filed in that case, its plan to "consolidated" wastewater rate schedules for its wastewater administrative districts. This EPCOR filing and subsequent testimonial filings presents detailed arguments and rationale that describe the numerous and significant benefits of rate consolidation for these ratepayers, the Company and accounting efficiencies for both Staff and RUCO. This wastewater case has the same rate consolidation factors and benefits that directly pertain to EPCOR's water administrative districts in this rate case.

Applying rate consolidation for ALL administrative districts also complies with the requirements of the Arizona Constitution, Title XV, Section 12, that requires charges (rates) to be just and reasonable and shall not discriminate between "persons and places for rendering a like contemporaneous service."

Previously, on 25 April 2014, Mr. Magruder requested that a consolidated water rate schedule be in the present docket to comply with Commission Decision and Order No. 71410 of 8 December 2009 on page 78.[10] The Commission ordered the next rate case to

[10] The Administrative Law Judge subsequently denied this request.

include consolidated water and waste water rate schedules and customer town-hall dialog sessions in all service areas prior to hearings in my 25 April 2014 filing. The Company has not obeyed this order.

2.10 A Sample Consolidated Rate Schedule.

Q. Have you developed a Consolidated Rate Schedule for this Case?

A. Not for this case, however, during the course of the last rate case, I submitted complete rate structures using the Company's software that involved over 20 inter-linked massive Microsoft Excel databases. After several iterations, considering all Rate Classes and Rate Categories (except those in Table 2.8-2 above) or about 97% of the customers, I design and prepared a consolidated rate structure and schedules for all eight water districts. This Consolidated Rate Structure is in Appendix 3. One can see the resultant <u>three pages</u> the <u>entire rate structure for all eight water districts</u>.[11]

If this kind of rate schedule, like Appendix 3 herein, were adopted, in the future rate cases could be much smoother. For a Company to submit a rate case, it could simply by multiplying all the rates (Customer Service and Volumetric) by one number that represented the change in Total Revenue, say 1.06 for a six percent rate increase. This is simple, fair and reasonable, and easy to understand and this process provides all customers with easy to understand view for "fair and reasonable" rate changes. Then, a future emphasis on *Total Revenue* will continue to be an important phase in future rate cases, as the complex and unfair, unreasonable and "rate shock" increases throughout. The proposed rate structures customer concerns will be minimized.

2.11 Comparing the EPCOR Proposed Rates.

Q. Have you compared the proposed rates for the water districts in this case?

A. For residential rates, first two Tiers, shown in Table 2.11-1, compares the EPCOR <u>proposed</u> rates with the <u>present</u> rates. It is noted that the greatest proposed cost increases are for the Tubac district between $47.19 (or **88.1%)** and $82.49 (or **56.5%)** while the other three locations have increases between $9.06 (or **9.7%)** and $23.41 (or **9.7%)** respectively.

[11] In the "last rate case", Magruder Notice of Filing Consolidated Rate Schedules" of 25 June 2010, in Dockets Nos. W-01303A-09-0343 and SW-01303A-09-0343, Appendix A, at 3-6

This Table 2-11-1 is for an Average water user. The Average is when the total water usage for a Category is divided by the number of customers in that Category.

Table 2.11-1 Comparison of EPCOR Proposed Monthly Residential COST for Four Locations in this Rate Case for the Monthly AVERAGE Usage
(5/8 & 3/4 and 1 inch rate categories)

Monthly AVERAGE Usage	5/8 and 3/4-inch Residential Service				1-inch Residential Service			
	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
In gallons	8,348	7,203	19,271	6,800	13,838	14, 786	55,400	23,601
Present COST	$53.57	$17.35	$52.30	$20.63	$146.05	$43.44	$165.40	$80.90
Proposed COST Increase	**+$47.19**	**+$3.82**	**+$5.06**	**+$9.06**	**+$82.49**	**+$8.47**	**+$16.05**	**+$23.41**
Proposed COST	*$101.76*	*$21.17*	*$57.36*	*$29.69*	*$228.54*	*$51.91*	*$181.45*	*$104.31*
Percent Increase in COST	**+88.1%**	**+22.0%**	**+9.7%**	**+43.9%**	**+56.5%**	**+19.5%**	**+9.7%**	**+28.7%**

Since the predominance of customer water usage is skewed, in what would be called a Poison probability distribution towards the higher user ends of the distribution tail. Average usage outcomes show a higher amount of water usage than using the Median usage. The Median user is one in the middle, where 50% use more and 50% use less water.

Median water usage is a better measure of water consumption than for an Average customer because it is not skewed to the right of the distribution curve.

Table 2.11-2 shows same comparison for the Median usage data instead a monthly Average. This table is more realistic than the previous Table 2.11-1; however, most customers (and the Commissioners) seem to understand and use the Average User since they seem to not understand the differences between the Average and the Median.

Similar results are shown in Table 2.11-2, with the Tubac district again having the highest cost increases in terms of dollars and percentages, varying from **$35.79 to $82.49** (from **56.5%** to **85.0% increases**) while the other districts vary between $**3.11 and $18.62** (from **8.5% to 45.6%)** per month.

These are clearly not equitable or fair rate changes.

Table 2.11-2 Comparison of EPCOR Proposed Monthly Residential COST for Four Locations in this Rate Case for Monthly MEDIAN Usage
(5/8 & 3/4 and 1 inch rate categories)

Monthly MEDIAN Usage	5/8 and 3/4-inch Residential Service				1-inch Residential Service			
	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
In gallons	5,000	6,000	10,000	5,000	13,838	7,000	37,000	11,000
Present COST	$42.10	$15.72	$36.65	$17.32	$146.05	$30.21	$116.45	$47.74
Proposed COST Increase	**+$35.79**	**+$3.46**	**+$3.11**	**+$7.87**	**+$82.49**	**+$6.68**	**+$9.96**	**+$18.62**
Proposed COST	***$77.89***	***$19.18***	***$39.76***	***$25.19***	***$228.54***	***$36.89***	***$126.41***	***$66.36***
Percent Increase in COST	**+85.0%**	**+22.0%**	**+8.5%**	**+45.6%**	**+56.5%**	**+22.1%**	**+8.6%**	**+39.0%**

Tables 2.11-1 and 2.11-2 showed the present customer costs versus the proposed Average and Median rate increases and total proposed customer costs.

The next two tables show the breakout of proposed fixed Service Charge and Volumetric rate changes, the two components of the ratepayer's total cost.

The Tubac ACRM surcharge has been included in the proposed rates. All the other districts with Arsenic costs have already had their arsenic costs incorporated into their rates. Table 2.11-3 also compares the Average and the Median water usages for these Rate Categories.

It is interesting to note that both Mohave and Tubac have the same Median monthly usages; however, the Service Charge is three-times higher for Tubac than for Mohave for both the small (5/8 & 3/4-inch) and larger (1-inch) Rate Categories. The cause(s) for such a significant difference cannot nor has not been rationalized. This significant difference for Service Charges just is not fair or reasonable.

Table 2.11-3 below summarizes the Service Charge changes from the present to the proposed Service Charge.

When comparing the four water districts for these two Residential Categories, Tubac again has, by far, the highest increases in Service Charges.

Table 2.11-3 Comparison of EPCOR Proposed Residential SERVICE CHARGES for Four Locations
(5/8 & 3/4 and 1 inch rate categories)

	5/8 and 3/4-inch Residential Service				1-inch Residential Service			
Monthly	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
Average Usage (gals)	8,348	7,203	19,271	6,800	13,838	14, 786	55,400	23,601
Median Usage (gals)	5,000	6,000	10,000	5,000	10,000	7,000	37,000	11,000
Present Service Charge	$27.40 +$3.56 ACRM	$8.76	$25.15	$11.00	$74.10 +$10.68 ACRM	$21.89	$90.54	$27.50
Proposed Service Charge Increase	**+$19.95**	**+$1.94**	**+$2.12**	**+$4.54**	**+$35.82**	**+$4.87**	**+$7.63**	**+41.3%**
Proposed Cost	***$48.24***	***$10.70***	***$27.27***	***$15.54***	***$120.60***	***$26.76***	***$98.17***	***$38.86***
Percent Increase	**+64.5%**	**+22.1%**	**+8.4%**	**+41.2%**	**+42.2%**	**+22.1%**	**+8.4%**	**+28.9%**

For a comparison of the Volumetric Rates, one needs to consider the Tiers or rate blocks (jumps) for consumption as break point separating tiers. Table 2.11-4 shows there is <u>no consistency</u> between these consumption charges, in terms of the <u>number</u> or <u>size</u> of each tier, or <u>cost</u> This Table begs the following questions:

a. Why is the number of tiers different for the different service areas?

b. Why is the Volumetric rates the same for the smaller (5/8 & 3/4-inch) and larger (1-inch) Rate Categories in Sun City and Paradise Valley but vary considerably for others?

c. Why does the spread for the tiers change from 1,000 gallons to 40,000 gallons?

d. Why are the ratepayers' costs so different for each water district, varying from **$0.75** in Sun City to **$10.81** (1,441% higher) in Tubac for same 1,000 gallons of water?

e. Why can't a consolidated or combined rate schedule, as proposed in the last rate case, provide a basis or staring point to decide rates than a mixed-mashed table below?

f. Why is the spread between Average and Median usage much greater for Paradise Valley than any of the other districts? [This difference is due to the skewness of the water distribution curve.]

Table 2.11-4 Comparison of EPCOR Proposed Residential VOLUMETRIC CHARGE For Four Locations
(5/8 & ¾ and 1 inch rate categories)

	5/8 and3/4-inch Residential Service				1-inch Residential Service			
Monthly	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
Average Usage	8,348	7,203	19,271	6,800	13,838	14, 786	55,400	23,601
Median Usage	5,000	6,000	10,000	5,000	10,000	7,000	37,000	11,000
Present 1st Tier	$1.90 0 to 3k	$0.7297 0k-1k	$1.05 0k-5k	$0.88 0k-3k	$4.00 0k-35k	$0.7297 0k-1k	$1.05 0k-5k	$1.84 0k-15k
Present 2nd Tier	$3.00 3k-10k	$1.0702 1k-3k	$1.25 5k-15k	$1.84 3k-10k	$6.00 >35k	$1.0702 1k-3k	$1.25 5k-15k	$3.00 >15k
Present 3rd Tier	$4.00 10k-20k	$1.3621 3k-9k	$2.20 15k-40k	$3.00 >10k	Not used	$1.3621 3k-9k	$2.20 15k-40k	Not used
Present 4th Tier	$6.00 <20k	$1.6539 9k-12k	$2.75 40k-80k	Not used	Not used	$1.6539 9k-12k	$2.75 40k-80k	Not used
Present 5th Tier	Not used	1.9896 >12k	$3.2259 >80k	Not used	Not used	1.9896 >12k	$3.2259 >80k	Not used
Proposed 1st Tier	**$5.33** **0 to 3k**	$0.75 0-1k	$1.408 0k-5k	$1.55 0k-3k	**$7.60** **0k-35k**	$0.75 0-1k	$1.1408 0-5k	$2.50 0k-15k
Proposed 2nd Tier	**$6.83** **3k-10k**	$1.3702 1k-3k	$1.3581 5k-15k	$2.50 3k-10k	**$9.38** **>35k**	$1.3702 1k-3k	$1.3581 5k-15k	$3.225 >15k
Proposed 3rd Tier	**$8.18** **10k-20k**	$1.6602 3k-9k	$2.3903 15k-40k	$3.225 >10k	Not used	$1.6602 3k-9k	$2.3903 15k-40k	Not used
Proposed 4th Tier	**$10.81** **>20k**	$1.9002 9k-12k	$2.9879 40k-80k	Not used	Not Used	$1.9002 9k-12k	$2.9879 40k-80k	Not Used
Proposed 5th Tier	Not Used	$2.1202 >12k	$3.5049 >80k	Not used	Not used	$2.1202 >12k	$3.5049 >80k	Not used

* = Includes a Low Income Surcharge of $0.6810 per 1000 gallons.

Uniquely, there is a surcharge ($0.6810) for a Low Income Program in Tubac that increases their highest Tier rates to $10.81 per 1,000 gallons. This is 308% higher that that for the next highest volumetric tier (=Tubac Third Tier at $10.81 divided by Paradise Valley Fifth Tier at $3.5049). Some districts have just two tiers, other have five tiers. Some have the same rates for the smaller and larger connections. Others are different. Why?

NONE of this complies with our Arizona State Constitution or the Arizona Revised Statutes. **Fair and reasonable rates do not discriminate between "person" and place**.

2.12 Fairness of the PRESENT Rates and Customer Costs.

Q. Are the Present EPCOR Rates Fair and Equitable for Districts in this Case?

A. No. The present rates and customer costs are summarized in the Tables above based on EPCOR's data in revised H-4 Schedules, These tables all show that there are wide variations in the present rates in these service areas. For smallest (5/8 & 3/4-inch service) residential customers, Tubac used 8,343 gallons per month, less than half the monthly Average water usage for Paradise Valley. However, the Tubac customer costs are higher than Paradise Valley with over twice the Tubac consumption. The present rates for Tubac are also more than twice those of the Sun City and Mohave for similar water usages. These wide variations exist for **all** Rate Classes and Categories.

The **present** rates clearly discriminate based on "**location**" and they are neither fair nor reasonable. There is no reason, other than legacy and lack of diligence by the Commission, RUCO and the various Companies (Citizens, AAWC and EPCOR) over the last half-century, when these "individual" companies were bought out by a larger company. These "districts" have retained a profit-center approach to do business in Arizona.

Maybe this is why we have had three different owners in the past decade!

2.13 Fairness of the PROPOSED Rates and Customer Costs.

Q. Are the Proposed EPCOR Rates Fair and Equitable for Districts in this Case?

A. The proposed rate increases show correspondingly unfair rates. The Tubac proposed cost increase of 88.1%, twice the percentage of smallest residential Rate Category. In other service areas, increases from 9.7% and 43.9% are proposed.

This is not fair or reasonable for the same product, same service, by the same company. Similar differences occur for the next larger Rate Categories.

The **proposed** customer costs and rate increases discriminate based on "**location**."

2.14 Consumption has Decreased Since the Last Rate Case, Especially in Tubac.

Q. What are the changes in consumption since the Last Rate Case?

A. The Company should note that the average water consumption for most districts' Rate Categories has decreased, especially in the Tubac service area where the usage in the dominant residential customer category (5/8 & 3/4-Inch) has decreased from 11,740 gallons/month to an average usage of 8,348 gallons/month in the past four years. This is a reduction of 3,392 gallons/month or 28.9%. This is a substantial decrease in water usage.

2.15 The Impacts on Rates in Tubac Due to its 28.9% Decrease in Consumption.

Q. What is the Impacts the 28.9% Decrease in Water Consumption in Tubac?

A. The number of customers (e.g., water meters) has slightly increased from 553 to 598, or 45 customers (meters). This is an 8.13% increase in the number of customers.

There are presently 510 Tubac residential customers or 85.3% of this customer base is residential. Mostly small businesses are here. Only 18 customers use a 2-inch service, the largest in Tubac. There are no large commercial activities using EPCOR's services. Thus, with an 8.13% increase in meters one might be believe there should be approximately an 8% or so increase in water consumption.

Since the last rate case, there has been 28.9% decrease in water consumption by the small residential customers.

Many new "exempt" (<35 gallons/minute) water wells have been dug in the Tubac service area, mostly by customers who did not want to pay the proposed high rates and implemented in the last rate case. In that case, I pleaded with the Company to enforce A.R.S. §45-454, to prohibit new wells, in the Tubac service area. They declined to act.

EPCOR now has 8.13% more customers, water consumption has decreased by 28.9%, and as customers continue to dug wells to offset the higher costs from rate cases.

This trend cannot continue or the rates will continue to skyrocket as consumption continues to decline. The only way rates could be stable would be for EPCOR to seriously decrease its expenses.

<u>EPCOR will always be behind the profit curve if this trend continues</u>.

2.16 Conclusion for Issue 1

Q. What is your conclusions concerning fair and reasonable rates in this case?

A. The present rates in the prior "open" rate case do NOT comply with the Arizona Constitution nor do the proposed rates proposed by EPCOR comply with a Commission Order. All customers in each district are not included. The high rates cause customers to really reduce water consumption. With ever decreasing revenue, EPCOR must increase its efficiency, use ARS §45-454, be legally compliant, to offset this trend, to make a profit.

2.17 Recommendations for Issue 1.

Q. What are your recommendations concerning fairness and reasonable rates?

A. It is strongly urged and recommended, based on evidence herein, that the rates and charges in the four districts are <u>combined</u> into a single Rate Structure in this case and during the next rate case, the remaining districts rates be combined. Appendix 3 did this and met the Company's tot al revenue requirements. .

Section III - Issue 2

PROVIDE EQUITABLE AND FAIR RATES FOR ALL LOWER INCOME CUSTOMERS

3.1 Rates for Lower-Income Ratepayers.

Q. Do you feel there should be lower rates for those with low income and why?

A. Yes. Water is required for all to live in sanitary conditions and is essential for life. A standard amount of water should be available for all who live in Arizona's desert environment. Those with the lowest incomes should be able to obtain this amount of water at very low rates, which I will call a "water lifeline" funded by higher income ratepayers.

During the last rate case, the Company testified that a human needs about 300 to 500 gallons a month, for basic use for drinking, cooking, washing and sanitary services. Using this as a minimum standard, if all residential ratepayers had very low rates for its first 3,000 gallons or so, of water, many times the minimum standard amount of water, this would provide, what I call, a "water lifeline" for all ratepayers. All customers automatically will receive the benefit of this "lifeline" rate. The higher consuming ratepayers will make up revenue "lost" from this "life line" rate category. This appears fair and reasonable and appears to meet the rate discrimination clause of our Arizona Constitution.

3.2 Low Income Programs by Other Utilities.

Q. Do other utilities have low-income rates?

A. Yes. Most utilities have low-income rates. For example, in Appendix 4, utilities in Santa Cruz and Pima County have low-income rates that include water, electric, wastewater, landline telephone (and Internet), and natural gas services. In general, most all of these utilities provide low-income utility rates for customers at the 130% of the effective poverty level, as shown in the table in these two examples.

When completing a tax return, IRS Form 1040 line 22, provides the "Gross Income" for a taxpayer's family. Using Gross Income and the number of people in the household (from the number of dependents), I enter this table to see if they qualify for low-income rates. Highlighted for a family of four, their Gross Income needs to be less than $35,325. An individual in Arizona, earning at the minimum wage in Arizona receives about $16,000 a year. The median Arizona household income is $53,891.[12] I provide this handout to those who meet these two requirements.

This is a simple process. I've given this to hundreds in Pima and Santa Cruz County. It was provided to all H&R Block offices and many AARP/VITA sites use the Pima County. Now I am using the Santa Cruz County form when doing tax returns in Santa Cruz County as an AARP/VITA quality review and Instructor volunteer in my county.

An "Application" always seems to be required to receive low-income utility rates.

3.3 Successful Implementation of Low-Income Rates.

Q. Can you comment on the successful implementation of low-income rates?

A. In general, based on over a dozen years of refining Appendix 4 including responses from returning taxpayers and preparers, very few qualified ratepayers ever apply for or receive low-income rates. During a rate case, I determined less than 5% of that utility's ratepayers in my county were receiving low-income rates, where over 30% of the families live below the poverty level (100%). Considerably less than one-in-six (<18%) of those eligible actually receive low-income rates.

Our county annual unemployment rates are seasonal, varying between 12% and 20%, due to the seasonal nature of our local job market, the multi-billion dollar fresh produce industry. I feel execution of EPCOR's proposed Low-Income Plan won't succeed.

Q. Why do you feel that the low-income rate programs are unsuccessful?

A. Simply, because an Application is required.

Some will not accept my "handout" for lower utility rates. In particular, an older person Social Security prides himself or herself by never needing "handouts." Others seem eager, but when queried the following year, they were not provided an Application after calling or were asked for personal financial information that was beyond their understanding.

However, the most common reason for lower-income families not receiving these rates is that they do not know they exist or how to get them. This is the reason I developed this handout in Appendix 4.

The requirement for an Application hinders those who most deserve low-income rates from receiving same. An Application negates a goal for equitable low-income rates.

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[12] *Green Valley News,* 18 January 2015, "Robber Barons, past and present" by Ed Lord, p. A7.

3.4 The Same Low-Income Rate Program for All EPCOR Ratepayers.

Q. Should All Customers have the Same Low-Income Rate Program?

A. Yes, because any other way to accomplish this goal would be discriminatory and not comply with the Arizona Constitution as discussed in Issue 1.

3.5 The Proposed Low-Income Rates.

Q. What has the Company proposed for its low-rate customers?

A. As an example, in the PROPOSED "Rules and Regulations" in EPCOR Rate Case Application, for Tubac district, we read:

> *"**Low Income Program** - Monthly Low Income credit of $6.21 is available in the Tubac Water district bring the basic service charge down from $15.54 to $9.33. Requires completion of a Low Income Program Application. Program is restricted to the first 1,000 eligible residential customers on 5/8 x 3/4 inch meters in the Tubac Water district. Applications must swear that he/she has an annual income below the threshold. The threshold is below 150% of the federal low income guidelines as periodically revised. Applicant may not be claimed as a dependent on another person's tax return. Applicant must reapply each time moving residences. Refusal or failure to provide acceptable documentation of eligibility, upon request, shall result in removal from the low-income program. Rebilling of customers upon the otherwise applicable rates schedule may occur for periods of ineligibility previously billed under the low-income tariff. Annual income means the value of all money and non-cash benefits available for living expenses, from all sources, both taxable and non-taxable, before deductions, for all people who live with the applicant."*
> [Tubac Water District, General Water Rate, 1st Revised Sheet No. 1b (PROPOSED)]

A note at the bottom of the previous page in this General Water Rate section, states:

> *"Note: * Low Income Program details are noted in the Terms and Conditions section for General Water Rates. Upper tier rate for residential and commercial customers is comprised of $9.500 approved rate plus $0.6810 for the Low Income Surcharge for a total of $10.1810."*
> [Tubac Water District, General Water Rate, 1st Revised Sheet No. 1 (PROPOSED)]

Additional information concerning low-income programs has been requested from the Company in a Data Request that will be discussed in a later filing.

3.6 Implementation of the Proposed Low Income Program.

Q. Do you see any problems implementing this proposed Low Income Program in Tubac?

A. Yes, as proposed, this process does not pass a common sense test. It requires an Application. It does not tell one how to get the Application (from a website is not an inclusive response since over 30% of Arizona households are without Internet access, especially low-income families. The "threshold" is neither clear nor defined. It requires a potential applicant to "**swear**" that their family income is below the "threshold". It is noted that a tax return signature states one is liable for perjury if the return is not truthful.

Using a tax return's "gross income" to determine family income is easy and clear.

The term "acceptable documentation" is not clear or defined.

There are less than 600 ratepayers in the Tubac district. Limiting low-income rates to the "first 1,000 ratepayers" is nonsense. Any limitation on the number of low-income customers is not fair or justified and could be discriminatory.

The service charge indicated is <u>not in effect</u>. The present Tubac Water Basic Service Charge is $24.70 for the residential 5/8 & 3/4-inch rate category, thus this part of the proposed low-income program <u>is **erroneous**</u>. The service charge was $15.54 <u>before</u> the last rate case, and it was raised to $24.70 now, and EPCOR has proposed to increase to $48.24, tripling from before 2010, and nearly doubling since the last rate case in 2010. There is NO impact on volumetric rates in the EPCOR Low Income Program.

Sixth, the method for collecting the "lost revenue" for the low-income ratepayers has no basis. EPCOR proposed to add and additional 68.1 cents/1000 gallons for the highest Tier ratepayers to cover this lost revenue. This is very high compared to the amount of predicted lost revenue for this district. This "arbitrary and capacious" approach is unfair for those in just the highest tier to pay for the low-income ratepayers, without reason.

<u>This EPCOR-proposed Low Rate Program should be rejected</u> (dismissed) and a realistic and beneficial Low-Income approach filed that is fair and reasonable!

3.7 Implementation of the Lifeline Rate for All Ratepayers.

Q. Would the Lifeline Rate resolve all of the above issues?

A. Yes, as there would be 'no application" necessary, there would be no annual changing "threshold", there would be no perjury or <u>swearing</u> required for these rates, no tax returns or other documentation to be reviewed (with cost savings for the Company), no limitations based on location, low income rates automatically involve volumetric and not the Service Charge (thus no separate book keeping for the Company), and any lost revenue would be spread across ALL rate classes and categories, in all Second and higher Tiers.

Q. Would the Lifeline Rate include a Lower Service Charge, too?

A. Of course. One goal of the Guidelines in 4.8 below is to also reduce Service Charges, maybe to the same degree as the Volumetric rates.

As shown in Appendix 3, I kept using lower First Tier Service Charges, with a goal to have a low-income ratepayer to cost no more than 25 to 30 dollars a month for Water. If the Volumetric rate were, say $1.25/1000 gallons, for a use of 3,000 gallons, the Volumetric cost would be $3.75. In order to keep this low-income worker billing statement below $25.00, his Service Charge would be $21.25 (= $25.00-$3.75). This should be fair and reasonable.

3.8 Conclusion for Issue 2.

Q. What is your conclusions concerning lower income rates in this case?

A. Simply, the proposed low-rate programs is unsatisfactory and will not adequately nor equitably achieve the goals for lower income ratepayers.

3.9 Recommendation for Issue 2.

Q. What are your recommendations for lower income rates?

A. Simply, that a low First Tier for all residential rate categories and the First Tier for the lowest two rate commercial rate categories be used instead of that proposed. The recommendations for Issue 3 provide for this kind of rate structure.

Section IV Issue 3
WATER CONSERVATION IS A KEY RATE DRIVER FOR VOLUMETRIC RATES

4.1 Arizona has a Serious Water Resource Challenge.

Q. Why does Arizona have a Challenge in Managing its Water Resources?

A. At present, we daily read of issues that involve decreasing water resources in Arizona due to a long-term drought, some say over 14-years long. In the past decade, higher temperatures have occurred throughout the state with the year 2014 being the highest since 1890. As population increases, without reducing demand on water resources, the ground water table continues to go down, locally up to nearly four-feet a year (about an inch a week). Reduced snowfall in the seven states along the Colorado River has greatly reduced the water supplies from that river. Further, the multi-state compact that governs the Colorado calls for Arizona to be the first state to have its allotment curtailed if the water shortage situation requires. Without even referring to "climate change", all indications are that water resources are diminishing and that something must be done or we will be in serious troubles.

The legislature has greatly reduced funding for the Arizona Department of Water Resources, to the level that no Active Management Areas have a dedicated manager or even an office, permits cannot be completely audited to ensure 100-year water resources are adequate as required by law, well water-level meters are read less often, and other required operations by this department are now being omitted due to lack of funding.

The legislature also has reduced funding for the Corporation Commission that has resulted in hearing delays or lower priorities in decision making. This is hard to believe. The Commission is "revenue positive" but gives its excess revenue to the General Fund.

Q. What does this mean with respect to this case?

A. We all have to manage our water resources more diligently to ensure that future generations will have adequate water resources for a reasonable quality of life.

In the *Arizona Daily News* for Monday, 19 January 2015, the headline reads:

> ***"Study says Colo. River adds $1.4T to region - Arizona's economy derives $185B, 2.25 million jobs from waterway"***

And this article continues below:

"Various studies estimate that the Colorado River... will see its flow reduced by 5 percent to 40 percent by 2050."

- *A 10 percent reduction in river flows would eliminate 1.6 million jobs and $143 million in gross state products over the seven-state Colorado River Basin.*
- *A cutback of 25 percent would cost 4 million jobs and $385 million in gross state product.*
- *A 50 percent decrease would kill 8 million basin wide jobs and cost $717 million in gross state product."*

"The river's flows have dropped up to 20 percent since 2000 without major job losses, but only because its reservoirs have provided enough water to keep it flowing to users, said Ann Tartre, the group's director of corporation partnerships."

"Arizona which draws 40 percent to 50 percent of its water from the Colorado, would see some of the sharpest impacts, edging Colorado in job losses and trailing slightly in gross state product declines."[13]

It is very clear that there are serious, significant and possible destructive future impacts if water use is not changed by all seven states. Thus, the State of Arizona, through its departments and this Commission must do all it can to minimize future water use. The Commission has implemented ADWR's "best practices" but needs to do much more and its other tool is to control water usage by increasing the cost of water to users, while not exceeding a Company's "*total revenue*".

4.2 The Company Can and Must Reduce Water Consumption and Waste.

Q. What can the Company do to reduce water consumption?

A. There are many ways the company can reduce water use and consumption, such as its implementation of the ADWR "Best Practices" that were required from the "last rate case." The Company provides valuable water conservation education in many forms of aids to *assist* ratepayers make a <u>behavioral</u> decision to use less water. I have submitted a Data Request for the Company's performance in implementing these "Best Practices" that will be included in a later filing.

[13] *Arizona Daily News,* pages A1 and A4. This study, "Protect the Flows" quoted above, was conducted by the L. William Seidman Research Institute at the Arizona State University's W.P. Carey School of Business. This study involved a diverse group of regional experts. Last week the headlines concerned the Secretary of Agriculture flying over the Verde Valley watershed, and the article discussed three USDA grants provided to assess various agriculture water conservation projects.

Q. Can the Company reduce water leakage?

A. The Company can do more to reduce water losses and leakage. The Commission's usual goal for water leakage is not to exceed ten (10) percent for a "district"; however, this may need to be adjusted to a lower goal, such as 8 percent or lower, with some expense impacts to "plug the leaks". This can reduce water losses from the wells to the customer.

The Company must, on a much finer scale than at the district-level, establish and implement effective and water leak management programs. Some districts have tens of thousands of "meters" (another word for customers. Measuring and reporting water leakage for smaller customer groups, for example sized at 1,000 customers or less, would give a more objective, performance measures for leakage. As is common in other business practices, plotting the "trend" of each smaller customer group could identify more leaks, including smaller ones, faster than at the "district level." Further, the Company could use this refined leakage data to better prioritize its repair actions. EPCOR's deployment of "Smart" water meters could be just a first step towards very effective leak control management; however, it is expected leaks may increase as systems get older.

Q. Does the Company consider Quality Management and the Environment when making decisions?

A. No. As shown in Appendix 2, written in 2003, this utility and most others, are NOT ISO 9000 (Quality Management) or ISO 14000 (Environment Management) certified. Many utilities have these international acclaimed certifications that improved their business practices and make their operations environmental friendly. EPCOR it appears has no such certifications. Having been through these certifications while working for a first-class aerospace company, noting our better performance after, when compared to, before certification was remarkable. Frankly, we thought we were the best "before" but going though the ISO certification processes was an eye-opener, especially when "self-corrective" mechanisms became routine. Problems disappeared, performance got even better. We were all happy (afterward) because the ISO certification processes required extensive looking inside the organizational structure, streamlining process and workflow, and developing qualitatively and quantitatively near-real time performance measurements of our team's results.

4.3 The Ratepayer is More Concerned About the Cost than Anything Else.

Q. How can "cost" to the customer be used to conserve water?

A. As discussed above, cost is the dominant "driver" of customer's reactions to rate changes, and the customer's behavior. In the "last rate case", I proposed a ten-tier rate structure, shown in Table 4.3-1 below.

Table 4.3-1. Present and Various Proposed Tubac Residential Rate COMMODITY Tiers and Rate Schedules

(per 1,000 gallons) **[from the "Last Rate Case"]**

<table>
<tr><th>Commodity Usage Tiers</th><th>Magruder's Proposed Rates</th><th>Present Rates</th><th>AAWC Initial Proposal</th><th>AAWC Final Proposal</th><th>AAC Staff Final Proposal</th><th>ACC Staff Alternative</th><th>RUCO Final Proposal</th></tr>
<tr><td>0 to 3,000 gallons</td><td>$1.50</td><td>$ 1.89</td><td>$ 3.78</td><td>$ 3.400</td><td>$ 2.67</td><td>$ 1.90</td><td>$ 3.4341</td></tr>
<tr><td>3,001 to 10,000 gallons</td><td></td><td></td><td></td><td></td><td></td><td rowspan="4">$ 3.00</td><td></td></tr>
<tr><td>First 4,000 gallons</td><td>$1.50</td><td>$ 1.89</td><td>$ 3.78</td><td>$ 3.400</td><td>$ 2.67</td><td>$ 3.4341</td></tr>
<tr><td>4,001 to 8,000 gallons</td><td>$ 2.00</td><td rowspan="5">$ 2.85</td><td rowspan="5">$ 4.85</td><td rowspan="5">$ 4.800</td><td rowspan="5">$ 4.15</td><td rowspan="5">$ 4.4062</td></tr>
<tr><td>8,001 to12, 000 gallons</td><td>$ 2.50</td></tr>
<tr><td>10,001 to 20, 000 gallons</td><td></td><td rowspan="3">$ 4.00</td></tr>
<tr><td>12,001 to 16,000 gallons</td><td>$ 3.00</td></tr>
<tr><td>16,001 to 20,000 gallons</td><td>$ 3.50</td></tr>
<tr><td>20,001 to 24,000 gallons</td><td>$ 4.00</td><td rowspan="5">$ 3.41</td><td rowspan="5">$ 4.95</td><td rowspan="5">$ 5.500</td><td rowspan="5">$ 5.25</td><td rowspan="5">$ 6.00</td><td rowspan="5">$ 4.4971</td></tr>
<tr><td>24,001 to 28,000 gallons</td><td>$ 4.50</td></tr>
<tr><td>28,001 to 32,000 gallons</td><td>$ 5.00</td></tr>
<tr><td>36,001 to 40,000 gallons</td><td>$ 5.50</td></tr>
<tr><td>40,001 gallons and above</td><td>$ 6.00</td></tr>
</table>

The ACC Staff Alternative was the final rates approved in the case; however, if compared to Table 2.11-4 above, one can see that a customer could easily see when their monthly billing statement showed how close their usage was to reach a lower tier in order to reduce their cost.

It might be noted that the $6.00/1000 gallon rate started in the Magruder design when consumption exceeded 40,000 gallons but was much earlier at half that level of consumption at 20,000 gallons under the Staff's Alternative. This change was caused much higher bills that I proposed for the resultant Fourth Tier consumers.

Because only four tiers were used, customers just over 20,000 gallons paid $1.05/1000 gallons more than initially proposed by the Company, $1.5039/1000 gallons than the Final RUCO proposal, and all others but the graduated increases shown in the Magruder Proposal with ten tiers increased the volumetric cost $2.00 less for the 20k-24k gallon customer.

Forgetting that the Tubac rates exceed all others in the Company, the resultant First Tier was considerably had considerably lower customer costs, thus meeting a goal for lower income rates that were automatically included in this Rate Design, an issue I strongly supported in the "last rate case".

4.4 General Guidelines for a Rate Structure that Leads to Water Conservation.

Q. Can you provide your recommended guidelines for development of a water conservation–oriented rate structure?

A. These guidelines were initially developed in the "last rate case," after several iterations.[14] In general, the following are how I would suggest establishing a rate design, using the following guidelines, in order to have water conservation as a significant driver of the volumetric water rate:

1. The lowest Residential and Commercial Rate Class tiers are credited as a mechanism to provide low-income rates without additional administrative overhead. This should result in defining the First-rate tier also as the "low-income" for a survival rate level for some 3,000 or so gallons. Some businesses use very little water. The smallest will also benefit. Revenue lost from the "First Tier" will be made up from other customers who use more water than the upper level of the First Tier.
2. A minimum of Ten Tiers should be used for ALL Residential and Commercial rate classes and rate categories.[15] This is a beneficial adjustment of "how" the revenue requirements are distributed to the customer Rate Categories. Using a <u>low number of tiers</u> for commercial customers <u>reduces their water conservation goals by not providing any **incentive** to reduce water consumption</u>. This may be considered as a far-reaching step; however, it is easy to implement with today's software programs. Its benefits are worth the costs, a few days of programmer costs and a "rate description article" to explain this to all customers.
3. All Residential <u>and</u> Commercial Rate Class customers, with the <u>same</u> water connection size (that is, in the same Rate Category), should have the <u>same</u> Service Cost and Volumetric rates. Thus, the customer costs in the same rate category are equal, for the two most significant Rate Classes. This accounts for infrastructure needs for required for a level of service, that is, the Rate Category, regardless if Residential or Commercial. This will reduce the Company's

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[14] Marshall Magruder Closing Brief, of 1 May 2009, at 18, in Docket Nos. W/SW-01303A-08-0227.

[15] During the course of the "last rate case", it appeared obvious to me that most parties would not accept ten tiers. Thus the Appendix 2 herein, from that case, shows only five tiers. I still would like to see ten tiers so that ratepayers can easily see how close they are to the next "rate step." Also, in Table 2.11-4, the proposed number of tiers varied between two and five tiers. Since ten tiers might result in "tier shock", a minimum recommendation for five tiers for all Rate Classes and Categories could easily be a first step in the resultant rate structure for this case.

administrative tasks and make understanding rates easier by all customers. It provides a clear and simple **incentive** to reduce consumption in the two dominant Rate Classes.

4. Correspondingly, the Residential Class and Commercial Class First tiers will have identical Service Cost and Volumetric Rates. This will be advantageous for many (probably most) small businesses where the Company's schedules have shown much higher rates for low commercial consumption. Many commercial customers typically use less water than comparable residential customers. Separately, the rates in the Company's proposed schedules discriminate against commercial customers with minimal tiers. Small business owners, like residential customers, also need to be able to determine and make decreases on how to reduce their usage in order to gain the cost savings in their next billing statement.
5. The Volumetric cost relationship between the First and highest Tier must be significant, say on a ratio of highest or Top Tier/First Tier of at least 3:1. That is, the First Tier rate should be less than one-third of the Top Tier. This provides the "spread" necessary to show how consumption impacts customer cost, which is necessary for many to make a behavior change necessary to reduce water consumption. The results from Tubac Top/First Tier present ratio of $6.00/$1.90 or 3.16 has resulted in a decrease of average water consumption for the residential ratepayers from the "last rate case" of 11,757 gallons/month to 8,348 gallons/month or 2,409 gallons/month or a reduction of 28.9%. This is the highest Top/First Tier ratio in this case, as all other districts had reduced water consumptions, but none to the degree as Tubac.
6. A Commission needs to determined a fair and reasonable Company's *total revenue*, from what I call the first phase of a rate case. The Company's *total revenue* is the sum of all customers' charges by the Company.
7. The *total revenue* must be the starting point for rate schedule design. The resultant customer rates must be revenue-neutral for the Company, as legally required.
8. The allocation of *Total Revenue* needs from all Rate Classes should be based on the relationship between the water consumption in all Rate Classes. This relationship, or ratio of the *Total Revenue* requirements, is a significant "decision factor" in each rate case because not all Rate Classes are equal in determining the cost of service.

9. The definition of Rate Classes must be the same throughout the Company. As shown in Table 2.8-2 above, many of the Rate Classes are unique, thus may "discriminate between persons and places," especially, since some are not even included in rate cases. By having a standard Company-wide definitions of Rate Class (and associated Rate Categories) and Tiers, simplifies and to a better understanding for both the Company and its customers.
10. The billing statements should make obvious the rate (cost) per tier and where that monthly bill lies in the multi-tier rate structure. This is how "price-signals" can be observed and informs the customer how much less water consumed is necessary to reach the next lower tier.
11. The smallest residential and commercial rate tiers (at least the First tiers) should be identical. This will be advantageous for the many small businesses that the Company's schedules have shown to typically use less water than the comparable residential rate category. Small business owners will look for where savings can occur based on consumption changes on there billing statements.
12. The fixed Service Charges variations should be minimal and leveled out across all ratepayers in each rate category.[16] This will also lead to consolidation of all fixed charges, across all water divisions, to equalize this "fixed" cost and can have significant impacts for lower income ratepayers.
13. The Service Charge and Volumetric rates can easily be simple numbers, usually at 10-cents/1000 gallons increments to achieve the *Total Revenue*. Any Rate in hundreds of cent/1000 gallons is neither required nor necessary. The Company did propose some districts with these micro rates while other districts are rounded rates. See Tables 2.11-3 and 2.11-4, above for these rates. Magruder's proposed Consolidated Rates in Appendix 3 rounds off all rates, mostly in 50-cent increments.[17]
14. The Company's Rules and Regulations have significant variance between districts, mostly due to left over words used by former district owners. Standardization of the Company's Rules and Regulations, including the discussion on rate structure, would greatly benefit the Company and it costumers. The present Rules and

[16] Table 2.11-3 above shows nearly a random distribution for service charge rates between the various districts.
[17] In Appendix 3, the First Tier Service Charge of $0.98/1000 gallons was chosen to make a statement that rates were below $1.00/1000 gallons for the First Tier.

Regulations are terrible and need to be thoroughly reviewed and re-written by an editor who can make them customer-friendly. The example, in 3.5 above, is an excerpt concerning a Proposed Low Income Plan, this is typical and is not clear, definitive nor practicably with major errors. They also do not exist in Spanish.

4.5 The Benefits of these Guidelines for Rate Design in This Rate Case.

Q. What would be the results of such a rate design?

A. Simply, the following are some of the benefits of using these design guidelines:

- Water Conservation-Based Rate Schedules. The key elements of a conservation-based rate design includes having

  (1) Significantly lower rates for the lowest volumetric consumers and

  (2) Significantly higher rates for the highest volumetric consumers.

- This widens the "spread" in rates so that lower consuming customers benefit, as these usually are the lower income and those on fixed incomes, such as those who are retired, and provides incentive for all ratepayers to conserve water. The principle used by this party is *that customers who use the least amount of water should pay the lowest rates and, conversely, for the highest consuming customers, the highest rates.*
- Equitable Low-Income Rates. The monthly average consumption figures average a bit 6,800 gallons/month at Mohave to 19,203 gallons/month at Paradise Valley in this case. In the "last rate case" the Company (AAWC) testified that only 300 to 500 gallons per person are needed for human consumption in a month, thus a First Tier low rates will significantly benefit the low-income and also all customers. At present, EPCOR does NOT have a viable Company-wide and low-income rate schedule but those benefits will occur when there is a wide spread between rates. In general, at least by a factor of three, should be the difference between lowest to highest rates in each customer category will be necessary.
- Additional Rate Tiers or Blocks Are Required To Send PRICE SIGNALs. Most rate categories have only two or three rate blocks or tiers. With this number of rate blocks, it is nearly impossible for a customer to see any impact of conservation. To incentivize water conservation, (many) more rate tiers or blocks are required so customers can move their consumption to a lower level by conserving. As shown in Table 4.3-1, the present rates blocks for one district (similar to the others) do not

present a gradual increase in cost to a customer. Table 2.11-4 above compares the present and proposed rate Tiers for the most significant Residential Service Categories. These Tiers fail to provide any **incentive** to reduce consumption.

- Using Rates for Water Conservation. Only the ever increasing, such as a 4,000-gallon tier-block approach, previously proposed in the Magruder ten-tier rate structure (Table 4.3-1 above), is necessary to provide customers with clear, obtainable price signals that can encourage conservation.
- Consider, review and modify, if necessary, the above "guidelines" for a Rate Structure that Leads to Water Conservation.
- **Water conservation and low-income rates must drive rate design.**

4.6 Conclusions for Issue 3.

Q. What are you conclusions for Issue 3?

A. It is concluded that the following are necessary, in my opinion, to most effectively operate this Company in an efficient manner with a significant goal to reduce consumption, provide a rate design that includes lower income ratepayers, while combing the water rates for the four districts in this case. The following are conclusion from the above discussion concerning Issue 3 and, due to the inter-relationships with Issues 1 and 2 including:

1. An inclined reverse block rate structure, with adequate number (at least five) Tiers (or rate blocks) should be developed to ensure **all** customers have an opportunity to reduce consumption by reaching the next lower rate Tier. For example, please see Appendix 3 for a combined rate structure developed for all of the water districts.
2. At least ten such rate Tiers should be designed with five being a minimum.
3. This inverse rate structure should have the First Tier (at the lowest rate) less than one-third the rate for the highest or Top Tier.
4. The First Tier should have a much lower rate with higher rates for higher consumption customers in each rate category. Increasing rates with greater changes sends a "Price Signal" to customers as a water conservation measure.
5. The First Tier (lowest) should be designated for ALL Residential and Commercial ratepayers since many smaller businesses are have similar usage as households.
6. The First Tier should consider its impact for the Lower Income ratepayers and be publicized as a "Lifeline" or similarly named rate by the Company.

7. The total revenue from the First, Second and higher Tiers, when combined with the Service Charge, other fees and charges plus the ROI, should equal the Total Revenue requirements for a fair and reasonable profit for the Company.
8. <u>In this case</u>, the Company's "Total Revenue" requirement should equal the total revenue requirements for Four water districts.
9. <u>For the "next" rate case</u>, the Total Revenue for all the remaining EPCOR water districts should be combined to the Total Revenue from the combined four districts in this case and identified for the Company's Total Revenue.
10. Revenue will be determined for this combined account and not be allocated to individual water districts as a rate making measure as these are just internal business units of the Company.
11. All "rules and regulations" (R&Rs) should be consolidated into one, streamlined, easy to read, document, in English and Spanish, and provide to the Commission for review before publishing.
12. The consolidated R&Rs, along with the effective tariffs, should be available as a document for customers review during initial and subsequent interviews, on the Company's web site, available in all offices and a copy in each company vehicle.
13. The Company should seriously consider going through the ISO 9000 (Quality Management) qualification process for the entire Company, with an aim to fully integrate all the company policies, practices and procedures.
14. The Company should consider the benefits of qualifying under ISO 14000 (Environment Management) as an environmental and publicity bonus.
15. To accomplish these ISO certifications, an **incentive** for the Company could be 1 or 2 percent increased ROI, for award upon completion of certification.
16. This party has never and does not support any form of a System Improvement Benefit Surcharge Mechanism (SIB) process. This is NOT understood by ratepayers and sets up additional accounting procedures. Several years ago, this Commission resolved this issue a most challenging and grueling experience in eliminating a proposed SIB by a major electric utility in an ugly show that I, nor anyone else who wants EPCOR to be successful, would wish on their worst enemy.
17. <u>Don't wait</u> for a later rate case and <u>**let the existing rate discrimination continue**</u> <u>when they could be resolved now</u>. Later maybe too late.

4.7 Recommendations for Issue 3.

I strongly urge and recommend that the Commission:

1. Review the Conclusions in 4.5 with an aim considering implementation.
2. Require the Company to respond to these guidelines with a rate schedule, to generally meet the "guidelines" in 4.4, for the four water districts.
3. Require the remaining EPCOR water divisions in the <u>next rate cases</u> to fully combine their rates for a single, combined EPCOR water rate schedule.
4. Integrated the entire Company to eliminate inefficiencies by the legacy water "districts".
5. Increase the Company's ROI at least 1 to so percentage points, as an incentive, above what it would normally award in this case, in order to reflect the higher risk and potential additional costs by rewarding the Company as its reorganizes into a better entity and becomes ISO 9000-certified, and possibly ISO 14000-certified.

Without #5 above, in my opinion, the management synergies necessary to respond effectively to these new requests may have less significance to upper management as to succeed, with a smaller reward.

If these bold, objective, and obviously beneficial changes being made <u>now,</u> these integration processes will improve the Company, all ratepayers will benefit in the long-term with more stable rates.

The present situation is deplorable and almost dysfunctional. It is not impressive to potential investors, actual shareholders and today's nervous financial community.

A strong, unified, more efficient operation will attract investors, while continuation of the present situation may continue to repel.

I support such action as a result of this rate case, with periodic status reports, to the Commission as to "lessons learned" so that any mistakes in combining these four districts are transparent and the best corrective action, with direct support by the Commission Staff as necessary, to make EPCOR as the best in Arizona and the United States.

Q. Does this complete your testimony?

A. Yes.

Appendices

Appendix 1. Background of Marshall Magruder

Appendix 2. Comments on the Proposed Rate Increase for Arizona – American Water Company, Tubac of 18 November 2003

Appendix 3. Consolidated Rate Schedules by Marshall Magruder

Appendix 4. "How to Apply for Low Income Utility Rates that may Reduce Your Utility Bills by $200 or more in 2015 and 2016, Santa Cruz and Pima Counties"
[AARP/VITA and H&R Block handouts]

Appendix 1

Background of Marshall Magruder

This Appendix contains a listing of prior cases that I have appeared before the Commission and a brief resume of my education, my overall experience, positions I have recently held, details of this experience, published papers, various company courses and military schools, significant military experiences, and awards.

I have made appearances before this Commission, either as a party or as an individual, in the following:

a. Arizona Power Plant and Transmission Line Siting Case No. 111 (TEP's CEC Application);
b. ACC Docket No. E-01032C-00-0951, the Citizens Purchase Power and Fuel Adjustment Clause (PPFAC) hearings;
c. ACC Docket Nos. E-01033A/E-01032C/ and G-01032C-02-0914, the UniSource-Citizens Acquisition hearings and its Gas Rate Case;
d. ACC Docket No. E-04230-03-0933, the UniSource-Sahuaro Acquisition hearings;
e. ACC Docket No. E-01032A-99-0401, Service Quality issues, analysis of transmission alternatives and proposed plan of action in Santa Cruz County, reopened in 2005;
f. ACC Docket No. G-04204A-06-0463, a UNS Gas Rate Case;
g. ACC Docket No. E-04204A-06-0783, a UNS Electric Rate Case;
h. Arizona Power Plant and Transmission Line Siting Case No. 144, ACC Docket No. L-00000F-09-0144 (UNS Electric's CEC 138 kV upgrade Application);
i. Arizona Power Plant and Transmission Line Siting Case No. 164, ACC Docket No. L-00000C-11-0164 (UNS Electric's CEC Rosemont Mine 138 kV line);
j. ACC Docket No. W/SW-01303A-08-0227, Arizona-American Water Company Rate Case, referred to as the "last rate case", and in
k. Many ACC Open Meetings including gas line safety hearings, Biannual Transmission Assessment (BTA) workshops, the Environmental Standards Portfolio (ESP) and Renewable Energy Standards Tariff (REST) workshops, and other workshops.

Resume of Marshall Magruder

EDUCATION

MS in Systems Management, University of Southern California (1981); MS in Physical Oceanography, Naval Postgraduate School (1970; BS, US Naval Academy (1962)

EXPERIENCE

Over 25 years as Senior Systems Engineer as an associated contractor, consultant, Raytheon-Hughes in systems engineering, training and naval systems, simulation and modeling; over 40 years experience with 20 years of service with the US Navy

- **Large-system development** at all levels from pursuit, analysis, winning strategy, Request for Proposal evaluation, proposal supervision, system requirements analysis, architectures, specifications, design synthesis, trade-off studies, requirements allocation tracking, to system, level test planning, deployment, implementation, through sign-off, for large complex systems.

- **Developed** Antisubmarine Warfare (ASW), Electronic Warfare (EW), Command, Control (C2), Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) operational concepts, procedures, and tactical employment.

- **Used, operated, and planned** Navy, Army, Air Force, Coast Guard, Joint and Allied systems, world-wide.

- **Coordinated multi-platform employment** from sensor to tactical platform to Battle Force to Theater-level.

- **Qualified systems engineer/manager** for trainers, C4ISR, countermeasures, for any platform.
- **Specialties:** environmental analysis, documentation, sensor/weapon predictions, C4ISR, Electromagnetic and Emission Control decision criteria.
- **Battle Force/Group Tactical Action Officer** on 8 aircraft carriers, TAO Instructor, 22 months in combat.

RECENT POSITIONS at ImagineCBT, ISIS, Raytheon, Hughes, and others

C4I Architect and **C4I Support Plan Lead** for the Carrier for the 21st Century (CVX) Task Order.
- Completed *CVX C4I Support Plan, v1.0,* Joint Operational Architecture for Joint and Naval staff space allocations for CVX and the Joint Command and Control ship.
- Drafted *CVN 77 Electronics System Integrator Statement of Work (SOW)* for tasks and Integrated Product Team's *Integrated Management Plan*; Royal Navy Future Aircraft Carrier SOW proposal

Lead Systems Engineer, Operations Analyst and **Site Survey Leader** for Saudi Arabian Minister of Defense National Operational Command Centers and C4I System.
- Completed the *System Specification, System Description, Site Survey, Interface Requirements Documents*

Proposal Technical Volume Manager for the following **winning proposals**:
- Vessel Traffic Service 2000 system, US Coast Guard command center for surface surveillance using radar, visual, communications links. (won proposal evaluated A++, won Phase I)
- Anti-submarine Warfare Team Trainer (Device 20A66), an integrated, multi-ship, submarine, aircraft and staff training system for Naval Task Groups. (won $56M contract, best technical, lowest cost)
- Electronic Warfare Coordination Module (EWCM), an Intelligence/EW spectrum planning and management system for Task Force Command Centers. (won Phase I, best technical)

Assistant Program Manager for the Training Effectiveness Subsystem, Device 20A66
- Performance Measurement Subsystem, observed real-time performance of operators, teams, multi-ship and aircraft units during exercises and compared to the standard

Senior Systems Engineer responsible for writing **specifications** in following winning **proposals**:
- Fire Support Combined Arms Team Trainer *System Specification*, a US Army field artillery, multiple cannon and battery training system. (won, awarded $118M contract, still under contract)
- Warfighter's Simulation 2000 (WARSIM 2000) *System Specification*, a US Army Force XXI Century battalion to theater levels, training system with actual C4I systems. (won)
- Tactical Combat Training System, (TCTS) *Exercise Execution Software Requirements Specification* for simulation and computer models to run real-time, driving sensors, weapons and links on 35 ships, 100 aircraft and submarines (won Phase I contract, wrote SRS in Phase 2 proposal)

DETAILED DESCRIPTIONS OF EXPERIENCE

The following are more information, arranged chronologically, with dates, position title, program name, followed by accomplishments, and an overview of the project.

2000 to 2010 – ISIS, Inc., as Senior Scientist, Information System Architect, Systems Engineer, Training Systems Analyst and **Requirements Analyst.**

Department of Interior Management, Organization and Business Improvement Services and Professional Engineering Services proposal analysis (2005), prepared detailed requirements, tasks analysis of the RFP, and proposal plan.
General Accounting Office (GAO), reviewed and prepared training system development and professional engineering services processes and job descriptions for a training proposal.
Strategic Services and Support , attended pre-solicitation conference for the Army Communications-Electronics Command, Ft. Monmouth NJ, prepared a $19.25 billion program proposal.
Total Engineering Information Services , participated as proposal writer, pink and red team member with another company as prime for a $12M, multi-year, contract for Army Information Systems Engineering Command, Ft. Huachuca contract. Prepared Risk Management Plan for prime contractor.

Networthiness Certification, prepared proposal for the Army Network Command for this multimillion-dollar program involving over 3,200 Army computer programs at all Army installations, worldwide. Prepared Quality Control and Risk Management Plan.

Cryptologic Support and Logistic Analysis, prepared proposal for the Army Communications-Electronics Command, Ft. Huachuca, AZ.

Information Warfare Training, USAF Small Innovative Business R&D contract to determine Information Warfare training (IW) requirements and measure performance in an intelligence, wargaming system, to develop an IW training system for the USAF Information Warfare Aggressor Squadron.

US Army Virtual Proving Ground (VPG) - Did Architecture Framework development, implementation and documentation with the DoD *C4ISR Architecture Framework* for framework architecture products.

Prepared C4ISR architecture framework proposals for U.S. South Command Command Center, DoD Threat Reduction Agency Operational Command Center, and Department of Health and Human Services Command Center programs.

2001 to 2009– C4I Architect, Operations Analyst and **Systems Engineer** for the UK Minister of Defence Future Aircraft Carrier program, at Raytheon Naval & Maritime Ship Systems, San Diego, CA.

Prepared for Raytheon Naval Ship & Integrated Systems proposals with Statement of Work, Data Descriptions for Architecture Assessments (Requirements, Testing) for ten functional mission areas, Global Information Grid evaluations for the CVF to be interoperable with US Joint forces, and Levels of Information System Interoperability using DoD LISI procedures, applications, infrastructure, and data attributes to determine internal and external interoperability assessments

Prepared proposal for Raytheon C3I Systems for the Joint Command and Control Ship, *JCC Interoperability Study*, including reporting and preparing conference presentations and making recommendations to JCC Program Office ensuring interoperability of 400+ tactical, logistic, administrative, and C4ISR applications.

Prepared proposal and performed contract for Raytheon for *JCC Reconfiguration Study* to determine requirements to most effectively manage command (C4ISR) onboard the JCC.

Provided architecture framework proposal inputs and evaluation for US Army Land Warrior III for Raytheon C3I Systems in Plano Texas.

Provided C4ISR systems engineering and proposals for LHA, JCC, CVF and other NAMS ship programs.

2000 - 2002 – MBA Instructor, University of Phoenix, for "Operations Management for Total Quality" and "Managing R&D and Innovation Processes" courses.

Taught MBA courses in Nogales to Mexican maquilladores managers and in Tucson to American managers. Qualified to teach "Program Management" course.

1999 – present - AARP Tax Consulting for Elderly tax preparer, annually IRS-qualified for Advanced individual returns with military, cancellation of debt, health savings account area specialties.

As the county AARP Instructor, I teach standards of conduct, ethics, tax law and tax software programs.

1998 - 2000 – CVX C4I Architect and **C4I Support Plan Leader** also **Lead Systems Engineer** and **Requirements Analyst** for CVN 77 and CVX Programs, at Raytheon, San Diego, CA

Performed C4I Support Plan analysis to understand the DoD C4I Support Plan requirements.

Led team to understand the *Architecture Framework's* Operational, Technical and Systems products.

Managed team to draft and submit plan to NAVSEA (PMS-378) for two customer reviews.

Provided interface with CVX and Joint Command and Control Ship to combine architecture development for NAVSEA (PMS-377), drafted task schedule.

Proposed a "Reconfigurable Joint and Naval Staff Space Allocations" to start the CVX/JCC *Operational Architecture* and *Mission Essential Tasks* process. (3 studies approved)

Coordinated an "Architecture Implementation Course" at RCS, San Diego.

Created the CVN 77 *Electronic Systems Integrator Statement of Work* for the CVN 77 RFP in 1999.

Provided various trade studies and options for performing this task for Newport News Shipbuilding.

Wrote a draft CVN 77/CVX "Total Ship Systems Engineering Plan for our team.

Implemented the Raytheon and Newport News *Integrated Product and Process Development* processes to structure IPTs, tasks, and develop work and task descriptions.

Provided interoperability inputs to UK Future Aircraft Carrier (CVF) Raytheon Qualification letter.

Participated in establishing teaming arrangements with SPAWAR Systems Center, San Diego.

The CVN 77 is the last carrier of the *Nimitz* class. The first CVX is to be commissioned in 2018; the tenth CVX is planned for disposal in FY 2111. Total personnel are to be reduced by 1,740. Up to 12 different staffs may embark with 1,000 augmentation personnel beyond the normal capabilities. CVX can embark a Joint

Task Force Commander with command and control systems for Operational-Theater and Tactical levels. The CVN 77 ESI role involves integration of all C4ISR equipment, internal and external communications, navigation, sensors, fire control, weapons, and associated display processing systems.

1998 to 2013 – H&R Block, Senior Tax Advisor Level 3, seasonal tax preparer (annually, January to April 15), part time, qualified by the IRS as a Registered Professional Tax Preparer (RPTP) with a PTIN.

1997 - 1998 – DD 21 Requirements IPT Lead, Systems Verification and Test IPT Lead, and **Initial Lead Systems Engineer** for the Hughes-Raytheon, DD 21 Program.

Provided IPPD plans for all systems engineering functions, from subsystem to total Ship System levels.

Managed two Integrated Product Teams (IPTs) as additional DD 21 personnel were assigned.

Conducted Video Teleconferences with IPTs, with weekly Agenda, Minutes, and led team meetings.

Attended Risk Management course. Recommended RSC's Prophet™ risk management software tool for DD 21 and other ship integration programs. (adopted, now is the NAVSEA standard risk process)

Provided the initial *DD 21 Total Ship Systems Engineering Plan.*

Coordinated systems engineering modeling and simulation planning.

The Future Surface Combatant of the 21st Century Program consisted of destroyers and cruisers, with a Land Attack Destroyer (DD 21) to be commissioned in FY2015 and an Air Dominance Cruiser in FY2020. I participated in program implementation, maintenance of collaborative and synergy with both CVX and SC-21 programs, and emergent JCC and Coast Guard Deep Water Programs.

1995-1997 – Operations Analyst, Site Survey Team Leader, Naval Operations and Joint Training Analyst, *C4I System for National Defense Operations Center & Area Command Centers Definition Study.*

Created significant inputs to and reviewed the *System Description Document, System Specification* as Lead Systems Engineer, emphasized operational concepts for staffing and workstation operator tasks; operations center and support facility layouts; specifications for a transportable operations centers; system-level communications interfaces for various communications; system hardware and software interfaces; operator training; selected integrated messages, and system performance characteristics.

Managed program budget and personnel for 3 months deployments for 12 engineers in Saudi Arabia.

Conducted interviews and briefs with members of all joint Minister of Defense and Aviation staff and all armed forces, including schools and topographic commands.

Provided reports, program reviews for survey and design efforts including coordinating Action Items and Program Management Review Minutes.

Performed pre-contract planning analysis for site survey from battalion to national level command centers.

Drafted System Specification for a Land Forces Operations Center, deemed excellent by customer.

Prepared *Site Survey Report*, participated in drafting the *Communications Interface Requirements Document*, and presented multiple customer briefings.

Only engineer to start and complete this $10M contract, the others were replaced at customer request.

The MODA C4I System provides 13 Kingdom-wide operations centers to form a joint C4I system, integrating all services for 3 command echelons and a Land Force a digital C2 system for 4 echelons.

1995 – Systems Engineer, for an AirHawk Concept of Operations.

Drafted a preliminary "*Operations Concept Document (OCD) for the Air HAWK*" system for HMSC in Tucson, provided a systems approach to integrate the subsystems with the missile using MIL-STD-498 as a guide.

AirHawk is to provide an air-launch system capability for the U.K. Tomahawk cruise missile.

1995 - Lead Systems Requirements Engineer, Warfighters' Simulation 2000, US Army training system.

Performed system functional requirements analysis for command and control from battalion to Theater-level

Responsible System Engineer for analysis and writing of the System Specification in accordance with MIL-STD-498 (System Engineering).

WARSIM 2000 C4I training system stimulates all present and emergent Force XXI C4I systems with data for entire staffs in Tactical Operations Centers in the field, in classrooms and at War Colleges. WARSIM 2000 integrates with other joint systems through protocol standardization and object-oriented design features.

1994 – System Requirements Engineer, Theater Battle Management Core System, USAF C4I system.

Ensured compliance with the contract and requirements documents integrating different systems into the TBMCS proposal, including the Global Command and Control System.

Drafted a compliance matrix with 200 pages meet demanding RFP requirements

TBMCS is the US Air Force theater to squadron level C4I system.

1994 – Proposal Technical Manager, Vessel Tracking Services 2000, US Coast Guard C3 system.
Led the technical and engineering proposal efforts to comply with the RFP and proposal requirements, based on Hughes themes and proposal strategy decisions.
Managed systems, hardware, communications, software, and logistics engineers writing the responsive proposal. (Ten corporate teams bid; Hughes won Phase I with two others including Raytheon, Hughes performed Phase I, Congress delayed Phase II, program was later restructured)
VTS interfaces radar, visual surveillance, environmental, and voice communications data with differential Global Positioning System information from automated and human input to enhance safety and commerce on waterways and for major port regions.

1993-1994 – Lead Systems Engineer, Fire Support Combined Arms Tactical Trainer, US Army trainer.
Team Leader for the requirements analysis, design, system engineering and proposal efforts.
Drafted and led several pre-RFP System Requirements Reviews for the System Specification.
Developed a technique with Distributed Interactive Simulation protocols where a thousand or more cannons can perform exercises from multiple sites in same exercise.
FSCATT integrates artillery and fire control with a Forward Observer visual training system, provides Fire Direction Center simulation and stimulation interfaces with Close Combat Team Trainer M1 tank and M2 systems. (Hughes won $118M program)

1990-1991 – Systems Requirements Engineer, Tactical Combat Training System (TCTS), US Navy C4I training system.
Led the simulation and modeling, system requirements analysis for all real-time operations for the proposal and Phase I development efforts. (Hughes won Phase I)
Wrote most of the *Exercise Execution CSCI SRS* for real-time system execution software for over 100 simulations and sensor, weapons and platform models.
TCTS provides a task group training data link for 100 aircraft, 24 ships and submarines, 6 ashore facilities and ranges, with up to 780 real-time targets. TCTS uses participant data link pods between platforms; stimulates platform sensors with the real-time targets; maintains data link communications; collects data for feedback and rapid after action reviews. (Hughes team won Phase I, Raytheon Phase II)

1991 - Human Factors SE for Land Warrior 2000 proposal, US Army infantryman C4I system.
Human Factor Engineer for proposal effort for the helmet display overload analysis with computer text and graphic display resolution. Left to lead FSCATT Systems Engineering and Proposal teams.
Land Warrior 2000 system provides infantrymen with an integrated C4I System for an infantry brigade, with computer-driven displays, messages, GPS, and other C2 features.

1988-1991 – Assistant Program Manager for the Training Effectiveness Subsystem, Device 20A66.
Created Performance Measurement Subsystem with subcontractor analysis, documented design details.
Managed $1.2M subcontract, conducted reviews, wrote SOWs, evaluated products and subcontractor.
The Performance Measurement Subsystem determines operational performance (real time) for trainees from Admiral to sensor operators and for ship teams, multi-ship and tactical units.
1988-1991 – Senior Systems Engineer, Device 20A66.
Lead Systems Engineer, provided significant inputs for models, simulations, communication data link interfaces, user displays, and I/O; consultant to software team as ASW expert.
Designed to real-time Links 4A/11/16 with ships in port and ships/aircraft at sea.
The Device 20A66 trains a Battle Group Commander in a Task Force Command Center, staff and subordinate staffs (20 ships and submarines, 15 aircraft in 35 mockups using 186 workstations, 61 large screen displays) to use data links, communications, and effective tactical decision making practices.
1986-1988 – Proposal Technical Volume Manager, Device 20A66.
Evaluated Draft-RFP and System Specification, provided 229 change pages, acknowledged as best significant pre-proposal action by bidder.
Led pre-proposal, technical design and development effort as the only engineer for 1 year.
Led Technical Volume Manager, team of systems, simulation, hardware, courseware, facility, logistics and software engineers in synthesis and drafting of a 500-page technical volume, cost less than estimate.
After proposal submittal, replied to questions, gave briefs. (Hughes won, beat 2 incumbents)

1987-1988 – Proposal Manager, Law Enforcement Driver Trainer System for California.
Led pre-proposal and proposal team to develop a design for high-technology driver trainer systems for the Peace Officers and Safety Training (POST) Commission. (Hughes won)
Participated during contract, as systems engineer in-charge of design, to verify that the POST training objective(s), standard(s) and criteria would be met for the drivers of the system.

1987 – Lead Engineer, Advanced Fuels Auxiliaries Test System (AFATS) for US Air Force
Provided initial engineering requirements analysis leading to a joint venture with Allison Gas Turbines to bid this major USAF test system.
Drafted initial System/Subsystem Design Document as the basis for design.
Hughes bid, after I left project; however, USAF then declined to award contract.

1986-1987 – Proposal Coordinator, USAF LANTIRN training system.
Led proposal compliance review for real-time video and infrared requirements using Hughes RealScene™ 3-D (voxel-based), interactive system for a GBU-15 training system.
LANTIRN trainer provides real-time displays of video and IR images to cockpit and weapons systems for F-15, F-16 flight simulators and the AGM-130 missile.

1985-1986 – Senior System Engineer for the Electronic Warfare Coordination Module program with responsibility for the environmental effects design.
Led technical proposal effort, coordinated proposal outline, reviewed storyboards and topics, determined compliance, edited technical volume, and synchronized with other volumes.
Responsible engineer for atmospheric and acoustic effects on propagation and degradation from countermeasures, provided customer briefs, and coordinated subcontractor requirements.
EWCM provides full spectrum management capabilities for the Electronic Warfare Commander to coordinate operational and intelligence EW information and databases. (Hughes won Phase I)

1982-1985 – Systems Engineer for the training subsystem, ASW Tactical Ship Training System.
Led technical proposal effort for the Performance Measurement and Monitoring training subsystem, sonar simulation, operator displays, fire control, data links, and sensor, weapon and platform modeling.
Designed PMM subsystem, pushed the state-of-the-art, land and implemented in Device 20A66.
All ASW ships and ASW aircraft were simulated in a single-ship, multi-dimensional (anti-air, anti-surface, anti-submarine) environment, as a C2 and sensor operator training system.

PAPERS

Presented two papers to the Industry/Inter-Service Training Systems Conferences (I/ITSC):
"Design Concepts for a Performance Measurement System" [nominated for best paper, in top 5 of 105]
"A Performance Measurement System Design", based on Device 20A66 results.
Prepared and presented three reports to the National Security Industrial Association (NSIA), ASW Committee, as Vice-Chairman of Training and Interoperability Subcommittee;
Study Leader for following Reports:
"Training Commonality for Oceanography and Acoustic Environment Study Results"
"Training Commonality for Detection and Classification Study Results"
"Proposed Standard Sonar Equation for Technical, Tactical, and Training Communities"
Received NSIA Meritorious Award for leading these ASW industry and government studies)
Presented paper to the Hughes Advanced Technology and Studies Group describing the use of "Distributed Interactive Simulation Protocols in C4I Systems".

RAYTHEON AND HUGHES COURSES

Taught "Introduction to ASW Tactics" course, at Hughes (4 times) and for the *Advanced Training Institute* at 10 times at the Naval Underwater Systems Center, the Naval Surface Weapons Center, Naval Civil Engineering R&D Center and other locations.
Attended "C4I Architecture Implementation", "Risk Management", "Front-End of the Business", "Systems Engineering", "Global Command and Control Seminars"
Attended Advanced Technical Education Program Courses:
Software Risk Analysis, Software Estimating and Prediction, Database Modeling, Object-Oriented Software Methodologies, Proposal Development, How to Interview Candidates, Microsoft Word, Creating a Web Browser, Netscape User's Courses

Participated in the NSIA Industry War Games at Naval War College (Newport) and the Marine Corps Command and Development Center (Quantico).

MILITARY SCHOOLS

Attended US Naval schools including Destroyer School Department Head, Gunnery, Anti-Submarine Warfare (ASW), Communications Security Officer courses, NWC Wargaming and NTDS User Courses.

Qualified for Command of Destroyer, Tactical Action Officer (Battle Group and Ship levels), Officer of the Deck (cruiser and destroyer), Ship Command Duty Officer (staff, cruiser, destroyer) and Surface Warfare Officer.

SIGNIFICANT MILITARY AND OPERATIONAL C4I EXPERIENCE

Active duty US Navy commissioned officer served as: (home ported twice in 2nd, 3rd, 6th and 7th Fleets)

Area ASW Force, Sixth Fleet (CTF 66) as Staff Plans Officer coordinated all surface ships, aircraft carriers, submarines and ASW/EW aircraft in the Sixth Fleet area on a daily basis; conducted operational ASW with real targets; coordinated (simulated) daily submarine, surface ship and air-launched anti-ship Harpoon attacks on targets. (Awarded Meritorious Service Medal for highest Fleet-level ASW performance)

Fleet ASW Training Center, Pacific Fleet, lead Coordinated ASW Tactics Instructor/Staff Oceanographer, at-sea as ASW Commander Instructor Watch Officer during Fleet Exercises, augmented Destroyer Squadron staffs. Taught coordinated ASW tactics at Fleet Combat Training Center to TAO classes for 3 years.

Commander Carrier Group THREE, staff ASW Surface Operations and Geophysics/ Environment Officer, deployed twice to Western Pacific/Indian Ocean; planned and directed RIMPAC 77 with Japan, Australia, New Zealand and Canadians, 3 aircraft carriers, 7 submarines, over 150 aircraft; planned Persian Gulf CENTO MIDLINK-77 with UK, Iran and Pakistan; qualified Battle Force TAO on 5 aircraft carriers.

Naval Surface Warfare Officers Schools Command/Naval Destroyer School as the ASW Tactics and TAO Instructor for Prospective COs, XOs, Department Heads, Free World Navies Courses for mid-grade officers from over 30 countries; co-developed Naval Tactical Analysis Wargame to evaluate tactical concepts including Harpoon anti-ship tactics; led ASW team trainers with students; trained anti-PT boat exercises; taught ASW/anti-surface warfare tactics, EW, communications and EMCON decision making classes. Taught surface ship ASW at Submarine School, guest instructor at Naval War College, used NWC wargaming facilities to evaluate new systems and ships. (Awarded Gold Star for second award of the Navy Commendation Medal, the first officer to receive this award at this command)

Commander Cruiser-Destroyer Flotilla TEN, as ASW Plans Officer, deployed to Sixth Fleet, embarked on 3 aircraft carriers, 2 cruisers including USS *Albany*. Planned many Sixth Fleet, NATO exercises and CENTO exercises. Engaged in more than 50 Soviet bomber over-flights of Battle Group, 100% successfully intercepted by fighters and missile lock –on prior to 100 miles from the carrier. (Awarded Meritorious Unit Commendation for validating anti-SSBN tactics and developing SSN direct support procedures)

USS *Hollister* (DD788), Operations Officer, deployed for 2 years, with19 consecutive months of combat operations off North and South Vietnam in the Seventh Fleet, provided naval gunfire support (over 28,000 rounds), maritime surveillance, SAR, Gemini VIII space craft rescue ship, EW intelligence collecting, and Korean operations. (Awarded Secretary of Navy Unit Commendation, Navy Commendation Medal with Combat "V", Vietnam Service Medal with 3 campaign stars, Republic of Viet Nam Campaign Medal)

USS *Robert L. Wilson* (DD748), ASW Officer, deployed to Sixth Fleet for ASW operations, UN rescue ship off Cyprus, NATO exercises, Gemini IV NASA space craft rescue ship, participated in Dominican Republic operations. (Armed Forces Expedition Medal for Dominican Republic ops, National Defense Medal)

USS *Springfield* (CLG7), Main Battery Fire Control Officer and Missile Fire Control Officer, deployed in Sixth Fleet for over a year, homeported in Villefranche-sur-Mer, France.

AWARDS

Arizona Golden Rule Citizen Award, by Arizona Secretary of State Janice K. Brewer for exemplifying the spirit of the Golden Rule daily: "treat others the way you would like to be treated", nominated by Santa Cruz County Supervisor Ron Morris on 2 August 2004, for accomplishments on the Santa Cruz County/City of Nogales Joint Energy Commission. (2004)

National Security Industrial Association (NSIA) Anti-Submarine Warfare Committee, Meritorious Award from the NSIA President, Admiral Hogg USN (Ret.), lead several ASW training industry and government studies. (1992)

Merit Awards, Raytheon and Hughes, four times, for achievement and excellence in performance.

Military Awards include Meritorious Service Medal, Naval Commendation Medal with Combat "V" and Gold Star, Navy Unit Commendation, Navy Meritorious Unit Commendation, National Defense Medal, Armed Forces Expeditionary Medal (Dominican Republic), Vietnam Service Medal with three Bronze Stars, Vietnam Campaign Medal with "1960-", Overseas Service Ribbon (Italy).

Appendix 2

Comments on the Proposed Rate Increase for Arizona-American Water Company, Tubac on 18 November 2003.

Marshall Magruder
PO Box 1267
Tubac, AZ 85646

18 November 2003

BEFORE THE ARIZONA CORPORATION COMMISSION

For the Open Meeting held this date in Tubac Arizona

Comments on the Proposed Rate Increase for Arizona-American Water Company, Tubac

FIRST ISSUE – UTILITY RATE INCREASES, WHY?

American business are **leaders in developing efficient work processes** to lower costs and dominate that business environment.

Of all the industries, the utility industry has proven to be amongst the **least efficient**. With less than one third of the energy used by the $1 trillion dollar electric industry, delivered to customers, we need to "open our eyes" to just plain effective business management.

This water case, with a "cross the board" rate increase is another accounting trick, which failed to look at the real "cost of doing business" issues. Let's explain this.

A **zero-based budget approach** is essential to determine the "cost" of each step in the business process model. Cost components change with time, they are not all "flat." Without examining each cost element, by each company, then did the American-Arizona Water Company fail to properly assess the detailed impacts of doing business?

More importantly, this approach defeats efficient management and should not be tolerated by the Commission. Make AAWC show you their numbers, by each cost element category. Then make AAWC **prove to you the actual, measured, and documented cost of that cost element category**. "Shot-gun" approaches are used by lazy and ineffective management teams.

Public service companies have all their books open during ratemaking cases. They need to be audited to the level necessary to **verify and validate** that their charges are (1) **prudent**, (2) **fair**, and (3) **reasonable**. A fair and reasonable return should be awarded for efficient companies.

Most utilities have never heard of **ISO 9000**, the integrated management and business process program for quality organizations. It's applicable to every company in this country, including the water utility business. The implementation of the 20 different business processes in this world-wide (a la "Deming") program, will improve corporate efficiency at all levels by all departments. ISO 9000 goes for "**self-improvement" mechanisms**, embedded into the day-to-day operations, to foster overall corporate improvement. It is obvious by just the "cross the board" approach in this case, that ISO 9000 has not been implemented at Arizona-American Water Company.

Based on this, then **ISO 14000**, for **Environmental Management** practices, surely has not been considered. Such practices, when implemented by a water company, involve all environmental management decisions inside this company and their external impacts. This company needs to consider establishing ISO 14000, in addition to ISO 9000.

If so, the next rate case will be different. Why should a properly managed company requesting any rate increases, when efficiency results in rate "decreases. **When did this last happen in Arizona**?

I have worked in companies where these have been implemented, including a Macolm Baldridge National Quality award organization. The differences are instantly amazing. You find a totally different atmosphere towards working as a team. **What's going on now is mismanagement**.

Please work these details and have the "**best and brightest**" companies **propose rate reductions** the next time around, as my second issue, discusses the impacts of this problem.

SECOND ISSUE – IMPACTS OF THIS UTILITY RATE INCREASE

We have had a series of recent utility increases in Santa Cruz County. These include the following:

Natural Gas rate increase	20.9%
Electricity rate increase	22.0%
MEDICARE	13.9%
Trash charge per car load	100%
Proposed Water rate increase	**86% to possibly 35%**

Lets look at what a **fixed income person**, **retired on social security** received to compensate:

Social Security COLA	**2.1%**

Again, with a fixed income, **something is not going to be on the dinner table for these folks**!

"ENOUGH IS ENOUGH"

Please fix these problems, **don't just pass on increase after increase without making them work**, if they have poor business practices and mismanagement.

Sincerely,

Marshall Magruder
(520)398-8587
marshall@magruder.org

Appendix 3

CONSOLIDATED RATE SCHEDULES
BY MARSHALL MAGRUDER

1. Scope. This filing consists of copies of spreadsheets computed using the version 4 of the Company's Consolidated Rates Microsoft Excel program. Two Excel files have been provided to all parties with email so that compatible reviews can be compared.

2. References. Upon inclusion of the two Excel files (included in the electronic submission of these schedules and indicated by * below), with updated Excel files from the version 4 Company's Consolidated Water Model are incorporated by reference in this submission:

    AZAW Consol rates Water – Residential v4 Step 1.xls (dated 2 June 2010)
    AZAW Consol rates Water – Residential v4 Step 2.xls (dated 2 June 2010)
    AZAW Consol rates Water – Residential v4 Step 3.xls (dated 2 June 2010)
    AZAW Consol rates Water – Residential v4 Step 4.xls (dated 2 June 2010)
    AZAW Consol rates Water – Residential v4 Step 5.xls (dated 2 June 2010)
    AZAW Consol rates Water – nonpotable v4 Step 1.xls (dated 2 June 2010)
    AZAW Consol rates Water – nonpotable v4 Step 2.xls (dated 2 June 2010)
    AZAW Consol rates Water – nonpotable v4 Step 3.xls (dated 2 June 2010)
    AZAW Consol rates Water – nonpotable v4 Step 4.xls (dated 2 June 2010)
    AZAW Consol rates Water – nonpotable v4 Step 5
    AZAW Consol rates Water – PF v4 Step 1.xls (dated 2 June 2010)
    AZAW Consol rates Water – PF v4 Step 2.xls (dated 2 June 2010)
    AZAW Consol rates Water – PF v4 Step 3.xls (dated 2 June 2010)
    AZAW Consol rates Water – PF v4 Step 4.xls (dated 2 June 2010)
    AZAW Consol rates Water – PF v4 Step 5.xls (dated 2 June 2010)
    AZAW Consol rates Water – Commercial v4 Step 1.xls (dated 2 June 2010)*
    AZAW Consol rates Water – Commercial v4 Step 2.xls (dated 2 June 2010)
    AZAW Consol rates Water – Commercial v4 Step 3.xls (dated 2 June 2010)
    AZAW Consol rates Water – Commercial v4 Step 4.xls (dated 2 June 2010)
    AZAW Consol rates Water – Commercial v4 Step 5.xls (dated 2 June 2010)
    AZAW Consol rates Water – Total v4 Step 1.xls (dated 2 June 2010)*
    AZAW Consol rates Water – Total v4 Step 2.xls (dated 2 June 2010)
    AZAW Consol rates Water – Total v4 Step 3.xls (dated 2 June 2010)
    AZAW Consol rates Water – Total v4 Step 4.xls (dated 2 June 2010)
    AZAW Consol rates Water – Total v4 Step 5.xls (dated 2 June 2010)
    Stepped Rate Summary v4.xls (dated 2 June 2010)

3. Discussion of Consolidated Schedules.

    a. Water District Schedules. The Rate Consolidation Schedules for the eight Water Districts use the references cited above. The "Assumptions" in file "AZAW Consol rates Water – Total v4 Step 1.xls" are provided in Attachment A. The above files contain mean and average customer usage data and specific changes for each district, rate category, and class. There are no other Model changes (other an correcting a minor summing function in Commercial Step 1 provided to all parties). A Step 1 solution is provided herein. Steps 2 to 5 will be discussed in the Brief.
    b. Wastewater District Schedules. This party plans to accept AAWC's Consolidation Wastewater Rate Schedules, therefore no Wastewater Consolidated is presented.

c. Miscellaneous Fees and Charge Schedule. These are in the Direct Testimony and will be discussed further in the Brief.

Attachment A

ASSUMPTIONS IN THE MAGRUDER CONSOLIDATED RATES MODEL

ARIZONA WATER COMPANY CONSOLIDATED RATES MODEL - WATER

Percentage of Consolidated Rates Step 1

Sun City	100.000%
SCW	100.000%
Agua Fria	100.000%
Anthem	100.000%
Tubac	100.000%
Mohave	100.000%
Havasu	100.000%
PV	100.000%

Residential Rates and Blocks			Commercial, OPA, Turf Rates and Blocks		
5/8" - 3/4"			**5/8" - 3/4"**		
Customer Charge		$14.50	Customer Charge		$17.50
First	3,000	$0.9800	First	3,000	$0.9800
Next	7,000	$2.5000	Next or First	7,000	2.5000
Next	15,000	$3.0000	Next	15,000	3.0000
Next	20,000	$3.5000	Next	25,000	3.5000
Over	45,000	$4.0000	Over	45,000	4.0000
1"			**1"**		
Customer Charge		$20.00	Customer Charge		$30.00
First	3,000	$0.9800	First		$0.9800
Next	7,000	$2.5000	Next or First	10,000	2.5000
Next	15,000	$3.0000	Next	15,000	3.0000
Next	30,000	$3.5000	Next	40,000	3.5000
Over	50,000	$4.0000	Over	75,000	4.0000
1 1/2"			**1 1/2"**		
Customer Charge		$70.00	Customer Charge		$70.00
First	3,000	$0.9800	First		$0.9800
Next	22,000	$2.5000	Next or First	25,000	2.5000
Next	25,000	$3.0000	Next	25,000	3.0000
Next	50,000	$3.5000	Next	150,000	3.5000
Over	100,000	$4.0000	Over	200,000	4.0000
2"			**2"**		
Customer Charge		$110.00	Customer Charge		$110.00
First	30,000	$1.7500	First		$2.5000
Next	70,000	$2.5000	Next or First	100,000	2.5000
Next	100,000	$3.0000	Next	100,000	3.0000
Next	100,000	$3.5000	Next	300,000	3.5000
Over	300,000	$4.0000	Over	500,000	4.0000
3"			**3"**		
Customer Charge		$245.00	Customer Charge		$245.00
First	25,000	$2.0000	First		$2.5000
Next	75,000	$2.5000	Next or First	1,000,000	2.5000
Next	100,000	$3.0000	Next	2,000,000	3.0000

Next	100,000	$3.5000	Next	3,000,000	3.5000
Over	300,000	$4.0000	Over	6,000,000	4.0000
4"			**4"**		
Customer Charge		$395.00	Customer Charge		$395.00
First	100,000	$2.0000	First		$2.5000
Next	100,000	$2.5000	Next or First	100,000	2.5000
Next	100,000	$3.0000	Next	200,000	3.0000
Next	200,000	$3.5000	Next	1,700,000	3.5000
Over	500,000	$4.0000	Over	3,500,000	4.0000
6"			**6"**		
Customer Charge		$700.00	Customer Charge		$700.00
First	100,000	$2.0000	First		$2.5000
Next	100,000	$2.5000	Next or First	1,000,000	2.5000
Next	250,000	$3.0000	Next	3,000,000	3.0000
Next	500,000	$3.5000	Next	3,000,000	3.5000
Over	950,000	$4.0000	Over	7,000,000	4.0000

Apartments **Not Consolidated - Present rates in effect.**

Non-Potable Rate

Customer Charge	$ -
All Consumption	$1.2700

Private Fire Rate

2"	
Customer Charge	$10.00
3"	
Customer Charge	$22.50
4"	
Customer Charge	$40.00
6"	
Customer Charge	$90.00
8"	
Customer Charge	$160.00
10"	
Customer Charge	$250.00
12"	
Customer Charge	$360.00
Hydrants	
Customer Charge	$14.00

Water Districts Included in Rate Consolidation

	Included? Yes=1, No=0
Sun City	1
SCW	1
Agua Fria	1
Anthem	1
Tubac	1
Mohave	1
Havasu	1
PV	1

Note: Extraneous blank lines and Tab Color lines were removed.

ARIZONA AMERICAN WATER COMPANY
Summary of Consolidated Water Rates

	Revenue from Consolidated Rates	Target Revenue	Difference
Residential (a)	55,828,012	56,101,076	(273,065)
Commercial	13,410,100	12,510,487	899,613
OPA (b)	391,571	205,193	186,378
Sale For Resale (c)	283,898	279,308	4,590
Misc- Non-Potable	1,047,982	2,178,733	(1,130,752)
Private Fire	637,590	436,640	200,950
Total	71,599,152	71,711,438	(112,286)

(a) Includes Multi-family - rates are not consolidated.
(b) OPA in Aqua Fria (State Prison) and in Mohave consolidated to Commercial rates.
(c) Includes Peoria Public Interruptible in Sun City, PI Surprise and Water Contract in Agua Fria and City of Phoenix in Anthem whose rates are not consolidated.

Note: The above summary shows that the Target Revenue is $112,286 short of meeting the total revenue from the proposed Consolidated Rate. This was deliberate as an amount more than $112,000 was being proposed by both the Commission Staff and RUCO to be deleted from the Target Revenue, thus having the Target Revenue exceeding the Income received by Consolidated Rates. If this was not obtained, then adjusting the rates listed could be slightly modified to make this happen.

Appendix 4

For Santa Cruz County:

How to Apply for Low Income Utility Rates that may REDUCE YOUR UTILITY BILLS by $200 or more in 2015 and 2016

To **QUALIFY** the **gross income** for the people in the household must be **LESS THAN** the amount below.

NUMBER OF PEOPLE IN THE HOUSEHOLD	Annual Gross Income at or UNDER	Monthly total income at or UNDER	Semi-Monthly income at or UNDER	Bi-Weekly income at or UNDER	Weekly income at or UNDER
1	**$ 17,235**	$ 1,436.25	$ 718.13	$ 662.88	$ 331.44
2	**$ 23,265**	$ 1938.75	$ 969.38	$ 894.81	$ 447.40
3	**$ 29,295**	$ 2,441.25	$ 1,110.63	$ 1,126.73	$ 563.37
4	**$ 35,325**	**$ 2,943.75**	**$ 1,471.88**	**$ 1,358.66**	**$ 679.33**
5	**$ 41,355**	$ 3,446.25	$ 1,723.13	$ 1,590.58	$ 795.29
6	**$ 47,385**	$ 3,948.75	$ 1,974.38	$ 1,821.46	$ 910.67
7	**$ 53,415**	$ 4,451.25	$ 2,226.65	$ 2,054.44	$ 1,027.21
More than 7, **plus**	**+ $ 6,030 per person**	+ $ 502.25 per person	+ 251.25 per person	+ $ 231.92 per person	+ $115.96 per person

(Effective 1 July 2013-30 June 2014, Santa Cruz County)

The columns for semi-monthly apply when paychecks are issued on the first and fifteenth of the month, while bi-weekly is when paychecks are every other week

OR

IF your family (household) **already qualifies** for ACCCS, Food Stamps (SNAP), SSI, or Head Start, you have been already qualified for these low-income utility rates.

HOW Can YOU APPLY for Low Income Utility Rates in Santa Cruz County?

CALL the phone number below for your utility(ies) and **REQUEST AN APPLICATION** for LOW INCOME Rates. They probably will ask if you are on various low income programs **AND** your what is your

1. **ANNUAL GROSS INCOME** $_________ from your ***2013 Federal Income Tax Return*** and the
2. **NUMBER OF PEOPLE IN YOUR HOUSEHOLD** ________. If less than in table above, **you qualify**:

For Low Income ELECTRICITY RATES:

UNS Electric **877-837-4968 (CARES and CARES-M Program, up to $11.50 per month)**
SSVEC **800-422-3275 (ask for a "Helping Hand Program" application)**
TRICO **520-682-0024 (ask for a "Helping Hand Program" application)**

For Low Income NATURAL GAS RATES (about 30% reduction in winter months):

UNS Gas **877-837-4968 (CARES and CARES-M Program, to $18 per winter month)**

For Low Income LANDLINE TELEPHONE RATES and INTERNET BASICS:

CenturyLink **800-244-1111 (ask for Lifeline rates, save ~$7.95/month = $85/year)**
CenturyLink **800-244-1111 (ask for basic Broadband Assistance @ $9.95/month)**

For Low Income WATER and WASTEWATER RATES:

Liberty Utilities **520-281-7000 (ask for Alternative Rates for Water and Wastewater), save 15%**

Step 1. ASK for an APPLICATION to be sent to your address (same as the utility bill).
Step 2. When you receive the APPLICATION, FILL IT OUT, with gross income above.
Step 3. The person's name on the bill MUST SIGN and you MUST include your ACCOUNT NUMBER.
Step 4. MAIL the APPLICATION to the correct address. Most utilities qualify for 2 years.

For Pima County:

How to Apply for Low Income Utility Rates that may REDUCE YOUR UTILITY BILLS by $200 or more in 2015 and 2016

To **QUALIFY** the **gross income** for the people in the household must be **LESS THAN** the amount below.

NUMBER OF PEOPLE IN THE HOUSEHOLD	Annual Gross Income at or UNDER	Monthly total income at or UNDER	Semi-Monthly income at or UNDER	Bi-Weekly income at or UNDER	Weekly income at or UNDER
1	**$ 17,235**	$ 1,436.25	$ 718.13	$ 662.88	$ 331.44
2	**$ 23,265**	$ 1938.75	$ 969.38	$ 894.81	$ 447.40
3	**$ 29,295**	$ 2,441.25	$ 1,110.63	$ 1,126.73	$ 563.37
4	**$ 35,325**	**$ 2,943.75**	**$ 1,471.88**	**$ 1,358.66**	**$ 679.33**
5	**$ 41,355**	$ 3,446.25	$ 1,723.13	$ 1,590.58	$ 795.29
6	**$ 47,385**	$ 3,948.75	$ 1,974.38	$ 1,821.46	$ 910.67
7	**$ 53,415**	$ 4,451.25	$ 2,226.65	$ 2,054.44	$ 1,027.21
More than 7, **plus**	**+ $ 6,030 per person**	+ $ 502.25 per person	+ 251.25 per person	+ $ 231.92 per person	+ $115.96 per person

(Effective 1 July 2013-30 June 2014, Pima County)

The columns for semi-monthly apply when paychecks are issued on the first and fifteenth of the month, while bi-weekly paychecks are every other week **OR** if your family **already qualifies** for ACCCS, Food Stamps (SNAP), SSI, Head Start, etc., you have qualified for these low-income utility rates.

HOW Can YOU APPLY for Low Income Utility Rates in PIMA County?

CALL the phone number below for your utility and **REQUEST AN APPLICATION** for LOW INCOME Rates. They probably will ask if you are on various low income programs **AND** your what is your

1. **ANNUAL GROSS INCOME** $__________ from your ***2014 Federal Income Tax Return*** and the
2. **NUMBER OF PEOPLE IN YOUR HOUSEHOLD** ________. If less than in table, you qualify:

For Low Income ELECTRICITY RATES

TEP 623-7711 (ask for Life Line Discount Program, up to $8 credit/month)
TRICO 682-0024 (ask for "Helping Hand" Program application)

For Low Income NATURAL GAS RATES (about 30% reduction in winter months)

Southwest Gas 1-800-428-7342 (Low Income Rate Assistance Program, LIRA)
1-800-860-6020 (Low Income Energy Conservation Program, LIEC)
1-800-582-5706 (Low Income Home Energy Assist. Program, LIHEAP)
UNS Gas 1-877-837-4968 (CARES and CARES-M Program, to $18 per winter month)

For Low Income LANDLINE (only, not wireless) TELEPHONE RATES

Quest 1-800-582-5706 (DES-CPIP program, $7.95 credit/month = $85/year)
1-800-244-1111 (Tribal Lifeline/Tribal Link-up Program rates at $1/month)

For Low Income WATER RATES

City of Tucson Water 791-3242

Step 1. ASK for an APPLICATION to be sent to your address (same as the utility bill).
Step 2. When you receive the APPLICATION, FILL IT OUT, with gross income above.
Step 3. The person's name on the bill MUST SIGN and you MUST include your ACCOUNT NUMBER.
Step 4. MAIL the APPLICATION to the correct address. Most utilities qualify for 2 years.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
Susan Bitter Smith, Chairman
Bob Stump
Bob Burns
Tom Forese
Doug Little

EXHIBIT MAGRUDER-2

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** **26 February 2015**

Notice of Filing

Surrebuttal Testimony

by Marshall Magruder

The Company's Rebuttal failed to adequately respond to the three critical issues in my Direct Testimony of 23 January 2015. NONE of these issues impact the Company's "bottom line." This failure to ignore a reasonable layman's testimony, especially since the Company also supports similar solutions, appears dubious or disparate treatment.

The First Issue, to combine the rates in four water locations, meets a prior Commission Order[1], and is ongoing in a parallel wastewater case.[2] The Company's convincing testimony in that case shows its "bottom line" is not directly impacted when rates are combined. In its Rebuttal and Staff's and RUCO's Direct Testimonies in the instant case continue rate discrimination, contrary to Title XV Section 12 of our state Constitution, that reads:

"Charges for service; discrimination; ...

"Section 12. All charges made for service rendered, or to be rendered, by public service corporations within this state shall be just and reasonable, and no discrimination in charges, service, or facilities shall be made between persons or places for rendering a like and contemporaneous service, ..." [Emphasis added]

The Second Issue is to establish fair, reasonable, effective and efficient low-rates for lower income ratepayers. The Company agrees these ratepayers should have access to lower rates; however, its proposal discriminates against All ratepayers. Its dysfunctional low-income

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1 Magruder Testimony of 23 Jan. 2015, at 15, "2.2 Compliance with Commission Order" No. 71410, for details that
2 ACC Docket No. W-01303A-09-0343.

proposal has "caps" and imposes a new low-income surcharge on other ratepayers. The simple and cost-efficient solution in my Direct Testimony removes these and other faulty impediments.

The Third Issue is to develop a multi-tiered rate structure to promote water conservation, with higher consumption charges for those with higher water use, was ignored, with minimal changes in the present rate structure. Water conservation is the most crucial issue in Arizona.

All three issues are easily resolved with a combined rate structure,[3] with low "lifeline" rates for the "First Tier" and additional Tiers to clearly show "price signals" to higher consumers.

None of these Company proposals to eliminate "rate discrimination" impacts on its bottom line but have significant financial impacts on ratepayers while improving the Company's efficiency to serve its customers. There is no rational or legal reason to continue over a half-century of "rate discrimination" and corrective action must start now, in this rate case. Execution may take years; however, this can't continue rate case, after rate case, after rate case, ...

Response to the Company's Rebuttal.

Without an adequate responses to my Testimony, other than comments re-stated many times in the "last rate case", these EPCOR comments[4] clearly do not agree with its August and September 2014 filings in the current wastewater case. A direct reply isn't warranted; however, I will close with some, of many, specific questions from the H Schedules in Company's Rebuttal that show the present, revised proposal (14 October 2014), and Rebuttal proposed rate structures clearly ***discriminate*** "between person and place":

Issue 1. Combined Rate Structure.

Examples from the Company's present cost, revised proposed cost, and Rebuttal costs show wide-ranging discrimination and variances at different use levels, low cost rates, and service charges based only on location for the same contemporaneous services. Please see Attachment A herein for detailed tables used in the examples below.

1.1 There are significant differences in the **PRESENT** cost for the first 1,000 gallons. Why is the cost for the first 1,000 gallons of water so dissimilar to serve similar 5/8-&3/4-inch meter residential customers at the following locations in Attachment A, Table 2.11-4 (Rev)? Why isn't this discrimination between the same customers for the exactly the same service?

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[3] The Company is fully consolidated in all areas except for revenue and expenses in rate cases. Its earnings are based on the same company-wide factors. The Magruder Testimony and Surrebuttal use the term "**combined**" and not "consolidated" that seems to have other meanings not intended in my issue, that is use the total revenue requirements for uniform, fair and reasonable a company-wide rate structure to comply with the Arizona Constitution to eliminate location discrimination.

[4] Bourassa (EPCOR) Rebuttal Testimony, at 14

- $0.7297 in **Sun City**
- $0.880 in **Mohave**
- $1.050 in **Paradise Valley**
- $1.900 in **Tubac**

1.2 There are significant cost increase differences in the **PROPOSED** and **REBUTTAL** for the first 1,000 gallons (First tier) in the above Table. Why are the first 1,000 gallons of water cost changes so dissimilar for 5/8-& 3/4-inch meter residential customers at various locations?

- $0.780 in **Sun City** proposed increase **5 cents** and $0.7336 in the Rebuttal
- $1.550 in **Mohave** proposed increase **67 cents** and $1.53 in the Rebuttal
- $1.408 in **Paradise Valley** proposed increase **35.8 cents** $1.1116 in the Rebuttal
- $5.330 in **Tubac** proposed increase **343 cents** and $4.75 in the Rebuttal

1.3 Why do significant cost differences exist at the **MEDIAN TIER**, where 50% use more and 50% use less water, for 5/8-&3/4-inch meter residential users? Why are the monthly cost increases different between two locations in Tubac and Mohave using 5,000 gallons/month at $35.79 and $7.87, respectively? The other two locations in Sun City and Paradise Valley are much less costly, at $3.14 and $3.46 respectively with significantly higher median usage.

- **Tubac** median usage at **5,000 gallons**:
  - Present cost is $3.00/1000 gallons for a monthly median cost of $42.10,
  - Proposed is $6.83, an increase of $3.83/1000 gallons for a monthly median cost of **$77.89**, with a proposed monthly increase of **$35.79**
- **Mohave** median usage at **5,000 gallons**:
  - Present cost is $1.84 for a monthly median cost of $17.32,
  - Proposed to $2.50, an increase of $0.64/1000 gallons for a monthly median cost of **$25.19**, with a proposed monthly increase of **$7.87**
- **Sun City** median usage at **6,000 gallons**:
  - Present cost is $1.36 for a monthly median cost of $15.72,
  - Proposed to $1.66, and an increase of $0.33/1000 gallons for a monthly median cost of **$19.18** with a proposed monthly increase of **$3.46**
- **Paradise Valley** median usage at **10,000 gallons**:
  - Present cost is $1.25 for a monthly median cost of $36.65),
  - Proposed to $1.36, and an increase is $0.21/1000 gallons for a median cost of **$39.79** with a proposed monthly increase of **$3.14**

1.4 There are different rates for 5/8th-&3/4th-inch rate category and the 3/4th-inch rate category. What is the difference between "5/8th-&**3/4th**-inch" and "**3/4th**-inch"? Let's eliminate a redundant "3/4-inch" rate category or have separate 5/8-inch and 3/4-inch rate categories?

1.5 In Paradise Valley and Sun City, the same rates are used for three different (5/8-, 3/4-, and 1-inch) rate categories while in other locations have significant differences for these rate categories for the same volume of water. Why does the Company charge different rate at the other two locations in Tubac and Mohave? See Table 2-11.4 (Rev) in Attachment A.

1.6 There are significantly different Tiers structures, including breakpoints and rate differences, shown in Table 2-11.4 (Rev). For example, with similar median usages of 5,000 to 6,000 gallons/month, why are the Residential Tiers rate structures so different between Tubac, Sun City and Mohave? Again, might this also be rate discrimination, too?

1.7 There are locational variations in the cost of a Water Meter. Why does a **5/8-inch** water meter cost **$130** (Sun City, Mohave) and **$155** (Tubac, Paradise Valley), a **3/4-inch** meter cost **$205** (Sun City, Mohave) and **$255** (Tubac, Paradise Valley), and the **1-inch meter** cost **$240** (Sun City, Mohave) and **$315** (Tubac, Paradise Valley)? Why does the same water meter not cost the same at ALL locations? Are different water meters used in these locations? See Attachment A, Table 1.

1.8 Service Line Installation cost variations exists at different locations. Why does a 5/8-inch or 3/4-inch service line installation cost are **$370** in Sun City and Mohave and **$445** in Tubac and Paradise Valley. Why does a 1-inch service line installation cost are **$420** in Sun City and Mohave or **$495** in Tubac and Paradise Valley? See Attachment A, Table 1.

Issue 2. Efficient Lower Income Rate Relief.

2.1 The "low income" proposed surcharge is added to only the highest rate "Tier" for selected rate categories. Many rate categories having only two Tiers. Can this "surcharge" be progressively embedded in All Tiers but the First Tier rates?

2.2 Why does the H Schedules NOT include the proposed low income surcharge and considered in the cost for the "average" customer? See the proposed surcharges in the note below Table 2.11-4 (Rev A) in Attachment A.

2.3 The Company has excess low-income revenue from the two locations where low-income rates have been established from overcharging these customers. Why not include this "surcharge" in the rate structure (see 2.1 above) to make the program more efficient and eliminate all existing low-income administrative, overhead, printing, and billing cost by having a low First tier and progressively increasing cost for higher tiers? See Magruder Testimony Section III, pages 29 to 33 and Appendix 4 for similarly unsuccessful low-income programs used by other utilities.

2.4 Table 2.11-1 (Rev A) below shows an Average monthly billing cost for the First Tier based on the Consolidated Rates this party proposed from the "last rate case"[5] That shows the

[5] Magruder Direct Testimony, in Appendix 3, has the Consolidated Rate results of all EPCOR (AAWC at that time) water locations using the Company's spreadsheets. Table 2.11-1 (Rev A) at the bottom, used this consolidated rate data for the four locations in this case, with rates based on "average" consumption in this case. It also shows,

same First Tier total billing cost would be **$17.44** for ALL small residential users and **$22.94** for ALL 1-inch customers. Thus, ALL ratepayers would have the same First Tier costs, with progressively higher rates in the several higher rate Tiers. These higher rates plus the First Tier would be designed to meet the Company's revenue needs, as was accomplished in Appendix 3 of the Magruder Proposal. Why can't the Company use this process again during the ongoing water rate case, using the current revenue requirements?

2.5 Based on the number of retired persons in Sun City, Mohave, and Tubac, I would expect a high percentage at these locations to be in the First Tier, using 3000 gallons or less. The First Tier is automatically and always available to ALL ratepayers with an "application" or other filtering process that eliminates most of the low-income deserving ratepayers. These benefits easily outweigh their cost. Can the Company design such a rate structure?

2.6 The two present low-income ratepayer locations are managed by a "voluntary" organization. This needs to be established in the new low-income rate locations. How does EPCOR intend to manage low-income rates at these new locations? What volunteer organizations have been selected?

Issue 3. Water Conservation Rate Structure.

3.1 The proposed initial and revised EPCOR H Schedules show the percentage of the rate increase usually decreasing with higher consumption. This is particularly visible in the Commercial Rate Class. Why do higher using consumers, in the same rate category, have lower percentage rate increases in almost every location but Tubac? RUCO's proposed rate structure has avoided this problem by making the rates progressively increase with more use.

3.2 Why do the proposed rate changes in the EPCOR Rebuttal H Schedules not progressively increase with higher consumption?

3.3 Paradise Valley has significantly higher water consumption than other locations; however, it lower rates than most other locations, including both the Staff and RUCO's recommendation for no rate changes. Especially grievous is a unique very low cost in the "Turf" Rate Class for road median strip water irrigation. Why does EPCOR not intend for a "Turf" Rate Class increase to match similar water costs by other ratepayers? Would it be more effective to irrigate medians with an established Commercial Rates a one-of-kind unique "Turf" Rate Class?

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for each location, the billing costs for a customer consumption of 3,000 gallons, considered a reasonable amount or a "lifeline" for all low income ratepayers, as determined in "the last rate" case.

3.4 In all locations, water consumption has decreased since the last rate cases[6] when the former company significantly increased the rates. This shows there is a correlation between a large rate increase and water consumption decrease; however, the Company feels that weather caused 67.5% of this decrease in consumption.[7]

This party disagrees. Human behavior has changed significantly in the last few years due to the decade-long and continuing drought in our state and other efficiency and water conservation programs and news about the drought. People react to cost, as the hundreds of Customer Complaint letters and emails filed in this and the "last rate case" show. None have requested a rate increase. Due to a higher cost, water conservation occurs as the cost of water service increase. Designing the Rate Tier breakpoints can show customers where they can reduce their bill. However, there are very few Tiers in all locations, especially for the Commercial Rate Class with two Tiers with one breakpoint. Why are there not many (at least five) Tiers with progressively increasing rates, to recover this "lost" revenue, at higher Tiers in order to reduce consumption, conserve water, and obtain revenue from the highest consumption customers?

Response to Commission Staff's Direct Testimony.

The Testimony of Commission Staff's witness Phan Tsan of 2 February 2015 contains the Company and Staff's rates for median usage. The Table A below compares the Staff and RUCO's Proposals.

The Staff recommended that Sun City and Mohave low-income program remain and that the Sun City, Mohave, and Tubac eligibility and program requirements be the same as for Sun City and Mohave, using a third-party coordinator, approval of the participation limits proposed by the Company, for a discount rate of 40 percent for water customers, using the highest block usage to recover the low-income surcharge, the Company file annual reports providing statistics and data about their low-income programs in each location, and over/under collections be "trued up" annually.

This party does **not** agree. The above low-income actions and administrative costs and actions are all avoided by using the low-income method proposed in the Magruder Testimony.

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[6] Bourassa Rebuttal, Exhibit TJB-1R that has graphs showing water usage decreases for each location. The Company has proposed to only makeup 25% of this "revenue loss" (Bourassa Rebuttal, at 2) as this shows the Company's use of 25% is conservative.
[7] *Ib.*, at 2.

Response to RUCO's Direct Testimony.

The RUCO Testimony of Jeffrey Michlik recommended the following typical average monthly bills shown in Table A below. RUCO's rate design is superior to the Company's but still does not achieve all the goals in the Magruder Direct Testimony.

These rate increases still have Tubac with the highest rates; highest rate increases in both dollars and percentages, at least double the Sun City and Mohave rates, and 50% larger than Paradise Valley that continues rate structure discrimination. RUCO rate design avoids having the larger meter sizes not less than the smaller sized meters for the same usage (p. 3). This promotes water conservation. Tubac's ARCM is embedded within the rates (both ARCM surcharges are eliminated) as shown in Table A below.

TABLE A. RUCO AND ACC STAFF PROPOSED RATES
(5/8&3/4-inch meter)

	Mohave	Paradise Valley	Sun City	Tubac
Average Usage	6,800 gallons	19,271 gallons	7,203 gallons	8,348 gallons
Present Service Charge	$11.00	$21.15	$8.76	$24.70
EPCOR Proposed Service Charge	$15.5430	$27.2701	$10.7047	$48.2391
RUCO Proposed Service Charge	$11.40	$22.00	$8.76	$33.00
Staff Proposed Service Charge	$13.00	No change	$9.50	$30.00
Staff's Proposed Rates				
Staff Median Usage	4,017 gallons	9,244 gallons	5,423 gallons	4,350 gallons
Present Bill (Median usage)	$20.63	$52.30	$17.36	$46.44 (w/o ARCM) ($53.57 with ARCM)
Staff Rate Change	$7.22	No change	+$3.28	+$12.36
Staff Percent Change	+ 19.90%	0.00%	+ 21.99%	+ 35.34%
Staff Proposed Bill (Median usage)	$18.60	$35.70	$18.21	$47.35
RUCO's Proposed Rates				
Present Bill (Average usage)	$20.63	$52.30	$17.36	$46.44 (w/o ARCM) ($53.57 with ARCM)
RUCO Rate Change	+ $0.82	- $8.61	No change	+ $22.96 (+$15.83 with ARCM)
RUCO Percent Change	+ 3.99%	- 16.46%	0.00%	+ 49.44% (w/o ARCM) +29.56% with ARCM)
RUCO Proposed Bill (Average usage)	$21.46	$43.69	$17.36	$ 69.41
Staff Proposed Bill (Median usage)	$18.60	$35.70	$18.21	$47.35

Conclusions.

The proposed are revised rate designs are unsatisfactory for **All** ratepayers, especially the dominate Residential and Commercial Rate Classes and associated Rate Categories. These rate designs do not comply with our state Constitution to charge fair and just rates for the same services for all ratepayers, **regardless of location**.

It is not just or fair for all Rate Classes and needlessly burdens the Company based on legacy convolutions. This has resulted in multiple cases (five in this case) for the Commission staff, RUCO and all parties instead of a single, integrated rate case. The Company's proposal conflicts with Arizona's water conservation goals by not aiding water conservation adequately in its rate design (RUCO's design does). We must preserve our diminishing water resources that are critical for the growth and development by not rewarding the highest consuming users with low rates and rate increases. This rate design does not provide equitable relief for lowest income ratepayers.

Most importantly, none of solutions proposed for these issues have any impact the Company's total revenue.

Recommendations.

My Direct and Surrebuttal Testimonies discuss and provide easy solutions for these three issues for fair and reasonable recommendations to the Company to revise its rate design in its Rejoinder in order to

a. Combine rates for ALL locations to comply with the Arizona Constitution, to

b. Provide equitable and fair rates for Lower Income customers, and to

c. Conserve water by using Cost as a key driver for water volumetric rates.

RESPECTFULLY SUBMITTED on this 26th day of February 2015.

Marshall Magruder

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Attachment A

Updates to Direct Testimony based on the Company's Rebuttal

The tables below reflect the Proposed Rates in Tables found in the Magruder Direct Testimony and Rebuttal Rates. In general, minor changes were made in the Company's Rebuttal.

The "average" cost is determined by determining the "average usage" based on the total gallons divided by the number of ratepayers in that rate category. Added to this Table are Magruder Average Costs based on Appendix 3 of his Direct Testimony.

Table 2.11-1 (Rev A). Comparison of EPCOR Proposed and EPCOR Rebuttal Monthly Residential COST for Four Locations in this Rate Case for the Monthly AVERAGE Usage
(5/8&3/4 and 1-inch rate categories)

Monthly AVERAGE Usage	**5/8 and 3/4-inch Residential Service**				**1-inch Residential Service**			
	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
In gallons	8,348	7,203	19,271	6,800	13,838	14, 786	55,400	23,601
Present COST	***$53.57***	***$17.35***	***$52.30***	***$20.63***	***$146.05***	***$43.44***	***$165.40***	***$80.90***
EPCOR REVISED PROPOSAL AVERAGE MONTHLY COST Based on its 14 October 2014 Revision Schedules								
Proposed COST INCREASE	+$47.19	+$3.82	+$5.06	+$9.06	+$82.49	+$8.47	+$16.05	+$23.41
Proposed COST	***$101.76***	***$21.17***	***$57.36***	***$29.69***	***$228.54***	***$51.91***	***$181.45***	***$104.31***
Percent INCREASE in COST	+88.1%	+22.0%	+9.7%	+43.9%	+56.5%	+19.5%	+9.7%	+28.7%
EPCOR REBUTTAL AVERAGE MONTHLY COST Revised Proposal in Rebuttal Compared to Original Proposed Costs								
Rebuttal COST INCREASE	+ $35.66	+ $3.38	+ $3.03	+ $8.73	+ $52.57	+ $6.86	+ $9.62	+ $22.23
Rebuttal COST	***$ 89.23***	***$20.73***	***$ 55.32***	***$29.36***	***$198.62***	***$50.30***	***$175.03***	***$103.13***
Percent INCREASE in COST	+66.57%	+ 19.45%	+5.79%	+42.30%	+36.00%	+ 15.79%	+5.82%	+27.47%
Note: A proposed ARCM commodity surcharge of $0.22607/1,000 gallons is in the proposed monthly average residential cost for Tubac. No other locations have this surcharge.								
MAGRUDER AVERAGE MONTHLY COST Based on Magruder Testimony, Appendix 3, for Combined Rates in the "last rate case"								
AVERAGE Usage Cost	***$39.81***	***$36.95***	***$ 64.33***	***$35.94***	***$ 49.45***	***$52.30***	***$179.54***	***$ 78.74***
Low Income @3,000 gal (lifeline cost)	$17.44	$17.44	$17.44	$17.44	$22.94	$22.94	$22.94	$22.94

Table 2.11-2 (Rev A). Comparison of EPCOR Proposed Monthly Residential COST for Four Locations in this Rate Case for Monthly MEDIAN Usage
(5/8&3/4 and 1 inch rate categories)

The monthly "median" cost is determined based on the consumption where 50% of the users consume more and 50% consume less water in the same rate category.

Monthly MEDIAN Usage	5/8- and 3/4-inch Residential Service				1-inch Residential Service			
	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
In gallons	5,000	6,000	10,000	5,000	10,000	7,000	37,000	11,000

EPCOR REVISED PROPOSAL MEDIAN USAGE MONTHLY COST

Based on its 14 October 2014 Revision Schedules

	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
PRESENT COST	*$42.10*	*$15.72*	*$36.65*	*$17.32*	*$146.05*	*$30.21*	*$116.45*	*$47.74*
Proposed COST INCREASE	+$35.79	+$3.46	+$3.11	+$7.87	+$82.49	+$6.68	+$9.96	+$18.62
Proposed COST	*$ 77.89*	*$ 19.18*	*$ 39.76*	*$ 25.19*	*$ 228.54*	*$ 36.89*	*$ 126.41*	*$ 66.36*
Percent Increase in COST	+85.0%	+22.0%	+8.5%	+45.6%	+56.5%	+22.1%	+8.6%	+39.0%

EPCOR REBUTTAL MEDIAN USAGE MONTHLY COST

Revised Proposal in Rebuttal Compared to Original Proposed Costs (Revised 14 October 2014)

	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
COST INCREASE	+ $26.71	+ $3.06	+ $2.11	+ $7.58	+ $43.85	+ $5.83	+ $6.75	+ $17.90
Rebuttal COST	*$ 68.81*	*$ 18.77*	*$ 38.76*	*$ 24.90*	*$ 172.90*	*$ 36.04*	*$ 123.20*	*$ 65.64*
Percent COST INCREASE	+63.46%	+19.42%	+ $5.75	+43.74%	+33.96%	+ 19.29%	+ 5.80%	+37.50%

Note: The proposed EPCOR Rebuttal **ARCM commodity surcharge of $0.22607/1,000** gallons is included in the proposed monthly average residential cost for **Tubac**. No other locations have this surcharge.

MAGRUDER MEDIAN USAGE MONTHLY COST

Based on Magruder Testimony, Appendix 3 Attachment A, for Combined Rates in the "last rate case"

	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
Cost for MEDIAN Usage	*$ 21.44*	*$ 23.94*	*$ 34.94*	*$ 21.44*	*$ 39.44*	*$32.94*	*$144.94*	*$ 41.94*
Low Income @3,000 gal	$17.44	$17.44	$17.44	$17.44	$22.94	$22.94	$22.94	$22.94

If Magruder Testimony Appendix 3 rates were used for combined rates, then Tubac and Mohave would have had lower present rates in both rate categories and Sun City in the 1-inch rate category.

Also, shown above are low-income rates for a total cost of $17.44 for the smaller (5/8&3/4-inch) service and $22.94 for the 1-inch service, considerably lower than the present rates except the Sun City smaller service connections.

Table 2.11-4 (Rev A). Comparison of EPCOR Rebuttal with Low Income Surcharges versus Present Residential VOLUMETRIC CHARGE at Four Locations
(5/8&3/4 and 1 inch rate categories)

Monthly	5/8- and 3/4-inch Residential Service				1-inch Residential Service			
	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
Average Use	8,348	7,203	19,271	6,800	13,838	14, 786	55,400	23,601
Median Use	5,000	6,000	10,000	5,000	10,000	7,000	37,000	11,000
EPCOR Present Rates								
Present 1st Tier	$1.90 0 to 3k	$0.7297 0k-1k	$1.05 0k-5k	$0.88 0k-3k	$4.00 0k-35k	$0.7297 0k-1k	$1.05 0k-5k	$1.84 0k-15k
Present 2nd Tier	$3.00 3k-10k	$1.0702 1k-3k	$1.25 5k-15k	$1.84 3k-10k	$6.00 >35k	$1.0702 1k-3k	$1.25 5k-15k	$3.00 >15k
Present 3rd Tier	$4.00 10k-20k	$1.3621 3k-9k	$2.20 15k-40k	$3.00 >10k	Not used	$1.3621 3k-9k	$2.20 15k-40k	Not used
Present 4th Tier	$6.00 <20k	$1.6539 9k-12k	$2.75 40k-80k	Not used	Not used	$1.6539 9k-12k	$2.75 40k-80k	Not used
Present 5th Tier	Not used	1.9896 >12k	$3.2259 >80k	Not used	Not used	1.9896 >12k	$3.2259 >80k	Not used

EPCOR REBUTTAL

Revised Rebuttal Proposal Costs Compared to Present Costs
(Difference from Original Proposal in Red)

Proposed 1st Tier	**-$4.75** **-$0.58** **0 to 3k**	$0.7336 **-$0.0164** 0-1k	$1.1116 **-$0.0292** 0k-5k	$1.53 **-$0.02** 0k-3k	**$6.70** **-$0.90** **0k-35k**	$0.7336 **-$0.0164** 0-1k	$1.1116 **-$0.0292** 0k-5k	$2.48 **-$0.02** 0k-15k
Proposed 2nd Tier	**$6.10** **-$0.73** **3k-10k**	$1.3602 **-$0.0100** 1k-3k	$1.3234 **-$0.0347** 5k-15k	$2.48 **-$0.02** 3k-10k	**$7.95** **$8.631*** **-$0.749** **>35k**	$1.3602 **-$0.0100** 1k-3k	$1.3234 **-$0.0347** 5k-15k	$3.205 $3.262& **-$0.02** >15k
Proposed 3rd Tier	**$7.15** **-$1.03** **10k-20k**	$1.6539 **-$0.0063** 3k-9k	$2.3292 **-$0.0611** 15k-40k	$3.205 $3.262& **-$0.02** >10k	Not used	$1.6539 **-$0.0063** 3k-9k	$2.3292 **-$0.0611** 15k-40k	Not used
`Proposed 4th Tier	**$7.95** **$8.631*** **-$2.168** **>20k**	$1.8002 **-$0.1000** 9k-12k	$2.9115 **-$0.0764** 40k-80k	Not used	Not Used	$1.8002 **-$0.1000** 9k-12k	$2.9115 **-$0.0764** 40k-80k	Not Used
Proposed 5th Tier	Not Used	$2.0102 $2.0304# **-$0.1100** >12k	$3.4153 $3.4283+ **-$0.0896** >80k	Not used	Not used	$2.0102 $2.0304# **-$0.1100** >12k	$3.4153 $3.4283+ **-$0.0896** >80k	Not used

* = Includes Tubac proposed Low Income Surcharge of $0.6810 per 1000 gallons.
# = Includes Sun City proposed Low income Surcharge of $0.020 per 1000 gallons
+ = Includes Paradise Valley proposed Low Income Surcharge of $0.0130 per 1000 gallons [8]
& = Includes Mohave proposed Low Income Surcharge of $0.0570 per 1000 gallons.

[8] -EPCOR Rebuttal, Paradise Valley Schedule H-3, p. 4 has conflicting amounts for the surcharge, either $0.0120 is indicated as "estimated" at $0.0120 which is indicated as "the additional $0.0130 for the Low Income Surcharge.

While reviewing the Company Rebuttal's Schedules, it was noted that there were different charges for the same services, in particular, refundable Meter and Service Line Installations. Table 1 below shows this for the four locations in this case. There were no changes between the Proposed and Rebuttal Charges.

Table 1. Refundable Meter and Service Line Installation Charges[9]

	5/8 and 3/4-inch Residential Service				1-inch Residential Service			
Monthly	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
Present Service Line	$445.00	$370.00	$445.00	$370.00	$495.00	$420.00	$495.00	$420.00
Present Meter Installation	$155.00 [$255.00 (3/4)]	$130.00 [$205.00 (3/4)]	$155.00 [$255.00 (3/4)]	$130.00 [$205.00 (3/4)]	$315.00	$240.00	$315.00	$240.00
Rebuttal Service Line	$445.00	$370.00	$445.00	$370.00	$495.00	$420.00	$495.00	$420.00
Rebuttal Meter Installation	$155.00 [$255.00 (3/4)]	$130.00 [$205.00 (3/4)]	$155.00 [$255.00 (3/4)]	$130.00 [$205.00 (3/4)]	$315.00	$240.00	$315.00	$240.00

[9] *Ib.*, Rebuttal Schedules H-3.

Service List

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
Susan Bitter Smith, Chairman
Bob Stump
Bob Burns
Tom Forese
Doug Little

Exhibit
Magruder-3

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

9 March 2015

Notice of Filing a

Testimony Summary (with errata)

by

Marshall Magruder

Due to travel and other commitments, I am unable to present an Opening Comments on this date. I have attached a Testimony Summary that contains what I would use for my Opening Comments.

I have been scheduled to give my oral testimony and receive cross-examination on March 23, 2015.

RESPECTFULLY SUBMITTED on this 9th day of March 2015.

Marshall Magruder

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TESTIMONY SUMMARY
for
Marshall Magruder

I am an individual intervening party, representing myself. I am here to uphold the Arizona State Constitution. Its Title XV, Section 12, states:

> ***"Charges for service; discrimination; free or reduced rate transportation***
>
> ***"Section 12. All charges made for service rendered, or to be rendered, by public service corporations within this state shall be just and reasonable, and no discrimination in charges, service, or facilities shall be made between persons or places for rendering a like and contemporaneous service, ..."*** [Emphasis added]

In the "last" rate case, Commission Order No. 71410 (p. 78) **ordered** the company to propose to consolidate in ALL its water and wastewater "districts" in the "next rate case" and to conduct informative town-hall meetings. The Company has NOT complied, nor has this Order been revoked.

First, the company wants to consolidate its charges and has made this very clear in an ongoing wastewater rate case with all its rational applicable to Section 12. I use the term "combine" since there is much misinformed opposition to the term "consolidate." The company itself is consolidated throughout except for financial accounting for old water company acquisitions. It is noted that **all** Arizona electric, natural gas and communications companies have consolidated statewide rates.

Second, EPCOR is one company with water and wastewater services. Tubac uses only its water services in one of its many service areas. There are some 185,000 EPCOR customers with less than 600 in the Tubac service area. Because our service area is small, almost any significant cost has a much greater impact on our rates when compared to larger areas, some over 25,000 customers.

Third, these water service areas exist because about 35 to 50 years ago, Citizens Utilities acquired many smaller water companies but has never combined their rates. Each service area is maintained as a "profit center." This means each service area is required to have its revenue, derived from its ratepayers, to always exceed its expenses for a positive Rate of Return. This has made all the smaller service areas rates yo-yo much higher than the larger areas with resultant "rate shock" after rate cases. Our Constitution says rates shall not discriminate between "persons or places." They now do.

Fourth, the company has not adjusted the way it collects rates over the years, and just keeps rolling along and letting these rate differences between service areas widen evermore. Each area is a profit center as rates are not combined. Each area MUST make a profit for the company so we now see extreme divergences in the **present** rates. For example, the first 1,000 gallons of water now cost a small residential customer less than **$0.73** in Sun City but costs **$1.90** in Tubac, **$0.88** in Mohave, and **$1.05** in Paradise Valley. Why? This results in wide service area differences in the present rates.

These rate differences (or discrimination) were **proposed** to separate even more in the service areas

- Sun City to $0.78, an increase of 5 cents
- Mohave to $1.55, an increase of 67 cents
- Paradise Valley to $1.41, an increase of 35 cents
- **Tubac to $5.33**, an increase of **343 cents**, so rate differences will continue to diverge.

Lets look at the **present** and **proposed** cost for one thousand gallons in each service area. For a typical median customer, where consumption is when 50% use more and 50% use less water we see

- Tubac at 5,000 gallons, present cost is **$3.00**, proposed is **$6.83**, a **$3.83 increase**
- Sun City at 6,000 gallons, present cost is **$1.36**, proposed is **$1.66**, a **30 cent increase**
- Paradise Valley at 10,000 gallons, present cost is **$1.25**, proposed is **$1.36**, a **21 cent increase**,
- Mohave at 5,000 gallons, present cost is **$1.84**, proposed is **$2.50**, a **64 cent increase**.

The highest **proposed** commodity rates for small residential customers in Tubac is **$10.61**/1000 gallons when consumption exceeds 20,000 gallons. The next highest, Paradise Valley, when using over 80,000 gallons is **$3.50**/1000 gallons, a **$7.31 difference**, for using **over 3 times more water**.

During the course of this case, these rates have decreased but these rate design differences continue.

Do these examples, from many, just reasonable? NO.
Do they discriminate between locations? YES.

My other two issues are related to the first, once rates are combined company-wide.

There are rate "tiers" or steps when the cost of water increases at a breakpoint. I propose that the First or lowest tier be for the first few thousand gallons with cost about $1.00 per 1,000 gallons. This is for ALL residential and business customers. This low rate First Tier provides a '*lifeline*' for all customers, especially the lower income customers. This embeds a low-income relief solution without needing a presently dysfunctional, costly, and ineffective low-income proposal. Also, Service Charges should be low, as feasible, for all smaller metered customers, including commercial customers.

The higher rate tiers will require increased costs to meet the company's required revenue and is also am effective means to conserve water. There should be **at least five residential and commercial Tiers**, so that customers can see an achievable "break point" as a goal for reducing their water costs, just like tax rate brackets do when considering income tax rates.

All service areas in this case used LESS water per customer than in their last rate case. Why? One significant factor is because the rates increased so much the last time. Many dug wells to avoid it.

I am looking at the big picture, not just Tubac, the worst example of rate differences. I recommend combine rates, establish a low First Tier rate with at least five Tiers and use higher rates as use increases while meeting the company's revenue needs, rates are considerably lower in most areas. Future rate cases will be less complex, rate shock vanishes and the company more efficient.

Again, why does one place now pay $1.90 for the same service when others pay less than $1.00 for the same 1,000 gallons? The company proposed for Tubac to pay **$10.61** when over 20,001 gallons while Paradise Valley would pays **$2.39** at 20,001 gallons. Why? So a small profit center made profit.

Only through a company-wide rate structure can the company comply with Section 12 and to accomplishing this, lower-income rates can be achieved with a low First Tier and Service Charge.

My Direct and Surrebuttal Testimonies contain more details than this brief summary. I expect to present my case on March 23 to explain my testimonies and to receive cross-examination.

Exhibit Magruder __4__

Magruder Errata Sheet and Exhibit Summary

Magruder Direct Testimony (with rate design issues) of 23 January 2015, with this errata entered has been provided and is marked as **EXHIBIT MAGRUDER-1**

1. Page 23, line 12, delete "l" after "Structure"
2. Page 26, line 33, delete a redundant "to"
3. Page 37, line 21, change "14400" to read "14000".
4. Page 45, line 14, change "14400" to read "14000".
5. Page 55, first paragraph, lines 1 and 4, change "14400" to read "14000".

Magruder Surrebuttal Testimony of 23 February 2015 is marked as **EXHIBIT MAGRUDER-2.**

No changes

Magruder Testimony Summary of 10 March 2015, with this errata entered, has been provided and is marked as **EXHIBIT MAGRUDER-3**.

1. Page 1 of Notice of Filing, page 1, line 21, change "cros" to read "cross".
2. Page 1 of Summary in fourth paragraph, line 1, change "half-century" to read "about 35 to 50 years ago".
3. Page 2 of Summary, in second paragraph, line 1, change "**$10.81**" to read "**$10.61**" and in line 3, change "**4**" to "**3**".

Magruder "**Motion to Stay**" of 25 April 2014, with this errata entered, has been provided and is marked as **EXHIBIT MAGRUDER-4**

1. Page 1, change date of filing from "May" to "April" in second sentence and in footer
2. Page 3, lines 11 and 25, change "14-18" to read "14-23"
3. Page 3, line 28, change "May 2013" to read "March 2014".
4. Page 4, line 14, change Order Number should read "71410" and add "for" before "the"
5. Page 5, line 30, delete the word "exist" that follows "occur".
6. Page 6, line 14, change "due" to read "do".
7. Page 6, lines 19 and 30, change the Order Number to read "71410".

All these exhibits have been filed with Docket Control.

Additional Exhibits in the packet:

EXHIBIT MAGRUDER-5, Excerpt from Commission Decision No. 71410 p. 78.

EXHIBIT MAGRUDER-6, Excerpts from Arizona Constitution, Arizona Revised Statutes, and *Arizona Revised Statutes – Annotated* (Westlaw Publishing)

EXHIBIT MAGRUDER-7, Magruder Motion to Stay of 25 April 2014 with errata entered

EXHIBIT MAGRUDER-8, Excerpt from Procedural Order of 8 May 2014

EXHIBIT MAGRUDER-9, Letter from EPCOR's Jim McKee, VP of Corporate Services, of 10 July May 2014, subj: Consolidation, Deconsolidation and your Wastewater

EXHIBIT MAGRUDER-10, newspaper clips:

- "Report says Affordable Care Act cost falling", *Arizona Daily Star,* 10 March 2015, p.A10
- "City gets $3M for water tank," *Nogales International,* 20 March 2015, p. 2A

rate application insufficient if, during its review of the Company's next rate filing, Staff finds the water use data submitted to be inaccurate, or if the water use figures used in the Company's COSS are not identical to those provided to Staff.

22. It is reasonable and in the public interest to approve the Off-Site Facilities Hook-Up Fee Tariff attached hereto as Exhibit C as recommended by Staff, and to approve the reporting requirements set forth therein, except that the first calendar year Off-Site Facilities Hook-Up Fee status report should be due on January 31, 2011 and should cover the timeframe from inception of the tariff through December 31, 2010.

ORDER

IT IS THEREFORE ORDERED that Arizona-American Water Company is hereby authorized and directed to file with the Commission, on or before November 30, 2009, the schedules of rates and charges attached hereto and incorporated herein as Exhibit D, which shall be effective for all service rendered on and after December 1, 2009.

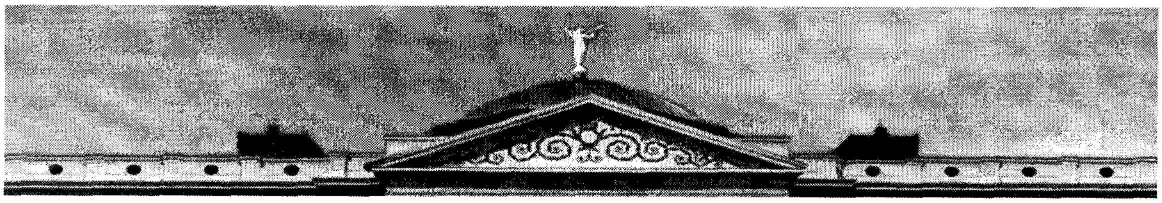
IT IS FURTHER ORDERED that this docket shall remain open for the limited purpose of consolidation in the Company's next rate case with a separate docket in which a revenue-neutral change to rate design of all Arizona-American Water Company's water districts or other appropriate proposals or all Arizona-American's water and wastewater districts or other appropriate proposals may be considered simultaneously, after appropriate public notice, with appropriate opportunity for informed public comment and participation.

IT IS FURTHER ORDERED that the Company shall commence a dialogue with its customers as soon as practicable, and will initiate town hall-style meetings in all of its service territories to begin communicating with consumers the various impacts of system consolidation in each of those service territories, and to collect feed-back from consumers on such consolidation.

IT IS FURTHER ORDERED that Arizona-American Water Company shall file, along with the new schedules of rates and charges ordered above, a copy of the Common Facilities Hook-Up Fee (Water) Tariff Schedule for the Company's Agua Fria district as it appears in Exhibit A, attached hereto, and a copy of the Off-Site Facilities Hook-Up Fee Tariff for its Mohave Wastewater district as it appears in Exhibit C, attached hereto.

Magruder Exhibit 6

Handout of
Excerpts from the
Arizona State Constitution,
Arizona Revised Statutes, and
Arizona Revised Statutes - Annotated



ARIZONA STATE CONSTITUTION

Title XV – The Corporation Commission

Charges for service; discrimination; free or reduced rate transportation

Section 12. **All charges** made for service rendered, or to be rendered, by public service corporations within this state **shall be just and reasonable**, and **no discrimination** in charges, service, or facilities **shall be made between persons** or **places** for rendering a like and contemporaneous service, except that the granting of free or reduced rate transportation may be authorized by law, or by the corporation commission, to the classes of persons described in the act of Congress approved February 11, 1887, entitled An Act to Regulate Commerce, and the amendments thereto, as those to whom free or reduced rate transportation may be granted.

ARIZONA REVISED STATUTES (excerpt)

Chapter 2 – Public Service Corporations Generally

Article 1 – Regulation by Corporation Commission

40-203. Power of commission to determine and prescribe rates, rules and practices of public service corporations

When the commission finds that the rates, fares, tolls, rentals, charges or classifications, or any of them, demanded or collected by any public service corporation for any service, product or commodity, or in connection therewith, or that the rules, regulations, practices or contracts, are unjust, **discriminatory** or preferential, illegal or insufficient, the commission shall determine and prescribe them by order, as provided in this title.

Article 3 – Investigations, Hearings and Appeals

40-248. Reparation of overcharge; action to recover overcharge; limitations

A. When complaint is made to the commission concerning **any rate**, fare, toll, rental or charge made by any public service corporation, and the commission finds, after investigation, that the corporation has made an excessive or **discriminatory charge**, the commission may order that the corporation make reparation to the complainant with interest at the legal rate from the date of collection, if **no discrimination** will result from such reparation. If the corporation does not comply with the order for payment of reparation within the time specified in the order, an action may be brought to recover the amount thereof.

B. All complaints concerning excessive or **discriminatory charges** shall be filed with the commission within two years from the time the cause of action accrues, and the action to enforce the order shall be brought within one year from the date of the order of the commission.

C. The **remedy afforded in this section is cumulative** and in addition to any other remedy provided for failure of a public service corporation to obey an order or decision of the commission.

Article 6 – Services and Facilities

40-334. **Discrimination between persons, localities or classes of service** as to **rates, charges, service or facilities prohibited**

A. A public service corporation **shall not**, as to rates, charges, service, facilities or in any other respect, make or grant any preference or advantage to any person or subject any person to any prejudice or disadvantage.

B. No public service corporation **shall establish** or maintain any unreasonable **difference** as to **rates, charges, service, facilities** or in any other respect, **either between localities or between classes of service**.

C. The commission may determine any question of fact arising under this section.

Article 7 – Rates and Schedules

40-361. Charges by public service corporations required to be **just and reasonable**; service and facilities required to be adequate, efficient and reasonable; rules and regulations relating to charges or service required to be just and reasonable

A. **Charges** demanded or received by a public service corporation for any commodity or service **shall be just and reasonable**. Every **unjust or unreasonable charge demanded or received is prohibited and unlawful.**

B. Every public service corporation shall furnish and maintain such service, equipment and facilities as will promote the safety, health, comfort and convenience of its patrons, employees and the public, and as will be in all respects adequate, **efficient** and reasonable.

C. All rules and regulations made by a public service corporation affecting or pertaining to its charges or service to the public shall be **just and reasonable**.

40-362. Power of commission to investigate interstate rates

A. The commission may investigate all existing or proposed interstate rates, fares, tolls, charges and classifications, and all rules and practices in relation thereto, for or in relation to the transmission of messages or conversations, where any act in relation thereto takes place within this state.

B. When the proposed or existing rates are **excessive** or **discriminatory**, or in violation of the acts of Congress, or in conflict with the orders or regulations of the interstate commerce commission, the commission may apply to the interstate commerce commission or to any court of competent jurisdiction for relief.

40-365. Filing of rate schedules by public service corporations

Under rules and regulations the commission prescribes, every public service corporation shall file with the commission, and shall print and keep open to public inspection, schedules showing all rates, tolls, rentals, charges and classifications to be collected or enforced, together with all rules, regulations, contracts, privileges and facilities which in any manner affect or relate to rates, tolls, rentals, classifications or service. The commission may, from time to time, approve or fix rates, tolls, rentals or charges in excess of or less than those shown by the schedules. The commission may, from time to time, determine and prescribe by order such changes in the form of the schedules as it finds expedient, and modify the requirements of any of its orders, rules, or regulations.

40-367. Changes of rates; **notice**; filing; exception

A. No change shall be made by any public service corporation in any rate, fare, toll, rental, charge or classification, or in any rule, regulation or contract relating to or affecting any rate, toll, fare, rental, charge, classification or service, or in any privilege or facility, except after thirty days **notice** to the commission and to the public as provided in this chapter.

B. **Notice** shall be given by filing with the commission and keeping open for public inspection new schedules stating plainly the change to be made in the schedules then in force, and the time when the change will go into effect.

C. The commission, for good cause shown, may allow changes **without** requiring the thirty days **notice** provided for in this section by an order specifying the changes so to be made and the time when they shall take effect, and the manner in which they shall be filed and published.

D. When any change is proposed attention shall be directed to the change on the schedule filed with the commission by some mark, designated by the commission, immediately preceding or following the item.

Quote from

Arizona Revised Statutes – Annotated,

Volume 12, Sections 30-101 to 40-End (Excerpt)

"Discrimination Between persons, discrimination

"Public service corporations must treat all their customers fairly and **without unjust discrimination** and give all of them the same service on equal terms at **uniform rates without discriminating** between customers similarly situated as to the character of the service rendered or charges made and as regards **discrimination in rates** or service in the public utility field, a municipal corporation stands in the same position as a private corporation."

Town of Wickenburg v. Sabin (1948) 68 Ariz. 73, 200 P .2d 342.

"Discrimination Between localities, discrimination

"**Utilities may not pick and choose**, serving only portions of territory covered by their franchises **which it is presently profitable for them to serve** and restricting development of remaining portions by leaving their inhabitants in discomfort without services which they along can render."

Arizona Corp. Commission v. Southern Pac. Co. (1906) 87 Ariz. 310 P.2D 765.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Bob Stump, Chairman
Gary Pierce
Brenda Burns
Bob Burns
Susan Bitter Smith

Exhibit Magruder-7

In the Matter of the Application of the Arizona-American Water Company, an Arizona Corporation, for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for utility service by its Agua Fria Water District, Havasu Water District, Mohave Water District, Paradise Valley Water District, Sun City West Water District, and Tubac Water District.	**Docket No. W-01303A-08-0227**
In the Matter of the Application of the Arizona-American Water Company, an Arizona Corporation, for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for utility service by its Mohave Wastewater District.	**Docket No. SW-01303A-08-0227**
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, Sun City Water District, Tubac Water District, Mohave Wastewater District, and Sun City Wastewater District.	**Docket No. SW-01303A-14-0010** **[with errata entered]**

Notice of Filing a

MOTION TO STAY AND REMAND THE RATE CASE FILED BY EPCOR, INC., DUE TO NON-COMPLIANCE WITH A CORPORATION COMMISSION DECISION AND THE ARIZONA STATE CONSTITUTION

This filing has been mailed or e-filed to the parties in the Service List.

RESPECTFULLY SUBMITTED on this 25th day of April 2014. I can be reached only at the email address below for the next several months.

MARSHALL MAGRUDER

By ______________________________

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(Last Rate Case)

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Andy Panasuk
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MOTION TO STAY AND REMAND
THE RATE CASE FILED BY EPCOR, INC.,
DUE TO NON-COMPLIANCE WITH A CORPORATION COMMISSION DECISION
AND THE
ARIZONA STATE CONSTITUTION

Part 1. NON-COMPLIANCE WITH COMMISSION ORDERS.

The last rate case for these and other water/wastewater districts resulted in Commission Order 71410 (8 Dec 2009) that states the following (page 78 at 14-23):

> ***IT IS FURTHER ORDERED that this docket shall <u>remain open</u> for the limited <u>purpose of consolidation</u> in the Company's <u>next rate case</u> with a separate docket in which a <u>revenue-neutral change to rate design</u> of <u>all</u> Arizona-American Water Company's water districts or other appropriate proposals or all Arizona-American's water and wastewater districts or other appropriate proposals may be considered simultaneously, after appropriate public notice, <u>with appropriate opportunity for informed public comment and participation</u>.***
>
> ***IT IS FURTHER ORDERED that the Company shall commence a dialogue with its customers as soon as practicable, and will initiate town hall-style meetings in all of its service territories to begin communicating with consumers the various impacts of system consolidation in each of those service territories, and to collect feed-back from consumers on such consolidation.*** (Page 78 at 14-18) [Emphasis added]

A. This last rate case docket "remains open for the limited purpose of consolidation" in the "next rate case". The next rate case was submitted on 10 March 2014 by EPCOR.

B. EPCOR did NOT submit a "revenue-neutral change to the rate design of **ALL** American-Arizona water districts…" but separate rate designs for each water service area.

C. Without a consolidated rate design to consider and discussed in a Public Notice, an opportunity for informed public to comment and participate does NOT exist.

D. EPCOR did NOT have any dialog concerning rate consolidate with its customers prior to filing of this rate case. Rate consolidation is not discussed on its rate case website.

E. EPCOR did NOT commenced this "dialogue'" "as soon as practicable".

F. EPCOR did NOT hold town hall-style meetings in all its service territories to discuss the impacts of rate consolidation.

G. EPCOR did NOT collect feedback from its customers linked to rate consolidation.

Conclusion. EPCOR's present filing has not complied with either of these "orders". EPCOR was not involved with the "last rate" case and thus needs to be brought up to speed on the various related issues, especially, the fact that most arguments against consolidation (in the last case record) had no veracity and the long-term benefits of consolidation were not made obvious to those who disagreed with consolidation. EPCOR might want to file separate and independent consolidate water and consolidated wastewater cases.

Recommendation. As EPCOR rate case does not comply with Order No. 71410, for the present rate case the Commission must stay this case until a compliant consolidation rate structure has been filed <u>after</u> conducting dialog sessions in each service territory.

Part 2. NON-COMPLIANCE WITH THE ARIZONA CONSTITUTION.

The Arizona Constitution, Title XV Section 12 is quoted below:

> ***<u>Charges for service; discrimination</u>; free or reduced rate transportation***
>
> ***Section 12. <u>All charges</u> made for service rendered, or to be rendered, by public service corporations within this state shall be <u>just and reasonable</u>, and <u>no discrimination in charges, service, or facilities shall be made between persons or places for rendering a like and contemporaneous service</u>, ...*** [Emphasis added]

A. This section requires all charges to be "just and reasonable". There shall be "no discrimination in charges, service, or facilities ... between persons and places in rendering like and contemporaneous service." The water delivery services rendered by a water (or wastewater) company are the same in all service areas, meet the same federal and state standards, are controlled by the same company, by the same personnel, same call and billing centers, and the same operational and maintenance personnel. This company has integrated all its operations, other than rate structure and rules and regulations. The present rate case proposes consolidated fees and charges but not consolidated rates.

B. The issue of just and reasonable is partially determined as revenue is being determined. How this revenue is collected from ratepayers is by the rate structure. Rate consolidation has no impact on the company with a rate structure that is revenue-neutral.

C. The present rates, summarized in the Table below using data from EPCOR's rate case website, show that there are wide variations in the present rates in these service areas. For small residential customers, Tubac uses 8,343 gallons per month, less than half the monthly average water for Paradise Valley, but its customer costs are more than Paradise Valley with twice its consumption. The present rates for Tubac are more than twice those of the Sun City and Mohave for similar water usage amounts. The **present** rates discriminate based on "location" and are not fair or reasonable.

	5/8 and 3/4-inch Residential Service				**1-inch Residential Service**			
Monthly Averages	**Tubac**	**Sun City**	**Paradise Valley**	**Mohave**	**Tubac**	**Sun City**	**Paradise Valley**	**Mohave**
Usage (gals)	8,348	7,203	19,271	6,800	13,838	14, 786	55,400	23,601
Present cost	$53.57	$17.35	$52.30	$20.63	$146.05	$43.44	$165.40	$80.90
Proposed Increase	**+$48.19**	**+$3.82**	**+$5.06**	**+$9.06**	**+$82.49**	**+$8.47**	**+$16.05**	**+23.41**
Proposed Cost	*$101.76*	*$21.17*	*$57.36*	*$29.69*	*$228.54*	*$51.91*	*$181.45*	*$104.31*
Percent Increase	**92.0%**	**22.1%**	**9.7%**	**43.9%**	**56.5%**	**19.5%**	**9.7%**	**28.9%**

D. The proposed rate increases show correspondingly unfair rates. Tubac has a 92% rate increase, over twice the percent of increase for the smaller residential customers compared to the other service areas with increases between 43.9% or as low at 9.7%. This is not fair or reasonable for the same product, same service, by the same company. Similar differences occur for the next larger rate category. Thus, the **proposed** rate increases discriminate based on "**location**" are not fair or reasonable.

E. **Precedent**. In a similar rate case for UNS Electric in Docket No. E-04204A-06-0783, different electricity rates had been being charged for over a half-century in Mohave and Santa Cruz Counties for the residential and small business rate categories. This party made a Motion to Consolidate these rate categories (the others were consolidated) so the resultant rates would be fair and reasonable and NOT discriminate between person and place. This Motion was approved by the Commissioners in resultant Decision No. 70360 (27 May 2008) that states:

> ***"IT IS FURTHER ORDERED that UNS Electric, Inc., shall consolidate the rates for customers in Mohave and Santa Cruz Counties into a single rate structure."*** (Decision No. 70360 at 88)

Similarly, the UNS Gas service area is in five counties and APS is located in ten counties, all with consolidated rates. Those electricity and gas rate cases have identical factors to consider for rate consolidation as water and wastewater cases.

Conclusion. The present rates in the prior "open" rate case do NOT comply with the Arizona Constitution nor do the proposed rates proposed by EPCOR comply with the Commission Order or the state Constitution.

Recommendation. This case must be stayed and remanded to EPCOR until it complies with the Arizona Constitution Article XV Section 12 and actions required by Commission Decision No. 71410.

Part 3. STANDING.

I am a party in the prior rate cases (W/WS-01303A-08-0227) that remains open for consolidation and thus have standing to make this Motion.

Part 4. MOTION.

It is MOVED that the EPCOR rate case (Docket SW-01303A-14-0010) be stayed and remanded back to EPCOR and that EPCOR resubmit after demonstrating compliance with Commission Order No. 71410 by conducting the pre-submission communication actions with its customers before submitting of a consolidated rate case for ALL its water and all its wastewater service areas, to eliminate discrimination between locations for the total service area of the company.

MAGRUDER EXHIBIT-8

From the NOTICE ordered in Procedural Order of 8 May 2014:

THE COMMISSION'S UTILITIES DIVISION ("STAFF") HAS NOT YET MADE A RECOMMENDATION REGARDING THE APPLICATION. STAFF'S EVALUATION OF THE APPLICATION MAY RESULT IN A RECOMMENDATION THAT THE COMMISSION APPROVE OR DENY THE COMPANY'S PROPOSALS, OR THAT THE COMPANY'S CURRENT OVERALL RATES BE EITHER DECREASED OR INCREASED. THE COMMISSION IS NOT BOUND BY THE PROPOSALS OF THE COMPANY, STAFF, OR ANY INTERVENORS. THE COMMISSION WILL DETERMINE THE APPROPRIATE RATEMAKING TREATMENT OF THE REVENUES AND EXPENSES RELATED TO EPCOR'S APPLICATION BASED ON THE EVIDENCE PRESENTED IN THIS PROCEEDING.

EPCOR WATER

EXHIBIT MAGRUDER-9

2355 West Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

epcor.com

CONSOLIDATION, DECONSOLIDATION AND YOUR WASTEWATER

July 10, 2014

Dear Customer,

EPCOR places a great deal of importance on the water and wastewater services we provide and we want you to be aware of changes or potential changes before they happen, to the best extent possible.

As an EPCOR customer, your rates are approved by the Arizona Corporation Commission (ACC) based on the reasonable costs and capital investments to provide safe, reliable and high-quality water and wastewater services.

On July 8, 2014, ACC staff issued a recommendation that the commission order EPCOR to bring forward consolidation and deconsolidation options for consideration related to EPCOR's wastewater service areas. We are pleased to support the commission as it reviews this issue, and we will work quickly to respond to the three possibilities the commission identified – full consolidation, full deconsolidation and a third option of bringing wastewater services for Anthem and Agua Fria back together. While we will explore each option, EPCOR favors full consolidation.

In recent years, the issue of whether to consolidate rates for service across multiple districts is one that has been broadly examined by many people, including our customers, the ACC, Residential Utility Consumer Office (RUCO) and EPCOR. We have also seen the negative consequences that deconsolidating, as ordered in ACC Decision 73837, has had on smaller communities where significant capital investments have been necessary.

We understand that there are different viewpoints on the subject. EPCOR is a private utility company with a municipal ownership and heritage. We operate in many markets and understand the benefits of both models and the importance of providing safe, reliable service at a fair and reasonable cost to our customers.

As with all rate designs, in the short term, some customers will benefit from consolidation while others will not. We believe that over the long term that everyone could benefit from predictable, uniform rate structures, reduced regulatory expenses and increased efficiencies. Moving to a consolidated district with a single rate structure mirrors what consumers experience in most municipal districts. In other words, rates are the same regardless of where you live within a municipal area. Electric and natural gas utilities also work this way.

We'll be communicating with you throughout this process, beginning with this letter. You'll be receiving more information from us in the coming months, including where to find more information, what's next in the ACC review process and when we'll be holding informational community meetings.

At EPCOR, we take seriously our obligation to deliver safe and reliable water and wastewater services that you and your families can trust and count on, every day. Thank you for being our customer.

Best regards,

Jim McKee
Vice President, Corporate Services

EXHIBIT
MAGRUDER-10

Report says Affordable Care Act cost falling

Attributed to premiums rising slowly, fewer receiving coverage

By Max Ehrenfreund
THE WASHINGTON POST

WASHINGTON – The cost of President Obama's signature health care law is continuing to fall.

The Congressional Budget Office announced on Monday that the Affordable Care Act will cost $142 billion, or 11 percent less, over the next 10 years, compared to what the agency had projected in January.

The nonpartisan agency said the Affordable Care Act will cost less for two essential reasons: health insurance premiums are rising more slowly, and slightly fewer people are now expected to sign up for Medicaid and for subsidized insurance under the law's marketplaces.

More people aren't expected to sign up for the law because, the agency added, fewer employers than anticipated are canceling coverage and more people than earlier estimated had private coverage. By 2025, the CBO estimates "the total number of people who will be uninsured ... is now expected to be smaller than previously projected."

All around, it's positive news for health care act, which has been accused by Republicans of killing jobs and draining federal coffers. Indeed, the CBO itself warned last year the health care law could reduce full time employment as some chose to give up jobs that provided health care as they relied instead on the government's subsidies.

The administration's own poor handling of the ACA's online launch in the fall of 2013, combined with other errors, also have tarnished the law's image among many Americans. And to be sure, the law is still expensive – expected to cost $1.2 trillion over 10 years.

But the cost of the law has been falling for several years, and now analysts are beginning to assess the evidence of the law's impact from its first-full year of implementation.

In March 2010, the CBO predicted that the law would cost $710 billion during the period from 2015 to 2019, without trying to come up with projections beyond that. After several revisions, the law is now expected to cost $506 billion – 29 percent less – during those same five years, as shown in the chart.

CBO issued its new estimates less than a week after the Supreme Court heard a case challenging a crucial provision of the law. It's unclear how the justices will rule, and a decision against the Obama administration could make these estimates irrelevant.

...ny helping kids to stay

City gets $3M for water tank

20 MAR 2015

By Curt Prendergast
Nogales International P. 2A

The City of Nogales has received $3 million in funding for a 650,000-gallon water tank near the Mariposa Port of Entry.

The Water Infrastructure Finance Authority of Arizona (WIFA) offered the city a $2 million low-interest loan, as well as a $500,000 forgivable loan. The Arizona Commerce Authority kicked in the rest of the money with a $500,000 grant.

The water tank will serve the west side of Nogales, including any businesses that set up shop along the Mariposa Road corridor, said Public Works Director Alejandro Barcenas.

In addition to serving new businesses, the tank will provide redundancy to the city's water system and move the area near the Carondelet Holy Cross Hospital into a higher-pressure zone, he said.

The city plans to install the tank on top of a hill near the city limit with the Coronado National Forest, he said. That location was one of two identified in a study conducted by the city to find the most appropriate site for the tank.

The $3 million will cover the total cost of installing the water tank, Barcenas said.

The interest rate on the $2 million loan will be 3 or 4 percent, depending on market conditions when the city closes on the loan, said Finance Director Sherry Schurhammer.

WIFA is an "independent agency of the state of Arizona and is authorized to finance the construction, rehabilitation, and/or improvement" of drinking water and wastewater infrastructure, according to the agency's website.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
Susan Bitter Smith, Chairman
Bob Stump
Bob Burns
Tom Forese
Doug Little

EXHIBIT
MAGRUDER -2
~~ADMITTED~~

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

26 February 2015

Notice of Filing

Surrebuttal Testimony

by Marshall Magruder

The Company's Rebuttal failed to adequately respond to the three critical issues in my Direct Testimony of 23 January 2015. NONE of these issues impact the Company's "bottom line." This failure to ignore a reasonable layman's testimony, especially since the Company also supports similar solutions, appears dubious or disparate treatment.

The First Issue, to combine the rates in four water locations, meets a prior Commission Order[1], and is ongoing in a parallel wastewater case.[2] The Company's convincing testimony in that case shows its "bottom line" is not directly impacted when rates are combined. In its Rebuttal and Staff's and RUCO's Direct Testimonies in the instant case continue rate discrimination, contrary to Title XV Section 12 of our state Constitution, that reads:

"<u>Charges for service; discrimination</u>; ...

"Section 12. <u>All charges</u> made for service rendered, or to be rendered, by public service corporations within this state shall be <u>just and reasonable</u>, and <u>no discrimination in charges, service, or facilities shall be made between persons or places for rendering a like and contemporaneous service</u>, ..." [Emphasis added]

The Second Issue is to establish fair, reasonable, <u>effective</u> and <u>efficient</u> low-rates for lower income ratepayers. The Company agrees these ratepayers should have access to lower rates; however, its proposal discriminates against <u>All</u> ratepayers. Its dysfunctional low-income

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1 Magruder Testimony of 23 Jan. 2015, at 15, "2.2 Compliance with Commission Order" No. 71410, for details that were not followed in the instant rate case, "the next rate case" that involves this customer's service area.
2 ACC Docket No. W-01303A-09-0343.

proposal has "caps" and imposes a new low-income surcharge on other ratepayers. The simple and cost-efficient solution in my Direct Testimony removes these and other faulty impediments.

The Third Issue is to develop a multi-tiered rate structure to promote water conservation, with higher consumption charges for those with higher water use, was ignored, with minimal changes in the present rate structure. Water conservation is the most crucial issue in Arizona.

All three issues are easily resolved with a combined rate structure,[3] with low "lifeline" rates for the "First Tier" and additional Tiers to clearly show "price signals" to higher consumers.

None of these Company proposals to eliminate "rate discrimination" impacts on its bottom line but have significant financial impacts on ratepayers while improving the Company's efficiency to serve its customers. There is no rational or legal reason to continue over a half-century of "rate discrimination" and corrective action must start now, in this rate case. Execution may take years; however, this can't continue rate case, after rate case, after rate case, ...

Response to the Company's Rebuttal.

Without an adequate responses to my Testimony, other than comments re-stated many times in the "last rate case", these EPCOR comments[4] clearly do not agree with its August and September 2014 filings in the current wastewater case. A direct reply isn't warranted; however, I will close with some, of many, specific questions from the H Schedules in Company's Rebuttal that show the present, revised proposal (14 October 2014), and Rebuttal proposed rate structures clearly ***discriminate*** "between person and place":

Issue 1. Combined Rate Structure.

Examples from the Company's present cost, revised proposed cost, and Rebuttal costs show wide-ranging discrimination and variances at different use levels, low cost rates, and service charges based only on location for the same contemporaneous services. Please see Attachment A herein for detailed tables used in the examples below.

1.1 There are significant differences in the **PRESENT** cost for the first 1,000 gallons. Why is the cost for the first 1,000 gallons of water so dissimilar to serve similar 5/8-&3/4-inch meter residential customers at the following locations in Attachment A, Table 2.11-4 (Rev)? Why isn't this discrimination between the same customers for the exactly the same service?

---

[3] The Company is fully consolidated in all areas except for revenue and expenses in rate cases. Its earnings are based on the same company-wide factors. The Magruder Testimony and Surrebuttal use the term "**combined**" and not "consolidated" that seems to have other meanings not intended in my issue, that is use the total revenue requirements for uniform, fair and reasonable a company-wide rate structure to comply with the Arizona Constitution to eliminate location discrimination.

[4] Bourassa (EPCOR) Rebuttal Testimony, at 14

- $0.7297 in **Sun City**
- $0.880 in **Mohave**
- $1.050 in **Paradise Valley**
- $1.900 in **Tubac**

1.2 There are significant cost increase ~~differences~~ in the **PROPOSED** and **REBUTTAL** for the first 1,000 gallons (First tier) in the above Table. Why are the first 1,000 gallons of water cost changes so dissimilar for 5/8-& 3/4-inch meter residential customers at various locations?

- $0.780 in **Sun City** proposed increase **5 cents** and $0.7336 in the Rebuttal
- $1.550 in **Mohave** proposed increase **67 cents** and $1.53 in the Rebuttal
- $1.408 in **Paradise Valley** proposed increase **35.8 cents** $1.1116 in the Rebuttal
- $5.330 in **Tubac** proposed increase **343 cents** and $4.75 in the Rebuttal

1.3 Why do significant cost differences exist at the **MEDIAN TIER**, where 50% use more and 50% use less water, for 5/8-&3/4-inch meter residential users? Why are the monthly cost increases different between two locations in Tubac and Mohave using 5,000 gallons/month at $35.79 and $7.87, respectively? The other two locations in Sun City and Paradise Valley are much less costly, at $3.14 and $3.46 respectively with significantly higher median usage.

- **Tubac** median usage at **5,000 gallons**:
  - Present cost is $3.00/1000 gallons for a monthly median cost of $42.10,
  - Proposed is $6.83, an increase of $3.83/1000 gallons for a monthly median cost of **$77.89**, with a proposed monthly increase of **$35.79**
- **Mohave** median usage at **5,000 gallons**:
  - Present cost is $1.84 for a monthly median cost of $17.32,
  - Proposed to $2.50, an increase of $0.64/1000 gallons for a monthly median cost of **$25.19**, with a proposed monthly increase of **$7.87**
- **Sun City** median usage at **6,000 gallons**:
  - Present cost is $1.36 for a monthly median cost of $15.72,
  - Proposed to $1.66, and an increase of $0.33/1000 gallons for a monthly median cost of **$19.18** with a proposed monthly increase of **$3.46**
- **Paradise Valley** median usage at **10,000 gallons**:
  - Present cost is $1.25 for a monthly median cost of $36.65),
  - Proposed to $1.36, and an increase is $0.21/1000 gallons for a median cost of **$39.79** with a proposed monthly increase of **$3.14**

1.4 There are different rates for 5/8th-&3/4th-inch rate category and the 3/4th-inch rate category. What is the difference between "5/8th-&**3/4th**-inch" and "**3/4th**-inch"? Let's eliminate a redundant "3/4-inch" rate category or have separate 5/8-inch and 3/4-inch rate categories?

1.5 In Paradise Valley and Sun City, the same rates are used for three different (5/8-, 3/4-, and 1-inch) rate categories while in other locations have significant differences for these rate categories for the same volume of water. Why does the Company charge different rate at the other two locations in Tubac and Mohave? See Table 2-11.4 (Rev) in Attachment A.

1.6 There are significantly <u>different Tiers structures,</u> including breakpoints and rate differences, shown in Table 2-11.4 (Rev). For example, with similar median usages of 5,000 to 6,000 gallons/month, why are the Residential Tiers rate structures so different between Tubac, Sun City and Mohave? Again, might this also be rate discrimination, too?

1.7 There are locational variations in the <u>cost of a Water Meter</u>. Why does a **5/8-inch** water meter cost **$130** (Sun City, Mohave) and **$155** (Tubac, Paradise Valley), a **3/4-inch** meter cost **$205** (Sun City, Mohave) and **$255** (Tubac, Paradise Valley), and the **1-inch meter** cost **$240** (Sun City, Mohave) and **$315** (Tubac, Paradise Valley)? Why does the same water meter not cost <u>the same</u> at ALL locations? Are different water meters used in these locations? See Attachment A, Table 1.

1.8 <u>Service Line Installation cost</u> variations exists at different locations. Why does a 5/8-inch or 3/4-inch service line installation cost are **$370** in Sun City and Mohave and **$445** in Tubac and Paradise Valley. Why does a 1-inch service line installation cost are **$420** in Sun City and Mohave or **$495** in Tubac and Paradise Valley? See Attachment A, Table 1.

Issue 2. Efficient Lower Income Rate Relief.

2.1 The "low income" proposed surcharge is added to only the highest rate "Tier" for selected rate categories. Many rate categories having only two Tiers. Can this "surcharge" be progressively embedded in All Tiers <u>but</u> the First Tier rates?

2.2 Why does the H Schedules NOT include the proposed low income surcharge and considered in the cost for the "average" customer? See the proposed surcharges in the note below Table 2.11-4 (Rev A) in Attachment A.

2.3 The Company has excess low-income revenue from the two locations where low-income rates have been established from overcharging these customers. Why not include this "surcharge" in the rate structure (see 2.1 above) to make the program more efficient and <u>eliminate</u> all existing low-income administrative, overhead, printing, and billing cost by having a low First tier and progressively increasing cost for higher tiers? See Magruder Testimony Section III, pages 29 to 33 and Appendix 4 for similarly unsuccessful low-income programs used by other utilities.

2.4 Table 2.11-1 (Rev A) below shows an Average monthly billing cost for the First Tier based on the Consolidated Rates this party proposed from the "last rate case"[5] That shows the

[5] Magruder Direct Testimony, in Appendix 3, has the Consolidated Rate results of all EPCOR (AAWC at that time) water locations using the Company's spreadsheets. Table 2.11-1 (Rev A) at the bottom, used this consolidated rate data for the four locations in this case, with rates based on "average" consumption in this case. It also shows,

same First Tier total billing cost would be **$17.44** for ALL small residential users and **$22.94** for ALL 1-inch customers. Thus, ALL ratepayers would have the same First Tier costs, with progressively higher rates in the several higher rate Tiers. These higher rates plus the First Tier would be designed to meet the Company's revenue needs, as was accomplished in Appendix 3 of the Magruder Proposal. Why can't the Company use this process again during the ongoing water rate case, using the current revenue requirements?

2.5 Based on the number of retired persons in Sun City, Mohave, and Tubac, I would expect a high percentage at these locations to be in the First Tier, using 3000 gallons or less. The First Tier is automatically and always available to ALL ratepayers with an "application" or other filtering process that eliminates most of the low-income deserving ratepayers. These benefits easily outweigh their cost. Can the Company design such a rate structure?

2.6 The two present low-income ratepayer locations are managed by a "voluntary" organization. This needs to be established in the new low-income rate locations. How does EPCOR intend to manage low-income rates at these new locations? What volunteer organizations have been selected?

Issue 3. Water Conservation Rate Structure.

3.1 The proposed initial and revised EPCOR H Schedules show the percentage of the rate increase usually decreasing with higher consumption. This is particularly visible in the Commercial Rate Class. Why do higher using consumers, in the same rate category, have lower percentage rate increases in almost every location but Tubac? RUCO's proposed rate structure has avoided this problem by making the rates progressively increase with more use.

3.2 Why do the proposed rate changes in the EPCOR Rebuttal H Schedules not progressively increase with higher consumption?

3.3 Paradise Valley has significantly higher water consumption than other locations; however, it lower rates than most other locations, including both the Staff and RUCO's recommendation for no rate changes. Especially grievous is a unique very low cost in the "Turf" Rate Class for road median strip water irrigation. Why does EPCOR not intend for a "Turf" Rate Class increase to match similar water costs by other ratepayers? Would it be more effective to irrigate medians with an established Commercial Rates a one-of-kind unique "Turf" Rate Class?

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for each location, the billing costs for a customer consumption of 3,000 gallons, considered a reasonable amount or a "lifeline" for all low income ratepayers, as determined in "the last rate" case.

3.4 In all locations, water consumption has decreased since the last rate cases[6] when the former company significantly increased the rates. This shows there is a correlation between a large rate increase and water consumption decrease; however, the Company feels that weather caused 67.5% of this decrease in consumption.[7]

This party disagrees. Human behavior has changed significantly in the last few years due to the decade-long and continuing drought in our state and other efficiency and water conservation programs and news about the drought. People react to cost, as the hundreds of Customer Complaint letters and emails filed in this and the "last rate case" show. None have requested a rate increase. Due to a higher cost, water conservation occurs as the cost of water service increase. Designing the Rate Tier breakpoints can show customers where they can reduce their bill. However, there are very few Tiers in all locations, especially for the Commercial Rate Class with two Tiers with one breakpoint. Why are there not many (at least five) Tiers with progressively increasing rates, to recover this "lost" revenue, at higher Tiers in order to reduce consumption, conserve water, and obtain revenue from the highest consumption customers?

Response to Commission Staff's Direct Testimony.

The Testimony of Commission Staff's witness Phan Tsan of 2 February 2015 contains the Company and Staff's rates for median usage. The Table A below compares the Staff and RUCO's Proposals.

The Staff recommended that Sun City and Mohave low-income program remain and that the Sun City, Mohave, and Tubac eligibility and program requirements be the same as for Sun City and Mohave, using a third-party coordinator, approval of the participation limits proposed by the Company, for a discount rate of 40 percent for water customers, using the highest block usage to recover the low-income surcharge, the Company file annual reports providing statistics and data about their low-income programs in each location, and over/under collections be "trued up" annually.

This party does **not** agree. The above low-income actions and administrative costs and actions are all avoided by using the low-income method proposed in the Magruder Testimony.

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[6] Bourassa Rebuttal, Exhibit TJB-1R that has graphs showing water usage decreases for each location. The Company has proposed to only makeup 25% of this "revenue loss" (Bourassa Rebuttal, at 2) as this shows the Company's use of 25% is conservative.

[7] *Ib.*, at 2.

Response to RUCO's Direct Testimony.

The RUCO Testimony of Jeffrey Michlik recommended the following typical average monthly bills shown in Table A below. RUCO's rate design is superior to the Company's but still does not achieve all the goals in the Magruder Direct Testimony.

These rate increases still have Tubac with the highest rates; highest rate increases in both dollars and percentages, at least double the Sun City and Mohave rates, and 50% larger than Paradise Valley that continues rate structure discrimination. RUCO rate design avoids having the larger meter sizes not less than the smaller sized meters for the same usage (p. 3). This promotes water conservation. Tubac's ARCM is embedded within the rates (both ARCM surcharges are eliminated) as shown in Table A below.

TABLE A. RUCO AND ACC STAFF PROPOSED RATES
(5/8&3/4-inch meter)

	Mohave	Paradise Valley	Sun City	Tubac
Average Usage	6,800 gallons	19,271 gallons	7,203 gallons	8,348 gallons
Present Service Charge	$11.00	$21.15	$8.76	$24.70
EPCOR Proposed Service Charge	$15.5430	$27.2701	$10.7047	$48.2391
RUCO Proposed Service Charge	$11.40	$22.00	$8.76	$33.00
Staff Proposed Service Charge	$13.00	No change	$9.50	$30.00
Staff's Proposed Rates				
Staff Median Usage	4,017 gallons	9,244 gallons	5,423 gallons	4,350 gallons
Present Bill (Median usage)	$20.63	$52.30	$17.36	$46.44 (w/o ARCM) ($53.57 with ARCM)
Staff Rate Change	$7.22	No change	+$3.28	+$12.36
Staff Percent Change	+ 19.90%	0.00%	+ 21.99%	+ 35.34%
Staff Proposed Bill (Median usage)	$18.60	$35.70	$18.21	$47.35
RUCO's Proposed Rates				
Present Bill (Average usage)	$20.63	$52.30	$17.36	$46.44 (w/o ARCM) ($53.57 with ARCM)
RUCO Rate Change	+ $0.82	- $8.61	No change	+ $22.96 (+$15.83 with ARCM)
RUCO Percent Change	+ 3.99%	- 16.46%	0.00%	+ 49.44% (w/o ARCM) +29.56% with ARCM)
RUCO Proposed Bill (Average usage)	$21.46	$43.69	$17.36	$ 69.41
Staff Proposed Bill (Median usage)	$18.60	$35.70	$18.21	$47.35

Conclusions.

The proposed are revised rate designs are unsatisfactory for **All** ratepayers, especially the dominate Residential and Commercial Rate Classes and associated Rate Categories. These rate designs do not comply with our state Constitution to charge fair and just rates for the same services for all ratepayers, **regardless of location**.

It is not just or fair for all Rate Classes and needlessly burdens the Company based on legacy convolutions. This has resulted in multiple cases (five in this case) for the Commission staff, RUCO and all parties instead of a single, integrated rate case. The Company's proposal conflicts with Arizona's water conservation goals by not aiding water conservation adequately in its rate design (RUCO's design does). We must preserve our diminishing water resources that are critical for the growth and development by not rewarding the highest consuming users with low rates and rate increases. This rate design does not provide equitable relief for lowest income ratepayers.

Most importantly, none of solutions proposed for these issues have any impact the Company's total revenue.

Recommendations.

My Direct and Surrebuttal Testimonies discuss and provide easy solutions for these three issues for fair and reasonable recommendations to the Company to revise its rate design in its Rejoinder in order to

a. Combine rates for ALL locations to comply with the Arizona Constitution, to

b. Provide equitable and fair rates for Lower Income customers, and to

c. Conserve water by using Cost as a key driver for water volumetric rates.

RESPECTFULLY SUBMITTED on this 26th day of February 2015.

Marshall Magruder

Marshall Magruder
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Attachment A

Updates to Direct Testimony based on the Company's Rebuttal

The tables below reflect the Proposed Rates in Tables found in the Magruder Direct Testimony and Rebuttal Rates. In general, minor changes were made in the Company's Rebuttal.

The "average" cost is determined by determining the "average usage" based on the total gallons divided by the number of ratepayers in that rate category. Added to this Table are Magruder Average Costs based on Appendix 3 of his Direct Testimony.

Table 2.11-1 (Rev A). Comparison of EPCOR Proposed and EPCOR Rebuttal Monthly Residential COST for Four Locations in this Rate Case for the Monthly AVERAGE Usage
(5/8&3/4 and 1-inch rate categories)

Monthly AVERAGE Usage	5/8 and 3/4-inch Residential Service				1-inch Residential Service			
	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
In gallons	8,348	7,203	19,271	6,800	13,838	14, 786	55,400	23,601
Present COST	*$53.57*	*$17.35*	*$52.30*	*$20.63*	*$146.05*	*$43.44*	*$165.40*	*$80.90*
EPCOR REVISED PROPOSAL AVERAGE MONTHLY COST Based on its 14 October 2014 Revision Schedules								
Proposed COST INCREASE	+$47.19	+$3.82	+$5.06	+$9.06	+$82.49	+$8.47	+$16.05	+$23.41
Proposed COST	*$101.76*	*$21.17*	*$57.36*	*$29.69*	*$228.54*	*$51.91*	*$181.45*	*$104.31*
Percent INCREASE in COST	+88.1%	+22.0%	+9.7%	+43.9%	+56.5%	+19.5%	+9.7%	+28.7%
EPCOR REBUTTAL AVERAGE MONTHLY COST Revised Proposal in Rebuttal Compared to Original Proposed Costs								
Rebuttal COST INCREASE	+ $35.66	+ $3.38	+ $3.03	+ $8.73	+ $52.57	+ $6.86	+ $9.62	+ $22.23
Rebuttal COST	*$ 89.23*	*$20.73*	*$ 55.32*	*$29.36*	*$198.62*	*$50.30*	*$175.03*	*$103.13*
Percent INCREASE in COST	+66.57%	+ 19.45%	+5.79%	+42.30%	+36.00%	+ 15.79%	+5.82%	+27.47%
Note: A proposed ARCM commodity surcharge of $0.22607/1,000 gallons is in the proposed monthly average residential cost for Tubac. No other locations have this surcharge.								
MAGRUDER AVERAGE MONTHLY COST Based on Magruder Testimony, Appendix 3, for Combined Rates in the "last rate case"								
AVERAGE Usage Cost	*$39.81*	*$36.95*	*$ 64.33*	*$35.94*	*$ 49.45*	*$52.30*	*$179.54*	*$ 78.74*
Low Income @3,000 gal (lifeline cost)	$17.44	$17.44	$17.44	$17.44	$22.94	$22.94	$22.94	$22.94

Table 2.11-2 (Rev A). Comparison of EPCOR Proposed Monthly Residential COST for Four Locations in this Rate Case for Monthly MEDIAN Usage
(5/8&3/4 and 1 inch rate categories)

The monthly "median" cost is determined based on the consumption where 50% of the users consume more and 50% consume less water in the same rate category.

Monthly MEDIAN Usage	5/8- and 3/4-inch Residential Service				1-inch Residential Service			
	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
In gallons	5,000	6,000	10,000	5,000	10,000	7,000	37,000	11,000

EPCOR REVISED PROPOSAL MEDIAN USAGE MONTHLY COST
Based on its 14 October 2014 Revision Schedules

	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
PRESENT COST	*$42.10*	*$15.72*	*$36.65*	*$17.32*	*$146.05*	*$30.21*	*$116.45*	*$47.74*
Proposed COST INCREASE	+$35.79	+$3.46	+$3.11	+$7.87	+$82.49	+$6.68	+$9.96	+$18.62
Proposed COST	*$ 77.89*	*$ 19.18*	*$ 39.76*	*$ 25.19*	*$ 228.54*	*$ 36.89*	*$ 126.41*	*$ 66.36*
Percent Increase in COST	+85.0%	+22.0%	+8.5%	+45.6%	+56.5%	+22.1%	+8.6%	+39.0%

EPCOR REBUTTAL MEDIAN USAGE MONTHLY COST
Revised Proposal in Rebuttal Compared to Original Proposed Costs (Revised 14 October 2014)

	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
COST INCREASE	+ $26.71	+ $3.06	+ $2.11	+ $7.58	+ $43.85	+ $5.83	+ $6.75	+ $17.90
Rebuttal COST	*$ 68.81*	*$ 18.77*	*$ 38.76*	*$ 24.90*	*$ 172.90*	*$ 36.04*	*$ 123.20*	*$ 65.64*
Percent COST INCREASE	+63.46%	+19.42%	+ $5.75	+43.74%	+33.96%	+ 19.29%	+ 5.80%	+37.50%

Note: The proposed EPCOR Rebuttal **ARCM commodity surcharge of $0.22607/1,000** gallons is included in the proposed monthly average residential cost for **Tubac**. No other locations have this surcharge.

MAGRUDER MEDIAN USAGE MONTHLY COST
Based on Magruder Testimony, Appendix 3 Attachment A, for Combined Rates in the "last rate case"

	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
Cost for MEDIAN Usage	*$ 21.44*	*$ 23.94*	*$ 34.94*	*$ 21.44*	*$ 39.44*	*$32.94*	*$144.94*	*$ 41.94*
Low Income @3,000 gal	$17.44	$17.44	$17.44	$17.44	$22.94	$22.94	$22.94	$22.94

If Magruder Testimony Appendix 3 rates were used for combined rates, then Tubac and Mohave would have had <u>lower present</u> rates in both rate categories and Sun City in the 1-inch rate category.

Also, shown above are low-income rates for a total cost of $17.44 for the smaller (5/8&3/4-inch) service and $22.94 for the 1-inch service, considerably lower than the present rates except the Sun City smaller service connections.

Table 2.11-4 (Rev A). Comparison of EPCOR Rebuttal with Low Income Surcharges versus Present Residential VOLUMETRIC CHARGE at Four Locations

(5/8&3/4 and 1 inch rate categories)

Monthly	5/8- and 3/4-inch Residential Service				1-inch Residential Service			
	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
Average Use	8,348	7,203	19,271	6,800	13,838	14, 786	55,400	23,601
Median Use	5,000	6,000	10,000	5,000	10,000	7,000	37,000	11,000
EPCOR Present Rates								
Present 1st Tier	$1.90 0 to 3k	$0.7297 0k-1k	$1.05 0k-5k	$0.88 0k-3k	$4.00 0k-35k	$0.7297 0k-1k	$1.05 0k-5k	$1.84 0k-15k
Present 2nd Tier	$3.00 3k-10k	$1.0702 1k-3k	$1.25 5k-15k	$1.84 3k-10k	$6.00 >35k	$1.0702 1k-3k	$1.25 5k-15k	$3.00 >15k
Present 3rd Tier	$4.00 10k-20k	$1.3621 3k-9k	$2.20 15k-40k	$3.00 >10k	Not used	$1.3621 3k-9k	$2.20 15k-40k	Not used
Present 4th Tier	$6.00 <20k	$1.6539 9k-12k	$2.75 40k-80k	Not used	Not used	$1.6539 9k-12k	$2.75 40k-80k	Not used
Present 5th Tier	Not used	1.9896 >12k	$3.2259 >80k	Not used	Not used	1.9896 >12k	$3.2259 >80k	Not used

EPCOR REBUTTAL

Revised Rebuttal Proposal Costs Compared to Present Costs
(Difference from Original Proposal in Red)

	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
Proposed 1st Tier	**-$4.75** -$0.58 **0 to 3k**	$0.7336 -$0.0164 0-1k	$1.1116 -$0.0292 0k-5k	$1.53 -$0.02 0k-3k	**$6.70** -$0.90 **0k-35k**	$0.7336 -$0.0164 0-1k	$1.1116 -$0.0292 0k-5k	$2.48 -$0.02 0k-15k
Proposed 2nd Tier	**$6.10** -$0.73 **3k-10k**	$1.3602 -$0.0100 1k-3k	$1.3234 -$0.0347 5k-15k	$2.48 -$0.02 3k-10k	**$7.95** **$8.631*** -$0.749 **>35k**	$1.3602 -$0.0100 1k-3k	$1.3234 -$0.0347 5k-15k	$3.205 $3.262& -$0.02 >15k
Proposed 3rd Tier	**$7.15** -$1.03 **10k-20k**	$1.6539 -$0.0063 3k-9k	$2.3292 -$0.0611 15k-40k	$3.205 $3.262& -$0.02 >10k	Not used	$1.6539 -$0.0063 3k-9k	$2.3292 -$0.0611 15k-40k	Not used
`Proposed 4th Tier	**$7.95** **$8.631*** -$2.168 **>20k**	$1.8002 -$0.1000 9k-12k	$2.9115 -$0.0764 40k-80k	Not used	Not Used	$1.8002 -$0.1000 9k-12k	$2.9115 -$0.0764 40k-80k	Not Used
Proposed 5th Tier	Not Used	$2.0102 $2.0304# -$0.1100 >12k	$3.4153 $3.4283+ -$0.0896 >80k	Not used	Not used	$2.0102 $2.0304# -$0.1100 >12k	$3.4153 $3.4283+ -$0.0896 >80k	Not used

* = Includes Tubac proposed Low Income Surcharge of $0.6810 per 1000 gallons.
# = Includes Sun City proposed Low income Surcharge of $0.020 per 1000 gallons
+ = Includes Paradise Valley proposed Low Income Surcharge of $0.0130 per 1000 gallons [8]
& = Includes Mohave proposed Low Income Surcharge of $0.0570 per 1000 gallons.

[8] -EPCOR Rebuttal, Paradise Valley Schedule H-3, p. 4 has conflicting amounts for the surcharge, either $0.0120 is indicated as "estimated" at $0.0120 which is indicated as "the additional $0.0130 for the Low Income Surcharge.

While reviewing the Company Rebuttal's Schedules, it was noted that there were different charges for the same services, in particular, refundable Meter and Service Line Installations. Table A below shows this for the four locations in this case. There were no changes between the Proposed and Rebuttal Charges.

Table A. Refundable Meter and Service Line Installation Charges[9]

	5/8 and 3/4-inch Residential Service				1-inch Residential Service			
Monthly	Tubac	Sun City	Paradise Valley	Mohave	Tubac	Sun City	Paradise Valley	Mohave
Present Service Line	$445.00	$370.00	$445.00	$370.00	$495.00	$420.00	$495.00	$420.00
Present Meter Installation	$155.00 [$255.00 (3/4)]	$130.00 [$205.00 (3/4)]	$155.00 [$255.00 (3/4)]	$130.00 [$205.00 (3/4)]	$315.00	$240.00	$315.00	$240.00
Rebuttal Service Line	$445.00	$370.00	$445.00	$370.00	$495.00	$420.00	$495.00	$420.00
Rebuttal Meter Installation	$155.00 [$255.00 (3/4)]	$130.00 [$205.00 (3/4)]	$155.00 [$255.00 (3/4)]	$130.00 [$205.00 (3/4)]	$315.00	$240.00	$315.00	$240.00

[9] *Ib.*, Rebuttal Schedules H-3.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
Susan Bitter Smith, Chairman
Bob Stump
Bob Burns
Tom Forese
Doug Little

EXHIBIT
MAGRUDER
3
ADMITTED

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

9 March 2015

Notice of Filing a

Testimony Summary (with errata)

by

Marshall Magruder

Due to travel and other commitments, I am unable to present an Opening Comments on this date. I have attached a Testimony Summary that contains what I would use for my Opening Comments.

I have been scheduled to give my oral testimony and receive cross-examination on March 23, 2015.

RESPECTFULLY SUBMITTED on this 9th day of March 2015.

Marshall Magruder

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TESTIMONY SUMMARY
for
Marshall Magruder

I am an individual intervening party, representing myself. I am here to uphold the Arizona State Constitution. Its Title XV, Section 12, states:

> ***"Charges for service; discrimination; free or reduced rate transportation***
>
> ***"Section 12. All charges made for service rendered, or to be rendered, by public service corporations within this state shall be just and reasonable, and no discrimination in charges, service, or facilities shall be made between persons or places for rendering a like and contemporaneous service, ..."*** [Emphasis added]

In the "last" rate case, Commission Order No. 71410 (p. 78) **ordered** the company to propose to consolidate in ALL its water and wastewater "districts" in the "next rate case" and to conduct informative town-hall meetings. The Company has NOT complied, nor has this Order been revoked.

First, the company wants to consolidate its charges and has made this very clear in an ongoing wastewater rate case with all its rational applicable to Section 12. I use the term "combine" since there is much misinformed opposition to the term "consolidate." The company itself is consolidated throughout except for financial accounting for old water company acquisitions. It is noted that **all** Arizona electric, natural gas and communications companies have consolidated statewide rates.

Second, EPCOR is one company with water and wastewater services. Tubac uses only its water services in one of its many service areas. There are some 185,000 EPCOR customers with less than 600 in the Tubac service area. Because our service area is small, almost any significant cost has a much greater impact on our rates when compared to larger areas, some over 25,000 customers.

Third, these water service areas exist because about 35 to 50 years ago, Citizens Utilities acquired many smaller water companies but has never combined their rates. Each service area is maintained as a "profit center." This means each service area is required to have its revenue, derived from its ratepayers, to always exceed its expenses for a positive Rate of Return. This has made all the smaller service areas rates yo-yo much higher than the larger areas with resultant "rate shock" after rate cases. Our Constitution says rates shall not discriminate between "persons or places." They now do.

Fourth, the company has not adjusted the way it collects rates over the years, and just keeps rolling along and letting these rate differences between service areas widen evermore. Each area is a profit center as rates are not combined. Each area MUST make a profit for the company so we now see extreme divergences in the **present** rates. For example, the first 1,000 gallons of water now cost a small residential customer less than **$0.73** in Sun City but costs **$1.90** in Tubac, **$0.88** in Mohave, and **$1.05** in Paradise Valley. Why? This results in wide service area differences in the present rates.

These rate differences (or discrimination) were **proposed** to separate even more in the service areas

- Sun City to $0.78, an increase of 5 cents
- Mohave to $1.55, an increase of 67 cents
- Paradise Valley to $1.41, an increase of 35 cents
- **Tubac to $5.33**, an increase of **343 cents**, so rate differences will continue to diverge.

Lets look at the **present** and **proposed** cost for one thousand gallons in each service area. For a typical median customer, where consumption is when 50% use more and 50% use less water we see

- Tubac at 5,000 gallons, present cost is **$3.00**, proposed is **$6.83**, a **$3.83 increase**
- Sun City at 6,000 gallons, present cost is **$1.36**, proposed is **$1.66**, a **30 cent increase**
- Paradise Valley at 10,000 gallons, present cost is **$1.25**, proposed is **$1.36**, a **21 cent increase**,
- Mohave at 5,000 gallons, present cost is **$1.84**, proposed is **$2.50**, a **64 cent increase**.

The highest **proposed** commodity rates for small residential customers in Tubac is **$10.61**/1000 gallons when consumption exceeds 20,000 gallons. The next highest, Paradise Valley, when using over 80,000 gallons is **$3.50**/1000 gallons, a **$7.31 difference**, for using **over 3 times more water**.

During the course of this case, these rates have decreased but these rate design differences continue.

Do these examples, from many, just reasonable? NO.
Do they discriminate between locations? YES.

My other two issues are related to the first, once rates are combined company-wide.

There are rate "tiers" or steps when the cost of water increases at a breakpoint. I propose that the First or lowest tier be for the first few thousand gallons with cost about $1.00 per 1,000 gallons. This is for ALL residential and business customers. This low rate First Tier provides a '*lifeline*' for all customers, especially the lower income customers. This embeds a low-income relief solution without needing a presently dysfunctional, costly, and ineffective low-income proposal. Also, Service Charges should be low, as feasible, for all smaller metered customers, including commercial customers.

The higher rate tiers will require increased costs to meet the company's required revenue and is also am effective means to conserve water. There should be **at least five residential and commercial Tiers**, so that customers can see an achievable "break point" as a goal for reducing their water costs, just like tax rate brackets do when considering income tax rates.

All service areas in this case used LESS water per customer than in their last rate case. Why? One significant factor is because the rates increased so much the last time. Many dug wells to avoid it.

I am looking at the big picture, not just Tubac, the worst example of rate differences. I recommend combine rates, establish a low First Tier rate with at least five Tiers and use higher rates as use increases while meeting the company's revenue needs, rates are considerably lower in most areas. Future rate cases will be less complex, rate shock vanishes and the company more efficient.

Again, why does one place now pay $1.90 for the same service when others pay less than $1.00 for the same 1,000 gallons? The company proposed for Tubac to pay **$10.61** when over 20,001 gallons while Paradise Valley would pays **$2.39** at 20,001 gallons. Why? So a small profit center made profit.

Only through a company-wide rate structure can the company comply with Section 12 and to accomplishing this, lower-income rates can be achieved with a low First Tier and Service Charge.

My Direct and Surrebuttal Testimonies contain more details than this brief summary. I expect to present my case on March 23 to explain my testimonies and to receive cross-examination.

EXHIBIT
MAGRUDER
4
ADMITTED

Exhi

Magruder Errata Sheet and Exhibit Summary

Magruder Direct Testimony (with rate design issues) of 23 January 2015, with this errata entered has been provided and is marked as **EXHIBIT MAGRUDER-1**

1. Page 23, line 12, delete "l" after "Structure"
2. Page 26, line 33, delete a redundant "to"
3. Page 37, line 21, change "14400" to read "14000".
4. Page 45, line 14, change "14400" to read "14000".
5. Page 55, first paragraph, lines 1 and 4, change "14400" to read "14000".

Magruder Surrebuttal Testimony of 23 February 2015 is marked as **EXHIBIT MAGRUDER-2**.

No changes

Magruder Testimony Summary of 10 March 2015, with this errata entered, has been provided and is marked as **EXHIBIT MAGRUDER-3**.

1. Page 1 of Notice of Filing, page 1, line 21, change "cros" to read "cross".
2. Page 1 of Summary in fourth paragraph, line 1, change "half-century" to read "about 35 to 50 years ago".
3. Page 2 of Summary, in second paragraph, line 1, change "**$10.81**" to read "**$10.61**" and in line 3, change "**4**" to "**3**".

Magruder "**Motion to Stay**" of 25 April 2014, with this errata entered, has been provided and is marked as **EXHIBIT MAGRUDER-4**

1. Page 1, change date of filing from "May" to "April" in second sentence and in footer
2. Page 3, lines 11 and 25, change "14-18" to read "14-23"
3. Page 3, line 28, change "May 2013" to read "March 2014".
4. Page 4, line 14, change Order Number should read "71410" and add "for" before "the"
5. Page 5, line 30, delete the word "exist" that follows "occur".
6. Page 6, line 14, change "due" to read "do".
7. Page 6, lines 19 and 30, change the Order Number to read "71410".

All these exhibits have been filed with Docket Control.

Additional Exhibits in the packet:

EXHIBIT MAGRUDER-5, Excerpt from Commission Decision No. 71410 p. 78.

EXHIBIT MAGRUDER-6, Excerpts from Arizona Constitution, Arizona Revised Statutes, and *Arizona Revised Statutes – Annotated* (Westlaw Publishing)

EXHIBIT MAGRUDER-7, Magruder Motion to Stay of 25 April 2014 with errata entered

EXHIBIT MAGRUDER-8, Excerpt from Procedural Order of 8 May 2014

EXHIBIT MAGRUDER-9, Letter from EPCOR's Jim McKee, VP of Corporate Services, of 10 July May 2014, subj: Consolidation, Deconsolidation and your Wastewater

EXHIBIT MAGRUDER-10, newspaper clips:

- "Report says Affordable Care Act cost falling", *Arizona Daily Star,* 10 March 2015, p.A10
- "City gets $3M for water tank," *Nogales International,* 20 March 2015, p. 2A

rate application insufficient i[illegible] the Company's next rate filing, Staff finds the water use data submitted to be inaccurate, or if the water use figures used in the Company's COSS are not identical to those provided to Staff.

22. It is reasonable and in the public interest to approve the Off-Site Facilities Hook-Up Fee Tariff attached hereto as Exhibit C as recommended by Staff, and to approve the reporting requirements set forth therein, except that the first calendar year Off-Site Facilities Hook-Up Fee status report should be due on January 31, 2011 and should cover the timeframe from inception of the tariff through December 31, 2010.

ORDER

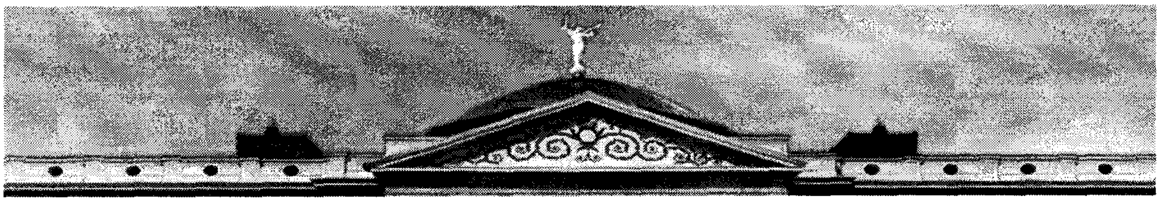
IT IS THEREFORE ORDERED that Arizona-American Water Company is hereby authorized and directed to file with the Commission, on or before November 30, 2009, the schedules of rates and charges attached hereto and incorporated herein as Exhibit D, which shall be effective for all service rendered on and after December 1, 2009.

IT IS FURTHER ORDERED that this docket shall remain open for the limited purpose of consolidation in the Company's next rate case with a separate docket in which a revenue-neutral change to rate design of all Arizona-American Water Company's water districts or other appropriate proposals or all Arizona-American's water and wastewater districts or other appropriate proposals may be considered simultaneously, after appropriate public notice, with appropriate opportunity for informed public comment and participation.

IT IS FURTHER ORDERED that the Company shall commence a dialogue with its customers as soon as practicable, and will initiate town hall-style meetings in all of its service territories to begin communicating with consumers the various impacts of system consolidation in each of those service territories, and to collect feed-back from consumers on such consolidation.

IT IS FURTHER ORDERED that Arizona-American Water Company shall file, along with the new schedules of rates and charges ordered above, a copy of the Common Facilities Hook-Up Fee (Water) Tariff Schedule for the Company's Agua Fria district as it appears in Exhibit A, attached hereto, and a copy of the Off-Site Facilities Hook-Up Fee Tariff for its Mohave Wastewater district as it appears in Exhibit C, attached hereto.

Handout of
Excerpts from the
Arizona State Constitution, Arizona Revised Statutes, and Arizona Revised Statutes - Annotated



ARIZONA STATE CONSTITUTION

Title XV – The Corporation Commission

Charges for service; discrimination; free or reduced rate transportation

Section 12. **All charges** made for service rendered, or to be rendered, by public service corporations within this state **shall be just and reasonable**, and **no discrimination** in charges, service, or facilities **shall be made between persons** or **places** for rendering a like and contemporaneous service, except that the granting of free or reduced rate transportation may be authorized by law, or by the corporation commission, to the classes of persons described in the act of Congress approved February 11, 1887, entitled An Act to Regulate Commerce, and the amendments thereto, as those to whom free or reduced rate transportation may be granted.

ARIZONA REVISED STATUTES (excerpt)

Chapter 2 – Public Service Corporations Generally

Article 1 – Regulation by Corporation Commission

40-203. Power of commission to determine and prescribe rates, rules and practices of public service corporations

When the commission finds that the rates, fares, tolls, rentals, charges or classifications, or any of them, demanded or collected by any public service corporation for any service, product or commodity, or in connection therewith, or that the rules, regulations, practices or contracts, are unjust, **discriminatory** or preferential, illegal or insufficient, the commission shall determine and prescribe them by order, as provided in this title.

Article 3 – Investigations, Hearings and Appeals

40-248. Reparation of overcharge; action to recover overcharge; limitations

A. When complaint is made to the commission concerning **any rate**, fare, toll, rental or charge made by any public service corporation, and the commission finds, after investigation, that the corporation has made an excessive or **discriminatory charge**, the commission may order that the corporation make reparation to the complainant with interest at the legal rate from the date of collection, if **no discrimination** will result from such reparation. If the corporation does not comply with the order for payment of reparation within the time specified in the order, an action may be brought to recover the amount thereof.

B. All complaints concerning excessive or **discriminatory charges** shall be filed with the commission within two years from the time the cause of action accrues, and the action to enforce the order shall be brought within one year from the date of the order of the commission.

C. The **remedy afforded in this section is cumulative** and in addition to any other remedy provided for failure of a public service corporation to obey an order or decision of the commission.

Article 6 – Services and Facilities

40-334. **Discrimination between persons, localities or classes of service** as to **rates, charges, service or facilities prohibited**

A. A public service corporation **shall not**, as to rates, charges, service, facilities or in any other respect, make or grant any preference or advantage to any person or subject any person to any prejudice or disadvantage.

B. No public service corporation **shall establish** or maintain any unreasonable **difference** as to **rates, charges, service, facilities** or in any other respect, **either between localities or between classes of service**.

C. The commission may determine any question of fact arising under this section.

Article 7 – Rates and Schedules

40-361. Charges by public service corporations required to be **just and reasonable**; service and facilities required to be adequate, efficient and reasonable; rules and regulations relating to charges or service required to be just and reasonable

A. **Charges** demanded or received by a public service corporation for any commodity or service **shall be just and reasonable**. Every **unjust or unreasonable charge demanded or received is prohibited and unlawful.**

B. Every public service corporation shall furnish and maintain such service, equipment and facilities as will promote the safety, health, comfort and convenience of its patrons, employees and the public, and as will be in all respects adequate, **efficient** and reasonable.

C. All rules and regulations made by a public service corporation affecting or pertaining to its charges or service to the public shall be **just and reasonable**.

40-362. Power of commission to investigate interstate rates

A. The commission may investigate all existing or proposed interstate rates, fares, tolls, charges and classifications, and all rules and practices in relation thereto, for or in relation to the transmission of messages or conversations, where any act in relation thereto takes place within this state.

B. When the proposed or existing rates are **excessive** or **discriminatory**, or in violation of the acts of Congress, or in conflict with the orders or regulations of the interstate commerce commission, the commission may apply to the interstate commerce commission or to any court of competent jurisdiction for relief.

40-365. Filing of rate schedules by public service corporations

Under rules and regulations the commission prescribes, every public service corporation shall file with the commission, and shall print and keep open to public inspection, schedules showing all rates, tolls, rentals, charges and classifications to be collected or enforced, together with all rules, regulations, contracts, privileges and facilities which in any manner affect or relate to rates, tolls, rentals, classifications or service. The commission may, from time to time, approve or fix rates, tolls, rentals or charges in excess of or less than those shown by the schedules. The commission may, from time to time, determine and prescribe by order such changes in the form of the schedules as it finds expedient, and modify the requirements of any of its orders, rules, or regulations.

40-367. Changes of rates; **notice**; filing; exception

A. No change shall be made by any public service corporation in any rate, fare, toll, rental, charge or classification, or in any rule, regulation or contract relating to or affecting any rate, toll, fare, rental, charge, classification or service, or in any privilege or facility, except after thirty days **notice** to the commission and to the public as provided in this chapter.

B. **Notice** shall be given by filing with the commission and keeping open for public inspection new schedules stating plainly the change to be made in the schedules then in force, and the time when the change will go into effect.

C. The commission, for good cause shown, may allow changes **without** requiring the thirty days **notice** provided for in this section by an order specifying the changes so to be made and the time when they shall take effect, and the manner in which they shall be filed and published.

D. When any change is proposed attention shall be directed to the change on the schedule filed with the commission by some mark, designated by the commission, immediately preceding or following the item.

Quote from

Arizona Revised Statutes – Annotated,
Volume 12, Sections 30-101 to 40-End (Excerpt)

"Discrimination Between persons, discrimination

"Public service corporations must treat all their customers fairly and **without unjust discrimination** and give all of them the same service on equal terms at **uniform rates without discriminating** between customers similarly situated as to the character of the service rendered or charges made and as regards **discrimination in rates** or service in the public utility field, a municipal corporation stands in the same position as a private corporation."

Town of Wickenburg v. Sabin (1948) 68 Ariz. 73, 200 P .2d 342.

"Discrimination Between localities, discrimination

"**Utilities may not pick and choose**, serving only portions of territory covered by their franchises **which it is presently profitable for them to serve** and restricting development of remaining portions by leaving their inhabitants in discomfort without services which they along can render."

Arizona Corp. Commission v. Southern Pac. Co. (1906) 87 Ariz. 310 P.2D 765.

EPCOR WATER

EXHIBIT
MAGRUDER-9
ADMITTED

2355 West Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

epcor.com

CONSOLIDATION, DECONSOLIDATION AND YOUR WASTEWATER

July 10, 2014

Dear Customer,

EPCOR places a great deal of importance on the water and wastewater services we provide and we want you to be aware of changes or potential changes before they happen, to the best extent possible.

As an EPCOR customer, your rates are approved by the Arizona Corporation Commission (ACC) based on the reasonable costs and capital investments to provide safe, reliable and high-quality water and wastewater services.

On July 8, 2014, ACC staff issued a recommendation that the commission order EPCOR to bring forward consolidation and deconsolidation options for consideration related to EPCOR's wastewater service areas. We are pleased to support the commission as it reviews this issue, and we will work quickly to respond to the three possibilities the commission identified – full consolidation, full deconsolidation and a third option of bringing wastewater services for Anthem and Agua Fria back together. While we will explore each option, EPCOR favors full consolidation.

In recent years, the issue of whether to consolidate rates for service across multiple districts is one that has been broadly examined by many people, including our customers, the ACC, Residential Utility Consumer Office (RUCO) and EPCOR. We have also seen the negative consequences that deconsolidating, as ordered in ACC Decision 73837, has had on smaller communities where significant capital investments have been necessary.

We understand that there are different viewpoints on the subject. EPCOR is a private utility company with a municipal ownership and heritage. We operate in many markets and understand the benefits of both models and the importance of providing safe, reliable service at a fair and reasonable cost to our customers.

As with all rate designs, in the short term, some customers will benefit from consolidation while others will not. We believe that over the long term that everyone could benefit from predictable, uniform rate structures, reduced regulatory expenses and increased efficiencies. Moving to a consolidated district with a single rate structure mirrors what consumers experience in most municipal districts. In other words, rates are the same regardless of where you live within a municipal area. Electric and natural gas utilities also work this way.

We'll be communicating with you throughout this process, beginning with this letter. You'll be receiving more information from us in the coming months, including where to find more information, what's next in the ACC review process and when we'll be holding informational community meetings.

At EPCOR, we take seriously our obligation to deliver safe and reliable water and wastewater services that you and your families can trust and count on, every day. Thank you for being our customer.

Best regards,

Jim McKee
Vice President, Corporate Services

EXHIBIT
MAGRUDER-10

EXHIBIT
MAGRUDER
10
ADMITTED

Tuesday, March 10, 2015 / Arizona Daily Star

Report says Affordable Care Act cost falling

Attributed to premiums rising slowly, fewer receiving coverage

By Max Ehrenfreund
THE WASHINGTON POST

WASHINGTON — The cost of President Obama's signature health care law is continuing to fall.

The Congressional Budget Office announced on Monday that the Affordable Care Act will cost $142 billion, or 11 percent less, over the next 10 years, compared to what the agency had projected in January.

The nonpartisan agency said the Affordable Care Act will cost less for two essential reasons: health insurance premiums are rising more slowly, and slightly fewer people are now expected to sign up for Medicaid and for subsidized insurance under the law's marketplaces.

More people aren't expected to sign up for the law because, the agency added, fewer employers than anticipated are canceling coverage and more people than earlier estimated had private coverage. By 2025, the CBO estimates "the total number of people who will be uninsured ... is now expected to be smaller than previously projected."

All around, it's positive news for health care act, which has been accused by Republicans of killing jobs and draining federal coffers. Indeed, the CBO itself warned last year the health care law could reduce full time employment as some chose to give up jobs that provided health care as they relied instead on the government's subsidies.

The administration's own poor handling of the ACA's online launch in the fall of 2013, combined with other errors, also have tarnished the law's image among many Americans. And to be sure, the law is still expensive — expected to cost $1.2 trillion over 10 years.

But the cost of the law has been falling for several years, and now analysts are beginning to assess the evidence of the law's impact from its first-full year of implementation.

In March 2010, the CBO predicted that the law would cost $710 billion during the period from 2015 to 2019, without trying to come up with projections beyond that. After several revisions, the law is now expected to cost $506 billion — 29 percent less — during those same five years, as shown in the chart.

CBO issued its new estimates less than a week after the Supreme Court heard a case challenging a crucial provision of the law. It's unclear how the justices will rule, and a decision against the Obama administration could make these estimates irrelevant.

...ıy helping kids to stay

City gets $3M for water tank

20 MAR 2015

By Curt Prendergast
Nogales International p. 2A

The City of Nogales has received $3 million in funding for a 650,000-gallon water tank near the Mariposa Port of Entry.

The Water Infrastructure Finance Authority of Arizona (WIFA) offered the city a $2 million low-interest loan, as well as a $500,000 forgivable loan. The Arizona Commerce Authority kicked in the rest of the money with a $500,000 grant.

The water tank will serve the west side of Nogales, including any businesses that set up shop along the Mariposa Road corridor, said Public Works Director Alejandro Barcenas.

In addition to serving new businesses, the tank will provide redundancy to the city's water system and move the area near the Carondelet Holy Cross Hospital into a higher-pressure zone, he said.

The city plans to install the tank on top of a hill near the city limit with the Coronado National Forest, he said. That location was one of two identified in a study conducted by the city to find the most appropriate site for the tank.

The $3 million will cover the total cost of installing the water tank, Barcenas said.

The interest rate on the $2 million loan will be 3 or 4 percent, depending on market conditions when the city closes on the loan, said Finance Director Sherry Schurhammer.

WIFA is an "independent agency of the state of Arizona and is authorized to finance the construction, rehabilitation, and/or improvement" of drinking water and wastewater infrastructure, according to the agency's website.

EXHIBIT
Resorts - 1
ADMITTED

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2015 JAN 23 P 3:40

AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH, Chairperson
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

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 DIRECT TESTIMONY OF JOHN S. THORNTON, JR. ON BEHALF OF SANCTUARY CAMELBACK MOUNTAIN RESORT & SPA, JW MARRIOTT CAMELBACK INN AND OMNI SCOTTSDALE RESORT & SPA AT MONTELUCIA**

Sanctuary Camelback Mountain Resort & Spa, JW Marriott Camelback Inn, and Omni Scottsdale Resort & Spa at Montelucia ("The Resorts"), through undersigned counsel, hereby files the Direct Testimony of John S. Thornton, Jr., in the above referenced matter.

DATED this 23rd day of January, 2015.

MUNGER CHADWICK, P.L.C.

Robert J. Metli, Attorneys for Sanctuary Camelback Mountain Resort & Spa, JW Marriott Camelback Inn, and Omni Scottsdale Resort & Spa at Montelucia

Original and 13 copies filed this
23rd day of January, 2015, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing mailed/
e-mailed/hand-delivered this 23rd day
of January, 2015, to:

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Assistant Chief Administrative Law Judge
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SMarin

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH, Chairperson
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

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

DIRECT TESTIMONY OF JOHN THORNTON

JANUARY 23, 2015

EXECUTIVE SUMMARY

Mr. Thornton recommends the Arizona Corporation Commission (the "Commission") reject the System Improvement Benefits charge ("SIB") for the Paradise Valley Water District ("PVWD") and he raises SIB concerns for the other water districts.

The base rate case for PVWD requests an 8.7% increase in total revenues. The proposed SIB is expected to increase total PVWD revenues by another 9.75%. EPCOR Water Arizona did not notice Paradise Valley Water District customers about the SIB or its intended impact on rates.

The SIB is an abnormal rate-making mechanism that should only be implemented in extraordinary circumstances. The Commission previously found a SIB appropriate for the financially struggling Arizona Water Company and its extraordinary financial circumstances. A SIB should not be employed when a utility is able to fund its normal day-to-day infrastructure needs through normal means and does not face extraordinary circumstances. EPCOR represented to the Commission that it was happy, willing and able to invest in Arizona-American Water Company infrastructure when it sought approval to purchase Arizona-American. EPCOR should uphold its promises and representations. EPCOR is a financially healthy enterprise whose circumstances do not merit a SIB mechanism.

Q. WHAT ARE YOUR NAME, EMPLOYER AND OCCUPATION?

A. My name is John S. Thornton. I am principal of Thornton Financial Consulting, L.L.C. and an independent consultant in utility finance and economics.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My educational background culminated in a Master of Science degree from the University of London (economics with specialty in corporate finance at the London School of Economics and Political Science ["LSE"]). I also hold a Graduate Diploma in Economics (with credit) from the LSE. I am a Certified Rate of Return Analyst and have enjoyed continuing education in finance, statistics, and business over the years. I participated as a cost of capital and utility finance expert in numerous electric utility, local gas distribution and telephone cases in the states of Oregon, Washington, California, Idaho, Nevada, Oklahoma, and Arizona. In addition, I testified in gas pipeline cases before the Federal Energy Regulatory Commission. I worked at the Public Utility Commission of Oregon for thirteen years and left as a Senior Economist and its chief rate-of-return and finance witness. Subsequently, I became Chief of the Financial and Regulatory Analysis Section of the Arizona Corporation Commission's Utility Division. My Witness Qualifications Statement, found in Exhibit JST-1, more fully describes my background.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA CORPORATION COMMISSION?

A. Yes, I have.

Q. ON WHOSE BEHALF DO YOU APPEAR?

A. I appear on behalf of the JW Marriott Camelback Inn, Sanctuary Camelback Mountain Resort & Spa and the Omni Scottsdale Resort & Spa at Montelucia (the "Resorts"). The Resorts are three commercial businesses in the Paradise Valley Water District who were granted intervention in this case.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony recommends against EPCOR Water Arizona, Inc.'s ("EWAZ" or the "Company") proposed Systems Improvement Benefits charge ("SIB"). The SIB is an abnormal rate-making mechanism that EWAZ proposes to cover normal capital expenditures so its application is fundamentally inappropriate. I also have technical and policy concerns with the Company's proposed SIB including its calculation and its earnings test benchmark.

Q. WHICH COMPANY WITNESS PROPOSES THE SIB AND HOW DO THEY SUMMARIZE THEIR PROPOSITION?

A. Company witness Candace Coleman proposes the SIB. She states in her executive summary,

> "EPCOR Water Arizona Inc. ('EWAZ' or 'Company') 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 instant case would be the first case in which EWAZ would be granted a SIB mechanism.

Q. WHY IS THE SIB AN ABNORMAL RATE-MAKING MECHANISM?

A. The SIB is in a class of "automatic adjustment clauses" or "adjustors." Adjustors are clauses to a rate-making order that allow for future adjustments to tariffs. Those tariff adjustments are based on some cost fluctuation a utility faces. Adjustors can be used in a case where a utility faces a significant operating expense that exogenously rises or falls, e.g. in the case of a local gas distribution company whose market costs of gas rise and fall and constitute a large portion of total charges. In contrast, the Company's proposed SIB seeks return on and return of day-to-day capital expenditures ("CAPEX"). The CAPEX replacement programs captured by the EWAZ SIB are internal re-investments incurred in the normal course of business.

Q. HOW DOES MS. COLEMAN JUSTIFY THE SIB?

A. Ms. Coleman states, beginning on page 3 at line 4 of her testimony,

> "EPCOR is requesting a SIB mechanism to enable EWAZ to meet the challenge of replacing aging and failing infrastructure. A SIB 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. It benefits the customers by reducing the magnitude of increases in their bills following rate cases while investing in plant and facilities to continue to maintain and improve the performance of the water systems."

Q. IS EWAZ'S PROPOSED SIB BASED ON ANY OTHER PREVIOUS SIB?

A. Yes, EWAZ's SIB appears to be based on a SIB mechanism implemented for Arizona Water Company under Decision No. 73938.

Q. DO ANY SIGNIFICANT DIFFERENCES ARISE BETWEEN ARIZONA WATER COMPANY AND EWAZ THAT WOULD MITIGATE THE NEED FOR A SIB IN THIS CASE?

A. Yes, the two cases differ significantly. Arizona Water Company ("AWC") struggled financially and had limited access to capital markets to fund its CAPEX. Arizona Water Company argued that the sheer volume of replacement CAPEX in its systems and the resulting strain on it financially was extraordinary. The Commission cited the extraordinary nature of the situation in footnote 10 of the AWC SIB order,

> "When asked what made AWC's situation extraordinary and warranted an adjustor mechanism, Mr. Reiker responded: From my perspective, I'm a finance person. The extraordinary nature is the shear [sic] magnitude of the investment. We've put evidence in the record, in Mr. Schneider's direct testimony, of massive amounts of investment that need to occur. That's extraordinary. We can't go out tomorrow and find an insurance company that will loan us $60 million. That's not going to happen."

Joseph D. Harris, Arizona Water Company Vice President and Treasurer, testified in that case,

> "Based on its current limited financial resources, the Company is not able to fund the type of infrastructure replacement program required to ensure the long-term reliability and adequacy of the Company's water distribution systems. These types of replacement programs enable a utility to provide reliable and adequate water service, but they also add to the Company's cost of providing service without any additional revenue to recover those costs.
>
> The Company is in critical financial condition due to rising costs and declining customer sales which, taken together, severely restrict the Company's ability to issue additional debt while still meeting the minimum interest coverage ratio provisions of its General Mortgage Bond Indenture."

In other words, Arizona Water Company's critical financial condition and limited or lack of access to capital funding made the SIB mechanism appropriate for Arizona Water Company. EWAZ/EPCOR do not face these same extraordinary circumstances.

Q. HOW BIG IS ARIZONA WATER COMPANY COMPARED TO EPCOR?

A. Arizona Water Company is smaller than EPCOR. Arizona Water Company's SIB was created in phase 2 of docket W-01445A-11-0310. Joseph D. Harris' Exhibit JDH-5, Schedule 1, page 1 of 10, from that docket shows total company assets of $322,973,735. (*See* Exhibit JST-2.) By contrast, Exhibit JST-3 is EPCOR's 2013 financial statements that report consolidated assets of $Cdn 5,447,000,000 (about 5.4 billion Canadian dollars).

Q. DOES EPCOR HAVE A LACK OF ACCESS TO CAPITAL MARKETS IN THE SAME WAY THAT JOEL REIKER AND JOSEPH HARRIS REPRESENTED FOR ARIZONA WATER COMPANY?

A. No, it does not. EPCOR represented publicly that it has significant access to debt capital markets. Exhibit JST-4 provides a March 2014 investor presentation. Page 20 of that presentation reports the following bullet points on EPCOR's strong financing and liquidity:

- "Syndicated bank credit facility of $500 million (two tranches of $250 million).
    - Supporting $500 million commercial paper program.
    - Current maturity dates of November 2016 and November 2018.
- Committed letter of credit facility of $400 million to November 2016.
- Demand facilities for approximately $47 million.
    - $25 million CAD, $22 million USD.
- Strategy in place to monetize all or a significant portion of interest in Capital Power
    - $202 million transacted in October 2013.
- Available medium-term note (MTN) debt capacity of $1 billion under short-term base shelf prospectus recently renewed to December 2015.
- Accessing debt capital markets.
    - Market tone is very constructive for additional EPCOR debt issuance.
    - February 2012 $300 million MTN (30-year) was oversubscribed."

On the following page 21 of the presentation under "Financial Strategies and Policies" EPCOR included the following points:

- "Target adequate liquidity profile – rated no less than adequate under Standard & Poors criteria.

- Capital expenditures will be funded with a mix of debt and equity in proportions necessary to maintain current investment grade credit rating.
- Debt profile will be a blend of short and long-term debt but heavily weighted to long-dated maturities to achieve match with asset lives and sourced at lowest economic cost with due consideration to interest rate and foreign exchange risks."

Q. DID EPCOR REPRESENT THAT IT HAD STRONG ACCESS TO CAPITAL PRIOR TO 2014?

A. Yes, it did. An investor presentation from June 2013, included as Exhibit JST-5, positively represented EPCOR's access to capital on page 19. A September 2012 investor presentation, included as Exhibit JST-6, positively represented EPCOR's access to capital on page 15. Finally, a February 2012 EPCOR presentation at an Infrastructure and Utilities Conference, included as Exhibit JST-7, positively represented EPCOR's access to capital on page 12. All of these presentations are publicly available on EPCOR's website.

Q. DID EPCOR REPRESENT THAT IT WAS FINANCIALLY CAPABLE TO INVEST IN ARIZONA-AMERICAN WATER COMPANY WHEN IT SOUGHT COMMISSION APPROVAL FOR THE ACQUISITION?

A. Yes, EPCOR represented that it was financially capable to invest in Arizona-American Water Company operations in the merger proceeding, Docket No. W-01303A-11-0101. Decision No. 72668 includes the following paragraphs,

"46. The purchase price for the proposed transaction will be funded by cash and debt. EPCOR has substantial assets and business operations in Canada. In 2009, EPCOR had approximately \$2.4 billion (\$Cdn) in revenue from various operations, and net income of approximately \$125 million (\$Cdn). No material changes to EPCOR's capital structure are expected as a result of the proposed transaction, and EPCOR will continue to finance capital projects in the same way it has in the past.

47. EPCOR USA intends generally to adopt American Water's projected capital budget plan for Arizona-American for the years 2011 through 2013. Under that plan, capital projects totaling approximately $36.8 million would be constructed over the next three years. EPCOR USA states that upon approval of the proposed transaction, it may add additional projects, and may substitute or alter the timing of planned projects to ensure that necessary investments to maintain and improve the provision of utility service are undertaken.

48. ***EPCOR USA states that EPCOR has access to the capital market and will be able to support Arizona-American as appropriate***, and to assist Arizona-American in obtaining capital, if necessary. Over the period of 2004 to 2009, EPCOR routinely financed an average of $400 million ($Cdn) annually in capital improvements for its water, wastewater and electric facilities. EPCOR maintains a Standard & Poor's credit rating of BBB+ stable for long-term unsecured debt and DBRS Ltd, affirmed its credit rating for EPCOR's long-term unsecured debt at A (low) stable.

58. EPCOR USA agrees with Arizona-American that the proposed transaction meets all the standards set forth in Rule 803 and is in the public interest. ***EPCOR USA states that it is happy to invest in Arizona and continue the tradition of good quality water service provided by Arizona-American, and requests that the Commission approve the proposed transaction.***" (emphasis added)

In summary, EPCOR represented that it had the financial strength and desire to fund CAPEX and ensure quality service. EPCOR did not represent that it needed any sort of abnormal SIB mechanism to maintain Arizona-American's systems. EPCOR's investor presentations represented that it has solid access to capital.

Q. DID THE ARIZONA WATER COMPANY CASE W-01445A-11-0310 DECISION PRESENT EXCEPTIONAL CIRCUMSTANCES AS JUSTIFICATION FOR THE SIB?

A. Yes, the Arizona Water Company case did present exceptional circumstances. Decision No. 73938 stated in footnote 39,

> "The SIB is a different type of adjuster mechanism than has previously been reviewed by the courts because it allows recovery of plant costs associated with AWC's substantial distribution system improvement needs, rather than fuel costs. However, even if the SIB is not considered an "adjustment mechanism" under Scates, we believe that it is an exceptional circumstance given the significant capital investment requirements for infrastructure replacements demonstrated by AWC."

The Arizona Water Company case presented an exceptional and unique set of circumstances: a financially-strapped utility that had to invest in its infrastructure to maintain service. These unique circumstances merited an abnormal rate-making tool in the SIB. The unique Arizona Water Company case should not serve as a boilerplate model for the proliferation of SIBs across hundreds of Arizona's utility systems.

Q. YOU HAVE ADDITIONAL POLICY AND TECHNICAL CONCERNS WITH EWAZ'S SIB. WHAT IS YOUR PRIMARY CONCERN?

A. I am primarily concerned that a cumbersome and abnormal SIB is proposed for a water system that doesn't apparently need accelerated infrastructure replacement. If system-wide infrastructure were radically failing then it should appear in the water loss statistics. The Company filed a "Water Use Data Sheet By Month For Calendar Year 2012" in this case. That report calculates a 7.67% water loss for the Paradise Valley Water District. The PVWD 7.67% water loss falls below the threshold 10% system water loss cited as a possible SIB criterion. The Company cites no other quantifiable metrics to support instituting an abnormal SIB mechanism for recovery of, and on, day-to-day CAPEX. Other metrics might include the number of service complaints, the response time to service complaints, or service interruptions.

Q. WAS MAINTAINING QUALITY SERVICE A CONDITION OF EPCOR'S ACQUISITION OF ARIZONA-AMERICAN WATER?

A. Yes, it was. Decision No. 72668's Conclusions state, in part,

> "86. Based on the evidence presented, we find that the proposed transaction will not impair the financial status of Arizona-American, otherwise prevent it from attracting capital at fair and reasonable terms, or impair its ability to provide safe, reasonable and adequate service.
>
> 87. It is in the public interest to approve the reorganization as set forth in the Notice, subject to the following conditions:
>
>> (4) Arizona-American shall maintain its quality of service, including, but not limited to the following quality of service measurements: the number of service complaints shall not increase as a result of the reorganization, the response time to service complaints shall not increase as a result of the reorganization, and service interruptions shall not increase as a result of the reorganization;"

The Commission conditioned approving EPCOR's Arizona-American Water Co. acquisition on maintaining quality service. Such maintenance was never pre-conditioned on a SIB mechanism.

Q. WHAT IS YOUR SECOND CONCERN WITH THE SIB?

A. My second concern addresses the proposed SIB projects. Those projects are replacements of aging infrastructure based on "Nessie Curves." Per the "SIB Engineering Report" (*see* EWAZ Exhibit CC-1-C), Nessie Curve analysis forecasts infrastructure failure and its replacement cost. Ms. Coleman's testimony appears unclear whether or not the Nessi Curve predictions are limited to fully depreciated assets. Page 5, beginning at line 15, of her testimony states "In our case, the Mohave Water, Paradise Valley Water, and Sun City Water districts each require investment in infrastructure as many assets are nearing or have surpassed their useful lifetimes." She implies that some assets to be replaced are not fully depreciated. If an asset has depreciation expense in the current rate case and it is subsequently replaced through a SIB then ratepayers will be paying twice for the same asset.

If replacing assets lowers operating costs (such as emergency break repairs) according to the Nessie Curve analysis then those lower operating costs should be reflected in the instant case.

Q. WHAT IS YOUR THIRD CONCERN?

A. My third concern is that the SIB implementation does not account for accumulated depreciation. Depreciation is charged each year in the plan of administration and as shown in response to Resorts data Request 1.1. However, accumulated depreciation does not appear. Accumulated depreciation reduces rate base as depreciation charges are accumulated from previous years. For example, the year-five SIB charge shown in response to Resorts Data Request 1.1 does not account for the accumulated depreciation from years one through four.

Q. WHAT IS YOUR FOURTH CONCERN?

A. My fourth concern refers to Accumulated Deferred Income Tax ("ADIT"). ADIT occurs when rate-making depreciation lives are longer than Internal Revenue Service tax lives. ADIT accrues because the shorter IRS life means that the utility pays less in actual income tax than the assumed income tax built into rates. We regularly account for ADIT as one of the number of deductions from net utility plant in service to arrive at rate base. It's a sort of rate-payer-sourced zero-cost source of utility capital. Any SIB "rate base" should properly account for ADIT as we would in a normal rate case.

Both the accumulated depreciation and ADIT problems would be normally accounted for in a general rate case, a good reason to deal with EWAZ's plant replacements in a general rate case rather than through a SIB.

Q. WHAT IS YOUR FIFTH CONCERN?

A. My fifth concern surrounds a double counting issue for Company labor expense and overhead. I found Company labor and an overhead factor loaded into the SIB costs in reviewing the engineering cost projections. For an example of such a project, turn to Exhibit JST-8 which is EWAZ's preliminary cost estimate for Paradise Valley Water District's project 2016-WM-3. The proposed SIB project cost includes (1) Company labor for field oversight and inspection, and (2) Company labor for project management. Company labor expenses would normally be factored into rates through Salaries Expense so the SIB project double counts that Company labor expense. Secondly, a general "Overhead rate on Labor and Capital" in the SIB cost estimates would double count "overhead" (perhaps Administrative and General Expense) which would also already factored into base rates. Seventeen percent of the SIB project 2016-WM-3 appears to include, and apparently double count, costs that would be factored into base rates.

Q. WHAT IS YOUR SIXTH CONCERN?

A. My sixth concern covers the transparency and predictability of rates. The instant case was filed March 10, 2014, with rates likely effective perhaps May or June 2015 as the scheduled developed. This long lead time has allowed ratepayers to adjust budgets and plan accordingly, including intervening in the case. The SIB, as an automatic adjustment clause, will give a minimum 30-day notice which will not allow ratepayers to budget accordingly. The purportedly smaller SIB rate increases with short review periods will also make intervention less cost-effective and less likely. The Resorts would prefer fully-litigated cases open to full and transparent review and analysis rather than smaller increments automatically added to bills with minimal notice.

Q. WHAT IS YOUR SEVENTH CONCERN?

A. My seventh concern is that the SIB will inarguably lower a utility's risk but the Company has not taken that lower risk into account. EWAZ proposes to load SIB costs entirely onto the monthly minimums (in itself a stable stream compared to volumetric rates). Furthermore, EWAZ proposes a true-up mechanism such that if SIB-budgeted revenues are not completely realized then any remaining balance is used to increase or decrease the next surcharge. Therefore, the SIB revenue stream is guaranteed through the true-up mechanism. To the extent that a revenue stream is guaranteed, it is not risky. The degree to which the SIB reduces a EWAZ's cost of equity depends on the relative size of the SIB income stream compared to overall net income. Picture an entire utility's net income guaranteed through a true-up mechanism such that any deficiency in net income is made up in the next period. Clearly, this revenue stream is riskless. Any SIB with a true-up mechanism should therefore earn a riskless rate of return in its calculation. This SIB calculation approach would be in lieu of a more cumbersome approach of estimating the lower risk the SIB has on the Company as a whole.

Q. WHAT IS YOUR EIGHTH CONCERN?

A. My eighth concern relates to notice Paradise Valley Water District customers had in this case. Notice is largely a legal matter but I'd like to offer my perspective on the language offered in the May 8, 2014 procedural order concerning Paradise Valley customers:

> "For its Paradise Valley Water District, EPCOR's application requests an annual revenue increase of approximately $950,774, or 9.9 percent, over current revenues. For average consumption (19,271 gallons per month) 5/8 x 3/4-inch meter residential customers of the Paradise Valley Water District, EPCOR's request would increase monthly rates by 9.68 percent, or by $5.06. If you would like to calculate the bill impact of the Company's proposal based on your consumption, please view its website at epcor.com or contact Customer Service at 1.800.383.0834."

The language did not mention the SIB.

Q. WHAT RELATIVE MAGNITUDE IS THE PROPOSED SIB FOR PARADISE VALLEY CUSTOMERS?

A. The base rate case requests a revenue requirement increase of $841,337 (10/14/2014 working papers) on present revenues of $9,648,251 or an 8.7% increase. Pursuant to Resorts Data Request No. 1.1, attached as Exhibit JST-9, the proposed SIB would increase present PVWD revenues by another $940,621 or another 9.75%. Paradise Valley customers have not been warned that a SIB might affect their rates nor that a SIB could be more than double the base revenue requirement increase.

Q. DID EWAZ NOTICE PVWD CUSTOMERS ABOUT THE SIB?

A. No, it did not according to the Affidavit of Notice filed in this case. The Affidavit is attached as Exhibit JST-10. The Affidavit's Exhibit A is a certificate of mailing and the actual Notice. The Notice refers exclusively to the Mohave Water system. The Notice says nothing about the rate case's impact on annual revenues or rates in the Paradise Valley Water District. I hope that the Affidavit is incomplete (simply missing the PVWD notice) but I have inquired from three PVWD customers and none of them recall receiving notice. I reviewed the informational section on one customer's bills around the time notice would have been made (May/June 2014) and I saw no information on the rate case.

Q. DID EWAZ OTHERWISE ALERT PVWD CUSTOMERS TO THE SIB THROUGH NEWSPAPER PUBLICATION?

A. No, it did not. Exhibit B to the Affidavit, attached as Exhibit JST-10, pages 18 to 19, are the proof of publication and the notice itself from the *Arizona Republic*, zones 7, 8 & 9. That published notice did not mention the SIB or its proposed 9.75% increase in PVWD revenue requirement.

Q. SHOULD THE COMMISSION ADOPT EWAZ's PROPOSED 10.7 PERCENT ROE FOR THE BASE RATE CASE OR FOR USE IN A SIB EARNINGS TEST?

A. No, the Commission should give little weight to EWAZ's testimony supporting the 10.7% requested ROE. That testimony, filed by Pauline Ahern, is fraught with conceptual and technical errors that result in a biased upwards estimate.

Let me offer a broad perspective on rates of return on risky stocks and required rates of return. Ms. Ahern's beta analysis shows that water utility stocks are significantly less risky than the average security so water utility stocks would require significantly less return than the average stock. Let us first get a perspective on what returns on the average stock might be. Jeremy Siegel's book *Stocks for the Long Run* reports that

> "The annual returns on U.S. stocks over various time periods are summarized in Table 5-1. Note the extraordinary stability of the real return on stocks over all major subperiods: 6.7 percent per year from 1802 to 1870, 6.6 percent from 1871 through 1925, and 6.4 percent per year from 1926 through 2012."

Ms. Ahern's own exhibits PMA-DT 2, Schedule 7, pages 9 and 10 report inflationary expectations of about 2.4 percent implying that the return on average risk stock going forward is about 9.2 percent. Therefore, a water utility would require significantly less than 9.2 percent.

U.S. interest rates as measured by the 10-year Constant Maturity Rate are near historical lows at about 1.8% and European Central Bank Chair Mario Draghi yesterday announced €1.1 trillion of quantitative easing designed to lower European interest rates. Some sovereign debt rates have actually been negative. Any investor who has a certificate of deposit or a bank account is familiar with the low-return environment we currently face. These broad indicators put EWAZ's 10.7% estimate far afield of current market conditions and realities even before adjusting for the lower risk of a water utility.

Q. WHAT DO YOU CONCLUDE FROM YOUR ANALYSIS AND TESTIMONY?

A. I conclude that EPCOR represented to the Arizona Corporation Commission that it was happy, willing and financially able to invest in Arizona-American Water properties when it requested approval to acquire those properties. The Commission conditioned the acquisition on EPCOR's maintaining quality service. EPCOR is a well-financed large enterprise with access to capital markets. EWAZ/EPCOR's situation does not merit an abnormal rate-making mechanism in the SIB. I recommend that the Commission deny the SIB in this case.

Witness Qualifications Statement

NAME: JOHN S. THORNTON, JR.

ADDRESS: 8008 N. Invergordon Rd., Paradise Valley, AZ 85253

EDUCATION: Master of Science Degree from the University of London, having completed the graduate program in economics at the London School of Economics and Political Science (1986)

Graduate Diploma in Economics from the London School of Economics (1985)

Bachelor of Arts degree, major in economics, from Willamette University (1984)

Certified Rate of Return Analyst, past member of the Society of Utility and Regulatory Financial Analysts

1998 passed level I of the CFA
1995 PaineWebber Seminar on Corporate Finance for the Utility Industry
1990 MIT/Harvard Public Disputes Resolution Program seminar
1990 National Association of Regulatory Utility Commissioners (NARUC) Advanced Regulatory Studies Program
1988 NARUC Annual Regulatory Studies Program

EXPERIENCE: **Thornton Financial Consulting - Principal, 2004 to present**

Guest lecturer at Michigan State's Institute of Public Utilities Advanced Regulatory Studies Program. Presented seminars on *Capital Structures and Credit Markets*, *Rate of Return*, and *Expert Witness Training*: 2009, 2010, 2011, 2012, 2013, 2014.

Rate of Return Workshop seminar leader, Florida Public Service Commission (2013).

Docket No. WS-02676A-12-0196 re: In the matter of the application of Rio Rico Utilities, Inc., an Arizona Corporation, for a determination of the fair value of its utility plants and property and for increases in its water and wastewater rates and charges for utility service based thereon. Represented Santa Cruz County and the Santa Cruz Unified School District. (2013)

Expert Witness Training seminar leader, Utah Department of Public Utilities (2011).

Expert Witness Training seminar leader, Ohio Consumer Council (2011).

Docket No. W-01303A-10-0448 re: In the matter of the application of Arizona-American Water Company for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for utility service by its Agua Fria Water District, Havasu Water District, and Mohave Water

District. Represented the City of Surprise in evaluating potential rate and bill increases to its taxpayers who were also customers of the Agua Fria Water District. Helped negotiate approximate 90%+ expected bill increases down to 60% bill increases but spread out over three years. (2011)

Docket No. W-01303A-09-0343 re: In the matter of the application of Arizona-American Water Company for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for utility service by its Anthem Water District and its Sun City water District. Represented and testified on behalf the Camelback Inn, the Sanctuary on Camelback Mountain and the Montelucia in the effect of rate consolidation and rate spread/rate design issues. (2010)

Docket No. W-01303A-08-0227 re: In the matter of the application of Arizona-American Water Company for approval of a rate increase for utility service by Agua Fria Water and Agua Fria Wastewater District, Anthem Water and Anthem Wastewater District, Havasu Water District, Mohave Water and Wastewater District, Paradise Valley Water District, Sun City West Water District and Tubac Water District. Represented the Camelback Inn and the Sanctuary on Camelback Mountain in analysis of rate proposals affecting resort users. (2009)

Docket No. W-01303A-08-0227 re: In the matter of the application of Arizona-American Water Company for approval of a rate increase for utility service by Agua Fria Water and Agua Fria Wastewater District, Anthem Water and Anthem Wastewater District, Havasu Water District, Mohave Water and Wastewater District, Paradise Valley Water District, Sun City West Water District and Tubac Water District. Analyzed case (2,000 pages of documents) and presented its effects on customers on Paradise Valley before the Paradise Valley Town Council. (2009)

Docket No. E-01933A-07-0402 re: In the matter of the application of Tucson Electric Power Company for the establishment of just and reasonable rates and charges designed to realize a reasonable rate of return on the fair value of its operations throughout the State of Arizona. Handicapped rate case outcomes for investors. Analysis provided to a number of Wall Street investment firms through The Gerson Lehrman Group. (2008)

Docket No. W-01303A-05-0405 re: In the matter of the application of Arizona - American Water Company Inc. for approval of a determination of the current fair value of its utility plant and property; and for increases in its rates and charges based thereon for utility service by its Paradise Valley Water District. Provided revenue requirement and rate spread/rate design analysis related to High Block Usage Surcharge and Public Safety Surcharge to resort customers and proposed alternative surcharges. Forecasted seasonal resort consumption and bills and documented conservation efforts. (2007)

Docket No. W-01445A-06-0200 et alia re: Arizona Water Company vs. Global Water Resources, Inc. Filed testimony on behalf of Arizona Water Company. Analyzed Global Water Resources' financial structure, affiliated interest issues, and use of Infrastructure Coordination and Financing Agreements. (2007)

Docket No. 06-11022 re: application of Nevada Power Co. for authority to increase its annual revenue requirement for general rates charged to all classes of electric customers and for relief properly related thereto: Rate of return witness for intervenor MGM-Mirage. (2007)

Docket No. E-01345A-05-0816 re: In the matter of the application of Arizona Public Service Company for a hearing to determine the fair value of the utility property of the company for ratemaking purposes, to fix a just and reasonable rate of return thereon, to approve rate schedules designed to develop such return, and to amend Decision No. 67744. Provided analysis and commentary to Wall Street hedge fund clients on ACC decision process and procedures and likely outcome of the ACC vote. (2007)

Docket No. E-01933A-05-0650 re: application of Tucson Electric Power Company to amend Arizona Corporation Commission (ACC) Decision No. 62103. Provided analysis and commentary to GLG clients on ACC decision process and procedures and likely outcome of the ACC vote. (2005-2006)

Case No. 200500151 re: application of Oklahoma Gas and Electric Company for authority to increase its electric rates. Rate-of-return witness for intervenor Oklahoma Industrial Energy Consumers. (2005)

Docket No. E-01933A-04-0408 re: in the matter of the filing of general rate case information of Tucson Electric Power Co. pursuant to Decision No. 62103. Provided analysis on process & procedure, likely positions to be taken by parties, and revenue requirement analysis after impacts of potential or likely disallowances. Analysis provided to a number of Wall Street investment firms through The Gerson Lehrman Group. (2004-2005)

Docket No. E-04230A-03-0933 re: in the matter of the reorganization of UniSource Energy Corporation. Analyzed proposed acquisition of UniSource by KKR through Saguaro Acquisition Corp. Provided analysis and commentary on Arizona Corporation Commission (ACC) decision process and procedures and likely outcome of the ACC vote. Analysis provided to a number of Wall Street investment firms through The Gerson Lehrman Group. (2004)

Docket No. UM 1121 re: application of Oregon Electric Utility Co., LLC, et alia for authority to acquire Portland General Electric Co. Analyzed the proposed acquisition of Portland General Electric Co. by the Texas Pacific Group from the Enron bankruptcy estate on behalf of the Industrial Customers of Northwest Utilities. (2004)

Case Nos. AVU-E-04-01 and AVU-G-04-01 re: application of Avista Corporation for authority to increase its electric rates. Rate-of-return witness for intervenor Potlatch Corporation. (2004)

Docket Nos. 03-10001 and 03-10002 re: application of Nevada Power Co. for authority to increase its annual revenue requirement for general rates charged to all classes of electric customers and for relief properly related thereto: Rate of return witness for intervenor MGM-Mirage. (2004)

Docket Nos. 01-10001 and 01-10002 re: application of Nevada Power Co. for authority to increase its annual revenue requirement for general rates charged to all classes of electric customers and for relief properly related thereto: Rate of return witness for intervenor MGM-Mirage. (2002)

Docket No. UE 010395 re: application of Avista Corporation d/b/a Avista Utilities request for recovery of power costs through the deferral mechanism. Corporate finance witness for the Industrial Customers of Northwest Utilities. (2001)

Docket Nos. 99-4001 and 99-4005 re: Sierra Pacific Power Co. compliance filing Docket No. 99-4001 and Nevada Power Co. compliance filing Docket No. 99-4005. Rate of return witness for intervenors Mirage Resorts, Inc., Park Place Entertainment Corp., and the Mandalay Group. (2000)

Application Nos. 98-05-019, 021, & 024. Presented beta adjustment and distribution risk discount testimony on behalf of the Division of Ratepayer Advocates of the California Public Utility Commission. (1998)

Speaker—US Agency for International Development's Conference on Private Sector Participation in the Colombian Power Sector. (1991)

Chief, Financial & Regulatory Analysis Section, Utilities Division, Arizona Corporation Commission, 2001 to 2004

Testified or provided reports in the following dockets:

•W-01656A-98-0577 & WS-02334A-98-0577—Sun City Water Co. and Sun City West Utilities Co.'s request for approval of the Central Arizona Project water utilization plan. Testimony on the effect of the Groundwater Savings Project on Sun City Water Co. and Sun City West Utilities Company's revenue requirement.

•E-01345A-02-0707—Arizona Public Service Co.'s application for authority to incur $500,000,000 of debt and to acquire a financial interest in an affiliate by lending $500,000,000 to Pinnacle West Capital Corp. or Pinnacle West Energy Corp. Alternatively, APS' application to guarantee $500,000,000 of PWCC or PWEC debt. Testimony on the appropriateness of the affiliate transactions and seven conditions under which the loan could be made.

•E-01345A-02-0840—Arizona Public Service Co.'s application for authority to loan $125,000,000 of debt to an affiliate. (Staff report regarding four conditions under which the affiliate transaction would be appropriate.)

•E-01345A-02-0403—Arizona Public Service Co.'s application for approval of adjustment mechanisms. Testimony on a power supply adjustor earnings test.

•E-01032-00-0751, G-01032A-02-0598, E-01933A-02-0914, E-1032C-02-0914, G-01032A-02-0914—Consolidated dockets of UniSource, Citizens Communications Arizona Gas Division (AGD), & Citizens Communications Arizona Electric Division (AED); general rate case for the AGD, PPFAC adjustment for AED, and sale of AGD and AED to UniSource. (Staff report section on analysis of the financing of the sale and transfer of utility assets.)

•W-01445A-02-0619—Arizona Water Company's application for rates and charges for eight systems. Testimony on implementing lifeline rates and using marginal cost pricing in rate design.

Senior Analyst with the Public Utility Commission of Oregon, 1988-2001

Testified or provided rate of return analyses in the following dockets:

•UE 102—PGE disaggregation/general rate case (chief rate of return witness).

•UE 94—PacifiCorp general rate case (chief rate of return witness).

•UE 93 (UM 592, UM 694)—Portland General Electric Co. excess power cost/Coyote/BPA filing.

•UE 92—Idaho Power general rate case.

•UE 88—Portland General Electric Co. general rate case (chief rate of return witness).

•UE 85/UM 529—Portland General Electric Co. Earnings test for Trojan Shutdown Cost Adjustment Account.

•UE 84—Idaho Power Co. deferred account earnings benchmark.

•UE 82/UM 445—Trojan Outage Cost Adjustment Account earnings test benchmark.

•UE79—Portland General Electric Co. general rate case (chief rate of return witness).

•UG 104/UG 105/UG 106—LDC deferred account earnings test benchmarks.

•UG88—Cascade Natural Gas Co. general rate case (chief rate of return witness).

•UG81—Northwest Natural Gas Co. general rate case (chief rate of return witness).

•UT 125—US WEST Communications, Inc general rate case (chief rate of return witness).

•UT 113—GTE Northwest general rate case (chief rate of return witness).

•UT101—United Telephone Co. of the Northwest general rate case (chief rate of return witness).

•UT85—US WEST general rate case (capital structure and debt cost witness).

•RP95-409—Northwest Pipeline general rate case (FERC).

•RP93-5—Northwest Pipeline general rate case (FERC).

Responsibilities also included the following:

•Analyses and recommendations in over fifty financing dockets involving instruments such as first mortgage bonds, medium-term notes, debentures, preferred stock, QUIDS, TOPRs, common equity, shareholder rights plans (poison pills), and derivative securities including caps, collars, and floors.

•UM 903— Northwest Natural, cost of capital analysis for purchased gas adjustment mechanism.

•UM 21—Cost of capital analysis for avoided cost calculations.

•UM 351—Cost of capital analysis for long-run incremental-cost studies.

•UM 573—Analysis of purchased power on the utility's cost of capital.

•UM 773—Cost of capital analysis for long-run incremental-cost studies.

•UM 814—Enron's application to acquire Portland General Electric Co.

•UM 918—Scottish Power plc's application to acquire PacifiCorp.

•UM 967—Sierra Pacific Resource's application to acquire Portland General Electric Co.

Exhibit JST-2
Page 1 of 1

ARIZONA WATER COMPANY
Docket No. W-01445A-11-XXXX
Balance Sheet
As of December 31, 2010

Exhibit JDH-5
Schedule 1
Page 1 of 10
Witness: Harris

Line No.		[A] TOTAL COMPANY	[B] EASTERN GROUP[1]	[C] SUPERSTITION
1	ASSETS			
2				
3	UTILITY PLANT			
4	Gross Utility Plant	$ 396,422,070		
5	Less: Accumulated Depreciation	95,226,394		
6	Net Utility Plant	$ 301,196,676		
7				
8	CURRENT ASSETS			
9	Cash on Hand and in Banks	10,327,173		
10	Investments and Special Deposits	2,703		
11	Accounts Receivable	3,442,787		
12	Materials & Supplies	301,494		
13	Other	454,306		
14	Total Current Assets	$ 14,528,463		
15				
16	DEFERRED DEBITS	$ 7,248,596		
17				
18	TOTAL ASSETS	$ 322,973,735		
19				
20				
21	LIABILITIES			
22				
23	CAPITALIZATION			
24	Common Stock	2,700,000		
25	Capital Surplus	19,309,347		
26	Retained Earnings	55,965,991		
27	Common Stockholders Equity	$ 77,975,338	$ 31,080,969	$ 24,847,208
28	Long-Term Debt	75,000,000	29,895,000	23,706,735
29	Total Capitalization	$ 152,975,338	$ 60,975,969	$ 48,353,943
30				
31	CURRENT LIABILITIES			
32	Notes Payable	-		
33	Accounts Payable	5,918,922		
34	Accrued Expenses	3,668,998		
35	Other	-		
36	Total Current Liabilities	$ 9,587,920		
37				
38	DEFERRED CREDITS			
39	Advances for Construction	77,869,922		
40	Contributions in Aid of Construction	51,183,775		
41	Deferred Income Taxes	25,368,073		
42	Other	5,988,707		
43	Total Deferred Credits	$ 160,410,477		
44				
45	TOTAL CAPITAL AND LIABILITIES	$ 322,973,735		
46				
47				
48				
49				
50				
51				
52				
53				
54				
55	[1]Allocated based on percentage of rate base to total company rate base.			

Consolidated Financial Statements of

EPCOR UTILITIES INC.

Years ended December 31, 2013 and 2012

Management's responsibility for financial reporting

The preparation and presentation of the accompanying consolidated financial statements of EPCOR Utilities Inc. are the responsibility of management and the consolidated financial statements have been approved by the Board of Directors. In management's opinion, the consolidated financial statements have been prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily requires judgment and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgment where estimates were required, and these consolidated financial statements reflect all information available to March 12, 2014. Financial information presented elsewhere is consistent with that in the consolidated financial statements.

To discharge its responsibility for financial reporting, management maintains systems of internal controls designed to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis. The internal control systems are monitored by management, and evaluated by an internal audit function that regularly reports its findings to management and the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, the Company's external auditors. The external auditors are responsible for auditing the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditors' report outlines the scope of their audit and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, which is comprised of independent directors, meets regularly with management, the internal auditors and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and management's discussion and analysis and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee is also responsible for reviewing and recommending the annual appointment of the external auditors and approving the annual external audit plan.

On behalf of management,

David Stevens
President and Chief Executive Officer

Guy Bridgeman
Senior Vice President and Chief Financial Officer

March 12, 2014

EPCOR UTILITIES INC.

Consolidated Financial Statements

Years ended December 31, 2013 and 2012

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of EPCOR Utilities Inc.

We have audited the accompanying financial statements of EPCOR Utilities Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of EPCOR Utilities Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
March 12, 2014
Edmonton, Canada

EPCOR UTILITIES INC.

Consolidated Statements of Comprehensive Income
(In millions of Canadian dollars)

Years ended December 31, 2013 and 2012

	2013	2012
Revenues and other income:		
Revenues (note 5)	$ 1,929	$ 1,931
Other income (note 5)	26	28
	1,955	1,959
Operating expenses:		
Electricity purchases and system access fees	950	1,006
Other raw materials and operating charges	144	145
Staff costs and employee benefits expenses (notes 3(b) and 6)	280	280
Depreciation and amortization (note 6)	145	133
Franchise fees and property taxes	89	84
Other administrative expenses (note 6)	58	57
Foreign exchange loss (gain)	(1)	2
	1,665	1,707
Operating income	290	252
Finance expenses (note 7)	(107)	(116)
Equity share of income of Capital Power (note 16)	66	41
Loss on sale of a portion of investment in Capital Power (note 16)	(16)	(36)
Impairment of investment in Capital Power (note 8)	(43)	(124)
Income before income taxes	190	17
Income tax recovery (expense) (note 9)	(15)	2
Net income for the year – all attributable to the Owner of the Company	175	19
Other comprehensive income (loss):		
Item that will not be reclassified to net income:		
Re-measurements of net defined benefit plans[1] (note 3(b))	3	(7)
Items that may subsequently be reclassified to net income:		
Equity share of other comprehensive income (loss) of Capital Power[2] (note 16)	(10)	11
Amounts realized in net income on sale of a portion of investment in Capital Power[3] (note 16)	(3)	(2)
Unrealized loss on available-for-sale financial assets[4]	(1)	(2)
Unrealized gain (loss) on foreign currency translation[5]	17	(1)
	3	6
	6	(1)
Comprehensive income for the year - all attributable to the Owner of the Company	$ 181	$ 18

[1] For the year ended December 31, 2013, net of income tax expense of $2 million (2012 – income tax recovery of $1 million).

[2] For the year ended December 31, 2013, net of income tax recovery of $3 million (2012 – income tax expense of $3 million).

[3] For the year ended December 31, 2013, net of reclassification of income tax recoveries of $1 million (2012 – nil).

[4] For the year ended December 31, 2013, net of income tax recovery of nil (2012 – $1 million).

[5] For the year ended December 31, 2013, net of income tax expense of nil (2012 – nil).

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

EPCOR UTILITIES INC.

Consolidated Statements of Financial Position
(In millions of Canadian dollars)

December 31, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents (note 10)	$ 130	$ 232
Trade and other receivables (note 11)	360	359
Inventories (note 12)	14	13
	504	604
Non-current assets:		
Finance lease receivables (note 13)	122	125
Other financial assets (note 14)	367	383
Deferred tax assets (note 15)	53	52
Investment in Capital Power (note 16)	385	621
Property, plant and equipment (note 17)	3,776	3,417
Intangible assets and goodwill (note 18)	240	222
	4,943	4,820
TOTAL ASSETS	$ 5,447	$ 5,424
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables (note 19)	$ 245	$ 303
Loans and borrowings (note 20)	15	14
Deferred revenue (note 21)	23	21
Provisions (notes 3(b) and 22)	29	29
Derivatives (note 23)	1	2
Other liabilities (note 24)	28	31
	341	400
Non-current liabilities:		
Loans and borrowings (note 20)	1,957	1,956
Deferred revenue (note 21)	783	741
Deferred tax liabilities (note 15)	12	4
Provisions (notes 3(b) and 22)	80	83
Other liabilities (note 24)	12	18
	2,844	2,802
Total liabilities	3,185	3,202
Equity attributable to the Owner of the Company:		
Share capital (note 25)	24	24
Accumulated other comprehensive income (notes 3(b) and 26)	13	7
Retained earnings (note 3(b))	2,225	2,191
Total equity	2,262	2,222
TOTAL LIABILITIES AND EQUITY	$ 5,447	$ 5,424

Commitments and contingencies (note 32)

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

EPCOR UTILITIES INC.

Consolidated Statements of Changes in Equity
(In millions of Canadian dollars)

December 31, 2013 and 2012

	Share capital (note 25)	Accumulated other comprehensive income (loss): Cash flow hedges (note 26)	Available-for-sale financial assets (note 26)	Cumulative translation account (note 26)	Employee benefits account (notes 3(b) and 26)	Investment in Capital Power (note 26)	Retained earnings (note 3(b))	Equity attributable to the Owner of the Company
Equity at December 31, 2012	$ 24	$ (7)	$ 2	$ -	$ (7)	$ 19	$ 2,191	$ 2,222
Net income for the year	-	-	-	-	-	-	175	175
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	3	-	-	3
Equity share of other comprehensive loss of Capital Power	-	-	-	-	-	(10)	-	(10)
Amounts realized in net income on sale of a portion of investment in Capital Power	-	2	-	-	-	(5)	-	(3)
Unrealized loss on available-for-sale financial assets	-	-	(1)	-	-	-	-	(1)
Unrealized gain on foreign subsidiary	-	-	-	17	-	-	-	17
Total comprehensive income (loss)	-	2	(1)	17	3	(15)	175	181
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2013	$ 24	$ (5)	$ 1	$ 17	$ (4)	$ 4	$ 2,225	$ 2,262

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

EPCOR UTILITIES INC.

Consolidated Statements of Changes in Equity
(In millions of Canadian dollars)

December 31, 2013 and 2012

		Accumulated other comprehensive income (loss)						
	Share capital (note 25)	Cash flow hedges (note 26)	Available-for-sale financial assets (note 26)	Cumulative translation account (note 26)	Employee benefits account (notes 3(b) and 26)	Investment in Capital Power (note 26)	Retained earnings (note 3(b))	Equity attributable to the Owner of the Company
Equity at December 31, 2011	$ 24	$ (9)	$ 4	$ 1	$ -	$ 12	$ 2,313	$ 2,345
Net income for the year	-	-	-	-	-	-	19	19
Other comprehensive income (loss):								
Re-measurements of net defined benefit plans	-	-	-	-	(7)	-	-	(7)
Equity share of other comprehensive income of Capital Power	-	-	-	-	-	11	-	11
Amounts realized in net income on sale of a portion of investment in Capital Power	-	2	-	-	-	(4)	-	(2)
Unrealized loss on available-for-sale financial assets	-	-	(2)	-	-	-	-	(2)
Unrealized loss on foreign subsidiary	-	-	-	(1)	-	-	-	(1)
Total comprehensive income (loss)	-	2	(2)	(1)	(7)	7	19	18
Dividends	-	-	-	-	-	-	(141)	(141)
Equity at December 31, 2012	$ 24	$ (7)	$ 2	$ -	$ (7)	$ 19	$ 2,191	$ 2,222

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

EPCOR UTILITIES INC.

Consolidated Statements of Cash Flows
(In millions of Canadian dollars)

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from (used in) operating activities:		
Net income for the year	$ 175	$ 19
Reconciliation of net income for the year to cash from (used in) operating activities:		
Interest paid	(108)	(115)
Finance expense (note 7)	107	116
Income taxes paid	(7)	(4)
Income tax expense (recovery) (note 9)	15	(2)
Depreciation and amortization (note 6)	145	133
Contributions received	29	22
Deferred revenue recognized (note 21)	(20)	(20)
Fair value change on derivative instruments (note 23)	(1)	13
Loss on sale of a portion of investment in Capital Power (note 16)	16	36
Equity share of income from Capital Power (note 16)	(66)	(41)
Impairment of investment in Capital Power (note 8)	43	124
Foreign exchange loss (gain)	(1)	2
Other	-	(9)
Funds from operations	327	274
Change in non-cash operating working capital (note 27)	(66)	75
Net cash flows from operating activities	261	349
Cash flows from (used in) investing activities:		
Acquisition or construction of property, plant and equipment and other assets	(444)	(360)
Business acquisition, net of acquired cash	(4)	(460)
Change in non-cash investing working capital (note 27)	7	(21)
Proceeds on disposal of property, plant and equipment	2	7
Payment of Gold Bar transfer fees	(10)	(12)
Payments received on long-term receivables	14	25
Proceeds on sale of a portion of investment in Capital Power	194	221
Distributions received from Capital Power	36	42
Net cash flows used in investing activities	(205)	(558)
Cash flows from (used in) financing activities:		
Proceeds from issuance of long-term loans and borrowings (note 20)	-	300
Repayment of long-term loans and borrowings	(14)	(35)
Provisions	(3)	1
Common share dividends paid	(141)	(141)
Net cash flows from (used in) financing activities	(158)	125
Decrease in cash and cash equivalents	(102)	(84)
Cash and cash equivalents, beginning of year	232	316
Cash and cash equivalents, end of year	$ 130	$ 232

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

EPCOR UTILITIES INC.

Notes to the Consolidated Financial Statements
(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Years ended December 31, 2013 and 2012

1. Nature of operations

EPCOR Utilities Inc. (the Company or EPCOR) builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure, and provides electricity and water services and products to residential and commercial customers.

The Company operates in Canada and the United States (U.S.) with its registered head office located at 2000, 10423 - 101 Street NW, Edmonton, Alberta, Canada, T5H 0E8.

The common shares of EPCOR are owned by The City of Edmonton (the City). The Company was established by Edmonton City Council under City Bylaw 11071.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 12, 2014.

(b) Basis of measurement

The Company's consolidated financial statements are prepared on the historical cost basis, except for its beneficial interest in the sinking fund held with the City and its derivative financial instruments, which are measured at fair value.

(c) Additional IFRS financial measure

The Company uses "operating income" as an additional IFRS financial measure. In management's opinion, the measure is a more effective indicator of the Company's and reportable business segments' operating performance than net income because it only includes items directly related to or resulting from management's operating decisions and actions.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements unless otherwise indicated.

(a) Basis of consolidation

These consolidated financial statements include the accounts of EPCOR, its wholly-owned subsidiaries and joint arrangements at December 31, 2013. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from the performance of the entity and has the ability to affect those returns through its control over the entity. Subsidiaries are fully consolidated from the date on which EPCOR obtains control, and continue to be consolidated until the date that such control ceases to exist. All intercompany balances and transactions have been eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. The financial statements of the subsidiaries are prepared for the same reporting period as EPCOR, using consistent accounting policies.

(b) Changes in significant accounting policies

The Company has adopted the following accounting policies as a result of the new and amended accounting standards relevant to EPCOR effective January 1, 2013:

IFRS 7 – Financial Instruments – Disclosures – Offsetting Financial Assets and Liabilities (Amendment)
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements (IFRS 11)
IFRS 12 – Disclosure of Interests in Other Entities (IFRS 12)
IFRS 13 – Fair Value Measurement
IAS 1 – Presentation of Items of Other Comprehensive Income (Amendment)
IAS 19 – Employee Benefits (Amendment) (IAS 19)
IAS 28 – Investments in Associates and Joint Ventures (Amendment)
IAS 34 – Interim Financial Reporting (Amendment)

Of the new and amended accounting standards which became effective January 1, 2013, the following had an impact on these consolidated financial statements as a result of the accounting policies adopted effective January 1, 2013:

IFRS 11 was issued to replace IAS 31 – Interest in Joint Ventures. The new standard classifies joint arrangements into two types – joint operations and joint ventures. The standard defines a joint operation as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement and are required to recognize assets, liabilities, revenues and expenses in proportion to its interest in the joint arrangement. The standard defines a joint venture as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement and are required to recognize and account for the investment in the joint arrangement using the equity method. The Company applied the new standard effective January 1, 2013 and classified its interest in the Heartland Transmission project as a joint operation. As a result, the consolidated financial statements include EPCOR's relative share of the joint operation's assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis. Unrealized gains and losses on transactions between EPCOR and the joint operation are eliminated to the extent of EPCOR's interest in the joint operation and unrealized losses are eliminated only to the extent there is no evidence of impairment.

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. As a result, the Company has expanded its disclosures about its interest in subsidiaries, joint operation and associate.

IAS 19 was amended to: (a) eliminate the option to defer the recognition of actuarial gains and losses associated with net defined benefit liabilities (assets); (b) require a new method of calculating finance costs on defined benefit plans whereby a single discount rate is applied to the net pension assets or obligations; and (c) enhance the disclosure requirements to provide better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in these plans. In accordance with the transitional provisions of revised IAS 19, the Company applied the revised standard commencing January 1, 2013 with retrospective application from January 1, 2012. The Company recognized in retained earnings, $1 million of unrecognized actuarial gains related to 2012 and $6 million of unrecognized actuarial losses related to years prior to 2012, and in accumulated other comprehensive income, $8 million ($7 million net of tax) of re-measurement effects related to years prior to 2013. In addition, the Company increased non-current provisions by $13 million.

(c) Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in net income. Transaction costs that the Company incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Subsequent changes in the fair value of the contingent consideration are recognized in net income.

Goodwill is initially recorded at the consideration paid for at acquisition less the fair value of the net assets of the consolidated business acquired. Subsequently, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit to which goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognized.

(d) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company for the provision of goods or services and where the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or to be received, excluding discounts, rebates and sales taxes or duty.

Certain water services contracts contain multiple-deliverables arrangements. Each deliverable that is considered to be a separate unit of account is accounted for individually. Significant judgment is required to determine an appropriate allocation of the total contract value to each unit of account based on the relative fair values of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered units of account. The primary identifiable deliverables under such contracts are plant construction and project upgrades and expansions, financing or leasing of upgrades, facilities operations and facilities maintenance.

The Company's principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

Sale of goods

Revenues from sales of electricity and water are recognized upon delivery and provision of services. These revenues include an estimate of the value of electricity and water consumed by customers billed subsequent to the reporting period.

Revenues from the sale of other goods are recognized when the products have been delivered and collectability is reasonably assured.

Provision of services

Revenues from the provision of electricity distribution and transmission services and wastewater treatment services are recognized over the period in which the service is performed and collectability is reasonably assured.

Construction contracts

Contract revenue from the construction of water and wastewater treatment plants and other project upgrades and expansions provided to customers is recognized in profit or loss on the percentage of completion basis when the projected final cost of a construction contract can be reliably estimated. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be reliably measured. Percentage of completion is estimated based on an assessment of progress towards the completion of contract tasks. These estimates may result in the recognition of unbilled receivables when the revenues are earned prior to billing customers. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as deferred revenue in the statement of financial position. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Provisions for estimated losses on uncompleted contracts are made for the full amount of the projected loss in the period in which the losses are identified. Revenues and costs related to variations are included in the total estimated contract revenue and expenses when it is probable that the customer will approve the variation and the amount of revenue arising from the variation, and the amount of revenue can be reliably measured.

Revenues earned under finance leases

Finance income earned from arrangements where the Company leases water and wastewater assets to customers, are accounted for as finance leases, as described in note 3(h).

Interest income

Revenue from the financing of project upgrades and expansions is recognized over the term of each contract using the effective interest method based on the fair value of the loan calculated at inception for each contract.

Interest income related to the loans receivable from Capital Power are recognized over the terms of the loans based on the interest rate applicable to each loan.

(e) Income taxes

Under the Income Tax Act (Canada) (ITA), a municipally owned corporation is subject to income tax on its taxable income if the income from activities for any relevant period that was earned outside the geographical boundaries of the municipality exceeds 10% of the corporation's total income for that period. As a result of these and other provisions, certain Canadian subsidiaries of the Company are taxable under the ITA and provincial income tax acts. The U.S. subsidiaries are subject to income taxes pursuant to U.S. federal and state income tax laws.

Current income taxes for the current or prior periods are measured at the amount expected to be recovered from or payable to the taxation authorities based on the tax rates that are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted rates of tax expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the date of enactment or substantive enactment. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates and interests in joint arrangements except where the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and interests in joint ventures are only recognized to the extent that the temporary difference will reverse in the foreseeable future and the Company judges that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill arising from a business combination or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting income.

Current and deferred taxes are recognized in profit or loss, except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

(f) Cash and cash equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Inventories

Small parts and other consumables, the majority of which are consumed by the Company in the provision of its goods and services, are valued at the lower of cost and net realizable value. Cost includes the purchase price, transportation costs and other costs to bring the inventories to their present location and condition. The costs of inventory items that are interchangeable are determined on an average cost basis. For inventory items that are not interchangeable, cost is assigned using specific identification of their individual costs. Previous write downs of inventories from cost to net realizable value can be fully or partially reversed if supported by economic circumstances. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Lease arrangements

At the inception of an arrangement entered into for the use of property, plant and equipment (PP&E), the Company determines whether such an arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of the specific asset and the arrangement conveys a right to use the asset. An arrangement conveys the right to use the asset if the right to control the use of the underlying asset is conveyed. Where it is determined that the arrangement contains a lease, the Company classifies the lease as either a finance or operating lease dependent on whether substantially all the risks or rewards of ownership of the asset have been transferred.

Where the Company is the lessor, finance income related to leases or arrangements accounted for as finance leases is recognized in a manner that produces a constant rate of return on the net investment in the lease. The net investment in the lease is the aggregate of net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in net income over the lease term.

Where the Company is the lessee, leases or other arrangements that transfer substantially all of the benefits and risks of ownership of property to the Company are classified as finance leases. Other arrangements that are determined to contain a lease are classified as operating leases. Rental payments under arrangements classified as operating leases are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(i) Investment in Capital Power

In these consolidated financial statements, Capital Power refers to Capital Power Corporation and its subsidiaries, including Capital Power L.P., except where otherwise noted or the context indicates otherwise.

The Company holds 18.8 million exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on a one-for-one basis) which represents 19% of Capital Power. Each exchangeable limited partnership unit is accompanied by a special voting share in Capital Power Corporation which entitles the holder to a vote at Capital Power Corporation shareholder meetings, subject to the restriction that such special voting shares must at all times represent not more than 49% of the votes attached to all Capital Power Corporation common shares and special voting shares, taken together. The special voting shares also entitle EPCOR, voting separately as a class, to nominate and elect a maximum of four out of the twelve directors of Capital Power Corporation. The number of Capital Power directors which EPCOR is entitled to nominate reduces, in stages, as EPCOR's percentage interest in Capital Power declines.

As a result, the key judgment in determining the appropriate accounting treatment for the investment in Capital Power is that EPCOR exercises significant influence over Capital Power but does not control Capital Power's operations as it does not have the power to direct the activities of Capital Power. Accordingly, EPCOR uses the equity method to account for its investment in Capital Power.

The investment in Capital Power was recognized initially at cost. The consolidated financial statements include the Company's equity share of the income and expenses and equity movements of Capital Power, after adjustments to align its accounting policies with those of the Company, from the date that significant influence exists until the date that significant influence ceases.

The Company applies judgment at each reporting date to determine whether there is objective evidence that the equity investment in Capital Power is impaired. An impairment will be recorded when the carrying amount of its investment in Capital Power exceeds its estimated recoverable amount. The recoverable amount is the higher of the investment's fair value less costs to sell the investment, and its value in use. The fair value of the investment is based on the market price of Capital Power Corporation shares (CPX) traded on the Toronto Stock Exchange. The value in use of an asset is the present value of estimated future cash flows, applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(j) Property, plant and equipment

PP&E are recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Cost includes contracted services, materials, direct labor, directly attributable overhead costs, borrowing costs on qualifying assets and decommissioning costs. Where parts of an item of PP&E have different estimated economic useful lives, they are accounted for as separate items (major components) of PP&E.

The cost of major inspections and maintenance is recognized in the carrying amount of the item if the asset recognition criteria are satisfied. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing are expensed as incurred.

Gains and losses on the disposal of PP&E are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal. The gains or losses are included within depreciation and amortization.

Depreciation of cost less residual value is charged on a straight-line basis over the estimated economic useful lives of items of each depreciable component of PP&E, from the date they are available for use, as this most closely reflects the expected usage of the assets. Land and construction work in progress are not depreciated. Estimating the appropriate economic useful lives of assets requires significant judgment and is generally based on estimates of life characteristics of similar assets. The estimated economic useful lives, methods of depreciation and residual values are reviewed annually with any changes adopted on a prospective basis.

The ranges of estimated economic useful lives used are as follows:

Water and wastewater treatment and distribution	3 – 90 years
Electricity transmission and distribution	4 – 65 years
Retail systems and equipment	4 – 20 years
Corporate information systems, equipment	2 – 20 years
Leasehold improvements	8 – 25 years

(k) Capitalized borrowing costs

The Company capitalizes interest during construction of a qualifying asset using the weighted average cost of debt incurred on the Company's external borrowings or specific borrowings used to finance qualifying assets. Qualifying assets are considered to be those that take a substantial period of time to construct.

(l) Intangible assets

Intangible assets with definite lives are stated at cost, net of accumulated amortization and impairment losses, if any. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair value.

Customer rights represent the costs to acquire the rights to provide electricity services to particular customer groups for a finite period of time. Customer rights are recorded at cost at the date of acquisition. A subsequent expenditure is capitalized only when it increases the future economic benefit in the specific asset to which it relates.

Other rights represent the costs to acquire the rights, for finite periods of time, to access electricity delivery corridors, to the supply of water, to provide sewage treatment and transportation services, to withdraw groundwater and to the supply of potable water for emergency and peak purposes.

The cost of intangible software includes the cost of license acquisitions, contracted services, materials, direct labor, along with directly attributable overhead costs and borrowing costs on qualifying assets.

Amortization of the cost of finite life intangible assets is recognized on a straight-line basis over the estimated economic useful lives of the assets, from the date they are available for use, as this most closely reflects the expected usage of the asset. Work in progress is not amortized. The estimated economic useful lives and methods of amortization are reviewed annually, with any changes adopted on a prospective basis.

The estimated economic useful lives for intangible assets with finite lives are as follows:

Customer rights	10 – 20 years
Software assets	2 – 20 years
Other rights	50 years
Water rights	100 years

Certificates of convenience and necessity (CCN) represent the costs to acquire the exclusive rights for the Company to serve within its specified geographic areas in the U.S. for an indefinite period of time. CCN are not amortized but are subject to review for impairment at the end of each reporting period.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are included within depreciation and amortization.

(m) Deferred revenue

Certain assets may be acquired or constructed using non-repayable government grants or contributions from developers or customers. Non-refundable contributions received towards construction or acquisition of an item of PP&E which are used to provide ongoing service to a customer are recorded as deferred revenue and are amortized on a straight line basis over the estimated economic useful lives of the assets to which they relate.

(n) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as a financing expense over the estimated time period until settlement of the obligation.

The Company recognizes a decommissioning provision in the period in which a legal or constructive obligation is incurred. A corresponding asset for the decommissioning cost is added to the carrying amount of the associated PP&E, and is depreciated over the estimated useful life of the asset.

The Company may receive contributions from customers, homebuilders, real estate developers, and others to fund construction necessary to extend service to new areas. Certain of these contributions may be refunded for a limited period of time as new customers begin to receive service or other contractual obligations are fulfilled. The portion of contributions which are estimated to be refunded in the future are recorded as provisions. The remaining contributions are classified as deferred revenue.

(o) Employee future benefits

The employees of the Company are either members of the Local Authorities Pension Plan (LAPP) or other defined contribution or defined benefit pension plans.

The Company recognizes the contribution payable to a defined contribution plan as an expense and a liability in the period during which the service is rendered.

The LAPP is a multi-employer defined benefit pension plan. The trustee of the plan is the Alberta President of Treasury Board and Minister of Finance and the plan is administered by a Board of Trustees. The Company and its employees make contributions to the plan at rates prescribed by the Board of Trustees to cover costs and an unfunded liability under the plan. The rates are based on a percentage of the pensionable salary. The most recent actuarial report of the plan discloses an unfunded liability. It is accounted for as a defined contribution plan as the LAPP is not able to provide information which reflects EPCOR's specific share of the defined benefit obligation or plan assets that would enable the Company to account for the plan as a defined benefit plan. Accordingly, the Company does not recognize its share of any plan surplus or deficit.

The Company maintains additional defined contribution and defined benefit pension plans to provide pension benefits to those employees who are not otherwise served by the LAPP, including employees of new or acquired operations. Employees participating in such defined benefit and contribution plans comprise less than 17% of total employees (2012 – 18%).

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability for short-term employee benefits is recognized for the amount expected to be paid if the Company has a legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(p) Derivative financial instruments

The Company uses various risk management techniques to reduce its exposure to movements in electricity prices and foreign currency exchange rates. These include the use of derivative financial instruments such as forward contracts or contracts-for-differences. Such instruments may be used to establish a fixed price for electricity or anticipated transactions denominated in a foreign currency. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

The Company sells electricity to customers under a Regulated Rate Tariff (RRT). As part of the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by an Energy Price Setting Plan (EPSP). Under the EPSP, the Company manages its exposure to fluctuating wholesale electricity spot prices by entering into financial electricity purchase contracts up to 120 days in advance of the month of consumption in order to economically hedge the price of electricity under a well-defined risk management process set out in the EPSP. Under these instruments, the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the Alberta Electric System Operator (AESO) market price and the fixed contract price for a specified volume of electricity for the forward months, all in accordance with the EPSP.

Foreign exchange forward contracts may be used by the Company to manage foreign exchange exposures, consisting mainly of U.S. dollar exposures, resulting from anticipated transactions denominated in foreign currencies.

All derivative financial instruments are recorded at fair value as derivative assets or derivative liabilities on the statement of financial position, to the extent they have not been settled, with all changes in the fair value of derivatives recorded in net income.

The fair value of derivative financial instruments reflects changes in the electricity prices and foreign exchange rates. Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data, such as forward prices, foreign exchange rates and discount rates for time value. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

(q) Non-derivative financial instruments

Financial assets are identified and classified as measured at fair value through profit or loss if classified as held for trading or designated as such upon initial recognition, loans and receivables, or available-for-sale financial assets. Financial liabilities are classified as measured at fair value through profit or loss or as other liabilities.

Financial assets and financial liabilities are presented on a net basis when the Company has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial instruments at fair value through profit or loss

The Company may designate financial instruments as measured at fair value through profit or loss when such financial instruments have a reliably determinable fair value and where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognizing gains and losses on them on a different basis.

Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Changes in fair value of financial assets measured at fair value through profit or loss are recognized in net income.

Loans and receivables

Cash and cash equivalents, trade and other receivables, and other financial assets are classified as loans and receivables.

The Company's loans and receivables are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost using the effective interest method less any impairment as described in note 3(r). The effective interest method calculates the amortized cost of a financial asset or liability and allocates the finance income or expense over the term of the financial asset or liability using an effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period when appropriate, to the net carrying amount of the financial asset or financial liability.

Available-for-sale financial assets

The Company's beneficial interest in the sinking fund with the City does not meet the criteria for classification in any of the previous categories and is classified as an available-for-sale financial asset and measured at fair value with changes in fair value reported in other comprehensive income until it is disposed of or becomes impaired, as described in note 3(r).

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in other categories. These assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value with unrealized gains and losses, other than impairment losses, recognized in other comprehensive income and presented within equity in the fair value reserve.

On derecognition of an available-for-sale financial asset, the cumulative gain or loss that was previously held in equity is transferred to net income.

Other liabilities

The Company's trade and other payables, loans and borrowings and other liabilities are recognized on the date at which the Company becomes a party to the contractual arrangement. Other liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

Other liabilities are recognized initially at fair value including debenture discounts and premiums, plus directly attributable transaction costs, such as issue expenses, if any. Subsequently, these liabilities are measured at amortized cost using the effective interest rate method.

(r) Impairment of financial assets

The Company's financial assets held as loans and receivables or available-for-sale assets are assessed for indicators of impairment at each reporting date. An impairment loss for financial assets is recorded when it is identified that there is objective evidence that one or more events has occurred, after the initial recognition of the asset, that has had a negative impact on the estimated future cash flows of the asset and that can be reliably estimated. The objective evidence for these types of assets is as follows:

- For listed and unlisted investments in equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.
- For all other financial assets, including finance lease receivables, objective evidence of impairment includes significant financial difficulty of the counterparty or default or delinquency in interest or principal payments.
- Trade receivables and other assets that are not assessed for impairment individually are assessed for impairment on a collective basis. Objective evidence of impairment includes the Company's past experience of collecting payments as well as observable changes in national or local economic conditions.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted within net income.

(s) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Non-financial assets include intangible assets, goodwill and PP&E. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or CGU). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(t) Foreign currency

Transactions denominated in currencies other than the Canadian dollar are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the end of the reporting period. Other non-monetary assets and liabilities are not re-translated unless they are carried at fair value. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting foreign exchange gains and losses are included in net income.

On consolidation, the assets and liabilities of foreign operations that have a functional currency other than Canadian dollars are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation gains and losses are deferred and included in the cumulative translation account in accumulated other comprehensive income. The functional currency of the Company's U.S. operations is the U.S. dollar.

(u) Investment in Heartland Transmission Project

In 2011, the Company entered into a joint arrangement to jointly own and control a double-circuit 500 kilovolt alternating current electricity transmission line (the Heartland Transmission Project) extending the 500 kilovolt electricity transmission system from the south Edmonton area to the Industrial Heartland area near the Fort Saskatchewan. The Company has rights to the assets and obligations for the liabilities of the Heartland Transmission Project. Accordingly, the Company classifies its interest in the Heartland Transmission Project as a joint operation. As a result, the consolidated financial statements include EPCOR's 50% share of the joint operation's assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis. Unrealized gains and losses on transactions between EPCOR and the joint operation are eliminated to the extent of EPCOR's interest in the joint operation and unrealized losses are eliminated only to the extent there is no evidence of impairment.

(v) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Transactions between segments are made under terms that approximate market value. The accounting policies of the segments are the same as those described in note 3 and other relevant notes and are measured in a manner consistent with that of the consolidated financial statements. All operating segments' results are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to management include items directly attributable to a segment as well as those that can be allocated on a reasonable and consistent basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire or construct PP&E and intangible assets other than goodwill.

The Canadian and U.S. water operating segments are aggregated as one reportable segment since both operating segments offer the same water and wastewater services, the processes to treat water and wastewater are similar in both operating segments, the customer bases for each operating segment are similar, both segments operate under similar rate regulations and the margins earned by both segments are similar.

(w) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations were issued by the IASB and the International Financial Reporting Interpretations Committee for application beginning on or after January 1, 2014. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 9 – Financial Instruments which replaces IAS 39 – Financial Instruments: Recognition and Measurement, eliminates the existing classification of financial assets and requires financial assets to be measured based on the business model in which they are held and the characteristics of their contractual cash flows. Gains and losses on re-measurement of financial assets at fair value will be recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. Changes in fair value attributable to changes in credit risk of financial liabilities measured under the fair value option will be recognized in other comprehensive income with the remainder of the change recognized in profit or loss unless an accounting mismatch in profit or loss occurs at which time the entire change in fair value will be recognized in profit or loss. Derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument must be measured at fair value. This standard is still under development. The effective date, initially set for annual periods beginning on or after January 1, 2015, has been removed by the IASB. A new date will be determined by the IASB when the entire IFRS 9 project is close to completion.

4. Use of judgments and estimates

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgments in the application of accounting policies, and estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

(a) Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in notes:

Note 3(i) – Investment in Capital Power
Note 3(v) – Segment reporting

(b) Estimates

Significant accounting estimates were made in determining the fair value of identifiable assets acquired and liabilities assumed in connection with the Water Arizona and Water New Mexico acquisition including discount rates, future income and cash flows, replacement costs, useful lives, residual values and weighted average cost of capital and the provision for refundable contributions. The fair values were determined using generally accepted methods, as described in note 34, and the assistance of a third party valuation expert.

The Company reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgment in making these estimates and assumptions. Adjustments to previous estimates, which may be material, will be recorded in the period they become known. Actual results may differ from these estimates.

Assumptions and uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include:

Revenues

By regulation, electricity wire service providers in Alberta have four months (2012 – four months) to submit the final electricity load settlement data after the month in which such electricity was consumed. The data and associated processes and systems used by the Company to estimate electricity revenues and costs, including unbilled consumption, are complex. The Company's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wire service providers and load settlement agents.

Fair value measurement

For certain accounting measures such as determining asset impairments, purchase price allocations for business combinations, recording financial assets and liabilities, recording certain non-financial assets and for certain disclosures, the Company is required to estimate the fair value of certain assets or obligations. Estimates of fair value may be based on readily determinable market values or on depreciable replacement cost or discounted cash flow

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techniques employing estimated future cash flows based on a number of assumptions and using an appropriate discount rate. Financial instruments that are not classified as loans and receivables are recorded at fair value, which may require the use of estimated future prices.

Deferred taxes

Significant estimation and judgment is required in determining the provision for income taxes. Recognition of deferred tax assets in respect of deductible temporary differences and unused tax losses and credits is based on management's estimation of future taxable profit against which the deductible temporary differences and unused tax losses and credits can be utilized. The actual utilization of these deductible temporary differences and unused tax losses and credits may vary materially from the amounts estimated.

5. Revenues and other income

	2013	2012
Revenue		
Electricity and water sales	$ 1,392	$ 1,445
Provision of services	491	456
Finance lease income	14	14
Construction revenues	32	16
	1,929	1,931
Other income		
Interest income on long-term receivable with Capital Power	23	25
Other	3	3
	26	28
	$ 1,955	$ 1,959

6. Expense analysis

	2013	2012
Included in staff costs and employee benefits expenses		
Post-employment defined contribution plan expense	$ 27	$ 25
Post-employment defined benefit plan expense (note 3(b))	4	1
Included in depreciation and amortization		
Depreciation of property, plant and equipment	123	114
Amortization of intangible assets	16	15
Loss on disposal of assets	6	3
Loss in decommissioning provision	-	1
	145	133
Included in other administrative expenses		
Operating lease expenses	13	13
Lease recoveries through sub-lease	(4)	(4)

7. Finance expenses

	2013	2012
Interest on loans and borrowings	$ 120	$ 123
Capitalized interest (note 17)	(13)	(7)
	$ 107	$ 116

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8. Impairment of investment in Capital Power

During the fourth quarter, it was determined that the carrying amount of the Company's investment in exchangeable limited partnership units of Capital Power L.P. exceeded the recoverable amount of the investment. The recoverable amount was based on an estimate of the investment's fair value less costs to sell. Fair value was derived from the price of Capital Power Corporation shares at the close of the Toronto Stock Exchange on December 31, 2013, less estimated underwriting fees and selling costs of 4% of the total fair value. As a result, the Company recorded a pre-tax impairment charge of $43 million ($43 million after tax, 2012 – $124 million pre-tax and after tax), allocated to the corporate business segment.

9. Income tax expense

	2013	2012
Current income tax expense	$ 7	$ 5
Deferred income tax expense		
Relating to origination and reversal of temporary differences	2	(40)
Recognition of previously unrecognized deferred tax assets	(3)	-
Write-down of deferred tax assets	9	33
	8	(7)
Total income tax expense (recovery)	$ 15	$ (2)

Income taxes differ from the amounts that would be computed by applying the federal and provincial income tax rates as follows:

	2013	2012
Income before taxation	$ 190	$ 17
Income tax at the statutory rate of 25.0% (2012 – 25.0%)	48	4
Increase (decrease) resulting from:		
Income exempt from income taxes at statutory rates	(46)	(36)
Unrecognized deferred tax assets	10	33
Effect of higher tax rate in the U.S.	1	2
Adjustments for income tax relating to prior periods	-	(5)
Other	2	-
Total income tax expense (recovery)	$ 15	$ (2)

10. Cash and cash equivalents

	2013	2012
Cash on deposit	$ 120	$ 127
Cash equivalents	10	105
	$ 130	$ 232

Restricted balances

Under certain agreements between the Company and the Natural Gas Exchange (NGX) for the purchase of electricity derivative financial instruments, the Company established separate bank accounts through which the settlement of the electricity derivative financial contracts are processed in conjunction with letters of credit and cash as collateral. As security for the payment and performance of its obligations, the Company assigned a first ranking security interest on the balance of these accounts to the NGX. The Company's use of this cash is restricted to these purposes. At December 31, 2013, $23 million (2012 – $14 million) was held in these bank accounts.

In accordance with the terms of a U.S. subsidiary's long-term debt agreement, the Company is required to maintain amounts on deposit in a trust account for payment of principal and interest. The funds in this account will be maintained until such time that the terms of the financing agreement are fully satisfied. The balance in this account at December 31, 2013 was $1 million (2012 – $1 million).

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

11. Trade and other receivables

	2013	2012
Trade receivables	$ 209	$ 222
Accrued revenues	117	115
Gross accounts receivable	326	337
Allowance for doubtful accounts	(4)	(4)
Net accounts receivable	322	333
Prepaid expenses	4	2
	326	335
Current portion of finance lease receivables (note 13)	4	3
Current portion of long-term receivables (note 14)	30	21
	$ 360	$ 359

Details of the aging of accounts receivable and analysis of the changes in the allowance for doubtful accounts are provided in note 30.

12. Inventories

During the year ended December 31, 2013, $23 million (2012 – $29 million) was expensed to other raw materials and operating charges.

No significant inventory write-downs were recognized in the years ended December 31, 2013 or 2012. No reversals of previous write-downs were recorded in the years ended December 31, 2013 or 2012.

At December 31, 2013 or 2012, no inventories were pledged as security for liabilities.

13. Leases

Finance lease receivables

In 2009, the Company acquired potable water and wastewater treatment plant assets for approximately $100 million and agreed to lease the assets back to the vendor for a 20-year term after which the vendor has the option to purchase the assets from the Company for a specified price. As part of the arrangement, the Company also agreed to construct additional water and wastewater treatment plant assets for the vendor and to operate and maintain the original assets acquired and leased back to the vendor and the additional constructed assets over the 20-year lease term.

Approximate future payments to the Company are as follows:

	Minimum lease receivable		Present value of minimum lease receivable	
	2013	2012	2013	2012
Within one year	$ 15	$ 15	$ 4	$ 3
Between one and five years	60	59	20	18
More than five years	160	174	102	107
Less: unearned finance income	(109)	(120)	-	-
	126	128	126	128
Less: current portion[1] (included in trade and other receivables) (note 11)	4	3	4	3
	$ 122	$ 125	$ 122	$ 125

[1] Net of unearned finance income

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Operating leases payable

The Company has entered into operating leases for premises.

In 2007, the Company entered into a long-term agreement to lease commercial space in a new office tower in Edmonton, Canada, primarily for its head office (head office lease). The agreement, which became effective in the fourth quarter of 2011, has an initial lease term of approximately 20 years, expiring on December 31, 2031, and provides for three successive five-year renewal options. The Company's annual lease commitments, net of annual payments to be paid to the Company by Capital Power and another company under the sub-leases receivable discussed below, under the terms of the lease are as follows:

	Minimum lease payable	
	2013	2012
January 1, 2014 through December 31, 2022	$ 6	$ 6
January 1, 2023 through December 31, 2023	7	7
January 1, 2024 through December 31, 2031	8	8

Approximate gross future payments under this and other operating leases payable for premises are as follows:

	Minimum lease payable	
	2013	2012
Within one year	$ 13	$ 14
Between one to five years	53	56
More than five years	156	180
	$ 222	$ 250

Operating lease receivable

The Company has sub-leased a portion of the space under its head office lease to Capital Power under the same terms and conditions as the Company's lease with its landlord.

Effective November 1, 2013, the Company sub-leased a portion of the space under its head office lease to a third party. The term of the sub-lease to the third party expires October 31, 2023 with two renewal options of four years each.

Approximate future payments to the Company under the sub-leases receivable are as follows:

	Minimum lease receivable	
	2013	2012
Within one year	$ 5	$ 4
Between one to five years	20	20
More than five years	58	63
	$ 83	$ 87

14. Other financial assets

	2013	2012
Long-term loans receivable from Capital Power	$ 340	$ 354
Loans and other long-term receivables	56	49
Other	1	1
	397	404
Less: current portion (included in trade and other receivables) (note 11)	30	21
	$ 367	$ 383

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Long-term loans receivable from Capital Power

On July 9, 2009, EPCOR received $896 million in long-term loans receivable from Capital Power as part of the consideration on the sale of the power generation business. These loans effectively mirror certain long-term debt obligations of EPCOR. The interest rates on the long-term loans receivable range from 5.8% to 9.0% and the remaining balance will be repaid at various dates out to June 30, 2018 as follows:

	2013	2012
Within one year	$ 8	$ 14
Between one to five years	332	166
More than five years	-	174
	$ 340	$ 354

15. Deferred tax assets / liabilities

Deferred tax assets are attributable to the following:

	2013	2012
Losses carried forward	$ 38	$ 49
Deferred income in partnership	6	7
Intangible assets	7	8
Deferred revenue	67	59
Decommissioning provisions and assets	14	10
Other items	5	4
Tax assets	137	137
Set off by tax liabilities	(84)	(85)
Net tax assets	$ 53	$ 52

Deferred tax liabilities are attributable to the following:

	2013	2012
Investment in partnership	$ 2	$ 8
Deferred income in partnership	1	3
Intangible assets	9	5
Goodwill	1	1
Property, plant and equipment	79	63
Decommissioning provisions and assets	-	6
Other items	4	3
Tax liabilities	96	89
Set off by tax assets	(84)	(85)
Net tax liabilities	$ 12	$ 4

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The changes in temporary differences during the years ended December 31, 2013 and 2012 were as follows:

	Balance, beginning of 2013	Recognized in net income	Recognized in other comprehensive income	Recognized through business combinations	Balance, end of 2013
Losses carried forward	$ 49	$ (11)	$ -	$ -	$ 38
Investment in partnership	(8)	3	3	-	(2)
Deferred income in partnership	4	1	-	-	5
Intangible assets	3	(5)	-	-	(2)
Goodwill	(1)	-	-	-	(1)
Property, plant and equipment	(63)	(16)	-	-	(79)
Deferred revenue	59	8	-	-	67
Decommissioning provisions and assets	4	10	-	-	14
Other items	1	2	(2)	-	1
	$ 48	$ (8)	$ 1	$ -	$ 41

	Balance, beginning of 2012	Recognized in net income	Recognized in other comprehensive income	Recognized through business combinations	Balance, end of 2012
Losses carried forward	$ 60	$ (11)	$ -	$ -	$ 49
Investment in partnership	(29)	24	(3)	-	(8)
Deferred income in partnership	-	4	-	-	4
Intangible assets	4	(1)	-	-	3
Goodwill	-	(1)	-	-	(1)
Property, plant and equipment	(7)	(3)	-	(53)	(63)
Loans and borrowings	(1)	-	1	-	-
Deferred revenue	6	-	-	53	59
Decommissioning provisions and assets	8	(4)	-	-	4
Other items	1	(1)	1	-	1
	$ 42	$ 7	$ (1)	$ -	$ 48

The Company has the following deductible temporary differences for which no deferred tax assets have been recognized:

	2013	2012
Non-capital losses	$ 210	$ 152
Capital losses	366	282
Other deductible temporary differences	5	105

The non-capital losses expire between the years 2026 and 2033.

Deferred tax assets have been recognized to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized. The Company has recognized deferred tax assets in the amount of $48 million (2012 – $47 million) the utilization of which is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. The recognition of these deferred tax assets is based on taxable income forecasts that incorporate existing circumstances that will result in positive taxable income against which non-capital loss carry-forwards can be utilized as well as management's intention to implement specific income tax planning strategies that will allow for the offset of remaining deductible temporary differences against future earnings of taxable entities within the consolidated group.

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16. Investment in Capital Power

At December 31, 2013, the Company owned 18.8 million (2012 – 28.4 million) exchangeable limited partnership units of Capital Power L.P. (exchangeable for common shares of Capital Power Corporation on a one-for-one basis), representing a 19% (2012 – 29%) economic interest in Capital Power. Capital Power builds, owns and operates power plants in North America and manages its related electricity and natural gas portfolios by undertaking trading and marketing activity. In October 2013, EPCOR exchanged 9,600,000 limited partnership units for an equal number of shares of Capital Power which were immediately sold at an offering price of $21.00 per share for aggregate gross proceeds of $202 million. The Company recorded a $16 million non-cash loss on the sale. The Company's economic interest in Capital Power decreases when it sells a portion of its investment in Capital Power and when Capital Power Corporation issues more common shares, diluting EPCOR's economic interest in Capital Power.

As described in note 3(i), EPCOR does not control Capital Power. The investment in Capital Power represents an investment subject to significant influence and is accounted for using the equity method from the effective date of the sale of the power generation business by EPCOR in early July 2009. The investment was initially recorded at the initial cost of the net assets of the power generation business retained by EPCOR in the form of its initial 72% interest in Capital Power. The investment subsequently increases by the Company's equity share of earnings of Capital Power and the Company's equity share of Capital Power's other comprehensive income, and decreases by the limited partnership distributions paid by Capital Power, the Company's equity share of Capital Power's other comprehensive loss, subsequent disposals of portions of the Company's investment and impairment adjustments.

The quoted market price of the common shares of Capital Power Corporation at December 31, 2013 was $21.30 per common share (December 31, 2012 – $22.73 per common share). Fair value of the Company's investment in Capital Power at December 31, 2013 was $401 million (2012 – $646 million).

The investment in Capital Power L.P. is detailed as follows:

	2013	2012
Balance, beginning of year	$ 621	$ 987
Equity share of net income	66	41
Equity share of other comprehensive income (loss)	(13)	14
Distributions declared	(33)	(39)
Sale of a portion of the investment	(213)	(258)
Impairment (note 8)	(43)	(124)
Balance, end of year	$ 385	$ 621

Summarized financial information of Capital Power L.P.:

	2013	2012
Statements of Financial Position		
Current assets	$ 429	$ 525
Non-current assets	4,808	4,638
Current liabilities	(687)	(363)
Non-current liabilities	(1,856)	(2,183)

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	2013	2012
Statements of Comprehensive Income		
Revenue and other income	$ 1,383	$ 1,291
Net income attributable to non-controlling interests	(11)	(10)
Net income attributable to partners	240	120
Total net income	229	110
Other comprehensive income all attributable to the partners of Capital Power L.P.	(47)	42
Total comprehensive income	$ 182	$ 152

Other information on EPCOR's investment in Capital Power L.P.:

	2013	2012
Weighted average percentage of ownership interest	27%	32%
Fair value adjustments at acquisition	$ 7	$ 7

17. Property, plant and equipment

	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2013	$ 168	$ 35	$ 2,642	$ 1,513	$ 7	$ 82	$4,447
Additions[1]	420	-	19	2	-	4	445
Additions through business combinations	-	-	10	-	-	-	10
Disposals and retirements	-	-	(10)	(10)	(1)	(3)	(24)
Transfers into service	(468)	13	112	342	1	-	-
Foreign currency valuation adjustments	1	-	39	-	-	-	40
Other movements	-	-	-	2	-	(2)	-
Balance, end of 2013	121	48	2,812	1,849	7	81	4,918
Accumulated depreciation							
Balance, beginning of 2013	-	-	553	438	3	36	1,030
Depreciation	-	-	67	46	1	9	123
Disposals and retirements	-	-	(5)	(6)	(1)	(1)	(13)
Foreign currency valuation adjustments	-	-	2	-	-	-	2
Other movements	-	-	-	1	-	(1)	-
Balance, end of 2013	-	-	617	479	3	43	1,142
Net book value, end of 2013	$ 121	$ 48	$ 2,195	$ 1,370	$ 4	$ 38	$3,776

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	Construction work in progress	Land	Water treatment & distribution	Electricity transmission & distribution	Retail systems & equipment	Corporate information systems & other	Total
Cost							
Balance, beginning of 2012	$ 96	$ 30	$ 2,015	$ 1,354	$ 14	$ 78	$3,587
Additions[1]	341	-	23	4	1	4	373
Additions through business combinations	8	6	501	-	-	-	515
Disposals and retirements	-	(1)	(8)	(6)	(8)	-	(23)
Transfers into service	(277)	-	116	161	-	-	-
Foreign currency valuation adjustments	-	-	(5)	-	-	-	(5)
Balance, end of 2012	168	35	2,642	1,513	7	82	4,447
Accumulated depreciation							
Balance, beginning of 2012	-	-	496	400	6	27	929
Depreciation	-	-	62	42	1	9	114
Disposals and retirements	-	-	(5)	(4)	(4)	-	(13)
Balance, end of 2012	-	-	553	438	3	36	1,030
Net book value, end of 2012	$ 168	$ 35	$ 2,089	$ 1,075	$ 4	$ 46	$3,417

1. Additions include non-cash contributed assets of $21 million (2012 – $23 million) (note 21).

Borrowing costs capitalized during the year ended December 31, 2013 were $13 million (2012 – $7 million) (note 7). The weighted average rates used to determine the borrowing costs eligible for capitalization ranged from 4.30% to 5.85% (2012 – 4.30% to 7.91%).

Restrictions on assets

Assets with a net book value of $45 million (2012 – $41 million) have been pledged as security against certain subsidiary bonds with a net carrying amount of $5 million (2012 – $5 million) (note 20).

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18. Intangible assets and goodwill

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2013	$ 36	$ 51	$ 38	$ 62	$ 163	$ 350
Additions through acquisition	-	-	10	-	9	19
Additions through business combination	1	-	-	-	-	1
Internally generated additions	-	-	-	-	6	6
Disposals and retirements	-	-	-	-	(4)	(4)
Change in construction work in progress	-	-	(1)	-	(1)	(2)
Foreign currency translation adjustments	2	-	2	5	-	9
Balance, end of 2013	39	51	49	67	173	379
Accumulated amortization						
Balance, beginning of 2013	-	30	2	-	96	128
Amortization	-	3	1	-	12	16
Disposals and retirements	-	-	-	-	(5)	(5)
Balance, end of 2013	-	33	3	-	103	139
Net book value, end of 2013	$ 39	$ 18	$ 46	$ 67	$ 70	$ 240

	Goodwill	Customer rights	Other rights	CCN	Software	Total
Cost						
Balance, beginning of 2012	$ 11	$ 51	$ 7	$ -	$ 162	$ 231
Additions through acquisition	-	-	-	-	10	10
Additions through business combination	25	-	31	63	-	119
Internally generated additions	-	-	-	-	5	5
Disposals and retirements	-	-	-	-	(14)	(14)
Foreign currency translation adjustments	-	-	-	(1)	-	(1)
Balance, end of 2012	36	51	38	62	163	350
Accumulated amortization						
Balance, beginning of 2012	-	27	1	-	99	127
Amortization	-	3	1	-	11	15
Disposals and retirements	-	-	-	-	(14)	(14)
Balance, end of 2012	-	30	2	-	96	128
Net book value, end of 2012	$ 36	$ 21	$ 36	$ 62	$ 67	$ 222

There are no security charges over the Company's intangible assets. Included in customer rights are the Company's customer rights to operate in the FortisAlberta service territory which expire on December 31, 2020.

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For purposes of impairment testing, CCN has been allocated to cash-generating units as follows:

		2013		2012
Cash generating unit:				
Water segment – Water Arizona	$	65	$	60
Water segment – Water New Mexico		2		2
	$	67	$	62

For purposes of impairment testing, goodwill acquired through business combinations has been allocated to cash-generating units as follows:

		2013		2012
Cash generating unit:				
Water segment – French Creek	$	1	$	1
Water segment – White Rock		1		1
Water segment – Chaparral		10		9
Water segment – Water Arizona		23		22
Water segment – Water New Mexico		4		3
	$	39	$	36

The most recent reviews of goodwill were performed in the fourth quarter for each cash generating unit. Management reviewed conditions since the last review was performed and determined that no circumstances occurred since then to require a revision to the assumptions used in the value-in-use calculations.

The recoverable amount of the cash generating units was determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a twenty year period. The projections were based on cash flow projections for the most recent long term plan, which covered periods up to five years, with the projections for the balance of the twenty-year period extrapolated using growth rates between 2.1% and 3.56% (2012 – between 2.1% and 2.6%) that are in line with the long-term average growth rate for the industry. The pre-tax discount rates applied to cash flow projections are as follows:

	2013	2012
Cash generating unit:		
Water segment – French Creek	7.69%	8.18%
Water segment – White Rock	8.49%	7.82%
Water segment – Chaparral	8.25%	7.58%
Water segment – Water Arizona	6.39%	6.97%
Water segment – Water New Mexico	5.95%	7.00%

Key assumptions used in value in use calculations

The future cash flows of the underlying businesses are relatively stable, since they relate to ongoing water supply in a rate regulated environment. As the cash generating units operate under a rate regulated environment, revenues are set by the regulators to cover operating costs and to earn a return on the rate base, which is set at the regulator's approved weighted average cost of capital for the underlying utility.

The calculation of value in use for the cash generating units is most sensitive to the following assumptions:

Discount rates

The discount rates used were estimated based on the weighted average cost of capital for the cash generating unit, which is the approved rate of return on capital allowed by the regulators. This rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash flows have not been adjusted.

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Timing of future rate increases

Revenue growth is forecast to continue at the same rate as operating costs. If future rate filings are delayed, rate increases and increased cash flows from revenues would be affected.

Sensitivity to changes in assumptions

Assumptions have been tested using reasonably possible alternative scenarios. For all scenarios considered, the recoverable value remained above the carrying amount of the cash generating unit.

19. Trade and other payables

	2013	2012
Trade payables	$ 138	$ 204
Accrued liabilities	54	40
Accrued interest	27	29
Due to related parties	10	13
Due to employees	16	15
Income tax payable	-	2
	$ 245	$ 303

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20. Loans and borrowings

	Effective interest rate	2013	2012
Obligation to the City, net of sinking fund			
Due in 1-5 years at 8.50% (2012 – 8.76%)	11.04%	$ 33	$ 4
Due in 6-10 years at 7.01% (2012 – 8.14%)	7.01%	19	58
Due in 11-15 years at 0.00% (2012 – 6.18%)	0.00%	-	1
Due in 16-25 years at 5.20% (2012 – 5.20%)	5.36%	82	88
		134	151
Public debentures			
At 6.75%, due in 2016	6.94%	130	130
At 5.80%, due in 2018	6.02%	400	400
At 6.80%, due in 2029	7.05%	150	150
At 5.65%, due in 2035	5.88%	200	200
At 6.65%, due in 2038	6.83%	200	200
At 5.75%, due in 2039	5.88%	200	200
At 4.55%, due in 2042	4.65%	300	300
		1,580	1,580
Private debt notes			
Bonds at 3.74%, due in 2021	3.80%	147	137
Bonds at 5.40%, due in 2022	5.55%	4	4
Bonds at 5.30%, due in 2022	5.44%	1	1
Bonds at 5.00%, due in 2041	5.08%	119	111
		271	253
		1,985	1,984
Other borrowings			
Deferred debt issue costs		(13)	(14)
		1,972	1,970
Less: current portion		15	14
		$ 1,957	$ 1,956

Obligation to the City

Debentures were issued, on behalf of the Company, pursuant to the City Bylaw authorization. The outstanding debentures are a direct, unconditional obligation of the City. The Company's obligation to the City matches the City's obligation pursuant to the debentures. The 8.50% debentures, maturing in the year 2018 and totaling $33 million, rank as subordinated debt. In the event of default on other interest obligations, the coupon and sinking fund payments on the subordinated debt may be deferred for a period of up to five years, not exceeding the maturity date. If still in default at the end of five years, all unpaid payments plus accrued interest thereon may be repaid by issuing common shares to the City. Except for the subordinated debt, the obligation to the City will rank at least equal to all future debt that may be issued by the Company.

The Company makes annual contributions into the sinking fund of the City pertaining to certain debenture issues. These payments constitute effective settlement of the respective debt as the sinking fund accumulates to satisfy the underlying debenture maturity. For any specific City debenture sinking fund requirements, the payment obligation ceases on maturity of the debenture. The sinking fund is measured at fair value and presented net of its related debenture.

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In 2009, the City transferred the Gold Bar wastewater treatment plant (Gold Bar) to EPCOR. Pursuant to the Gold Bar asset transfer agreement, EPCOR issued $112 million of long-term debt to the City representing EPCOR's proportionate share of the City's debt obligations in respect of Gold Bar assets. The remaining long-term debt bears interest at a weighted average rate of approximately 5.20%.

Public debentures

The public debentures are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The debentures are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the debenture.

Commercial paper and bankers' acceptances

In the normal course of business, the Company provides financial support and performance assurances including guarantees, letters of credit and surety bonds to third parties in respect of its subsidiaries. Bank lines of credit are unsecured and are available to the Company up to an amount of $946 million (2012 – $945 million), comprised of committed amounts of $900 million (2012 – $900 million) and uncommitted amounts of $46 million (2012 – $45 million) as described in note 30. Letters of credit totaling $100 million (2012 – $139 million) have been issued under these facilities to meet the credit requirements of electricity market participants and to meet conditions of certain service agreements. Amounts borrowed, and letters of credit issued, if any, under these facilities which are not payable within one year are classified as non-current loans and borrowings.

The Company's commercial paper program has an authorized capacity of $500 million (2012 – $500 million). The commercial paper issuance limit of $225 million was removed from the committed credit facilities effective January 31, 2012. The Company had no commercial paper outstanding at December 31, 2013 and 2012.

Private debt notes

The private debt notes due in 2021 and 2041 were issued in U.S. dollars, are unsecured direct obligations of the Company and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Company. The private debt notes are redeemable by the Company prior to maturity at the greater of par and a price specified under the terms of the private debt notes.

The private debt notes due in 2022 were issued in U.S. dollars and are secured direct obligations of the Company. Assets with a net book value of $45 million (2012 – $41 million) have been pledged as security (note 17). The notes are redeemable prior to maturity at a price specified under the terms of the private debt notes.

21. Deferred revenue

		2013		2012
Balance, beginning of year	$	762	$	602
Contributions received		51		45
Acquired on business combination		3		137
Revenue recognized		(20)		(20)
Foreign currency valuation adjustments		10		(2)
		806		762
Less: current portion		23		21
Balance, end of year	$	783	$	741

Contributions received include non-cash contributions of $21 million (2012 – $23 million) (note 17).

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22. Provisions

		2013		2012
Contributions from customers and developers	$	31	$	31
Decommissioning		-		1
Employee benefits (note 3(b))		78		80
		109		112
Less: current portion		29		29
	$	80	$	83

Contributions from customers and developers

		2013		2012
Balance, beginning of year	$	31	$	5
Contributions received		1		4
Acquired on business combination		4		25
Contributions refunded		(4)		(3)
Non-refundable contribution transferred		(1)		-
Balance, end of year	$	31	$	31

Decommissioning

		2013		2012
Balance, beginning of year	$	1	$	4
Utilized		(1)		(3)
Balance, end of year	$	-	$	1

Employee benefits

		2013		2012
Other short-term employee benefit obligation	$	21	$	18
Post-employment benefit obligation (note 3(b))		34		37
Other long-term employee benefit obligation		23		25
	$	78	$	80

Other long-term employee benefits

Other long-term employee benefits consist mainly of obligations for benefits provided to employees on long-term disability leaves.

Post-employment benefits

Total cash payments for pension benefits for the year ended December 31, 2013, consisting of cash contributed by the Company to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan, were $30 million (2012 – $27 million). Total contributions expected to be paid in 2014 to the LAPP, other defined contribution and benefit plans, and cash payments directly to beneficiaries for their unfunded pension plan are $34 million (2012 – $29 million).

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23. Derivatives

Derivative financial instruments are held for the purpose of electricity price risk management.

The derivative instruments assets and liabilities used for risk management purposes as described in note 30 consist of the following:

		2013		2012
Derivative instruments assets (liabilities)				
Fair value	$	(4)	$	(4)
Cash paid to counterparty		3		2
Net fair value	$	(1)	$	(2)
Net notional buys				
Megawatt hours of electricity (millions)		1.1		0.7
Range of contract terms (in years)		0.1		0.1

The fair value of electricity derivative financial instruments reflects changes in the forward electricity prices, net of cash payments to or from the counterparty. During the course of the contract, regular payments are made to or received from the counterparty to settle the fair value of the contracts.

Fair value is determined based on quoted exchange index prices by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as forward electricity prices. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Changes in fair value on electricity derivative financial instruments are recorded in electricity purchases.

24. Other liabilities

		2013		2012
Gold Bar transfer fee payable	$	7	$	17
Customer deposits		21		20
Leasehold inducements		12		12
		40		49
Less: current portion		28		31
	$	12	$	18

25. Share capital

Authorized shares

Unlimited number of voting common shares without nominal or par value.

Issued shares

Three common shares to the City.

26. Accumulated other comprehensive income

Cash flow hedges

This comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred prior to the disposal of the power generation business in 2009. On any disposition of the Company's investment in Capital Power, the Company will recognize a portion of these losses in net income in proportion to the remaining interest in Capital Power sold.

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Available-for-sale financial assets

This comprises the cumulative net change in the fair value of the Company's beneficial interest in the sinking fund, until the investment is derecognized or impaired.

Cumulative translation accounts

The cumulative translation accounts for foreign operations represent the cumulative portion of gains and losses on retranslation of foreign operations that have a functional currency other than Canadian dollars. The cumulative deferred gain or loss on the foreign operation is reclassified to income or loss only on disposal of the foreign operation.

Employee benefits account

The employee benefits account represents the cumulative impact of actuarial gains and losses, and return on plan assets excluding interest income from Company's defined benefit pension plans.

Investment in Capital Power

The investment in Capital Power comprises the Company's equity share in other comprehensive income and loss of Capital Power.

27. Change in non-cash working capital

	2013	2012
Trade receivables (note 11)	$ 11	$ (1)
Prepaid expenses (note 11)	(2)	1
Income tax recoverable	-	5
Inventories	(1)	(1)
Finance lease receivables (note 13)	2	2
Other financial assets (note 14)	7	27
Trade and other payables (note 19)	(58)	39
	$ (41)	$ 72

	2013	2012
Included in specific items on statements of cash flows:		
Finance expenses	$ (1)	$ 1
Income tax expense	-	(6)
Distributions from Capital Power	3	3
Acquisition of Water Arizona and Water New Mexico	-	(5)
	2	(7)
Change in working capital resulting from a change in current portion of long-term receivable	16	25
Operating activities	(66)	75
Investing activities	7	(21)
	$ (41)	$ 72

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28. Related party balances and transactions

Compensation of key management personnel

	2013	2012
Short-term employee benefits	$ 4	$ 4
Post-employment benefits	2	1
Other long-term benefits	4	2
Termination benefits	2	-
	$ 12	$ 7

The Company provides utility services to key management personnel as it is the sole provider of certain services. Such services are provided in the normal course of operations and are based on normal commercial rates, as approved by regulation.

Other related party transactions

The Company is 100% owned by the City. The Company provides maintenance, repair and construction services, and customer billing services to the City, and purchases printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements. Sales between the Company and the City are in the normal course of operations, and are generally based on normal commercial rates, or as agreed to by the parties.

Transactions between EPCOR and its subsidiary companies are eliminated on consolidation.

The following summarizes the Company's related party transactions with the City:

	2013	2012
Consolidated Statements of Comprehensive Income		
Revenues (a)	$ 83	$ 97
Other raw materials and operating charges (b)	14	15
Franchise fees and property taxes (c)	84	79
Finance expense (d)	13	17

(a) Included within revenues are electricity and water sales of $3 million (2012 – $3 million), service revenue including the provision of maintenance, repair and construction services of $73 million (2012 – $86 million), and customer billing services of $7 million (2012 – $8 million).

(b) Includes certain costs of printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements.

(c) Comprised of franchise fees of $54 million (2012 – $50 million) at 0.71 cents per kilowatt hour of electric distribution capacity (2012 – 0.66 cents per kilowatt hour), franchise fees of $17 million at 8% (2012 – $16 million at 8%) of qualifying revenues of water services and Gold Bar, and property taxes of $13 million (2012 – $13 million) on properties owned within the City municipal boundaries.

(d) Comprised of interest expense on the obligation to the City at interest rates ranging from 5.20% to 8.50% (2012 – 5.20% to 9.00%).

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The following summarizes the Company's related party balances with the City:

		2013		2012
Consolidated Statements of Financial Position				
Trade and other receivables	$	42	$	30
Property, plant and equipment (e)		3		2
Trade and other payables (f)		8		11
Loans and borrowings (note 20)		134		151
Deferred revenue (g)		25		26
Other liabilities (h) (note 24)		7		17
Equity attributable to the Owner of the Company		24		24

(e) Costs of capital construction for water distribution mains and infrastructure.

(f) Includes $2 million (2012 – $2 million) for drainage and construction services provided by the City.

(g) Capital contributions received for capital projects and rebates relating to maintenance, repair and construction services.

(h) Relates to a transfer fee payable to the City for Gold Bar of which $6 million (2012 – $10 million) is the current portion and $1 million (2012 – $7 million) is the non-current portion.

The Company has a 19% (2012 – 29%) economic interest in Capital Power. The Company provides electricity distribution and transmission services to Capital Power. Transactions are in the normal course of operations and are based on normal commercial rates, as approved by regulation.

The following summarizes the Company's related party transactions with Capital Power:

		2013		2012
Consolidated Statements of Comprehensive Income				
Revenues (i)	$	23	$	25
Other income (j)		23		25
Other raw materials and operating charges (k)		9		8
Other administrative expenses (l)		(6)		(6)
Equity share of income of Capital Power (note 16)		66		41
Equity share of other comprehensive income (loss) (note 16)		(13)		14

(i) Relates to electricity distribution and transmission services provided to Capital Power by EPCOR.

(j) Relates to financing revenue on the long-term receivable.

(k) Relates to utility bills and charges for provision of transitional services by Capital Power to EPCOR under services agreements.

(l) Relates to the provision of services by EPCOR to Capital Power under services agreements.

The following summarizes the Company's related party balances with Capital Power:

		2013		2012
Consolidated Statements of Financial Position				
Trade and other receivables (m)	$	14	$	18
Other financial assets (note 14)		340		354
Trade and other payables		2		2
Deferred revenue (n)		(6)		(7)

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

(m) Includes $6 million (2012 – $6 million) relating to the accrued interest on the long-term receivable from Capital Power (note 14).

(n) Contributions for the construction of aerial and underground transmission lines.

29. Financial instruments

Classification

The classification of the Company's financial instruments at December 31, 2013 and 2012 is summarized as follows:

	Classification				
	Fair value through profit or loss	Loans and receivables	Other liabilities	Available-for-sale	Fair value hierarchy
Measured at fair value					
Beneficial interest in sinking fund (note 20)				X	Level 1
Derivatives (note 23)	X				Level 1
Measured at amortized cost					
Cash and cash equivalents (note 10)		X			Level 2
Trade and other receivables (note 11)		X			Level 3
Other financial assets (note 14)		X			Level 2
Trade and other payables (note 19)			X		Level 3
Debentures and borrowings (note 20)			X		Level 2
Customer deposits (note 24)			X		Level 3
Gold Bar transfer fee payable (note 24)			X		Level 3

Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables, current portion of other financial assets, trade and other payables and certain other liabilities (including customer deposits and Gold Bar transfer fee payable) approximate their fair values due to the short-term nature of these financial instruments.

The carrying amounts and fair values of the Company's remaining financial assets and liabilities are as follows:

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current portion of other financial assets (note 14)	$ 367	$ 402	$ 383	$ 426
Loans and borrowings (note 20)				
Debentures and borrowings	2,039	2,238	2,128	2,561
Beneficial interest in sinking fund	(67)	(67)	(158)	(158)
Derivatives (note 23)	(1)	(1)	(2)	(2)

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using a fair value hierarchy. A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities. A Level 2 valuation is based upon inputs other than quoted prices included in Level 1 that are observable for the instruments either directly or indirectly. A Level 3 valuation for the assets and liabilities are not based on observable market data.

Loans and other long-term receivables

The fair value of the Company's unsecured long-term receivable from Capital Power is based on a current yield for the Company's receivable at December 31, 2013 and December 31, 2012. This yield is based on an estimated credit spread for Capital Power over the yields of long-term Government of Canada bonds that have similar maturities to the Company's receivable. The estimated credit spread is based on Capital Power's indicative spread as published by independent financial institutions.

The fair values of the Company's other long-term loans and receivables are based on the estimated interest rates implicit in comparable loan arrangements plus an estimated credit spread based on the counterparty risks at December 31, 2013 and December 31, 2012.

Loans and borrowings

The fair value of the Company's long-term loans and borrowings is based on determining a current yield for the Company's debt at December 31, 2013 and December 31, 2012. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada bonds for Canadian dollar loans and U.S. Treasury bonds for U.S. dollar loans that have similar maturities to the Company's debt. The estimated credit spread is based on the Company's indicative spread as published by independent financial institutions. The Company's long-term loans and borrowings (including the current portion) include City debentures which are offset by payments made by the Company into the sinking fund. The Company's beneficial interest in the sinking fund is a related party balance and has been recorded at fair value as it has been classified as an available-for-sale financial asset. The fair value of the beneficial interest in the sinking fund is based on quoted market values as determined by the City at or near the reporting date.

Derivatives

Fair value is determined based on exchange index prices in active markets. Fair value amounts reflect management's best estimates using external readily observable market data such as forward electricity prices. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

30. Financial risk management

Overview

The Company is exposed to a number of different financial risks, arising from business activities and its use of financial instruments, including market risk, credit risk, and liquidity risk. The Company's overall risk management process is designed to identify, assess, measure, manage, mitigate and report on business risk which includes, among other risks, financial risk. Enterprise risk management is overseen by the Board of Directors and senior management is responsible for fulfilling objectives, targets, and policies approved by the Board of Directors. EPCOR's Director of Risk, Assurance and Advisory Services provides the Board of Directors with an enterprise risk assessment quarterly. Risk management strategies, policies, and limits are designed to help ensure the risk exposures are managed within the Company's business objectives and risk tolerance. The Company's financial risk management objective is to protect and minimize volatility in earnings and cash flow.

Financial risk management including foreign exchange risk, interest rate risk, liquidity risk, and the associated credit risk management, is carried out by a centralized Treasury function in accordance with applicable policies. The Audit Committee of the Board of Directors, in its oversight role, performs regular and ad-hoc reviews of risk management controls and procedures to help ensure compliance.

Risks related to investment in Capital Power

Significant reliance is placed on the capacity of Capital Power to honor its back-to-back debt obligations with EPCOR. While EPCOR has a significant economic interest in Capital Power, EPCOR does not control Capital Power. Should Capital Power fail to satisfy these obligations, EPCOR's capacity to satisfy its debt obligations would be reduced and EPCOR would need to satisfy its own debt obligations by other means. The back-to-back debt obligations may be called by EPCOR for repayment as its ownership interest in Capital Power is below 20%. The repayment must occur within 180 days of notice if the principal balance outstanding is less than $200 million or 365 days of notice if the principal balance outstanding is equal to or greater than $200 million.

In addition, EPCOR relies on the cash flow from Capital Power partnership distributions as one of the Company's funding sources. The Capital Power distributions are paid at the discretion of the general partner of Capital Power L.P., which EPCOR does not control. There can be no assurance that Capital Power L.P. will continue to pay distributions at current levels as the distributions may be reduced or eliminated entirely in the future.

Underlying these risks are the specific business risks of Capital Power. EPCOR has no ability to manage these risks directly. EPCOR, by virtue of its holdings of exchangeable units in Capital Power L.P., has two (2012 – four) elected directors on the Board of Capital Power. This does give EPCOR some input into certain of the operating and strategic decisions made by Capital Power, including risk management. EPCOR can indirectly reduce its exposure to these risks by reducing its interest in Capital Power.

Capital Power has indemnified EPCOR for any losses arising from its inability to discharge its liabilities, including any amounts owing to EPCOR in relation to the long-term loans receivable.

Market risk

Market risk is the risk of loss that results from changes in market factors such as electricity prices, foreign currency exchange rates, interest rates, and equity prices. The level of market risk to which the Company is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Company's financial assets and liabilities held, non-trading physical asset and contract portfolios, and trading portfolios. The Company's financial exposure management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the foreign exchange risk and interest rate risk throughout the Company.

To manage the exposure related to changes in market risk, the Company may use various risk management techniques including derivative financial instruments such as forward contracts or contracts-for-differences. Such instruments may be used to establish a fixed price for an anticipated transaction denominated in a foreign currency or electricity.

The sensitivities provided in each of the following risk discussions disclose the effect of reasonably possible changes in relevant prices and rates on net income at the reporting date. The sensitivities are hypothetical and should not be considered to be predictive of future performance or indicative of earnings on these contracts. The Company's actual exposure to market risks is constantly changing as the Company's portfolio of debt, foreign currency and commodity contracts changes. Changes in fair values or cash flows based on market variable fluctuations cannot be extrapolated since the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company.

Electricity price and volume risk

EPCOR sells electricity to regulated rate option (RRO) customers under a RRT. All electricity for the RRO customers is purchased in real time from the AESO in the spot market. Under the RRT, the amount of electricity to be economically hedged, the hedging method and the electricity selling prices to be charged to these customers is determined by the EPSP. Under the EPSP, the Company uses financial contracts to economically hedge the RRO requirements and incorporate the price into customer rates for the applicable month. Fixed volumes of electricity are economically hedged using financial contracts-for-differences up to 120 days (2012 – 45 days) in advance of the month in which the electricity (load) is consumed by the RRO customers. The volume of electricity economically hedged in advance is based on load (usage) forecasts for the consumption month. When consumption varies from forecast consumption patterns, EPCOR is exposed to prevailing market prices when the volume of electricity economically hedged is short of actual load requirements or greater than the actual load requirements (long). Exposure to variances in electricity volume can be exacerbated by other events such as unexpected generation plant outages and unusual weather patterns. In January 2013, the Government of Alberta announced that the province will extend the purchasing window from 45 days to 120 days. As a result, EPCOR's EPSP was amended in August 2013 to extend the purchase window to 120 days.

Under contracts-for-differences the Company agrees to exchange, with a single creditworthy and adequately secured counterparty, the difference between the AESO electricity spot market price and the fixed contract price for a specified volume of electricity up to 120 days (45 days prior to August 2013) in advance of the consumption date, all in accordance with the EPSP. The contracts-for-differences are referenced to the AESO electricity spot price and any movement in the AESO price results in changes in the contract settlement amount. If the risks of the EPSP were to become untenable, EPCOR could test the market and potentially re-contract the procurement risk under an outsourcing arrangement at a certain cost that would likely increase procurement costs and reduce margins.

At December 31, 2013, holding all other variables constant, a $5 per megawatt hour increase / decrease in the forward electricity spot price would increase / decrease net income by approximately $6 million (2012 – $3 million). In preparing the sensitivity analysis, the Company compared average AESO electricity spot prices to the forward index price for the past 24 months. Based on historical fluctuations, the Company estimates that the fair value of the contracts could increase or decrease by up to $36 million (2012 – $19 million) with a corresponding change to net income.

Foreign exchange risk

The Company is exposed to foreign exchange risk on foreign currency denominated forecasted transactions, and firm commitments, and monetary assets and liabilities denominated in a foreign currency and on its net investments in foreign subsidiaries.

The Company's financial exposure management policy attempts to minimize economic and material transactional exposures arising from movements in the Canadian dollar relative to the U.S. dollar or other foreign currencies. The Company's direct exposure to foreign exchange risk arises on commitments denominated in U.S. dollars. The Company coordinates and manages foreign exchange risk centrally, by identifying opportunities for naturally occurring opposite movements and then dealing with any material residual foreign exchange risks.

The Company may use foreign currency forward contracts to fix the functional currency of its non-functional currency cash flows thereby reducing its anticipated foreign currency denominated transactional exposure. The Company looks to limit foreign currency exposures as a percentage of estimated future cash flows.

At December 31, 2013, holding all other variables constant, a 10% change in exchange rate would change the private debt balance by $26 million.

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents, and floating-rate short-term and long-term loans and obligations. The Company is also exposed to interest rate risk from the possibility that changes in the interest rates will affect future cash flows or the fair values of its financial instruments. At December 31, 2013 and December 31, 2012 all long-term debt was fixed rate. The Company may also use derivative financial instruments to manage interest rate risk. At December 31, 2013 and December 31, 2012, the Company did not hold any interest rate derivative financial instruments.

Credit risk

Credit risk is the possible financial loss associated with the inability of counterparties to satisfy their contractual obligations to the Company, including payment and performance. The Company's counterparty credit risk management policy is approved by the Board of Directors and the associated procedures and practices are designed to manage the credit risks associated with the various business activities throughout the Company. Credit and counterparty risk management procedures and practices generally include assessment of individual counterparty creditworthiness and establishment of exposure limits prior to entering into a transaction with the counterparty. Exposures and concentrations are subsequently monitored and are regularly reported to senior management. Creditworthiness continues to be evaluated after transactions have been initiated, at a minimum, on an annual basis. Credit risk includes the Capital Power back-to-back debt obligations with EPCOR as described above. To manage and mitigate credit risk, the Company employs various credit mitigation practices such as master netting agreements, pre-payment arrangements from retail customers, credit derivatives and other forms of credit enhancements including cash deposits, parent company guarantees, and bank letters of credit.

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Maximum credit risk exposure

The Company's maximum credit exposure is represented by the carrying amount of the following financial assets:

	2013	2012
Cash and cash equivalents[1] (note 10)	$ 130	$ 232
Trade and other receivables[2] (note 11)	322	333
Finance lease receivables (note 13)	126	128
Loans and other long-term receivables (note 14)	397	404
	$ 975	$ 1,097

[1] This table does not take into account collateral held. At December 31, 2013, the Company held cash deposits of $43 million (2012 – $34 million) as security for certain counterparty accounts receivable and derivative contracts. The Company is not permitted to sell or re-pledge this collateral in the absence of default of the counterparties providing the collateral.

[2] The Company's maximum exposures related to trade and other receivables by major credit concentration is comprised of $256 million (2012 – $269 million) related to rate regulated customer balances. At December 31, 2013, the Company held credit enhancements to mitigate credit risk on trade and other receivables in the form of letters of credit of $1 million (2012 – $1 million) and parental guarantees of $28 million (2012 – $23 million).

Credit quality and concentrations

The Company is exposed to credit risk on outstanding trade receivables associated with its water and electricity sales activities and agreements with the AESO and on electricity supply agreements with wholesale and retail customers. The Company is also exposed to credit risk from its cash and cash equivalents, derivative instruments and long-term financing arrangements receivable.

The credit quality of the Company's trade and other receivables, by major credit concentrations, and other financial assets at December 31, 2013 and 2012 are as follows:

	2013		2012	
	Investment grade or secured[1,2] %	Unrated %	Investment grade or secured[1,2] %	Unrated %
Trade and other receivables				
Rate regulated customers[3]	-	100%	-	100%
Distribution and Transmission customers	88%	12%	87%	13%
Water customers	46%	54%	29%	71%
Cash and cash equivalents	100%	-	100%	-
Loans and other long-term receivables	100%	-	100%	-

[1] Credit ratings are based on the Company's internal criteria and analyses, which take into account, among other factors, the investment grade ratings of external credit rating agencies when available.

[2] Certain trade receivables and other financial assets are considered to have low credit risk as they are either secured by the underlying assets, secured by other forms of credit enhancements, or the counterparties are local or provincial governments.

[3] Rate-regulated customer trade receivables include distribution and transmission, water sales, rate-regulated and default electricity supply receivables. Under the Electric Utilities Act (Alberta), the Company provides electricity supply in its service area to residential, agricultural and small commercial customers at regulated rates, and to those commercial and industrial customers who have not chosen a competitive offer and consume electricity under default supply arrangements.

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Rate-regulated customer credit risk

Credit risk exposure for residential and commercial customers under default electricity and regulated water supply rates is generally limited to amounts due from customers for electricity and water consumed but not yet paid for. The Company mitigates credit risk from counterparties under RRT electricity supply rates by performing credit checks and on higher risk customers, by taking pre-payments or cash deposits. For rate-regulated customers, regulations allow for the recovery of a percentage of unforecasted credit losses through a deferral account. The Company monitors credit risk for this portfolio at the gross exposure level.

Trade and other receivables and allowance for doubtful accounts

Trade and other receivables consist primarily of amounts due from retail customers including commercial customers, other retailers, government-owned or sponsored entities, regulated public utility distributors, and other counterparties. Commercial customer contracts provide for performance assurances including letters of credit, irrevocable guarantees and bonds. For other retail customers, represented by a diversified customer base, credit losses are generally low and the Company provides for an allowance for doubtful accounts on estimated credit losses.

The aging of trade and other receivables was:

December 31, 2013	Gross trade and other receivables	Allowance for doubtful accounts	Net trade and other receivables
Current[1]	$ 282	$ -	$ 282
Outstanding 31 to 60 days	19	-	19
Outstanding 61 to 90 days	9	2	7
Outstanding more than 90 days	16	2	14
	$ 326	$ 4	$ 322

December 31, 2012	Gross trade and other receivables	Allowance for doubtful accounts	Net trade and other receivables
Current[1]	$ 296	$ -	$ 296
Outstanding 31 to 60 days	29	-	29
Outstanding 61 to 90 days	7	2	5
Outstanding more than 90 days	5	2	3
	$ 337	$ 4	$ 333

[1] Current amounts represent trade and other receivables outstanding up to 30 days. Amounts outstanding for more than 30 days are considered past due.

Bad debt expense of $7 million (2012 – $9 million) recognized in the year relates to customer amounts that the Company determined would not be fully collectable. Allowances for doubtful accounts are determined by each business unit, within each operating segment, considering the unique factors of the business unit's trade and other receivables. Allowances and write-offs are determined by each business unit, either by applying specific risk factors to customer groups' aged balances in trade and other receivables or by reviewing material accounts on a case-by-case basis. Reductions in trade and other accounts receivable and the related allowance for doubtful accounts are recorded when the Company has determined that recovery is not possible.

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The changes in the allowance for doubtful accounts were as follows:

	2013	2012
Balance, beginning of year	$ 4	$ 4
Additional allowances created	6	8
Recovery of receivables	1	1
Receivables written off	(7)	(9)
Balance, end of year	$ 4	$ 4

At December 31, 2013, the Company held $21 million (2012 – $20 million) of customer deposits for the purpose of mitigating the credit risk associated with trade and other receivables from residential and business customers.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's liquidity is managed centrally by the Company's Treasury function. The Company manages liquidity risk through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and also by matching the maturity profiles of financial assets and liabilities to identify financing requirements. The financing requirements are addressed through a combination of committed and demand revolving credit facilities and financings in public or private debt capital markets.

The Company has revolving extendible credit facilities, which are used principally for the purpose of backing the Company's commercial paper program and providing letters of credit, as outlined below:

December 31, 2013	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2016	$ 400	$ -	$ 100	$ 300
Syndicated bank credit facility Tranche A	November 2016	250	-	-	250
Syndicated bank credit facility Tranche B	November 2018	250	-	-	250
Total committed		900	-	100	800
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Bank line of credit	November 2014	21	-	-	21
Total uncommitted		46	-	-	46
		$ 946	$ -	$ 100	$ 846

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December 31, 2012	Expiry	Total facilities	Banking commercial paper issued	Letters of credit and other facility draws	Net amounts available
Committed					
Syndicated bank credit facility[1]	November 2015	$ 400	$ -	$ 139	$ 261
Syndicated bank credit facility Tranche A	November 2015	250	-	-	250
Syndicated bank credit facility Tranche B	November 2017	250	-	-	250
Total committed		900	-	139	761
Uncommitted					
Bank line of credit	No expiry	25	-	-	25
Bank line of credit	November 2013	20	-	-	20
Total uncommitted		45	-	-	45
		$ 945	$ -	$ 139	$ 806

[1] Restricted to letters of credit.

The Company has credit ratings of BBB+ and A (low), assigned by Standard and Poor's and DBRS Limited, respectively. The extension feature of EPCOR's committed syndicated bank credit facilities give the Company the option each year to re-price and extend the terms of the facilities by one or more years subject to agreement with the lending syndicate.

The Company has a Canadian shelf prospectus under which it may raise up to $1 billion of debt with maturities of not less than one year. At December 31, 2013, the available amount remaining under this shelf prospectus was $1 billion. The shelf prospectus expires in December 2015.

The undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, are as follows:

At December 31, 2013:

	2014	2015	2016	2017	2018	2019 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 218	$ -	$ -	$ -	$ -	$ -	$ 218
Loans and borrowings	15	15	145	15	413	1,382	1,985
Interest payments on loans and borrowings	118	117	112	108	96	1,294	1,845
Other liabilities	22	1	1	1	1	7	33
Gold Bar transfer fee liability[2]	6	1	-	-	-	-	7
	$ 379	$ 134	$ 258	$ 124	$ 510	$ 2,683	$ 4,088

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At December 31, 2012:

	2013	2014	2015	2016	2017	2018 and thereafter	Total contractual cash flows
Trade and other payables[1]	$ 274	$ -	$ -	$ -	$ -	$ -	$ 274
Loans and borrowings	18	14	15	145	15	1,777	1,984
Interest payments on loans and borrowings	122	117	117	112	107	1,379	1,954
Other liabilities	21	1	1	1	1	7	32
Gold Bar transfer fee liability[2]	10	6	1	-	-	-	17
	$ 445	$ 138	$ 134	$ 258	$ 123	$ 3,163	$ 4,261

[1] Excluding accrued interest on loans and borrowings of $27 million (2012 – $29 million).

[2] In 2009, the City transferred Gold Bar to EPCOR. In exchange for the net assets transferred, EPCOR agreed to pay a total transfer fee of $75 million, of which $7 million (2012 – $17 million) remains payable.

The Company's undiscounted cash flow requirements and contractual maturities in the next twelve months of $379 million (2012 – $445 million) are expected to be funded from operating cash flows, partnership distributions from Capital Power L.P., interest and principal payments related to the unsecured long-term receivable from Capital Power, commercial paper issuance and the Company's credit facilities. In addition, the Company may issue medium-term notes or sell a portion of the investment in Capital Power or other assets to fund its obligations or investments. The key factors in determining whether to issue medium-term notes or sell a portion of the investment in Capital Power are the expected interest rates for medium-term notes, the estimated demand by investors for EPCOR debt, the state of debt capital markets generally, the quoted price of Capital Power common shares, potential limits posed by the underlying agreements with Capital Power, the estimated demand by equity investors, and the state of equity capital markets.

The Company has long-term loans receivable from Capital Power which effectively match certain of the long-term loans and borrowings above. The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power at December 31, 2013:

	2014	2015	2016	2017	2018	2019 and thereafter	Total
Long-term loans receivable from Capital Power (note 14)	$ 8	$ 9	$ 139	$ 10	$ 174	$ -	$ 340
Interest payments on loans receivable from Capital Power	22	21	16	11	6	-	76
	$ 30	$ 30	$ 155	$ 21	$ 180	$ -	$ 416

The following are the undiscounted maturities of the long-term loans receivable and interest payments from Capital Power at December 31, 2012:

	2013	2014	2015	2016	2017	2018 and thereafter	Total
Long-term loans receivable from Capital Power (note 14)	$ 14	$ 8	$ 9	$ 139	$ 10	$ 174	$ 354
Interest payments on loans receivable from Capital Power	23	22	21	16	11	6	99
	$ 37	$ 30	$ 30	$ 155	$ 21	$ 180	$ 453

(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

The payments from Capital Power fund a portion of the Company's contractual debt obligations. Should Capital Power be unable to make its scheduled payments to EPCOR or reduces its distributions, then the Company will rely more heavily on its credit facilities and its ability to issue medium-term notes or potentially sell a portion of its interest in Capital Power to fund its obligations.

31. Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, pay dividends to its shareholder in accordance with the Company's dividend policy, maintain a suitable credit rating, and to facilitate the acquisition or development of projects in Canada and the U.S. consistent with the Company's growth strategy. The Company manages its capital structure in a manner consistent with the risk characteristics of the underlying assets. This overall objective and policy for managing capital remained unchanged in the current year from the prior year.

The Company manages capital through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and reviewing monthly financial results. The Company matches the maturity profiles of financial assets and liabilities to identify financing requirements to help ensure an adequate amount of liquidity.

The Company considers its capital structure to consist of long-term and short-term debt net of cash and cash equivalents and shareholder's equity. The following table represents the Company's total capital:

	2013	2012
Loans and borrowing (including current portion) (note 20)	$ 1,972	$ 1,970
Cash and cash equivalents	(130)	(232)
Net debt	1,842	1,738
Total equity (note 3(b))	2,262	2,222
Total capital	$ 4,104	$ 3,960

EPCOR has the following externally imposed financial covenants on its capital as a result of its credit facilities and outstanding debt:

- Maintenance of modified consolidated net tangible assets to consolidated net tangible assets ratio, as defined in the debt agreements, of not less than 85%;
- Maintenance of consolidated senior debt to consolidated capitalization ratio, as defined in the debt agreements, of not more than 70%;
- Maintenance of interest coverage ratio, as defined in the debt agreements, of not less than 1.75 to 1.00 if the Company's credit rating falls below investment grade; and
- Limitation on external debt issued by subsidiaries.

These capital restrictions are defined in accordance with the respective agreements. For the year ended December 31, 2013, the Company complied with all externally imposed capital restrictions.

32. Commitments and contingencies

The following are EPCOR's commitments and contingencies not otherwise disclosed in these financial statements:

(a) The Company has committed to various distribution and transmission projects through 2014, as directed by the AESO. The estimated remaining project costs are $9 million (2012 – $13 million). The Company has incurred costs to date of $4 million (2012 – $2 million).

(b) The Company has a remaining capital commitment in the Heartland Transmission Project of $9 million (2012 - $105 million).

(c) Water Arizona maintains agreements with the Central Arizona Water Conservation District for the purchase and transportation of water. These agreements are for terms of 100 years expiring at the end of 2107. Under the terms of these agreements, certain minimum payments of approximately $0.5 million are due each year in order to maintain the agreements until they expire. Additional payment obligations related to orders placed in the fall of each year for water to be purchased and transported the following year, commit the Company only for the amount of the water ordered. The obligations are $8 million in total from 2014 through 2018 (2013 through 2017 - $8 million) and $2 million in aggregate thereafter (2018 and thereafter - $3 million).

(d) The Company has entered into an agreement for billing and customer care services for Water Arizona and Water New Mexico. The contract term is ten years, expiring on August 31, 2021. The payments are estimated to be $20 million in total from 2014 through 2018 (2013 through 2017 – $21 million) and $8 million in aggregate thereafter (2018 and thereafter – $10 million).

(e) The Company and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate contingent liability of the Company arising from these claims is immaterial and therefore no provision has been made.

33. Segment disclosures

The Company operates in the following reportable business segments, which follow the organization, management and reporting structure within the Company.

Water Services

Water Services is primarily involved in the treatment, distribution and sale of water and the treatment of wastewater within Edmonton and other communities throughout Western Canada and the Southwestern U.S.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within Edmonton. This segment also provides commercial services including the maintenance and repair of the City-owned street lighting and transportation support facilities.

Energy Services

Energy Services is primarily involved in the provision of regulated tariff electricity service and default supply electricity services to residential, small commercial and agricultural customers in Alberta.

Corporate

Corporate reflects the costs of the Company's net unallocated corporate office expenses and financing revenues on the long-term receivable from Capital Power. Corporate holds the investment in Capital Power.

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Lines of business information

Year ended December 31, 2013	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 520	$ 387	$ 1,022	$ 26	$ -	$ 1,955
Inter-segment revenue	-	152	11	-	(163)	-
Total revenues and other income	520	539	1,033	26	(163)	1,955
Electricity purchases and system access fees	-	154	937	-	(141)	950
Other raw materials and operating charges	118	36	-	1	(11)	144
Staff costs and employee benefits expenses	118	101	23	38	-	280
Depreciation and amortization	72	51	7	14	1	145
Franchise fees and property taxes	23	66	-	-	-	89
Other administrative expenses	23	13	22	12	(12)	58
Foreign exchange gain	-	-	-	(1)	-	(1)
Operating expenses	354	421	989	64	(163)	1,665
Operating income (loss) before corporate charges	166	118	44	(38)	-	290
Corporate (charges) income	(26)	(28)	(12)	66	-	-
Operating income	140	90	32	28	-	290
Finance expenses	(78)	(31)	(8)	10	-	(107)
Equity share of income of Capital Power	-	-	-	66	-	66
Loss on sale of a portion of investment in Capital Power	-	-	-	(16)	-	(16)
Impairment of investment in Capital Power	-	-	-	(43)	-	(43)
Income tax expense	(5)	-	(6)	(4)	-	(15)
Net income	$ 57	$ 59	$ 18	$ 41	$ -	$ 175
Total assets	$ 2,618	$ 1,674	$ 310	$ 845	$ -	$ 5,447
Investment in Capital Power	-	-	-	385	-	385
Total liabilities	2,022	914	227	22	-	3,185
Capital additions	153	276	5	10	-	444

EPCOR UTILITIES INC.

Notes to the Consolidated Financial Statements
(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Years ended December 31, 2013 and 2012

Year ended December 31, 2012	Water Services	Distribution & Transmission	Energy Services	Corporate	Intersegment Elimination	Consolidated
External revenues and other income	$ 465	$ 352	$ 1,114	$ 28	$ -	$ 1,959
Inter-segment revenue	-	164	11	-	(175)	-
Total revenues and other income	465	516	1,125	28	(175)	1,959
Electricity purchases and system access fees	-	134	1,024	-	(152)	1,006
Other raw materials and operating charges	108	45	1	1	(10)	145
Staff costs and employee benefits expenses	111	92	22	55	-	280
Depreciation and amortization	65	46	8	14	-	133
Franchise fees and property taxes	21	63	-	-	-	84
Other administrative expenses	20	13	26	11	(13)	57
Foreign exchange loss	-	-	-	2	-	2
Operating expenses	325	393	1,081	83	(175)	1,707
Operating income (loss) before corporate charges	140	123	44	(55)	-	252
Corporate (charges) income	(33)	(39)	(15)	87	-	-
Operating income	107	84	29	32	-	252
Finance expenses	(71)	(31)	(9)	(5)	-	(116)
Equity share of income of Capital Power	-	-	-	41	-	41
Loss on sale of a portion of investment in Capital Power	-	-	-	(36)	-	(36)
Impairment of investment in Capital Power	-	-	-	(124)	-	(124)
Income tax recovery (expense)	(4)	-	(5)	11	-	2
Net income (loss)	$ 32	$ 53	$ 15	$ (81)	$ -	$ 19
Total assets [1]	$ 2,376	$ 1,413	$ 323	$ 1,330	$ (18)	$ 5,424
Investment in Capital Power	-	-	-	621	-	621
Total liabilities [1]	1,886	793	273	268	(18)	3,202
Capital additions	126	222	5	7	-	360

[1] $332 million in total liabilities have been reclassified to current asset to conform with the presentation of the current year.

EPCOR UTILITIES INC.

Notes to the Consolidated Financial Statements
(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Years ended December 31, 2013 and 2012

Geographic information

	Year ended December 31, 2013				Year ended December 31, 2012			
	Canada	U.S.	Inter-segment eliminations	Total	Canada	U.S.	Inter-segment eliminations	Total
External revenues and other income	$ 1,808	$ 147	$ -	$ 1,955	$ 1,833	$ 126	$ -	$1,959
Inter-segment revenues	163	-	(163)	-	175	-	(175)	-
Total revenues and other income	$ 1,971	$ 147	$ (163)	$ 1,955	$ 2,008	$ 126	$ (175)	$1,959

Non-current assets

	December 31, 2013	December 31, 2012
Canada	$ 4,190	$ 4,109
U.S.	753	711
	$ 4,943	$ 4,820

34. Acquisition of Water Arizona and Water New Mexico

On January 31, 2012, the Company completed the acquisition of 100% of the stock of Arizona-American Water Company (renamed EPCOR Water Arizona Inc.) and New Mexico-American Water Company, Inc. (renamed EPCOR Water New Mexico Inc.) from American Water Works Company, Inc. for cash consideration of $460 million (US$459 million) and the assumption of $9 million (US$9 million) in long-term debt. Water Arizona and Water New Mexico are public utility companies engaged principally in the purchase, treatment, distribution and sale of water to approximately 126,000 customers in ten water utility districts and wastewater treatment and related services to approximately 52,000 customers in five wastewater utility districts in the states of Arizona and New Mexico. This investment provides the Company with a strong hub in the Southwestern U.S., consistent with the Company's strategic plan for expansion.

Significant judgment was applied in the determination of the fair value of the assets acquired and liabilities assumed, the allocation of the purchase price to those assets and liabilities, and the determination of goodwill. The fair value assessment was supported by a third party valuation. The valuation employed three standard valuation methodologies. Discounted cash flows were used to arrive at enterprise values, using a discount rate of 7% based on prevailing interest rates and the capital structures of the acquired businesses. Other key assumptions were future growth rates and asset terminal values. Depreciated replacement cost techniques were used to estimate the fair values of the non-financial assets acquired. Market comparators were used to determine other financial assets and liabilities. The allocation of the purchase price was determined from the valuation, and where necessary by allocation to assets and liabilities based on relative fair values. Goodwill was estimated based on the applicable incremental benefits of the acquisition, including expected growth in the underlying rate base and the assembled workforce that came with the acquired companies. A 1% increase in the discount rate would have resulted in a reduction of the estimated fair value and increase in the amount of goodwill of $69 million.

EPCOR UTILITIES INC.
Notes to the Consolidated Financial Statements
(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

Years ended December 31, 2013 and 2012

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values in Canadian dollars as follows:

Trade and other receivables	$	11
Intangible assets		94
Goodwill		25
Property, plant and equipment		515
Trade and other payables		(5)
Loans and borrowings		(9)
Deferred revenue		(137)
Provisions (note 3(n))		(33)
Other non-current liabilities		(1)
	$	460

The carrying amount of the acquired trade and other receivables and payables approximate the fair value due to their short-term nature.

The $25 million of goodwill arising from the acquisition consisted of the value of an assembled skilled workforce, the expectation of future cash flows and rate recoveries, and the benefits to the Company's growth strategies and future synergies which may result from the Company's expanded operations in the U.S.

The loans and borrowings were repaid in February 2012.

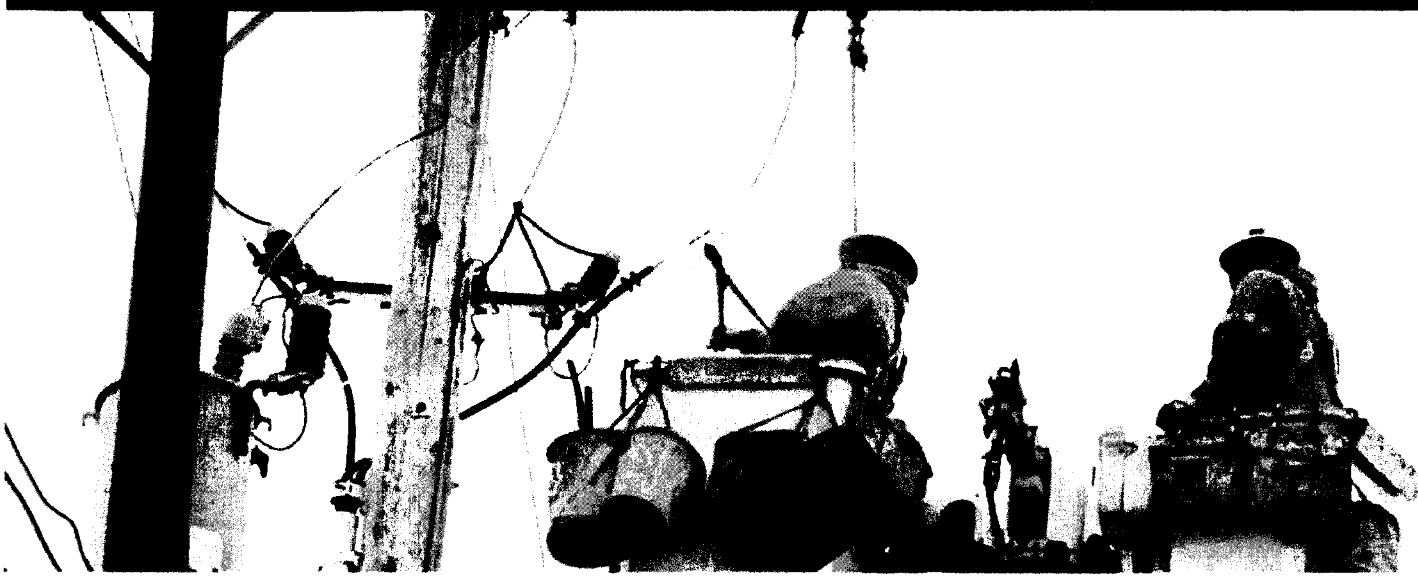
The current amount of provisions for estimated refundable contributions is $3 million.

In October 2012, under the terms of the agreement to acquire Water Arizona and Water New Mexico, the Company exercised its option to file jointly with the vendor a U.S. Internal Revenue Service tax election to treat the acquisition as an asset purchase for income tax purposes. Among other things, this election permits the goodwill to be deductible for income tax purposes.

Revenues of $117 million and net income of $24 million contributed by Water Arizona and Water New Mexico from the date of acquisition to December 31, 2012 are included in the consolidated income statement. The consolidated income statement would have included estimated revenue of $124 million and estimated net income of $24 million to December 31, 2012 had the Company owned the Water Arizona and Water New Mexico operations from the beginning of 2012.

EPCOR Utilities Inc.

Investor Presentation
March 18, 2014



Guy Bridgeman
Senior Vice President and Chief Financial Officer

Duane Sommerfeld
Treasurer

Bryan Kornfeld
Senior Manager, Corporate Finance

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Forward Looking Information

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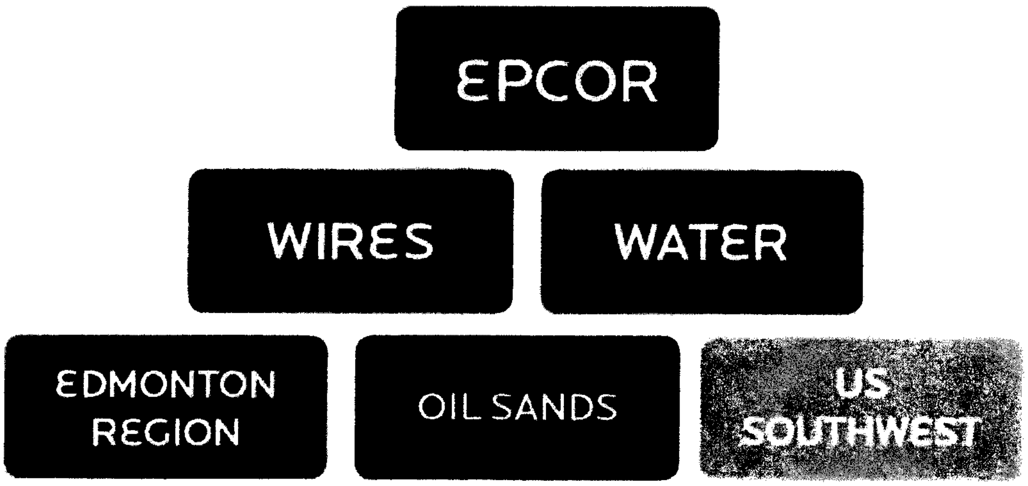
Table of Contents

EPCOR Overview

- Headquartered in Edmonton, predecessor company began operating in 1891. Currently employ approximately 2,700 employees.
- Stand alone corporation as of Jan 1, 1996; sole shareholder is the City of Edmonton (CoE).
- Fully independent Board of Directors, EPCOR operates at arms length from the Shareholder with a mandate to invest and operate on commercial terms.
- Essentially a narrowly-held private company.
- Ownership stake of 19% in Capital Power; reduced from 72% in mid-2009 with intentions to sell all or substantially all of the remaining interest over time depending on requirements and market conditions.
- Public issuer of debt only. As a result, classified as a Venture Issuer.
- Stand alone credit rating is BBB+ positive (S&P) and A (low) stable (DBRS) – no credit support from the City.
- Further information on SEDAR.

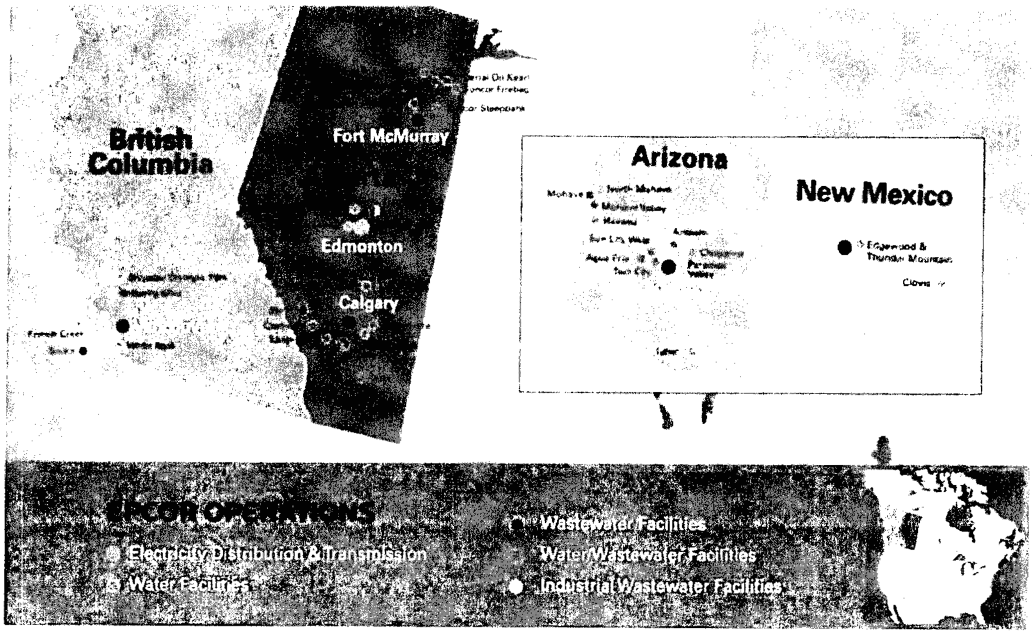
EPCOR Overview

1. One company
2. Two key business lines: water and wires
3. Three regions: Edmonton region, Alberta's oil sands and Southwestern U.S.



EPCOR Operations

- Build, own and operate electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure in Canada and the United States.
- Serve over 75 communities in Alberta and British Columbia and 22 in Arizona and New Mexico through EPCOR Water (USA).



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Water Services

Municipal Water and Wastewater City of Edmonton

Water Treatment & Distribution

- Two large water treatment plants on the North Saskatchewan river – 680 million liters/day.
- Approximately 250,000 fully metered, City water customers.
- Rates regulated by City under a PBR covering April 2012 – March 2017.
- Water also sold to 61 surrounding communities under wholesale rates regulated by the Alberta Utilities Commission.

Wastewater Treatment

- Enhanced primary treatment – 1,200 million liters/day.
- Rates regulated by City under PBR covering April 2012 – March 2017.
- Inaugural inclusion of wastewater services under PBR.

Municipal Water and Wastewater Alberta/British Columbia/USA

Alberta

- Operating contracts in Banff, Canmore, Chestermere, Okotoks, Red Deer County, Taber.
- Expansion and upgrade of Evan-Thomas water and wastewater facility in Kananaskis Village.

British Columbia

- Regulated water utilities in White Rock and French Creek.
- Operating contracts in Sooke, Whistler Olympic Park.

Arizona and New Mexico

- Regulated water utilities – Chaparral City Water Company, EPCOR Water Arizona, EPCOR Water New Mexico.
- Provide water and wastewater services to approximately 195,000 customer connections, across 22 communities.

Water Services

Industrial Water and Wastewater

Alberta

- Own 3 water treatment and 4 wastewater treatment facilities at Suncor's Fort McMurray Oil Sands operations under long-term contracts.
- Operate 4 water treatment and 4 wastewater treatment facilities at Suncor and Shell Albian Sands oil sands operations in Fort McMurray.
- Treated wastewater from the Gold Bar WWTP sold to Suncor refinery.

British Columbia

- Operate the Britannia Mine wastewater treatment facility.

Exhibit JST-4

Electricity Services

Electricity Distribution & Transmission

- Distribute to approximately 360,000 sites within Edmonton.
- 203km of aerial transmission line and underground transmission cable.
- Own and operate 36 substations.
- 287 distribution feeders.
- Regulated by the Alberta Utilities Commission – Distribution (PBR) / Transmission (cost of service).

Energy Services

- Provide Regulated Rate Option (procurement, billing and customer care) for approximately 600,000 Edmonton and Fortis Alberta customers, regulated by the Alberta Utilities Commission.
- Provide billing and customer care for approximately 250,000 EPCOR water customers in Edmonton and City of Edmonton drainage and waste collection services.

Technologies

- Provide design, construction and maintenance services for street lighting and traffic signals in Edmonton, Calgary and other municipalities.
- Provide operating, maintenance and construction services for the electrical infrastructure for Light Rail Transit system in Edmonton and Calgary.

Management and Governance

Strategic Positioning

- Annual in-depth planning process.
- Delivering on stated strategy to sell down interest in Capital Power and invest in regulated and long-term contracted assets.

Risk Management

- Comprehensive financial management policies and enterprise risk management system geared to identifying, understanding and mitigating risk.
- Disciplined approach to operations, business development and capital placement.
- Fully staffed Regulatory and Government Relations teams.

Organizational Effectiveness

- Experienced management team with considerable expertise.

Governance

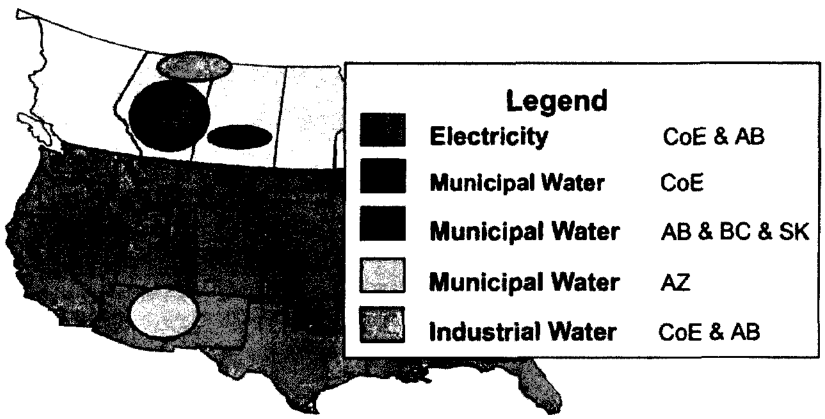
- Independent, experienced Board of Directors.

Key Risks and Mitigation

Risk	Mitigation
Reliance on Capital Power	▪ Positive outlook for Capital Power as economy improves with growing regional power needs. ▪ Continued monetization of EPCOR's equity interest and reduction of receivable on back-to-back debt.
Operational	▪ Government and industry standard testing, including: 28,000 water treatment process control tests, 100,000 internal lab water quality tests and more than 5,000 tests for 220 scientific parameters sent to external laboratories. ▪ Technology enabled monitoring and control systems increase security and reliability for electricity and water distribution network.
Political/ Regulatory	▪ Employ staged market penetration approach for industrial water that will facilitate broader opportunities over time including acquiring potable water and wastewater infrastructure at existing facilities. ▪ Fully staffed Regulatory and Government Relations teams.
Strategy Execution	▪ For each new business development project, EPCOR seeks to ensure project success by addressing project risks, including events and external factors, as part of its due diligence process.
Weather	▪ Exposures associated with extreme weather are partly mitigated through our insurance programs.

Strategic Direction

- Continue to de-risk – in final stages of reducing Capital Power holdings and exposure to generation.
- Continue to invest in EPCOR's core water and wires utility infrastructure businesses.
- Look to build out existing hubs and establish new ones through acquisition.
- Pursue rate-regulated and long-term contracted investment opportunities.
- Continue to build reputation as a trusted developer and operator of utility assets.
- Deliver stable cash flow and maximize returns on existing assets.
- Preserve or improve financial strength and credit ratings.



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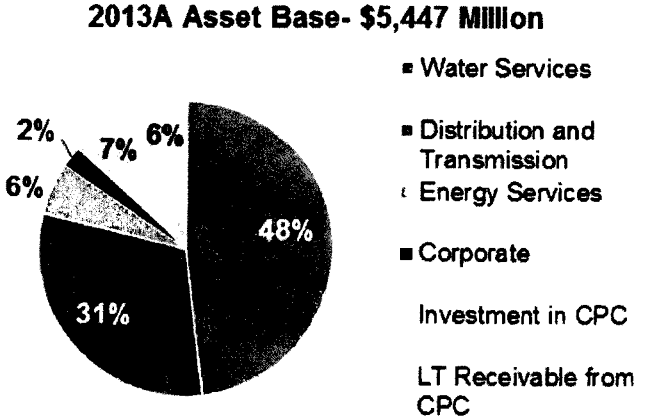
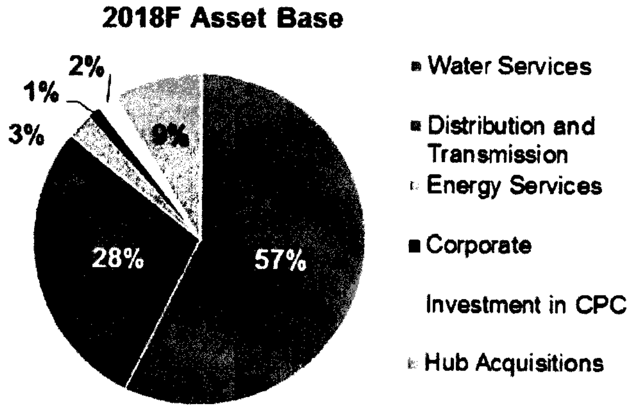
EPCOR Asset Portfolio





Water Canada Highlights

January 2013

Evan-Thomas water and wastewater facility:

- Construction commences.
- Located in the Kananaskis Village area of Alberta.
- Completion expected in 2014.
- EPCOR will operate facility for 10 years after construction.

October 2013

Regina waste water treatment plant upgrade project:

- Development by way of P3 structure.
- Shortlisted to submit RFP with final bids due May 2014.
- Under design-build-finance-operate-maintain contract, proponent required to finance up to 50% of cost over 30 years and provide management of existing facilities and related decommissioning.
- Proponent will be selected shortly after bid date.
- Construction to commence July 2014 with in-service date of January 2017.

Water USA Highlights

- Follow-on tuck-in acquisitions according to longer-term plan.
  - $3.3 million of tuck-in acquisitions in 2013 (North Mohave Valley Corporation in Arizona and Thunder Mountain Water Company in New Mexico).
  - Acquisition of customer rights in 7,000-acre area wastewater and recycled water services project along the Loop 303 Corridor within the City of Glendale, Arizona.
- Stronger Financial Performance.
  - Rate increases, sales in higher rate blocks and improved operational efficiency resulted in strong financial performance.
- Improving Regulatory Environment - Arizona Corporation Commission (ACC).
  - July 2012 ACC approved $79 million addition to rate base for water treatment plant three months earlier than expected.
  - January 2013 the ACC approved and adopted the System Improvement Benefits mechanism in the Arizona Water general rate case (earlier recovery of revenue for eligible sustaining capital).

Distribution & Transmission Highlights

Distribution

- Favorable electricity distribution Capital Tracker Decision received in December 2013.

Transmission - Heartland Project

- 65km double-circuit 500 kV transmission line connects the Heartland region to existing 500 kV transmission infrastructure in south Edmonton.
- In service December 2013 at 240kV, transition to 500kV in 2014.
- EPCOR and AltaLink have filed an application to partition the assets according to their respective service territories.

West Fort McMurray Transmission Line

- Alberta Government legislated that certain transmission infrastructure be tendered rather than direct assigned to incumbent Transmission Facility Owner.
- 490 km, 500 kV transmission line from Genesee to Fort McMurray.
- AESO estimated cost is $1.6 billion.
- NorSpan Partners L.P. was formed with equity partner LS Power and has been selected as one of five qualified consortia to submit bids in November 2014.

NORSPAN

Energy Services Highlights

February 2013

Energy Price Setting Plan (EPSP) Amendment

- Amending agreement was filed in April 2013 for approval by the Alberta Utilities Commission and subsequently approved in August 2013.
  - The amendments incorporate a 120 day procurement window vs. the previous 45 day window.
  - Provides an increased risk margin to EPCOR – adjusted quarterly
- The revised EPSP expires in June 2014; a new EPSP has been submitted for years 2014-2018.

Technologies Highlights

2013

Overhead catenary installation

- North LRT Extension for City of Edmonton.

2014

Light the Bridge LED lighting installation

- Project design and construction management.

2011 - 2016

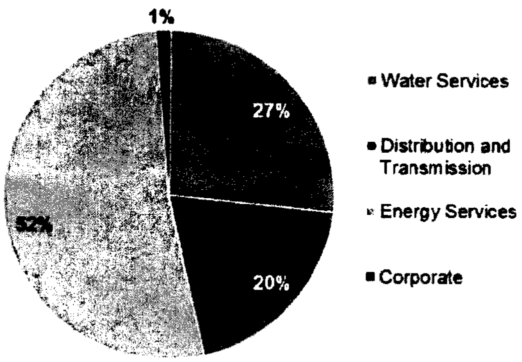
Alberta Road Weather Information System Installation.

- Alberta Transportation

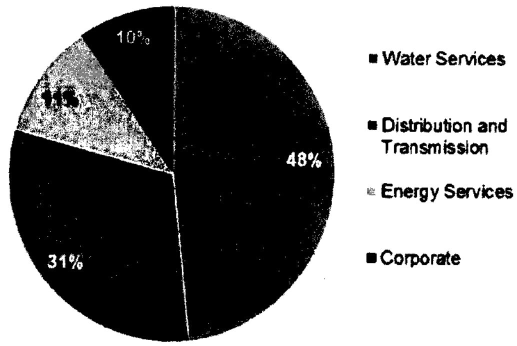
LIGHT THE BRIDGE

2013 Financial Overview[1]

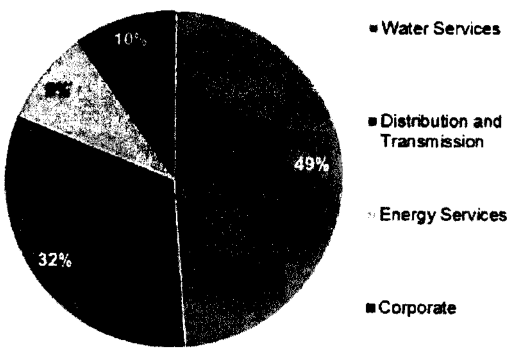
Consolidated Revenue- $1,955 Million



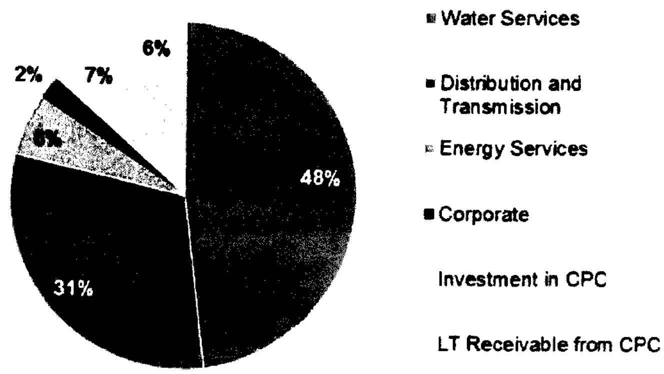
Consolidated Operating Income - $290 Million



Consolidated EBITDA - $435 Million



Consolidated Total Assets - $5,447 Million



[1] *All amounts in millions of CDN dollars, as of December 31, 2013*

Financing and Liquidity

- Syndicated bank credit facility of $500 million (two tranches of $250 million).
  - Supporting $500 million commercial paper program.
  - Current maturity dates of November 2016 and November 2018.
- Committed letter of credit facility of $400 million to November 2016.
- Demand facilities for approximately $47 million.
  - $25 million CAD, $22 million USD.
- Strategy in place to monetize all or a significant portion of interest in Capital Power
  - $202 million transacted in October 2013.
- Available medium-term note (MTN) debt capacity of $1 billion under short-term base shelf prospectus recently renewed to December 2015.
- Accessing debt capital markets.
  - Market tone is very constructive for additional EPCOR debt issuance.
  - February 2012 $300 million MTN (30-year) was oversubscribed.

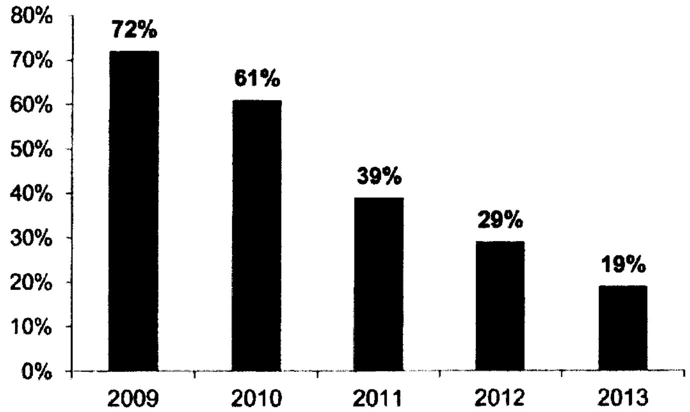
Financial Strategies & Policies

- Target adequate liquidity profile – rated no less than adequate under Standard & Poors criteria.
- Capital expenditures will be funded with a mix of debt and equity in proportions necessary to maintain current investment grade credit rating.
- Debt profile will be a blend of short and long-term debt but heavily weighted to long-dated maturities to achieve match with asset lives and sourced at lowest economic cost with due consideration to interest rate and foreign exchange risks.
- Continuously evaluate quasi-equity forms of financing as appropriate to maintain strong balance sheet.
- Policies in place for foreign exchange and interest rate hedging as, and when, appropriate.
- Dividend policy has been amended effective 2013 with the annual amount set at the 2012 level of $141 million until a change is recommended by the Board and approved by the Shareholder.

Interest in Capital Power

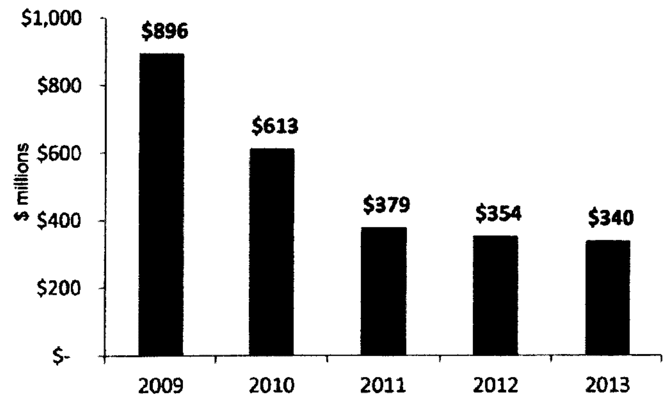
EPCOR plans to divest all or a significant portion of its interest in Capital Power over time as market conditions permit.

Equity Interest



- Sale of Capital Power LP units in 2010, 2011, 2012 and 2013
  - Approximately $875 million in total gross proceeds.
- Capital Power sale of treasury common shares in 2011.

Back-to-Back Debt (B2B)

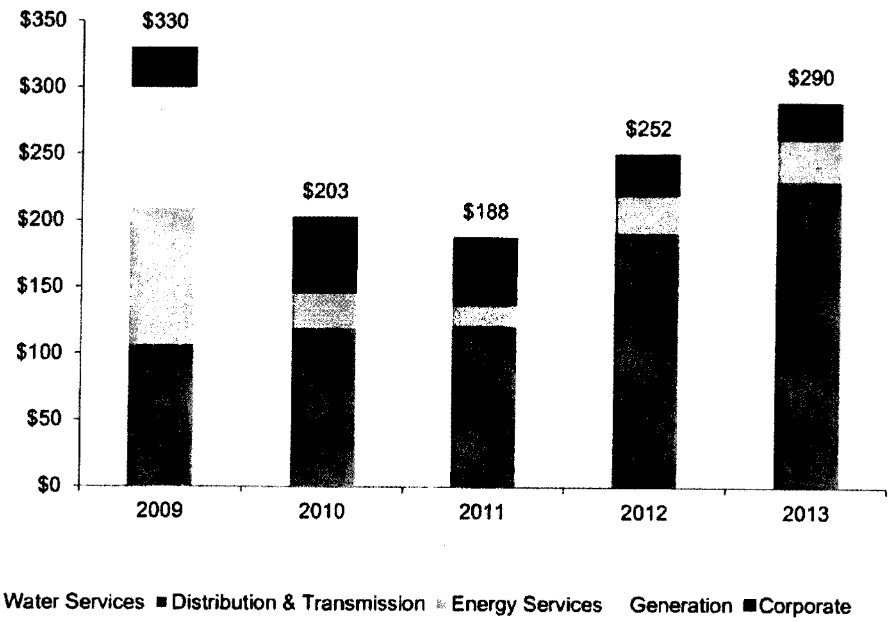


- B2B debt owed to EPCOR by Capital Power relates to generation assets transferred to Capital Power LP in 2009.
- Remainder to be repaid in full by June 2018.
  - Significant Payments: 2016 - $140 million; 2018 - $174 million.

Historical Operating Income

While the divestiture of EPCOR's power generation business decreased revenue and operating income, it has reduced the volatility of EPCOR's Operating Margin.

Operating Income
Breakdown by Segment



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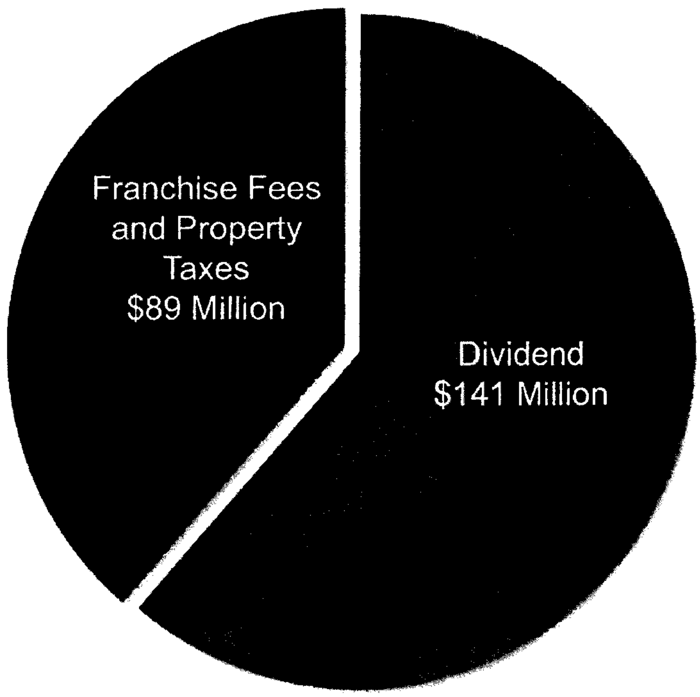
Performance for Shareholder

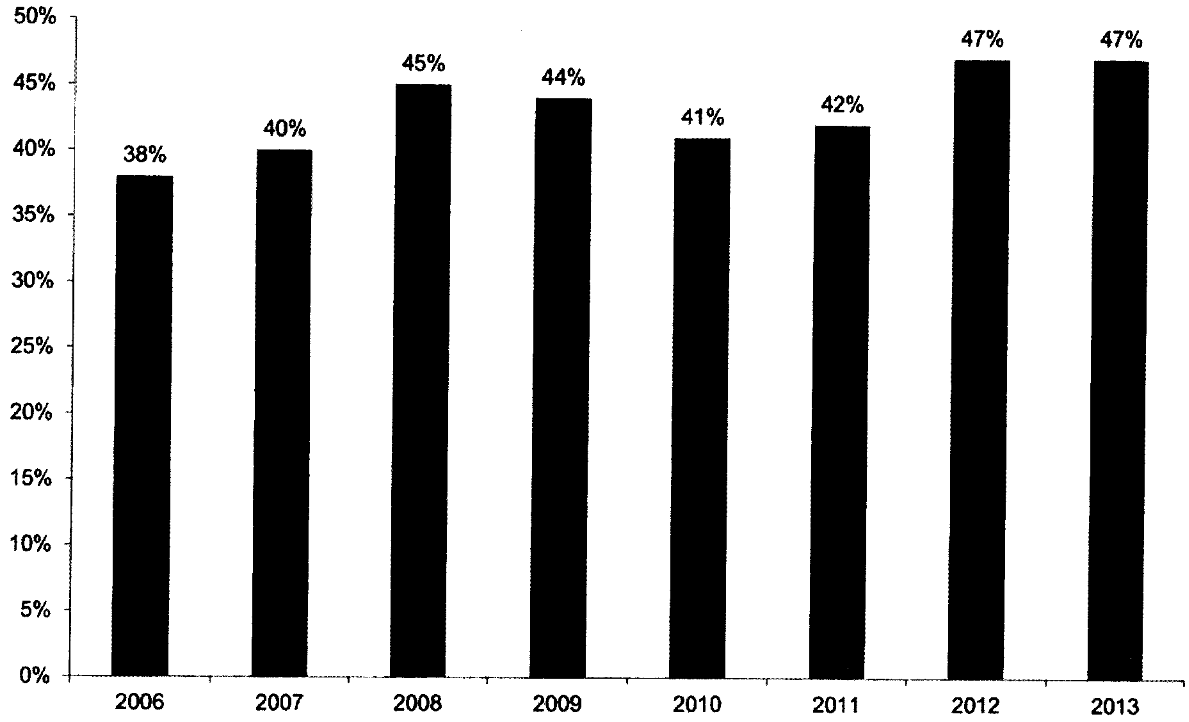
In 2013, EPCOR paid the City $230 million by way of the dividend, franchise fees and property taxes.

Since 1995 EPCOR has paid over $2 billion to the City of Edmonton.

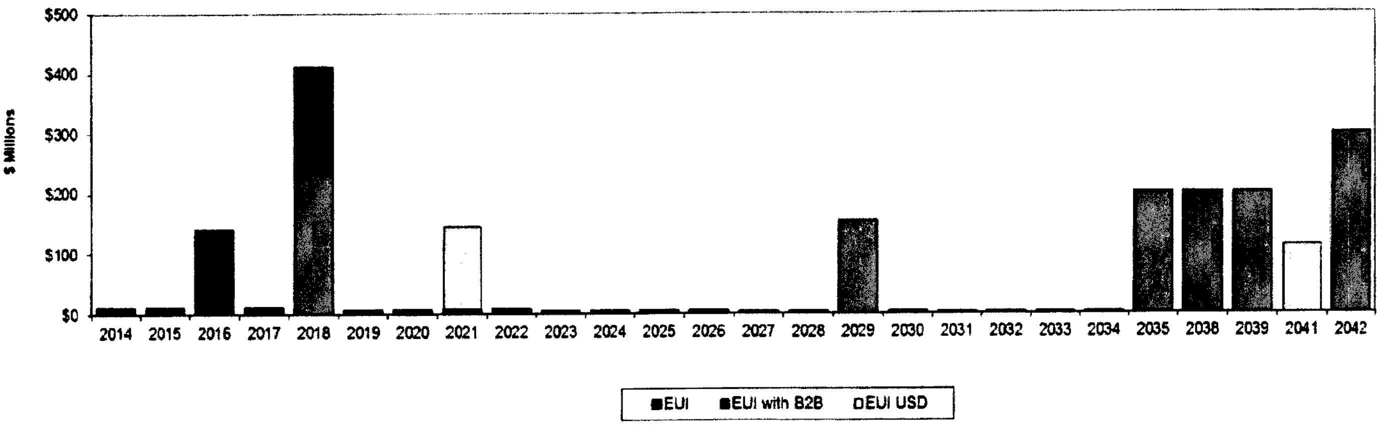
2013 Contributions



Debt to Capitalization Ratio



Debt Maturities



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Credit Profile

Strong Business Risk Profile

- Continued emphasis to de-risk the business by reducing holdings in Capital Power.
- Balanced growth in rate regulated and contracted industrial activities.
- Geographically diversified with multiple lines of business.
- Comprehensive management and governance focused on risk management.

Stable Financial Risk Profile

- Stable credit metrics with prudent pacing of capital expenditure program.
- Conservative financial management policies geared to optimizing liquidity and leverage in line with growth objectives.
- Pursuit of growth at reasonable price.

Improved Performance

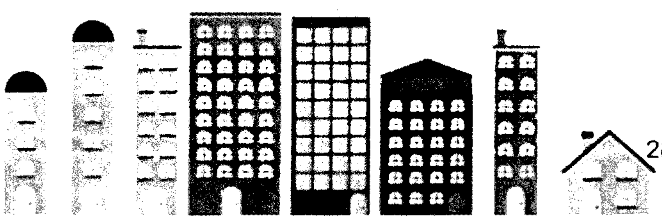
- Expect to grow net income from continuing operations.
- Expect to grow cash flow from operations.

Credit Rating Outlook

- Confirm or upgrade – stable/positive trends and a lower risk investment profile.

Thank you for your time

Questions?



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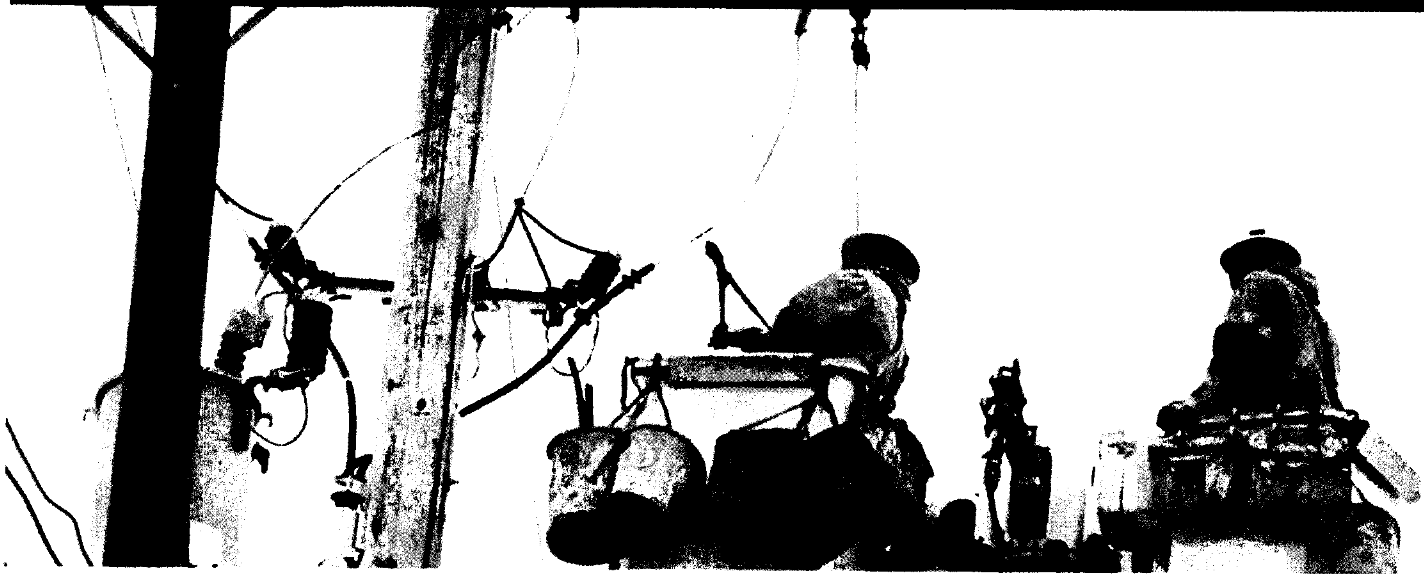
EPCOR Utilities Inc.

Investor Presentation
June 2013



David Stevens
President and Chief Executive Officer

Guy Bridgeman
Senior Vice President and Chief Financial Officer

Sam Myers
Treasurer

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EPCOR Today

- An experienced developer and operator of utility infrastructure. Two main operating divisions: Water Services & Electricity Services
- Headquartered in Edmonton. Predecessor company began operating in 1891; 120 year anniversary in 2011. Employ ~2,700 employees
- Stand alone corporation as of Jan 1, 1996, sole shareholder is the City of Edmonton (CoE)
- Fully independent Board of Directors. EPCOR operates at arms length from the Shareholder and has a mandate to invest and operate on commercial terms
- Essentially a narrowly-held private company
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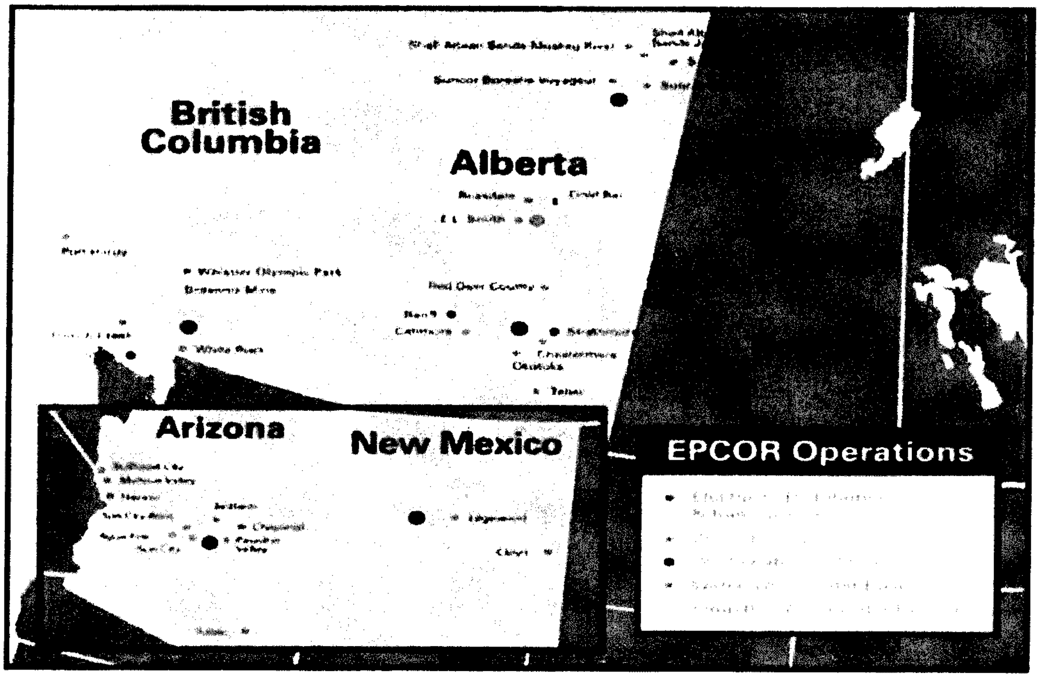
- Report on SEDAR

EPCOR

EPCOR Operations

- Builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure in Canada and the United States
- Serves over 75 communities in Alberta and British Columbia and serves 14 municipalities in Arizona and New Mexico, through EPCOR Water (USA)



PROVIDING MORE EPCOR

Water Services

Municipal Water and Wastewater City of Edmonton

Water Treatment & Distribution

- Two large water treatment plants on the North Saskatchewan river – 680 MLD
- Approximately 250,000 City water customers – fully metered
- Rates regulated by City under a PBR
- Water also sold to 61 surrounding communities under wholesale rates regulated by the Alberta Utilities Commission

Wastewater Treatment

- Gold Bar Facility transferred from the city in 2009
- Enhanced Primary treatment – 1,200 MLD
- Some treated effluent re-used by Suncor Refinery
- Rates regulated by City under a PBR

Industrial Water and Wastewater

Alberta

- Own 3 water treatment and 4 wastewater treatment facilities at Suncor's Fort McMurray Oil Sands operations under long-term contracts
- Operate 4 water treatment and 4 wastewater treatment facilities at Suncor and Shell Albian Sands oil sands operations in Fort McMurray

British Columbia

- Operate the Britannia Mine wastewater treatment facility

Municipal Water and Wastewater Alberta/British Columbia/USA

Alberta

- Operating contracts in Banff, Canmore, Chestermere, Okotoks, Red Deer County, Taber
- Agreement signed October 2012 for the expansion and upgrade of Evan-Thomas water and wastewater facility in Kananaskis Village

British Columbia

- Regulated water utility in White Rock and French Creek
- Operating contracts in Port Hardy, Sooke, Whistler Olympic Park

Arizona and New Mexico

- Regulated water utility – Chaparral City Water Company, EPCOR Water Arizona, EPCOR Water New Mexico
- Serve approximately 141,000 water customers and 52,000 wastewater customers in several municipalities

EPCOR

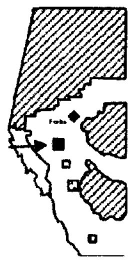
Electricity Services

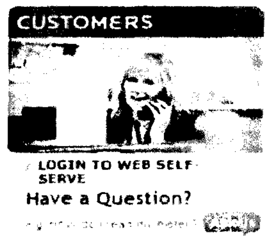
Electricity Distribution & Transmission

- Distribute to approximately 351,000 sites within Edmonton
- Regulated by the Alberta Utilities Commission
- 203km of aerial transmission line and underground transmission cable
- Own and operate 36 substations
- 286 distribution feeders

Energy Services

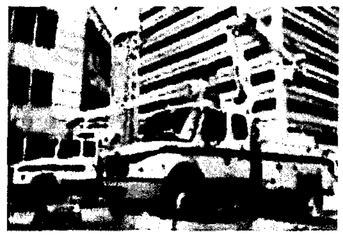
- Provide Regulated Rate Option (procurement, billing and customer care) for approximately 600,000 Edmonton and Fortis Alberta customers, regulated by the Alberta Utilities Commission
- Provide billing and customer care for approximately 250,000 EPCOR water customers in Edmonton and City of Edmonton drainage and waste collection services





Technologies

- Provide operating & maintenance and construction services for street lighting and traffic signals in the City of Edmonton
- Provide operating & maintenance and construction services for the electrical infrastructure for Light Rail Transit system in Edmonton
- Provide similar services to municipalities across Alberta



Management and Governance

Strategic Positioning

- Annual in-depth planning process
- Delivering on stated strategy to sell down interest in Capital Power and invest in regulated and long-term contracted assets

Risk Management

- Comprehensive financial management policies and enterprise risk management system geared to identifying, understanding and mitigating risk
- Disciplined approach to operations, business development and capital placement
- Fully staffed Regulatory and Government Relations teams

Organizational Effectiveness

- Experienced management team with considerable expertise
- David Stevens appointed President and CEO, effective March 6, 2013
- Guy Bridgeman appointed CFO, effective May 3, 2013

Governance

- Independent, experienced Board of Directors

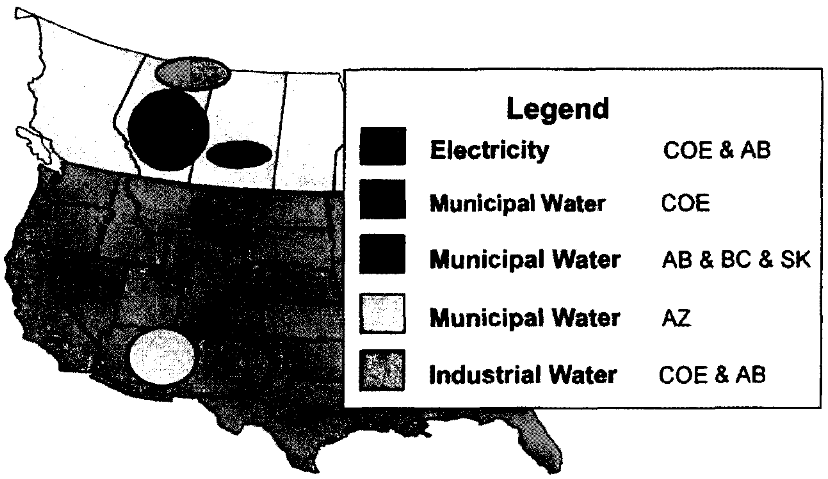
Key Risks & Mitigation

Risk	Mitigation
Reliance on Capital Power	▪ Positive outlook for Capital Power as economy improves with growing regional power needs ▪ Insight into Capital Power via Board positions ▪ Continued monetization of EPCOR's equity interest and reduction of B2B debt reduces reliance
Operational Risk	▪ Government and industry standard testing; including 28,000 process control tests, 100,000 internal lab water quality tests and more than 5,000 tests for 220 scientific parameters sent to external laboratories ▪ Technology enabled monitoring and control systems increase security and reliability for electricity and water distribution network
Political/ Regulatory	▪ Concentrate development activities that are conducive to 3rd party participation (e.g. Arizona) ▪ Employ staged market penetration approach for industrial water that will facilitate broader opportunities over time including acquiring potable water and wastewater infrastructure at existing facilities ▪ Fully staffed Regulatory and Government Relations teams
Strategy Execution Risk	▪ For each new business development project, EPCOR seeks to ensure project success by addressing project risks, including events and external factors, as part of its due diligence process
Integration Risk	▪ Internal team solely focused on integration of acquired companies has been implemented
Weather	▪ Partially mitigated through insurance

Strategic Direction

✓ Continue to de-risk EPCOR by selling down CPC holdings over time

✓ Continue to invest in EPCOR's core water and wires utility infrastructure businesses



- Pursue rate regulated and long term contracted investment opportunities
- Continue to build reputation as a trusted developer and operator of utility assets
- Deliver stable cash flow and maximize returns on existing assets
- Preserve or improve financial strength and corporate ratings:
  A (low) (DBRS) and BBB+ (S&P)

Disciplined Investment Process

Risk Appetite

- CPC Sell Down
- Value Creation
- Low Earnings Volatility
- Financial
- Stable, Predictable and Growing Dividend
- Execution Capacity
- Identifiable, Understandable & Manageable Operational Risks
- Reputation

Strategic Focus Areas "Hunting Permit"

Municipal Water and Wastewater
- WS Growth
- Acquisitions
- Development

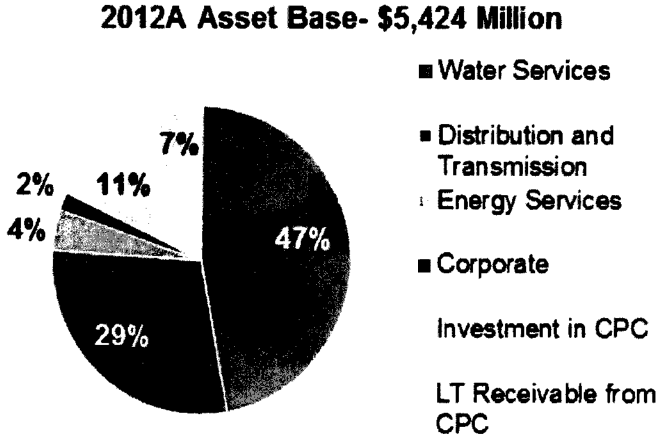
Industrial Water and Wastewater
- Potable W&WW
- Tailings Treatment
- Re-use

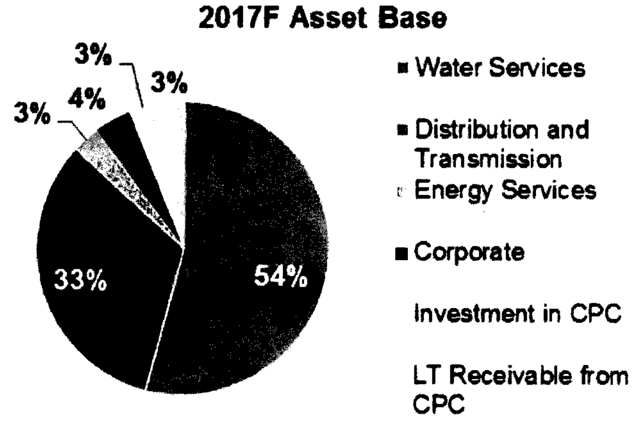
Electricity
- D&T Growth
- Energy Services
- Technologies
- Independent Transmission

O2AI Opportunity Screen

1. **Strategic**
   - In hunting permit?
   - Place capital?
   - Build hub?
2. **Growth Potential**
3. **Pursuit Effort**
4. **Probability of Success**
5. **Financial**
6. **Operational Complexity**
7. **Execution Risk/ Integration/ Operational Risk**

EPCOR's Asset Portfolio





Canadian Water Highlights

February 2012

Firebag Central

- Suncor wastewater treatment plant added

October 2012

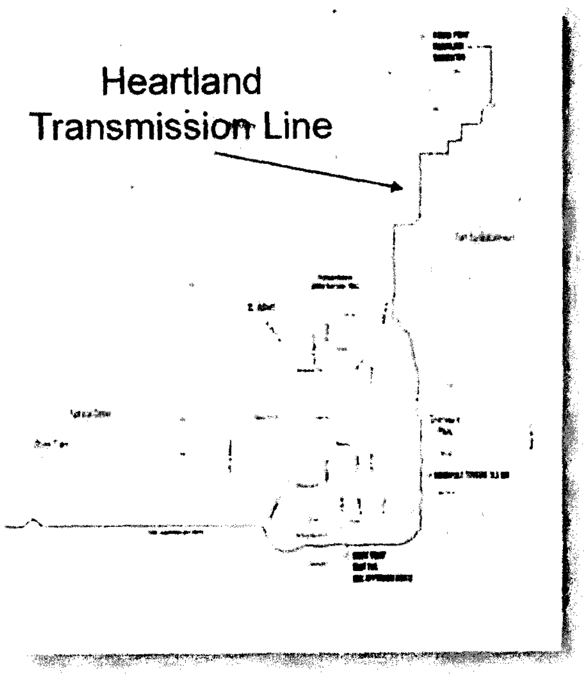
Evan-Thomas Water and Wastewater Facility

- Located in the Kananaskis Village area of Alberta
- expansion and upgrade
- Construction began in January 2013 and is expected to be completed in 2014

US Water Highlights

- January 2012: American Water Integration
  - Operations were ready day one with no significant disruption in service
  - All regulatory approvals were granted with no significant conditions imposed
  - Good stakeholder acceptance of the transaction and positive entrance into the market
- July 2012: Agua Fria White Tanks Water Treatment Plant
  - Added to customer rates starting in July 2012, three months earlier than expected
  - Parties agreed investment prudent for three year phase-in
  - $79M addition to the rate base
- June 2013: System Improvement Benefits (SIB) mechanism
  - Approved and adopted in Arizona – providing revenue to cover capital costs without having to wait for retrospective rate applications
- Have reached agreement for tuck-in of Mohave Valley Corporation adjacent to our operations in Bullhead City, northwestern Arizona for $2.35M
- Continue to optimize costs

Distribution & Transmission Highlights



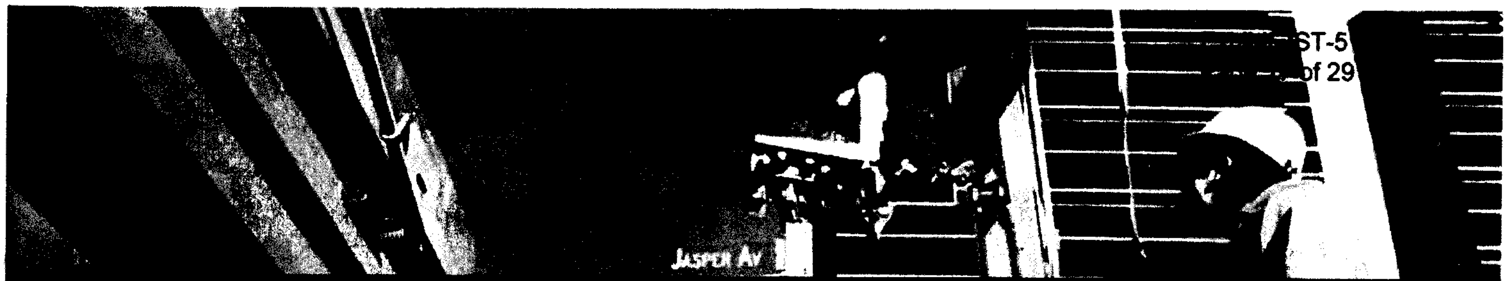
- The Heartland Transmission Project involves construction of a 65km $430M double circuit 500 kV transmission line to connect the Heartland region to existing 500 kV transmission infrastructure in south Edmonton.
- EPCOR and AltaLink are equal partners; Altalink leading construction
- Target completion is Q4 2013 ; progressing on time and budget
- Edmonton NW substation (Poundmaker) built within $29M budget and added to rate base September 2012.

Energy Services - Highlights

February 2013: Energy Price Setting Plan (EPSP) Amendment

EPCOR and its customer representatives agreed in principle to amend the EPSP

- The amendments incorporate a 120 day procurement window vs. the previous 45 day window
- Provide an increased risk margin to EPCOR
  - Risk margin will adapt by incorporating most recent history of commodity risks into setting of the variable risk margin
  - EPCOR is estimating this will increase our variable risk compensation from 3.35% to approximately 4.48% (assuming that the amended plan is in place from July 2013 to June 2014.)
  - No change to EPCOR's $2.11/MWh fixed risk margin
- Establishes an automatic quarterly risk adjustment mechanism
  - The variable risk margin will be recalculated incorporating in the most recent quarter of commodity risk results
- Amending agreement was filed on April 17, 2013 for approval by the Alberta Utilities Commission



Technologies Highlights

October 2012

Calgary Transit Refurbishment Project

December 2012

Temporary and Permanent Substation Installation

- North LRT Extension City of Edmonton

September 2013

Overhead Catenary Installation

- North LRT Extension City of Edmonton

October 2016

Road Weather Information System Installation

- Alberta Transportation

Financial Policies

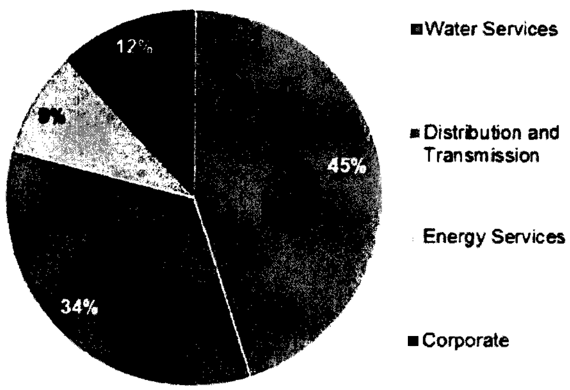
- Target adequate liquidity profile – rated no less than adequate under S&P criteria
- Capital expenditures will be funded with a mix of debt and equity in proportions necessary to maintain current investment grade rating
- Debt profile will be a blend of short and long term debt, but heavily weighted to long dated maturities to achieve match with asset lives and sourced at lowest economic cost with due consideration to interest rate and foreign exchange risks
- Continuously evaluate quasi-equity forms of financing as appropriate to maintain strong balance sheet
- Hedging policies in place for foreign exchange and interest rate hedging as, and when, appropriate
- Dividend Policy has been amended effective 2013 with the annual amount set at the 2012 level of $141M until a change is recommended by the Board and approved by the Shareholder

Financing and Liquidity

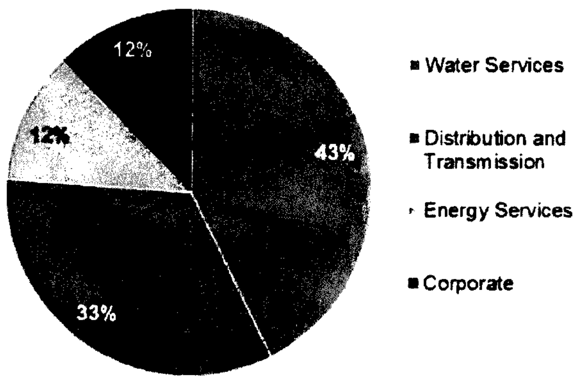
- Syndicated bank credit facility of $500M (two tranches of $250M)
  - Current maturity dates of November 2015 and November 2017
- Committed Letter of Credit facility of $400M to November 2015
- Demand Facilities for approximately $46M
  - $25M CAD, $21M USD
- $500M Commercial Paper program
- Strategy in place to monetize all or a significant portion of interest in Capital Power
  - $221M transacted in December 2010
  - $224M transacted in November 2011
  - $230M transacted in April 2012
- Available Medium Term Note (MTN) debt capacity of $700M under Short-Term Base Shelf Prospectus to January 2014
- Recent Long-term Financings:
  - $300M 30-year MTN issued February 2012 under base shelf prospectus

2012 Financial Highlights[1]

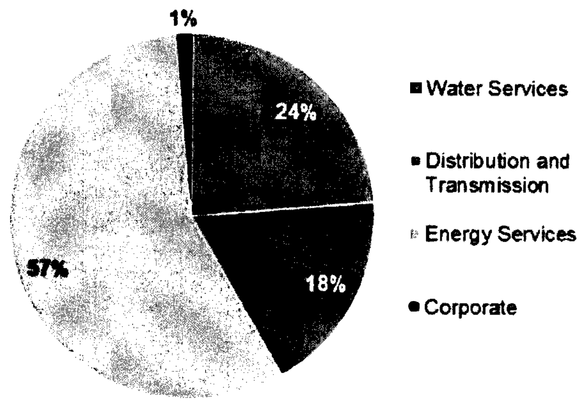
Consolidated EBITDA - $384 Million



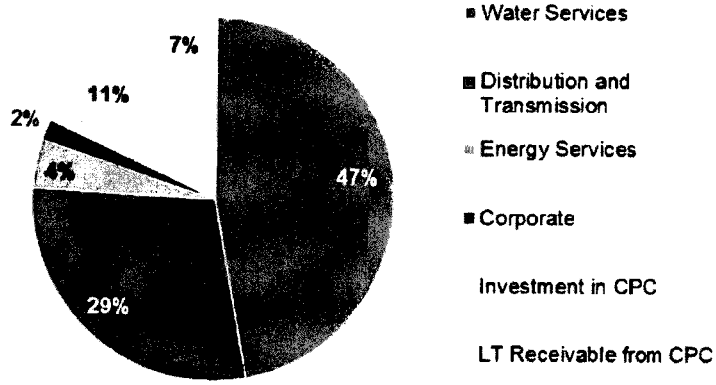
Consolidated Operating Income - $251 Million



Consolidated Revenue- $1,959 Million



Consolidated Total Assets - $5,424 Million

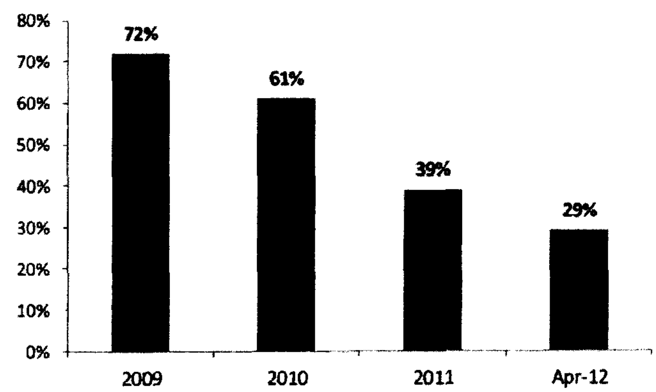


[1] *All amounts in millions of CDN dollars, as of December 31, 2012*

Interest in Capital Power

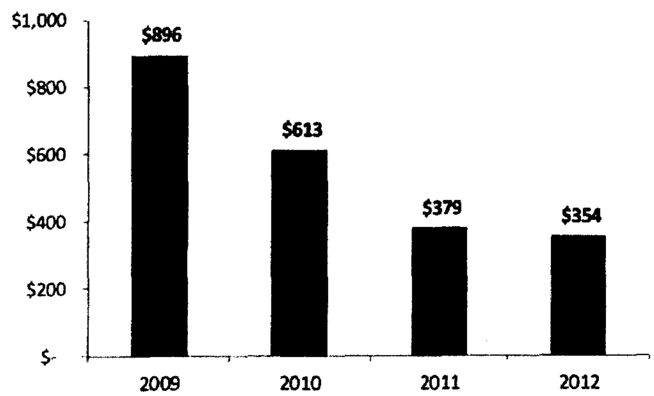
EPCOR plans to divest all or a significant portion of its interest in Capital Power over time as market conditions permit

Equity Interest



- Sale of Capital Power LP units in 2010, 2011, and 2012
  - $675M in total gross proceeds
- Capital Power sale of treasury common shares in 2011

Back-to-Back Debt (B2B)

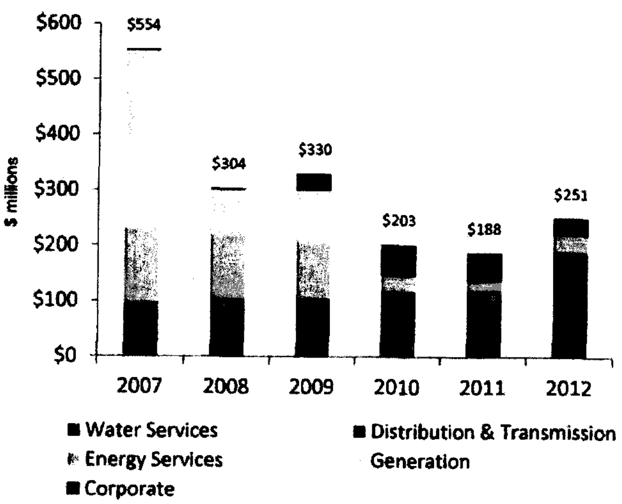


- B2B debt held by EPCOR relates to generation assets transferred to Capital Power LP in 2009
- Remainder to be repaid in full by June 2018
  - Significant Payments: 2016 - $140M; 2018 - $174M

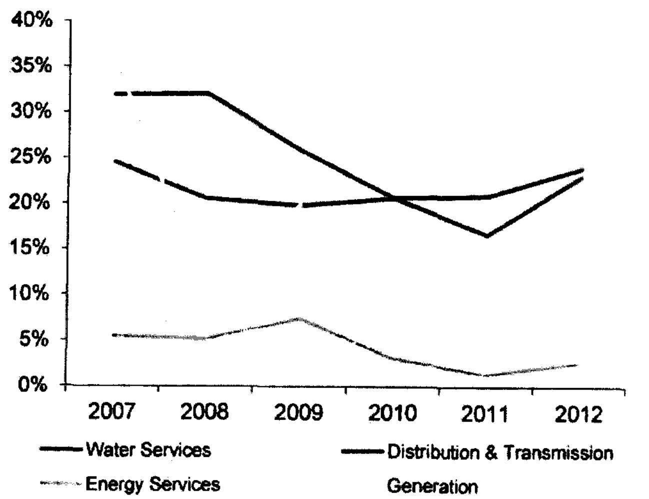
Historical Operating Income

While the divestiture of EPCOR's power generation business decreased revenue and operating income, it has reduced the volatility of EPCOR's Operating Margin

Operating Income Breakdown by Segment

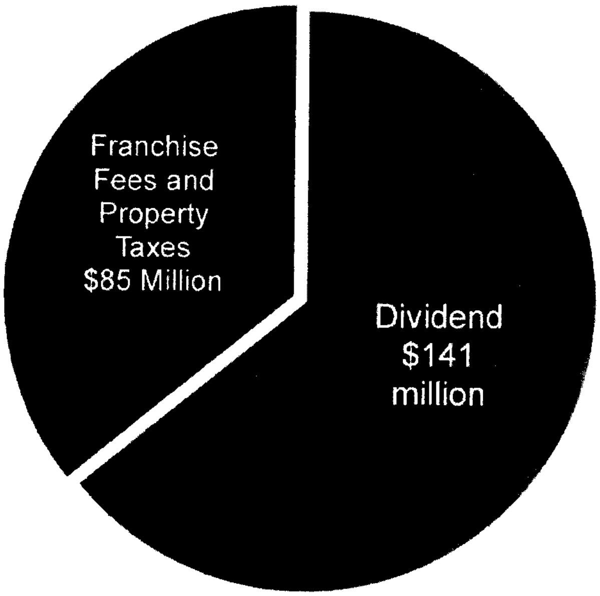


Segmented Operating Income Margin



Performance for Shareholder

Since 1995 EPCOR has paid over $2 billion to the City of Edmonton.



EPCOR payments to City of Edmonton (2012)

In 2012, EPCOR contributed:

- $141 million dividend
- $85 million in franchise fees and property taxes

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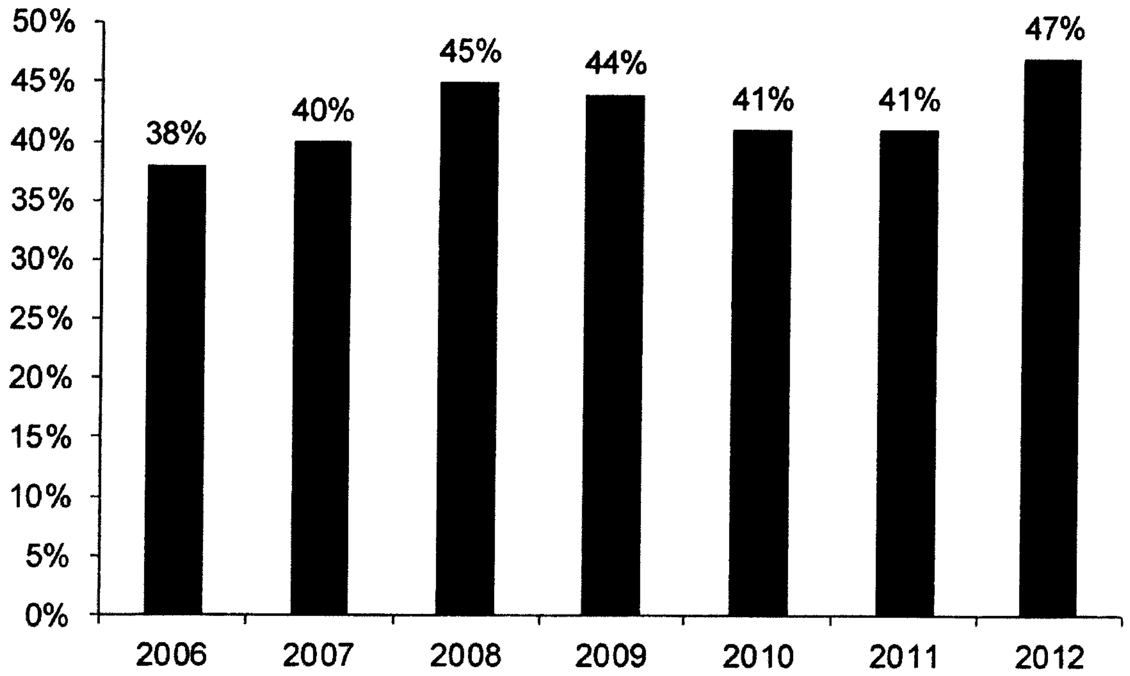
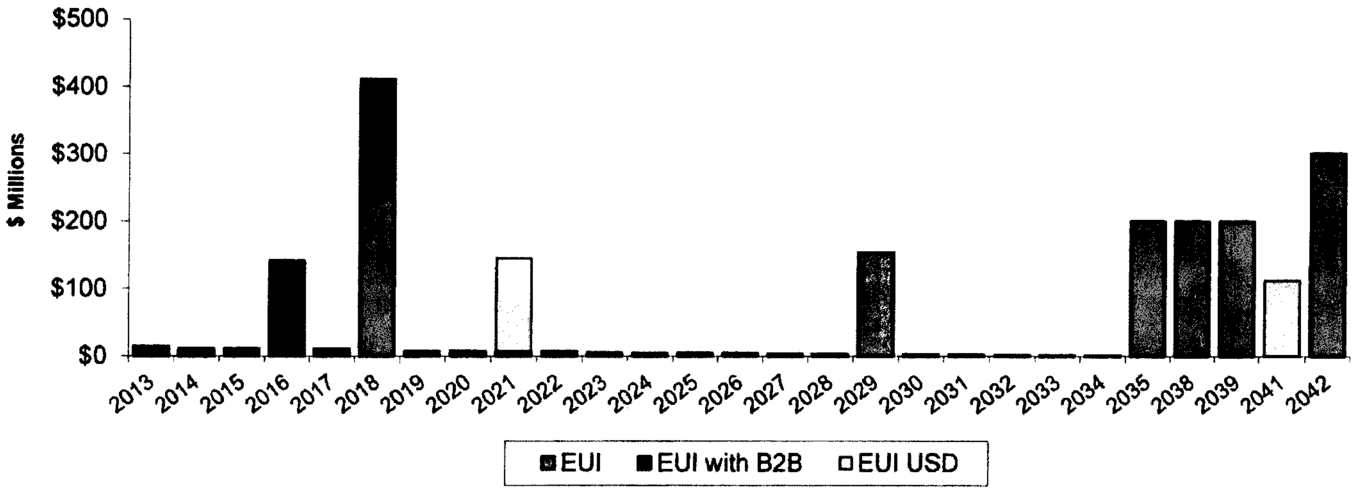
Debt to Capitalization Ratio



Debt Maturities



Summary

Strong Business Risk Profile

- Continued emphasis to de-risk the business by reducing reliance on Capital Power
- Balanced growth in rate regulated and contracted industrial activities
- Diversified geographically and by business lines
- Comprehensive management and governance focused on risk management

Stable Financial Risk Profile

- Stable credit metrics with prudent pacing of capital expenditure program
- Conservative financial management policies geared to optimizing liquidity and leverage in line with growth objectives
- Pursuit of growth at reasonable price

Improved Performance

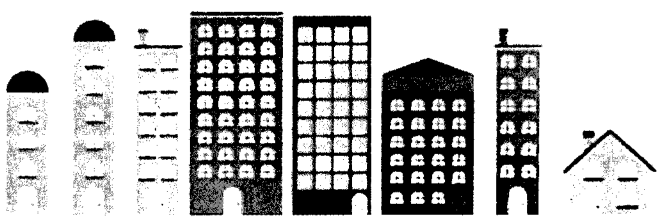
- Expect to grow net income from continuing operations
- Expect to grow cash flow from operations

Rating Outlook

- Confirm or upgrade – stable trend, with expectation of improvement based on a more conservative investment profile

Thank you for your time

Questions?



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DAVID W. STEVENS
President and Chief Executive Officer

David Stevens became President and Chief Executive Officer of EPCOR Utilities Inc. in March 2013. In this role, David is responsible for EPCOR's strategic direction and growth, and achieving operational excellence across its power and water businesses.

David is a veteran of the North American energy and utility industry with over 30 years of experience. Before joining EPCOR, he was CEO of the El Paso Electric Company, an integrated electrical utility providing services to over 370,000 customers across two states. Under his leadership, El Paso Electric doubled its stock value, expanded its portfolio to include renewable energy sources, and constructed a power station on time and under budget.

David was President and CEO of the Cascade Natural Gas Corporation (CNGC) from 2005-2007. Prior to that, he held a series of positions with increasing responsibility with Southern Union Company and its subsidiaries over two decades.

David began his career as a production engineer for the Getty Oil Company in Sweetwater, Texas – a position he took after graduating from the University of Texas, Austin, with a BSc in Chemical Engineering in 1982.

GUY BRIDGEMAN
Senior Vice President and Chief Financial Officer

Guy is responsible for corporate finance, treasury, strategic planning, corporate development, internal audit and risk management functions within EPCOR.

Prior to his current appointment, Guy Bridgeman served as Senior Vice President, Strategic Planning and Development and Senior Vice President of Distribution & Transmission and Energy Services. Guy joined EPCOR as Director of Regulatory Affairs in 1995. He played a central role in acquisitions in Alberta and Ontario, and the development of the Alberta Power Purchase Arrangements, EPCOR's first Regulated Rate Option Energy Price Setting Plan. More recently, he was EPCOR lead on the Heartland Transmission Project partnership with AltaLink Ltd., which is constructing a 500 kV transmission line in the Capital Region.

Prior to joining EPCOR, Guy was a senior economist with the Alberta government's Department of Energy, focusing on oil and gas regulatory issues. He played a leading role in the province's first round of electricity industry deregulation initiatives, introduced in 1996. Guy holds a Ph.D. in Economics from the University of Western Ontario and is a graduate of Harvard Business School's Advanced Management Program. He has also achieved ICD.D designation from the Institute of Corporate Directors. Guy serves on the Board of Directors of Edmonton's Citadel Theatre and is a member of the United Way Alberta Capital Region Campaign Cabinet.

EPCOR Utilities Inc.

BMO Investor Presentation

September 2012

Mark Wiltzen
Senior Vice President and Chief Financial Officer

Sam Myers
Treasurer

Forward Looking Information

Certain information in this presentation and in oral answers to questions may contain forward-looking information statements or forward-looking information together "forward-looking information" Forward-looking information is based on current expectations, estimates and projections that involve a number of risks which could cause actual results to vary and in some instances to differ materially from those anticipated by EPCOR Forward-looking information is based on the estimates and opinions of management at the time the information is presented Actual results could differ materially from conclusions, forecasts or projections in the forward-looking information and certain material factors or assumptions were applied in drawing conclusions or making forecasts or projections as reflected in the forward-looking information. Additional information about the material factors and risks that could cause actual results to differ materially from the conclusions, forecasts or projections in the forward-looking information and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information is contained in the most recent interim and annual Management Discussion and Analysis filed on SEDAR (www sedar com) and EPCOR's website (www epcor com)

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 assumes no obligation to update any forward-looking information should circumstances or management s estimates or opinions change, or any other reason

Table of Contents

EPCOR Overview

EPCOR at a Glance

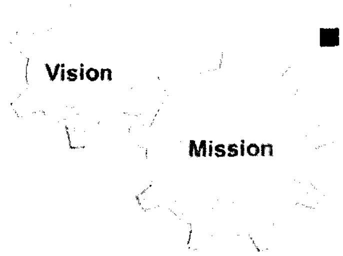
- Building on a proud 120 year history

  EPCOR Utilities Inc. builds, owns and operates electrical transmission and distribution networks, water and wastewater treatment facilities and infrastructure in Canada and the United States
  - ~2,700 employees
  - Headquartered in Edmonton, Alberta

- Operations in Canada and the U.S. Southwest
  - Over 75 communities in Alberta and British Columbia
  - EPCOR Water (USA) serves 14 municipalities in Arizona and New Mexico

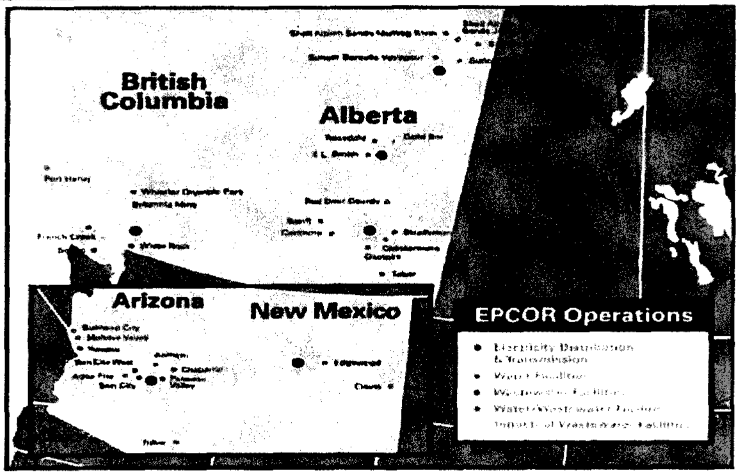
Mission and Vision

- **Our Mission:**
  - Making life better in our communities by providing clean water and safe, reliable electricity.



- **Our Vision:**
  - Be a premier North American essential services company, providing great tasting drinking water, clean wastewater and safe, reliable electricity, a company whose employees go home to their families safe.

EPCOR Operations



Management and Governance

Strategic Positioning

- Annual in-depth planning process
- Delivering on stated strategy to sell down interest in Capital Power and invest in regulated and long-term contracted assets

Risk Management

- Comprehensive financial management policies and enterprise risk management system geared to identifying, understanding and mitigating risk
- Disciplined approach to operations, business development and capital placement
- Fully staffed Regulatory and Government Relations teams

Organizational Effectiveness

- Experienced management team with considerable expertise

Governance

- Independent, experienced Board of Directors

Strategy

- Continued focus on water and wires utility infrastructure
  - Divest all or a significant portion of Capital Power interest in accordance with underlying agreements and as market conditions permit
- Pursue rate regulated and long term contracted investment opportunities
- Continue to build reputation as a trusted developer and operator of utility assets
- Deliver stable cash flow and maximize returns on existing assets
- Preserve or improve financial strength and corporate ratings:
  - A (low) (DBRS) and BBB+ (S&P)

Awards and Recognition

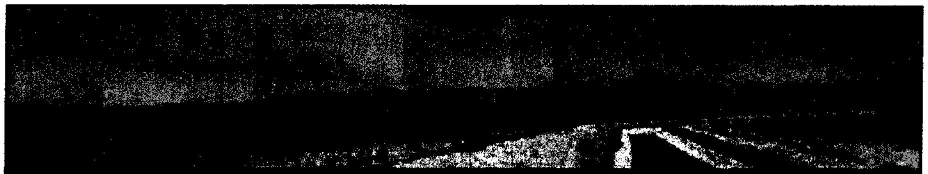
- 2012
  - Alberta's Top 55 Employers
  - Alberta Best Overall Workplace, 750+ employees
  - 50 Best Corporate Citizens in Canada
  - Alberta EnviroVista Champion
- 2011
  - Employee Safety Bronze Awards, Canadian Electricity Association
  - Customer Services Best Practices Operational Efficiency Award
  - Alberta's Top 50 Employers
  - Alberta Best Workplace for Training and Development
  - Alberta EnviroVista Champion

Canadian Water Operations

- Serve over 1 million people and supporting more than 75 communities in Alberta and British Columbia
- Owns eight and operates 19 other water treatment and/or distribution facilities in Alberta and British Columbia
- Owns five wastewater and operates 21 other treatment and/or collection facilities in Alberta and British Columbia
- Providing water and wastewater services to more than 6,000 Alberta oil sands camp workers
  - Located in the Wood Buffalo region
- Operations are either rate regulated or under long-term contracts

Recent Developments

- **October 2011:** Suncor water treatment plant added
  - Firebag Central
- **November 2011:** Five year chair sponsorship in tailings pond research
  - Study is to maximize the ability to recycle water between oil sands operations and reduce overall water use
  - Opportunity to expand knowledge to address environmental challenges
- **February 2012:** Suncor wastewater treatment plant added
  - Firebag Central



US Water Operations

- Chaparral City Water Company
  - Serves approximately13,000 customers in the Town of Fountain Hills and portion of Scottsdale
  - $35 million investment
  - Acquired June 2011
- EPCOR Water Arizona Inc. and EPCOR Water New Mexico Inc.
  - Serves approximately 106,000 water customers and 51,000 wastewater customers in several municipalities located within a 20-mile radius of Phoenix
  - New Mexico Water serves about 17,000 water customers in City of Clovis and greater Edgewood
  - $458 million investment
  - Acquired January 2012

Recent Developments

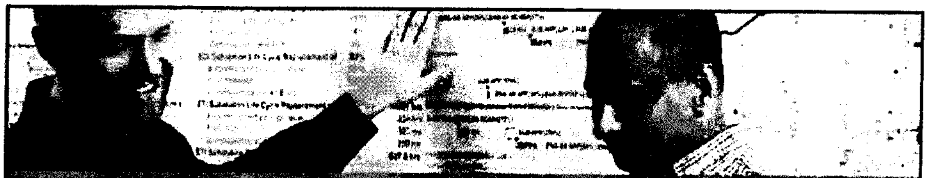
- **January 2012:** American Water Integration
  - Operations were ready day one with no significant disruption in service
  - All regulatory approvals were granted with no significant conditions imposed
  - Good stakeholder acceptance of the transaction and positive entrance into the market
- **July 2012:** Agua Fria White Tanks Water Treatment Plant
  - Added to customer rates starting in July 2012, three months earlier than expected
  - Parties agreed investment prudent for three year phase-in
  - $78.9 million addition to the rate base

Distribution & Transmission

- Power distribution in Alberta
  - Distributes 14% of Alberta's total electricity consumption
  - ~340,000 customers
- We build, own and operate:
  - 29 transmission substations
  - 203 circuit kilometres of aerial transmission lines and underground transmission cables
  - Eight distribution substations
  - 287 distribution feeders
  - Approximately 5,000 circuit kilometres of primary distribution lines

Recent Developments

- **April 2011:** Alberta Utilities Commission (AUC) approved EPCOR's application to build a new substation, the Poundmaker Substation, in northwest Edmonton
  - Cost $30 million
  - Expected completion in late 2012
  - Project will add to EDTI's rate base
- **November 2011:** Heartland Transmission Project regulatory approval
  - Estimated cost of $430 million ($215 million per partner)
  - EPCOR 50% partner with Altalink
  - Altalink is project manager
  - Target completion in 2013



Energy Services

- Sells rate-regulated electricity to:
  - About 600,000 customers, approximately 40% of the eligible RRO customers in Alberta
  - Located in Edmonton and Fortis Alberta service areas
- Handles billing and customer care for:
  - 240,000 EPCOR Water Services customers
  - City of Edmonton Waste and Drainage divisions

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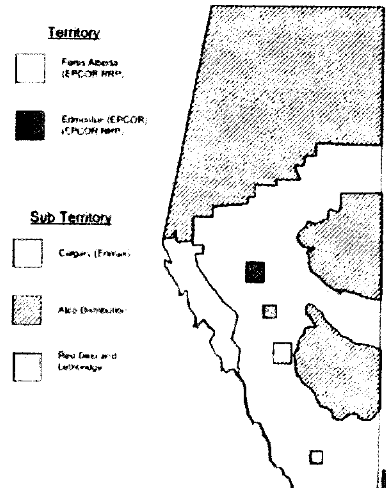
Regulated Rate Option Territory

- Regulated Rate Option (RRO) provider
  - EPCOR and Fortis (Territory)
  - ~600,000 RRO customers



PROVIDING MORE EPCOR

Recent Developments

- **June 2011:** Energy Price Setting Plan (EPSP)
  - Brought procurement in-house under a regulator approved EPSP
  - EPCOR bears price and volume risks and receives compensation intended to cover such risks
- **May 2012:** Calgary Contact Centre
  - Calgary contact centre closed and consolidated operations in Edmonton

Technologies

- Serving the City of Edmonton and other municipal / private clients:
  - Light rail transit
  - Roadway lighting
  - Traffic control and
  - Intelligent transportation systems
- Experienced in:
  - Design
  - Construction
  - Project management
  - Maintenance

Recent Developments

- **October 2012:** Calgary Transit Refurbishment Project
  - Calgary Transit
- **December 2012:** Temporary and Permanent Substation Installation
  - North LRT Extension City of Edmonton
- **July 2013:** Overhead Catenary Installation
  - North LRT Extension City of Edmonton
- **October 2016:** Road Weather Information System Installation
  - Alberta Transportation

Financial Overview

Financial Performance

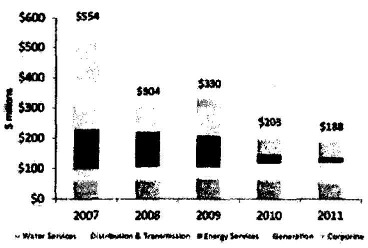
	31-Dec-10	31-Dec-11	% change
Revenues	$1,489	$1,833	23.1%
EBITDA	$301	$293	-2.7%
Investment in capital projects	$245	$338	38.0%
Net Income	$105	$144	37.1%
Cash flow from Operations	$190	$123	-35.3%

*All figures are in millions of dollars

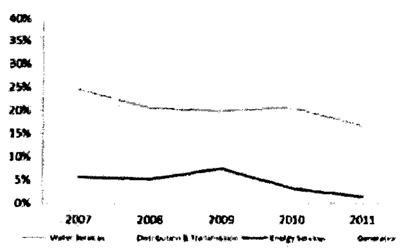
Historical Operating Income

- While the divestiture of EPCOR's generation business decreased revenue and operating income, it has reduced the volatility of EPCOR's Operating Margin

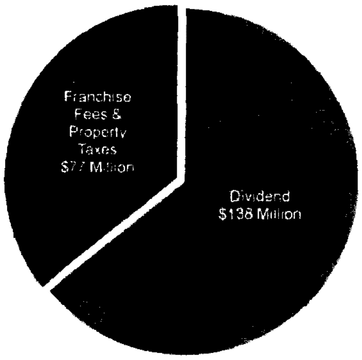
Operating Income Breakdown by Segment



Segmented Operating Income Margin



Performance for Shareholder



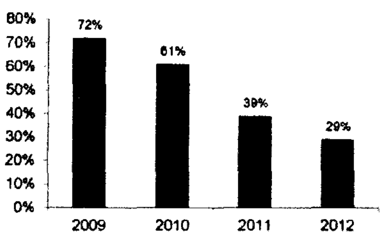
EPCOR payments to City of Edmonton (2011)

- In 2011, EPCOR contributed:
  - $138 million dividend
  - $77 million in franchise fees & property taxes
- Over more than a decade EPCOR has paid over $2 billion to the City of Edmonton

25 PROVIDING MORE EPCOR

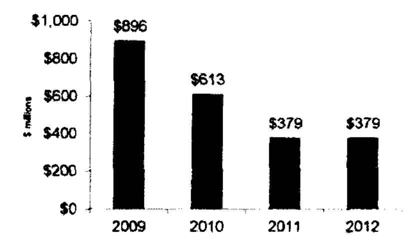
Interest in Capital Power

Equity Interest



- Sale of Capital Power LP units in 2010, 2011, and 2012
  - $675 million in total gross proceeds
- Capital Power sale of treasury common shares in 2011

Back-to-Back Debt (B2B)

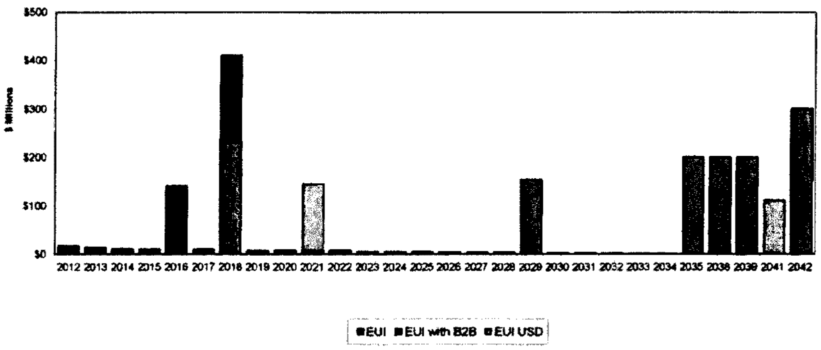


- B2B debt held by EPCOR relates to generation assets transferred to Capital Power LP in 2009
- Remainder to be repaid in full by June 2018
  - Significant Payments: 2016 - $140 million, 2018 - $174 million

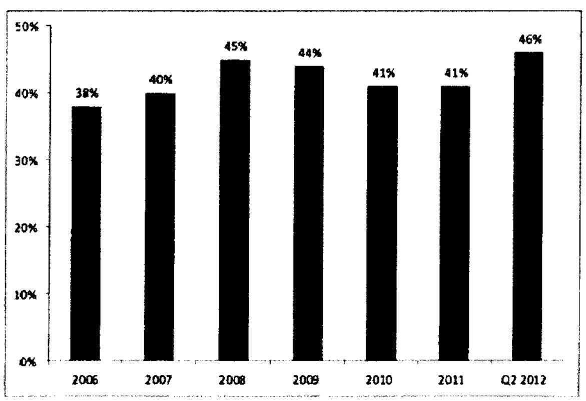
EPCOR plans to divest all or a significant portion of its interest in Capital Power over time as market conditions permit

26 PROVIDING MORE EPCOR

Debt Maturities



Debt to Capitalization Ratio



Financing and Liquidity

- Syndicated bank credit facility of $500 million (two tranches of $250 million)
  - Current maturity dates of November 2014 and November 2016
- Committed Letter of Credit facility of $400 million to January 2015
- Demand Facilities for approximately $45 million
  - $25 million CAD, $20 million USD
- $500 million Commercial Paper program
- Strategy in place to monetize all or a significant portion of interest in Capital Power
  - $221 million transacted in December 2010
  - $224 million transacted in November 2011
  - $230 million transacted in April 2012
- Available Medium Term Note (MTN) debt capacity of $700 million under Short-Term Base Shelf Prospectus to January 2014
- Recent Long-term Financings:
  - USD $250 million US private placement issued December 2011 in two tranches: $138 million 10 year and $112 million 30 year
  - $300 million 30-year MTN issued February 2012 under base shelf prospectus

Thank you for your time

Questions?

EPCOR Utilities Inc.

Infrastructure and Utilities Conference
February 2012

BMO Capital Markets

Mark Wiltzen
Senior Vice President and Chief Financial Officer

Sam Myers
Treasurer

PROVIDING MORE EPCOR

Forward-Looking Information

Certain information in this presentation and in oral answers to questions may contain forward-looking information statements or forward-looking information together, "forward-looking information". Forward-looking information is based on current expectations, estimates and projections that involve a number of risks which could cause actual results to vary and in some instances to differ materially from those anticipated by EPCOR. Forward-looking information is based on the estimates and opinions of management at the time the information is presented. Actual results could differ materially from conclusions, forecasts or projections in the forward-looking information, and certain material factors or assumptions were applied in drawing conclusions or making forecasts or projections as reflected in the forward-looking information. Additional information about the material factors and risks that could cause actual results to differ materially from the conclusions, forecasts or projections in the forward-looking information and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information is contained in the most recent annual Management Discussion and Analysis filed on SEDAR (www.sedar.com) and EPCOR's website (www.epcor.ca).

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 assumes no obligation to update any forward-looking information, should circumstances or management's estimates or opinions change, or any other reason.

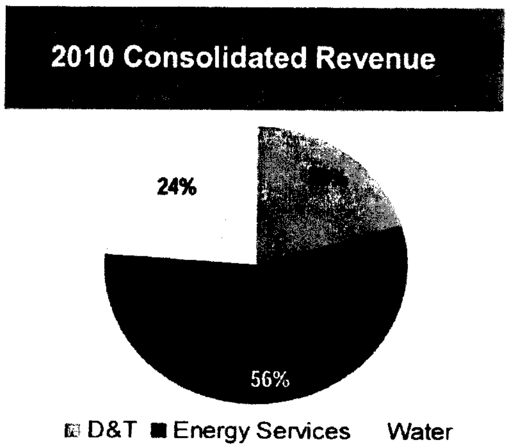
EPCOR

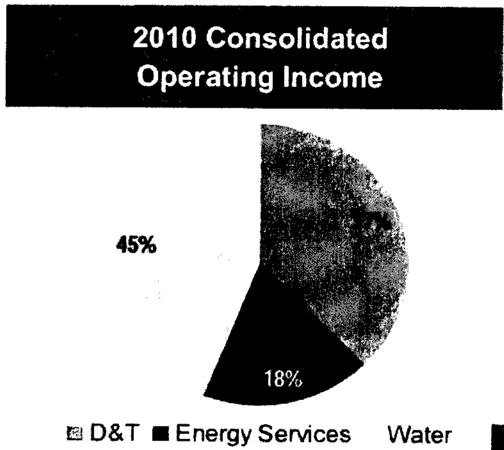
Business of EPCOR

EPCOR

Company Overview

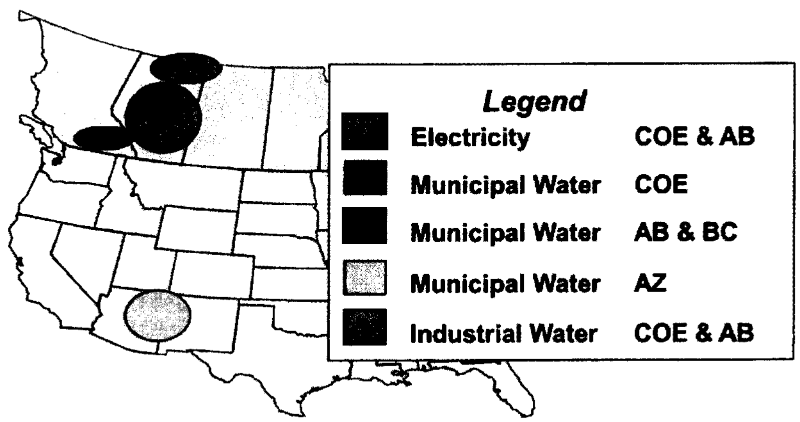
- Diversified electricity services and water services provider headquartered in Edmonton, Alberta
- Minority ownership in Capital Power, a power generation business
- 2010 revenue of C$1,473 million and EBITDA of C$300 million
- Wholly-owned by the City of Edmonton for over 100 years
- Geographically diverse operations in Canada with recent acquisitions in the US





Strategy

- Continued focus on water and wires utility infrastructure and divest Capital Power interest in accordance with underlying agreements and as market conditions permit
- Pursue rate regulated and long term contracted investment opportunities
- Continue to build reputation as a trusted developer and operator of utility assets
- Deliver stable cash flow and maximize returns on existing assets
- Preserve or improve financial strength and corporate ratings: A (low) (DBRS) and BBB+ (S&P)



Growth – Focus Areas

Growth Hunting Permit		Capital Region	Alberta & B.C.	US Southwest - Arizona
Municipal Water and Wastewater	WS Growth	■	■	■
	Acquisitions		■	■
	Development		■	■
Industrial Water and Wastewater	Potable W&WW		■	
	Tailings Treatment		■	
	Re-use	■	■	
Electricity	D&T Growth	■		
	Energy Services	■	■	
	Technologies	■	■	
	Independent Transmission		■	

EPCOR's strategy is to focus on rate-regulated businesses or long term contracted commercial agreements

EPCOR

EPCOR Business Summary

Water

- Owns and operates rate regulated and contracted water treatment and wastewater treatment facilities

Distribution and Transmission

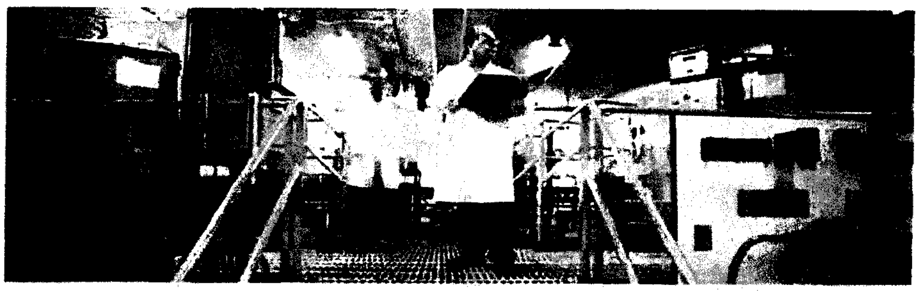
- Owns and operates electricity transmission and distribution assets in Alberta

Energy Services

- Provides electricity regulated rate service to residential and small commercial customers as well as default supply electricity services

Interest in Capital Power

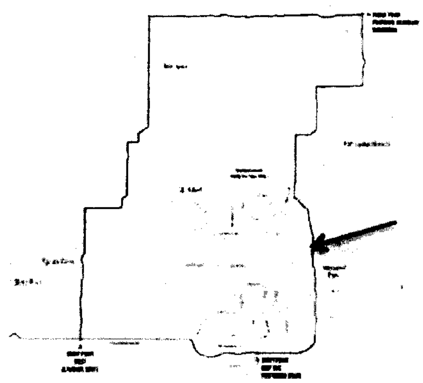
- Remaining interest in Capital Power



EPCOR

Recent Developments

- Acquisition of Arizona American Water Company and New Mexico American Water Company, US $470 million, 106,000 water and 51,000 wastewater customers in Arizona, 17,000 water customers in New Mexico (January 2012)
- Acquisition of Chaparral City Water Company, US $35 million, Arizona, 13,000 customers (June 2011)
- Heartland Transmission Project regulatory approval (partnership with Altalink), estimated project cost (~$ 400 million), targeted completion 2013



EPCOR

Financial Overview

EPCOR

Historical Operating Income

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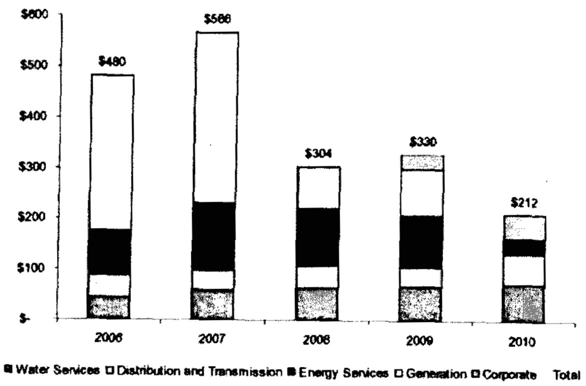
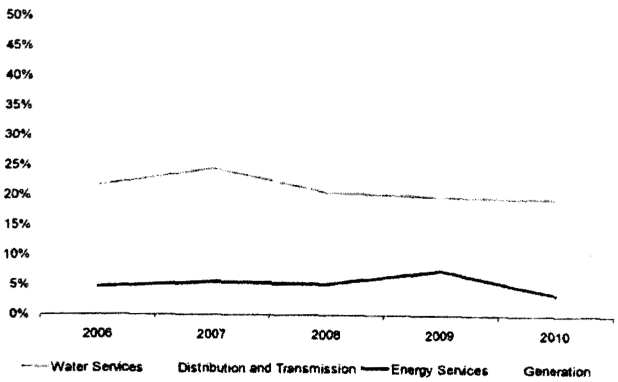
Operating Income Breakdown By Segment



Segmented Operating Income Margin

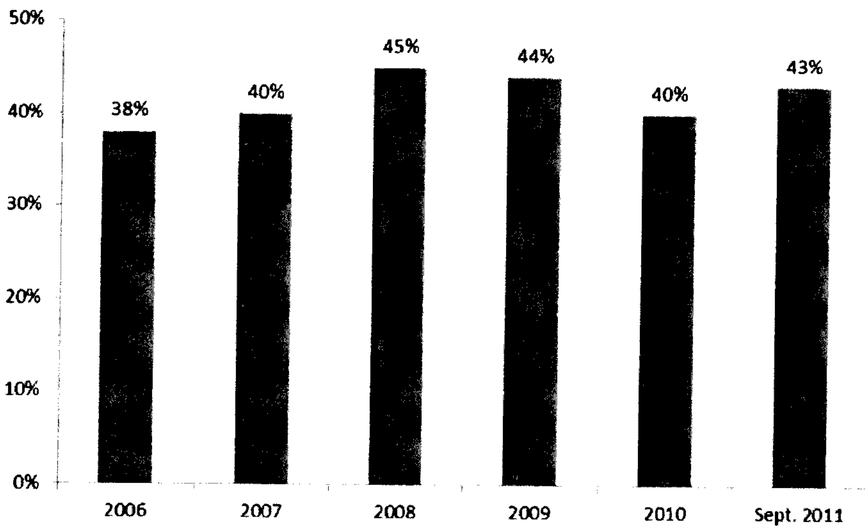


- The Generation and Corporate segments represent the generation business (pre and post restructuring)

EPCOR

Debt to Capitalization Ratio

- EPCOR will continue to target a Consolidated Senior Debt to Consolidated Capitalization ratio of 40% to 60%



EPCOR

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  - Recently extended to November 2014 and November 2016
- Syndicated Letter of Credit bank credit facility of $400 million
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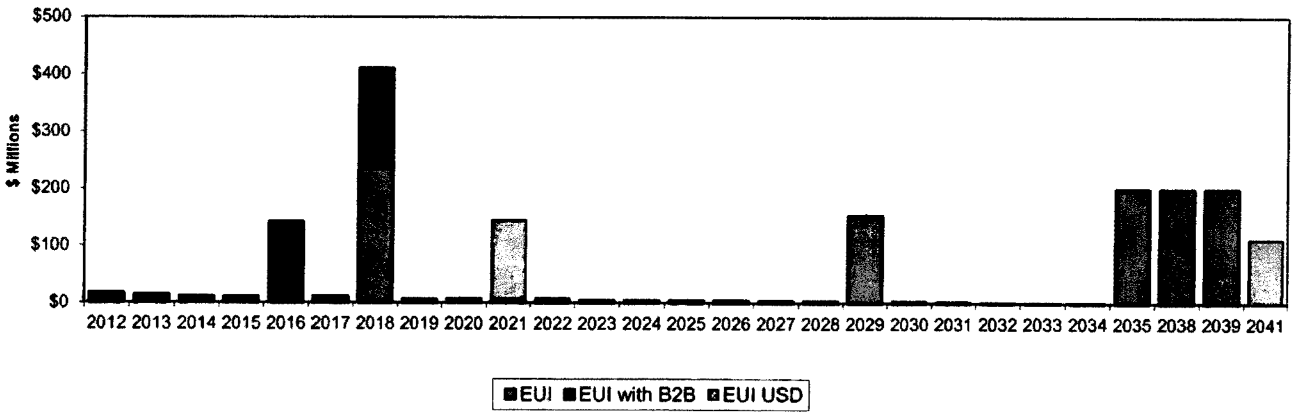
- $500 million Commercial Paper program
- Strategy in place to monetize interest in Capital Power
  - $221 million transacted in December 2010
  - $224 million transacted in November 2011
- Unutilized $1 billion Canadian Medium Term Note (MTN) Base Shelf Prospectus available to January 2014 which provides access to Canadian MTN market
- $250 million USD private placement of debt in December 2011
  - $138 million 10-year, $112 million 30-year

EPCOR

Debt Maturities



EPCOR

Investment Highlights

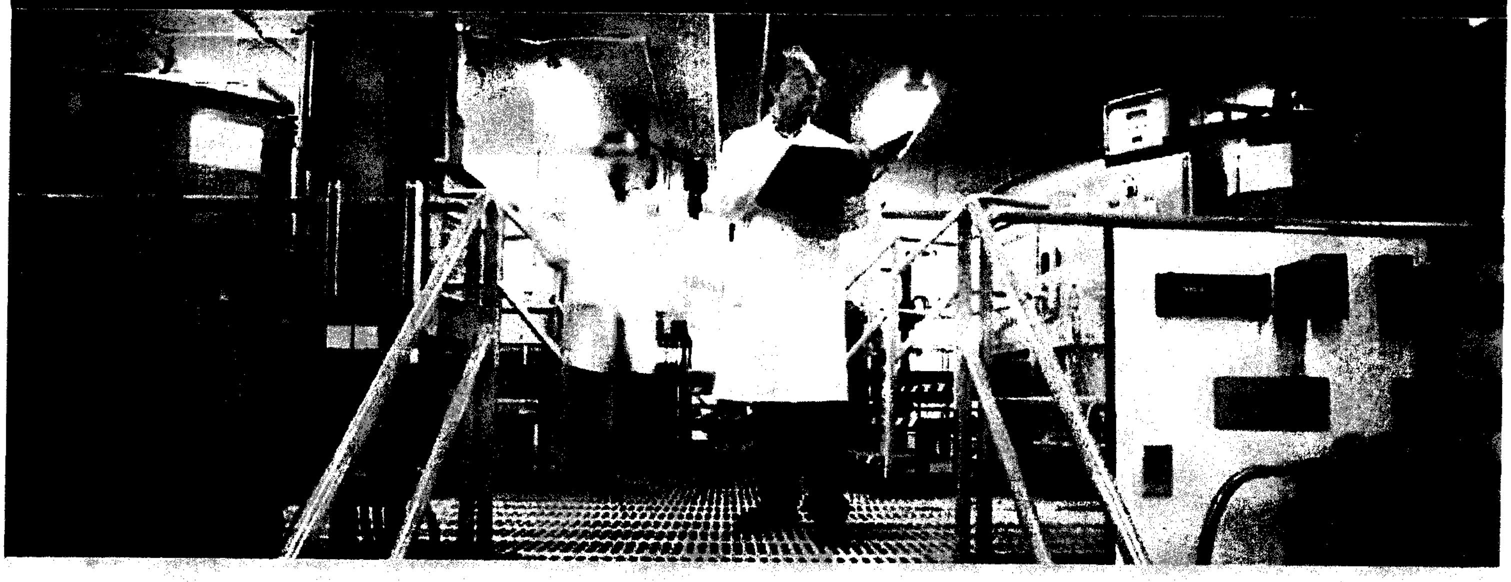
Consistent and Predictable Cash Flow and Solid Credit Metrics
- Maintain moderate leverage, conservative policies and strong coverage ratios

Strong Credit Ratings and Longstanding, Stable Ownership
- S&P: BBB+, DBRS: A(low)

Growth in Rate-Regulated and Long Term Contracted Businesses
- Capital investment in Edmonton and Fort McMurray, Alberta
- Chaparral, Arizona American Water, and New Mexico American Water

Continued Divestiture of Capital Power
- Reduced exposure to power generation business

Questions?



www.epcor.ca

PROVIDING MORE EPCOR

EPCOR Water Preliminary Cost Estimate			Date Prepared: 2/11/2014
Prepared By: Candace Coleman, P.E.	Water System: Paradise Valley	Project Year and Number: 2016 WM-3	Project Location: Silvercrest Way

Project Description:

Replace existing main in Silvercrest Way with 520 feet of 4" main

Materials & Labor

Quantity	Unit	Avg $/Unit	Description	Estimated Item Cost
520	linear feet	95	Contractor material and labor to install main	$ 49,400
1	lump sum	5,000	Consultant engineering design	$ 5,000
100	hours	35	Company labor for field oversight and inspections	$ 3,500
40	hours	45	Company labor for project management	$ 1,800
Subtotal				$ 59,700
General Overhead Rate on Labor and Capital (10%)				$ 5,970
Total Estimated Cost				$ **65,670**

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

Response provided by: Sheryl L. Hubbard
Title: Director, Regulatory & Rates

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

Company Response Number: Resorts 1.1

Q: Work Papers – Referring to the testimony of Candice Coleman, please provide the annual change revenue requirements anticipated under the SIB and the CAPEX mentioned in her testimony for the Paradise Valley Water District. For purposes of this request, assume the requested ROR. Provide all working papers in Excel supporting the response.

A: The annual changes in revenue requirements anticipated under the SIB mechanism for the Paradise Valley Water District are summarized in the attachment labeled "Resorts 1.1 SIB Rev Req-Paradise Valley.xlsx".

Paradise Valley Water District
5/8 x 3/4 Inch Meter - Residential

Per Paradise Valley Water District, Schedule A-1

	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Total Revenue	$ 9,648,251	$10,489,588	$ 841,337	8.72%

SIB Revenue Requirement (5% of Revenue Requirement)	$ 482,413	$ 524,479
Efficiency Credit (5% of SIB Revenue Requirement)	$ (24,121)	$ (26,224)
	$ 458,292	$ 498,255

(per Schedule H-4, page 1)

		Present Bill	Proposed Bill	Dollar Increase	Percent Increase
Average Usage					
	19,271	$ 52.30	$ 56.76	$ 4.47	8.54%

	SIB YR 1	SIB YR 2	SIB YR 3	SIB YR 4	SIB YR 5	Total
Increase from Yr 1	$ 1.07	$ 1.07	$ 1.07	$ 1.07	$ 1.07	
Increase from Yr 2		$ 1.01	$ 1.01	$ 1.01	$ 1.01	
Increase from Yr 3			$ 1.06	$ 1.06	$ 1.06	
Increase from Yr 4				$ 1.07	$ 1.07	
Increase from Yr 5					$ 0.88	
Cumulative Totals	$ 1.07	$ 2.08	$ 3.14	$ 4.21	$ 5.09	
Annual Revenue Increase - SIB (Includes Efficiency Credit)	197,174	187,203	196,228	197,044	162,974	940,621
Cumulative Revenue Increases - SIB	197,174	384,376	580,604	777,647	940,621	
Annual Increase over Requested Revenue	1.88%	1.78%	1.87%	1.88%	1.55%	
Average Annual Bill Impact	$ 1.07	$ 1.01	$ 1.06	$ 1.07	$ 0.88	

Paradise Valley Water District
Data per Paradise Valley Water Plant Table I

	2015	2016	2017	2018	2019	5 Year Total
Service Line Replacements	$ 813,727	$ 824,710	$ 930,283	$ 904,042	$ 761,957	$ 4,234,719
Valve Replacements	$ 203,628	$ 225,795	$ 242,691	$ 204,380	$ 229,975	$ 1,106,469
Main Replacements	$ 454,179	$ 346,614	$ 291,500	$ 362,142	$ 224,369	$ 1,678,804
	$ 1,471,534	$ 1,397,119	$ 1,464,474	$ 1,470,564	$ 1,216,301	$ 7,019,992
Return on Investment at 6.87%	$ 101,094	$ 95,982	$ 100,609	$ 101,028	$ 83,560	$ 482,273.45
Depreciation (net of tax)	$ 24,694	$ 23,445	$ 24,576	$ 24,678	$ 20,411	$ 117,804
Income Required	$ 125,789	$ 119,427	$ 125,185	$ 125,706	$ 103,971	$ 600,077.49
Revenue Required	$ 207,551	$ 197,055	$ 206,555	$ 207,414	$ 171,552	$ 990,128
Total Revenue	$ 10,489,588	$ 10,489,588	$ 10,489,588	$ 10,489,588	$ 10,489,588	$ 10,489,587.80
Percentage Increase	1.979%	1.879%	1.969%	1.977%	1.635%	9.439%
SIB increase after efficiency credit	1.88%	1.78%	1.87%	1.88%	1.55%	8.97%

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FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
2394 E. Camelback Road, Suite 600
Phoenix, Arizona 85016
Telephone (602) 916-5000
Attorneys for EPCOR Water Arizona Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

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 ORIGINAL **NOTICE OF FILING CERTIFICATION OF PUBLICATION AND PROOF OF MAILING**

Pursuant to the procedural orders issued on April 28, 2014 and May 8, 2014, EPCOR Water Arizona Inc. ("EWAZ") hereby submits this Notice of Filing Certification of Publication and Proof of Mailing in the above-captioned matter.

On May 21 and May 22, EWAZ mailed notice to customers regarding EWAZ's rate application and the associated hearing set for December 2, 2014. Attached as **Exhibit A** are a certificate of mailing and a copy of the notice.

On May 22, 23 and 28, EWAZ published notice in the *Mohave Daily News, Daily News-Sun, and Nogales International*, and in Zones 7, 8 and 9 of *The Arizona Republic*. Proofs of publication are attached as **Exhibit B**.

RESPECTFULLY SUBMITTED this 12th day of June, 2014.

FENNEMORE CRAIG, P.C.

By ______________________
Jay L. Shapiro
Todd C. Wiley
2394 E. Camelback Road
Suite 600
Phoenix, Arizona 85016
Attorneys for EPCOR Water Arizona Inc.

ORIGINAL and thirteen (13) copies
of the foregoing were filed
this 12th day of June, 2014, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

COPY of the foregoing was hand-delivered
This 12th day of June, 2014, to:

Dwight D. Nodes, Assistant Chief Administrative Law Judge
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Robin Mitchell, Esq.
Matthew Laudone, Esq.
Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Steve Olea, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Connie Walczak, Consumer Services
Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

COPY of the foregoing was mailed this 12th day of June, 2014, to:

Daniel Pozefsky
Residential Utility Consumer Office
1110 West Washington Street, Suite 220
Phoenix, AZ 85007

Marshall Magruder
P.O. Box 1267
Tubac, Arizona 85646

By: Lila Robertson
9213883.2

EXHIBIT A

METER

UNITED STATES POSTAL SERVICE®

Certificate of Bulk Mailing

MAILER: Prepare this statement in ink. Affix meter, PC Postage®, or (uncanceled) postage stamps in payment of total fee due in the block to the right. Present to acceptance unit at the time of mailing. This certificate does not provide evidence that a piece was mailed to a particular address. If paying fee by permit imprint, enter information in the adjacent block to the right.

Mailers must affix meter, PC Postage, or (uncanceled) postage stamps here in payment of total fee due.

Acceptance employee must cancel postage affixed (by round-date) at the time of mailing.

If payment of total fee due is being paid by Permit imprint, include the PostalOne! Transaction Number here: ____

Fee for Certificate

Up to 1,000 pieces (1 certificate for total number)	Use Current Price List (Notice 123)
For each additional 1,000 pieces, or fraction thereof	
Duplicate Copy ☐	

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Don Simko Epcar procedural	SERVICE MAILERS, INC. 3101 EXPOSITION PLACE LOS ANGELES, CA 90018

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It is hereby certified that the number of mailpieces presented and the associated postage and fee were verified. This certificate does not provide evidence that a piece was mailed to a particular address.

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(213) 304-7939

PS Form **3606**, January 2013, *(Page 1 of 1)*

EPCOR WATER

2355 West Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

epcor.com

PUBLIC NOTICE OF HEARING ON THE RATE APPLICATION OF EPCOR WATER ARIZONA, INC., FOR 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

Summary

On March 10, 2014, EPCOR Water Arizona, Inc. ("EPCOR" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a determination of the fair value of its utility plant and property and for increases in its water and wastewater 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.

For its Mohave Water District, EPCOR's application requests an annual revenue increase of approximately $2,022,451, or 32.38 percent, over current revenues. For average consumption (6,800 gallons per month) 5/8 x 3/4-inch meter residential customers of the Mohave Water District, EPCOR's request would increase monthly rates by 43.92 percent, or $9.06. EPCOR is also requesting approval of a System Improvement Benefits ("SIB") surcharge. If you would like to calculate the bill impact of the Company's proposal based on your consumption, please view its website at epcor.com or contact Customer Service at 1.800.383.0834.

THE COMMISSION'S UTILITIES DIVISION ("STAFF") HAS NOT YET MADE A RECOMMENDATION REGARDING THE APPLICATION. STAFF'S EVALUATION OF THE APPLICATION MAY RESULT IN A RECOMMENDATION THAT THE COMMISSION APPROVE OR DENY THE COMPANY'S PROPOSALS, OR THAT THE COMPANY'S CURRENT OVERALL RATES BE EITHER DECREASED OR INCREASED. THE COMMISSION IS NOT BOUND BY THE PROPOSALS OF THE COMPANY, STAFF, OR ANY INTERVENORS. THE COMMISSION WILL DETERMINE THE APPROPRIATE RATEMAKING TREATMENT OF THE REVENUES AND EXPENSES RELATED TO EPCOR'S APPLICATION BASED ON THE EVIDENCE PRESENTED IN THIS PROCEEDING.

If you have any questions concerning how the Application may affect your bill or other substantive questions about the Application, you may contact the Company at: **EPCOR Water, Attention: Rate Case Questions, 2355 W. Pinnacle Peak Road, Suite 300, Phoenix, AZ 85027, email RateCaseQuestions@epcor.com, or phone 1.800.383.0834.**

How You Can View or Obtain a Copy of the Application
Copies of the Application are available at the Company's offices at 15 Burruel Street, Tubac, Arizona, on the Company's website at epcor.com and at the Commission's Docket Control Center at 1200 West Washington Street, Phoenix, Arizona, and 400 West Congress Street, Suite 218, Tucson, Arizona, and on the internet via the Commission website (/www.azcc.gov/) using the e-Docket function.

Arizona Corporation Commission Public Hearing Information
The Commission will hold a hearing on this matter beginning **December 2, 2014, at 10:00 a.m.**, at the Commission's offices, Hearing Room #1, 1200 West Washington Street, Phoenix, Arizona. Public comments will be taken on the first day of the hearing. Written public comments may be submitted by mailing a letter referencing Docket No. WS-01303A-14-0010 to Arizona Corporation Commission, Consumer Services Section, 1200 West Washington Street, Phoenix, AZ 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to http://www.azcc.gov/Divisions/Utilities/forms/PublicCommentForm.pdf. If you require assistance, you may contact Consumer Services at 602.542.4251 or outside the metro Phoenix area at 1.800.222.7000.

If you do not intervene in this proceeding, you will receive no further notice of the proceedings in this docket. However, all documents filed in this docket are available online (usually within 24 hours after docketing) at the Commission's website www.azcc.gov using the e-Docket function, located at the bottom of the website homepage. RSS feeds are also available through e-Docket.

About Intervention
The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Any person or entity entitled by law to intervene and having a direct and substantial interest in the matter will be permitted to intervene.

If you wish to intervene, you must file an original and 13 copies of a written motion to intervene with the Commission no later than **July 1, 2014**, and send a copy of the motion to EPCOR or its counsel and to all parties of record. Your motion to intervene must contain the following:

1. Your name, address, and telephone number, and the name, address, and telephone number of any party upon whom service of documents is to be made, if not yourself;
2. A short statement of your interest in the proceeding (e.g., a customer of EPCOR, a shareholder of EPCOR, etc.); and
3. A statement certifying that you have mailed a copy of the motion to intervene to EPCOR or its counsel and to all parties of record in the case.

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EXHIBIT B

Proof of Publication

STATE OF ARIZONA)
County of Mohave) ss

Sherry Milks, being first duly sworn, says that during the publication of notice, as herein mentioned, he/she was and now is the **Legal Clerk** of the ***MOHAVE DAILY NEWS.*** Six times weekly newspaper published on Sunday, Monday, Tuesday, Wednesday, Thursday, and Friday of each and every week at the city of Bullhead City, in said County.

That said newspaper was printed and published as aforesaid on the following dates, to-wit:

May 22, 2014

That the **PUBLIC NOTICE** of which the annex copy is a printed and true copy, was printed and inserted in each and every copy of said newspaper printed and published on the dates aforesaid, and in the body of said newspaper and not in a supplement thereto.

Sherry Milks
Clerk

Subscribed and sworn to before me this 22

day of May, 2014

Laura J Sullivan-Burger
Notary Public

My commission expire 10-2-2016

LAURA J SULLIVAN-BURGER
Notary Public - Arizona
Mohave County
My Comm. Expires Oct 2, 2016

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Notary Public

My commission expire 10-2-2016

LAURA J SULLIVAN-BURGER
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My Comm. Expires Oct 2, 2016

fast classifieds

060 Announcements · 100 Services · 200 Rentals · 300 Real Estate · 400 Sale & Financial · 500 Employment · 600 Stuff · 700 Pets/Livestock · 800 Rec Vehicles · 900 Transportation

PUBLIC NOTICE OF HEARING ON THE RATE APPLICATION OF EPCOR WATER ARIZONA, INC., FOR 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

Summary
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For its Mohave Water District, EPCOR's application requests an annual revenue increase of approximately $2,022,451, or 32.36 percent, over current revenues. For average consumption (6,800 gallons per month) 5/8 x 3/4-inch meter residential customers of the Mohave Water District, EPCOR's request would increase monthly rates by 43.92 percent, or $9.08. EPCOR is also requesting approval of a System Improvement Benefits ("SIB") surcharge. If you would like to calculate the bill impact of the Company's proposal based on your consumption, please view its website at epcor.com or contact Customer Service at 1.800.383.0834.

THE COMMISSION'S UTILITIES DIVISION ("STAFF") HAS NOT YET MADE A RECOMMENDATION REGARDING THE APPLICATION. STAFF'S EVALUATION OF THE APPLICATION MAY RESULT IN A RECOMMENDATION THAT THE COMMISSION APPROVE OR DENY THE COMPANY'S PROPOSALS, OR THAT THE COMPANY'S CURRENT OVERALL RATES BE EITHER DECREASED OR INCREASED. THE COMMISSION IS NOT BOUND BY THE PROPOSALS OF THE COMPANY, STAFF, OR ANY INTERVENORS. THE COMMISSION WILL DETERMINE THE APPROPRIATE RATEMAKING TREATMENT OF THE REVENUES AND EXPENSES RELATED TO EPCOR'S APPLICATION BASED ON THE EVIDENCE PRESENTED IN THIS PROCEEDING.

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PUBLISH: May 22, 2014
#00028558

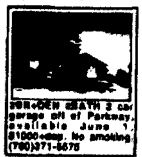
ANNOUNCEMENTS 060

NOTICE

NOTICE TO OUR CLASSIFIED CUSTOMERS

SERVICES 100

RENTALS 200



Falling gold prices hitting Nevada budget

CARSON CITY, Nev. (AP) — A slump in gold prices is creating a hole in Nevada's state coffers.

Revenue from the net proceeds tax is about $70 million short of projections made a year ago, state officials said.

Gov. Brian Sandoval's office said while that's a sizeable chunk, the shortfall is a relatively small part of the overall $6.6 billion general fund budget.

Mining companies pay a net proceeds tax on minerals they take out of the ground. It's in addition to payroll, property and sales taxes.

The budget approved by lawmakers last year assumed Nevada would get $93 million in net proceeds from mining. Instead, it took in only $20 million.

"Governor Sandoval is working to address the shortfall from the net proceeds, and has directed the Budget Office to work with the (Legislature's) Fiscal Division to formulate options," Sandoval spokesman Mac Bybee told the Las Vegas Review-Journal.

He noted the deficit is a result of the tax revenue falling short of projections for this fiscal year from the Economic Forum, an independent panel of fiscal experts. The forum projects how much money Nevada will take in from various tax sources, and its forecast is used to create the state budget.

"It is important to note that this reduction will not affect the state's ability to meet its day-to-day obligations," Bybee said. "Legislative leadership has been notified and will continue to be a part of the discussions as we move forward."

Tim Crowley, president of the Nevada Mining Association, attributed the revenue drop to declines in gold prices and higher production costs.

Gold prices have fallen from around $1,700 an ounce in January 2013 to about $1,300 today.

Economic Forum members will get an update on tax revenue streams when they meet June 3. They will gather late this year to make preliminary projections before the governor presents his budget to the 2015 Legislature, which convenes in February.

California parks director retires

SACRAMENTO, Calif. (AP) — California's state parks director abruptly announced his retirement Wednesday, just 19 months after he took control of a department that had been rocked by years of fiscal mismanagement.

Anthony Jackson, a retired Marine Corps major general, said in a statement that his tenure "has been a challenging, but ultimately fulfilling" one.

The major initiative launched under his tenure, a commission formed to make recommendations about the operation of the California Department of Parks and Recreation, still has another year of meetings remaining.

Gov. Jerry Brown appointed Jackson to the position in November 2012 after the previous director resigned following disclosures that the department kept $54 million hidden in two special funds for more than a decade, even as budget cuts threatened to close 70 of nearly 280 state parks.

Jackson had spent most of his career in the military. On the day he was sworn in as parks director, he said he was "kind of stunned I'm in this position, but I'm also exhilarated."

Jackson's retirement from the $150,000-a-year position will take effect June 30.

Parks department spokeswoman Vicky Waters said Jackson's decision was prompted not by health concerns or other reasons but was "just a decision to retire after 40 years of public service."

"He spent the last year and a half setting us on the right path," she said.

She added that Jackson helped the department regain the public's trust. A request by The Associated Press to speak directly to Jackson was not immediately fulfilled.

Elizabeth Goldstein, president of the California State Parks Foundation, said she was not surprised by Jackson's announcement because he had said when he took the post that he was likely to serve through the governor's current term, which ends in January.

"We're sorry to see the general go," she said. "He's certainly been at the helm through some choppy waters."

The foundation is a private nonprofit that advocates and raises money for the state park system, the largest in the nation.

California Natural Resources Secretary John Laird said in a statement that Jackson "came to the department during its darkest hour, bringing stability and consistency."

An audit released a month after he took office cited poor management and insufficient training at the department. Auditors with the state Department of Finance found that for 19 years, parks staff intentionally underreported funds used by the governor's office to craft the state budget.

The audit also said parks employees made improper charges on state-issued credit cards, among other findings. It was released days after the state controller disclosed that managers overpaid parks employees more than $500,000 over a three-year period.

At the time, Jackson said he agreed with most of the findings and would implement stronger internal controls.

The independent, privately funded Parks Forward Commission was created in June with the task of studying the size of the park system, money-generating opportunities and leadership at the department, among other topics. The panel includes private-sector business leaders.

Its first report to the Legislature and Brown is due this fall.

IN THE SUPERIOR COURT OF THE STATE OF ARIZONA IN AND FOR THE COUNTY OF MOHAVE

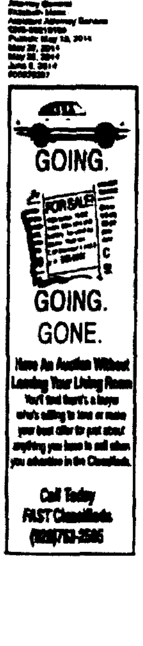
NOTICE TO CREDITORS

[illegible]

NOTICE OF PUBLICATION HEARING ON DEPENDENCY PETITION

IN THE SUPERIOR COURT OF THE STATE OF ARIZONA IN AND FOR THE COUNTY OF MOHAVE

[illegible]



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For its Mohave Wastewater District, EPCOR's application requests an annual revenue increase of approximately $467,807, or 44.3 percent, over current revenues. For residential customers of the Mohave Wastewater District, EPCOR's request would increase monthly rates by 46.4 percent, or by $26.24.

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PUBLISH: May 22, 2014
#00028557

ARTICLES OF ORGANIZATION HAVE BEEN FILED IN THE OFFICE OF THE ARIZONA CORPORATION COMMISSION FOR

Name: SUN RIVER SALES, LLC

[illegible]

NOTICE OF TRUSTEE'S SALE

[illegible]

Daily News-Sun

10102 Santa Fe Drive Sun City, Arizona 85351
623.977.8351 Fax 623.876.2588

BNA COMMUNICATIONS
P.O. BOX 632940
SAN DIEGO, CA 92163

Affidavit of Publication

I, Janet Gerster, Legal Clerk, am authorized by the publisher as agent to make this affidavit of publication Under oath. I state that the following is true and correct.

The Daily News-Sun is a newspaper which is published daily, is of general circulation and is in compliance with the Arizona Revised Statutes 10-140.34 & 39-201.A & B. I solemnly swear that the notice as per copy attached, was published in the regular and entire section of the said newspaper and not in any supplement. The below listed advertisement appeared in the following issue (s):

DATES OF PUBLICATION:

1) MAY 22, 2014

2) N/A

3) N/A

4) N/A

Janet Gerster

Legal Clerk

State of Arizona
County of Maricopa
Subscribed and sworn to before me, in my presence, this 22nd day of MAY, , 2014

KIMI COLE
Notary Public - Arizona
Maricopa County
My Commission Expires
March 21, 2017

Kimi I Cole
Notary Public

Ad caption: HEARING - EPCOR WATER AZ - AD# 17153555 - $621.31
Note: The customer is responsible for filing this document with the appropriate office.

9000

9005
Public Notice

[illegible]

9005
Public Notice

[illegible]

9005
Public Notice

[illegible]

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Published: Daily News-Sun, May 22, 2014/ 17[illegible]

AFFIDAVIT OF PUBLICATION

ELISA BERMUDEZ

STATE OF ARIZONA)
: SS
COUNTY OF SANTA CRUZ)

Elisa Bermudez being first

Duly sworn, deposes and says: That (he) (she) is the Agent to the Publisher of the NOGALES INTERNATIONAL newspaper printed and published two days week in the City of Nogales, County of Santa Cruz, State of Arizona. That the notice, a copy of which is hereto attached, described as follows:

PUBLIC NOTICE OF
HEARING ON THE RATE
APPLICATION OF
EPCOR WATER

was printed and published in the regular and entire issue of said

NOGALES INTERNATIONAL for 1 issues, that the first was

made on the 23rd day of MAY 20 14

and the last publication thereof was made on the 23rd day of

MAY 20 14 that said publication

was made on each of the following dates, to wit:

05/23/14

Request of BNA COMMUNICATIONS

NOGALES INTERNATIONAL

268 W VIEW POINT, NOGALES, AZ 85621 (520)375-5760

By

Manuel C. Coppola

Subscribed sworn to before me this 23rd day of MAY

20 14

Manuel C. Coppola
Notary Public
Santa Cruz County, Arizona
My Comm. Expires 02-26-15

Notary Public in and for the County of Santa Cruz, State of Arizona

My Commission Expires: 2/26/15

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For its Tubac Water District, EPCOR's application requests an annual revenue increase of approximately $410,600, or 70.8 percent, over current revenues. For average usage (8,348 gallons per month) 5/8 x 3/4-inch meter residential customers of the Tubac Water District, EPCOR's request would increase monthly rates by 89.95 percent, or by $48.19. If you would like to calculate the bill impact of the Company's proposal based on your consumption, please view its website at epcor.com or contact Customer Service at 1.800.383.0834.

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If you have any questions concerning how the Application may affect your bill or other substantive questions about the Application, you may contact the Company at: EPCOR Water, Attention: Rate Case Questions, 2355 W. Pinnacle Peak Road, Suite 300, Phoenix, AZ 85027, email RateCaseQuestions@epcor.com, or phone 1.800.383.0834.

How You Can View or Obtain a Copy of the Application

Copies of the Application are available at the Company's offices 15 Burruel Street, Tubac, Arizona, on the Company's website at epcor.com and at the Commission's Docket Control Center at 1200 West Washington Street, Phoenix, Arizona, and 400 West Congress Street, Suite 218, Tucson, Arizona, and on the internet via the Commission website (/www.azcc.gov/) using the e-Docket function.

Arizona Corporation Commission Public Hearing Information

The Commission will hold a hearing on this matter beginning December 2, 2014, at 10:00 a.m., at the Commission's offices, Hearing Room #1, 1200 West Washington Street, Phoenix, Arizona. Public comments will be taken on the first day of the hearing. Written public comments may be submitted by mailing a letter referencing Docket No. WS-01303A-14-0010 to Arizona Corporation Commission, Consumer Services Section, 1200 West Washington Street, Phoenix, AZ 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to http://www.azcc.gov/Divisions/Utilities/forms/PublicCommentForm.pdf. If you require assistance, you may contact Consumer Services at 602.542.4251 or outside the metro Phoenix area at 1.800.222.7000.

If you do not intervene in this proceeding, you will receive no further notice of the proceedings in this docket. However, all documents filed in this docket are available online (usually within 24 hours after docketing) at the Commission's website www.azcc.gov using the e-Docket function, located at the bottom of the website homepage. RSS feeds are also available through e-Docket.

About Intervention

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Any person or entity entitled by law to intervene and having a direct and substantial interest in the matter will be permitted to intervene.

If you wish to intervene, you must file an original and 13 copies of a written motion to intervene with the Commission no later than July 1, 2014, and send a copy of the motion to EPCOR or its counsel and to all parties of record. Your motion to intervene must contain the following:

1. Your name, address, and telephone number, and the name, address, and telephone number of any party upon whom service of documents is to be made, if not yourself;
2. A short statement of your interest in the proceeding (e.g., a customer of EPCOR, a shareholder of EPCOR, etc.); and
3. A statement certifying that you have mailed a copy of the motion to intervene to EPCOR or its counsel and to all parties of record in the case.

The granting of motions to intervene shall be governed by A.A.C. R14-3-105, except that all motions to intervene must be filed on or before July 1, 2014. All parties must comply with Rules 31 and 38 of the Rules of the Arizona Supreme Court and A.R.S. § 40-243 with respect to the practice of law. For information about requesting intervention, go to http://www.azcc.gov/divisions/utilities/FORMS/interven.pdf. The granting of intervention entitles a party to present sworn evidence at hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case.

ADA/Equal Access Information

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, e-mail sabernal@azcc.gov, voice phone number 602.542.3931. Requests should be made as early as possible to allow time to arrange the accommodation.

AFFIDAVIT OF PUBLICATION

THE ARIZONA REPUBLIC

STATE OF ARIZONA
COUNTY OF MARICOPA } SS.

Tabitha Weaver, being first duly sworn, upon oath deposes and says: That she is a Sr. legal advertising representative of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published at Phoenix, Arizona, by Phoenix Newspapers Inc., which also publishes The Arizona Republic, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates as indicated.

The Arizona Republic
Zones 7, 8, 9

May 28, 2014

Sworn to before me this
28th day of
May A.D. 2014

MANUEL VARGAS
Notary Public - State of Arizona
MARICOPA COUNTY
My Commission Expires
November 30, 2015

Notary Public

PUBLIC NOTICE OF HEARING ON THE RATE APPLICATION OF EPCOR WATER ARIZONA, INC., FOR 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

Summary

On March 10, 2014, EPCOR Water Arizona, Inc. ("EPCOR" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a determination of the fair value of its utility plant and property and for increases in its water and wastewater 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.

For its **Paradise Valley Water District**, EPCOR's application requests an annual revenue increase of approximately $950,774, or 9.9 percent, over current revenues. For average consumption (19,271 gallons per month) 5/8 x 3/4-inch meter residential customers of the Paradise Valley Water District, EPCOR's request would increase monthly rates by 9.68 percent, or by $5.06. **If you would like to calculate the bill impact of the Company's proposal based on your consumption, please view its website at epcor.com or contact Customer Service at 1.800.383.0834.**

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If you wish to intervene, you must file an original and 13 copies of a written motion to intervene with the Commission no later than **July 1, 2014**, and send a copy of the motion to EPCOR or its counsel and to all parties of record. Your motion to intervene must contain the following:

1. Your name, address, and telephone number, and the name, address, and telephone number of any party upon whom service of documents is to be made, if not yourself;
2. A short statement of your interest in the proceeding (e.g., a customer of EPCOR, a shareholder of EPCOR, etc.); and
3. A statement certifying that you have mailed a copy of the motion to intervene to EPCOR or its counsel and to all parties of record in the case.

The granting of motions to intervene shall be governed by A.A.C. R14-3-105, except that all motions to intervene must be filed on or before July 1, 2014. All parties must comply with Rules 31 and 38 of the Rules of the Arizona Supreme Court and A.R.S. § 40-243 with respect to the practice of law. For information about requesting intervention, go to http://www.azcc.gov/divisions/utilities/FORMS/interven.pdf. The granting of intervention entitles a party to present sworn evidence at hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case.

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EXHIBIT
Eastes-1
ADMITTED

To: Arizona Corporation Commissioners (AZCC) Members

From: Delman Eastes

Subject: Epcor Water, AZCC Docket # WS-01303-14-0010

This letter is in response to our conversation of February 4, 2015 relative to issues not discussed in AZCC telephone conference of February 2, 2015.

at hearing

- Epcor has not conducted **Business Process Re-Engineering** of their enterprise or change in communication.
- Epcor has not conducted a **Benchmark Study** to see what the competition/others in this area are charging.
- I don't see any indication of **irreversible corrective action** when adverse issues arise so they don't happen again.
- Epcor is planning **an increase in compensation** for employees at all levels of their organization, including bonus for all those in the bonus pool (they should be freezing all compensation).
- I have not seen a yearly audit of their books to see the auditor's opinion of Epcor operations.
- Finally, we live in the 5th poorest area I the U.S. and cannot afford an increase in water and sewer rates, they should be lowered.

Enclosed are bills from: Yuma, AZ: Bullhead City, AZ : FT Mohave, AZ

Also enclosed is additional information about our area

Ret Ralph Smith Surrebuttal

Correction
effluent revenue

To: Arizona Corporation Commissioners (AZCC) Members

From: Delman Eastes

Subject: EPCOR Wishing Well Waste Water Treatment Plant Service Area, Mohave Valley

The following are issues relative to EPCOR purposed rate changes

- There are currently 1448 customers EPCOR Wishing Well Waste Water Treatment Plant (Wishing Well Waste Water Treatment Plant) in Fort Mohave, Arizona Over 60% of these customers are retired and are on a limited fixed income
- The existing EPCOR WW-WWTP and associated waste water collection system is now \$56.00 – Almost 2 times the Bullhead City rate and 30% higher than Fort Mojave Tribal Utilities Authority (FMTUA) rates.
- The EPCOR wastewater collection system serving the Fort Mohave area was designed to maximize gravity flow, minimizing continuing maintenance and operation negating the need for lift stations.
- A great deal of the EPCOR wastewater collection system was paid for by developers during construction and should not be considered in their rate base.
- EPCOR received \$785 per homesite for "Hook-up" fees from each community developer
- developers *construct* the sewer line, inspect it, and hand it over to EPCOR.
- In 2010 when we had the rain storm, EPCOR wastewater facility at Wishing Well was under water. FMTUA accepted the effluent and flood water
- No irreversible corrective action was noted This shows lack of competence, as any sewer provider would know their treatment plant is in a low spot and should have a provision when it gets flooded.
- FMTUA (Fort Mohave Tribal Utility Authority) has infrastructure available in the same area and is willing to accept and take over EPCOR, and will do so at a more reasonable rate.
- EPCOR monthly fee of \$56.00 should be lowered to reflect FMTUA and Bullheads waste water fees.
- EPCOR sells the treated wastewater(effluent) to Los Logos Lakes for ~~\$60,000~~ ***per Year***

~~\$41,000~~
\$44,578

Tell Judge → issue as an exhibit → Rebutal

Eastes Exhibit #2

Testimony at AZCC

I'm here to express my extreme displeasure with respect to EPCOR's proposed unprecedented rate increase of $25.45 or 46% per month (Ref. Exhibit Schedule H-2 Revised Page 1 Witness Bourasse, Test year ending June 30, 2013). Here are the main reasons for my displeasure and annoyance:

- **It is unfair to raise rates on the "Fifth Poorest People in the U.S."**
  1. Ref. US Census (hold up census)
     - A great number of our people live in Camping trailers, house trailers, double wide housing and other low income housing
     - It seems to be to me, trying to increase profitability on the backs of on one of the poorest in the nation to be incredibly ill advised
- **Moreover, The EPCOR Proposal Is Incomplete and Faulty**
  1. Asking twice as much as area providers (hold up bills)
     - Bullhead City, AZ: $30.00
     - Mojave Tribe, AZ: $44.00
     - Yuma, AZ: $22.82 (Base charge)
     - San Diego, CA: $40.65

EXHIBIT
Eastes-2
ADMITTED

2. SIB (System Improvement Benefit) of 8% to 10% over next several years should be rejected for the following reasons:
   - Not definitive explanation (How, When, Where and Why (Auditable Data to support percent of increase)
   - No business improvements or a simple effort to reengineering the business processes or any other aspects of the business (with the intent of lowering and containing costs)
   - No benchmarks
   - No compensation freezes
   - No travel freezes (Example: $3700.00 air travel charged to Mohave Waste Water account) concour with Mr Rataqon testimony
3. Logical deduction: Calls into question the EPCOR business model (what has changed in the model to justify those rate increases?).

- **Market Timing Is Questionable**

The increased Capacity of Wishing Well Waste Treatment Plant (majority gravity fed)(1 lift station which services the very last portion of development is more than adequate to service Los Logos and the golf course, per the opinion of the former project manager (hold up picture of Wishing Well)

Past Life: Product to market, increased capacity, down turn in economy we had to absorb costs

Closing Statements

The Wishing Well Waste Treatment Plant was built with the "State of the Art equipment" originally and modified later to reflect purposed growth which didn't come to fruition

In my past life, in various corporations which I served in various executive levels, when revenue/ cash got tight, we froze all increases in compensation including management/executive bonuses --- EPCOR should be no different

Any rate increase that is too high (especially on the poorest of your customer base), in my opinion is totally irresponsible, and downright unethical.

We ask for lowering rates in line with other local providers or at least keep current rate structure (Hold up local bills)

EXHIBIT
SCVCC-1
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH, Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

2015 JAN 20 PM 2 52

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, SUN CITY WATER DISTRICT, TUBAC WATER DISTRICT, MOHAVE WASTEWATER DISTRICT AND SUN CITY WASTEWATER DISTRICT	DOCKET NO. WS-01303A-14-0010 **NOTICE OF FILING DIRECT TESTIMONY OF RICH BOHMAN ON BEHALF OF THE SANTA CRUZ VALLEY CITIZENS COUNCIL**

The Santa Cruz Valley Citizens' Council ("SCVCC") hereby provides notice of filing of the Direct Testimony of Rich Bohman on behalf of SCVCC.

Dated this 20th day of January 2015.

Respectfully submitted,

Jim Patterson, President-Elect
Santa Cruz Valley Citizens Council

The original and thirteen (13) copies
of the foregoing will be filed
this 20th day of January 2015 with

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

A copy of the same will also be emailed
or mailed that same date to:

Thomas H. Campbell
Michael T. Hallam
Lewis Roca Rothgerber LLP
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Phoenix, AZ 85004
Attorneys for EPCOR Water Arizona, Inc.

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RUCO
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Phoenix, Arizona 85007

Greg Patterson
WUAA
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Phoenix, Arizona 85007

Delman E. Eastes
2042 E. Sandtrap Lane
Fort Mohave, Arizona 86426

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Paradise Valley, Arizona 85253

Marshall Magruder
P.O. Box 1267
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Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

DIRECT TESTIMONY OF RICH BOHMAN

ON BEHALF OF

THE SANTA CRUZ VALLEY CITIZENS' COUNCIL

DOCKET NO. WS-01303A-14-0010

Q1. PLEASE STATE YOUR NAME, ADDRESS, EDUCATION AND BACKGROUND.

A1. My name is Rich Bohman. I live at 1 Trocito Corte, Tubac, Arizona 85646. I am a retired Lt. Col. (USAF) and more recently retired as a General Contractor and owner of "Rich Bohman Homes". I have a B. A. degree from the Univ. of Connecticut and an MBA degree from the Univ. of Utah. I recently concluded seven years as President of the Santa Cruz Valley Citizens Council, an incorporated non-profit 501 (c) (4) organization.

Q2. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE ARIZONA CORPORATION COMMISSION (ACC)?

A2. No, I have not; however, I did speak before the Arizona Corporation Commission at a Public Hearing conducted in Tubac on October 9, 2014 concerning this matter.

Q3. WHY IS THE SANTA CRUZ VALLEY CITIZENS COUNCIL ("CITIZENS COUNCIL") INTERVENING ON THIS RATE CASE?

A3. The "Citizens Council" is an organization with over 400 members, the majority of whom are EPCOR water customers. The proposed EPCOR rate increase (revised Oct 2014) of 75.8% for residential and 57.1% for commercial customers imposes a tremendous financial increase to existing water bills which can only be classified as "rate shock". The Tubac customers of EPCOR already pay more for water than any other District owned by EPCOR and to my knowledge more than residents of a number of water companies in Arizona. The SCVCC believes that the Tubac rates, if increased at all, should be at a much lower percentage and not tied into a required rate of return for EPCOR.

Q4. IF TUBAC WERE TO RECEIVE A RATE INCREASE HOW SHOULD IT BE IMPLEMENTED?

A4. In our opinion, any increase in rates should be substantially less than the increase requested by the company and should be accomplished through a phased in approach of no less than three years with the understanding that there would be no recovery of for gone revenues at the end of the phase in.

Q5. WHY DOES THE "CITIZENS COUNCIL" BELIEVE THAT THE PROPOSED RATE INCREASE FOR THE TUBAC WATER DISTRICT IS EXCESSIVE?

A5. EPCOR claims that for the test year ending 6/30/13 expenses exceeded revenue by $79,581 with an addition $78,536 of interest expense. Much of the $679,536 in revenue deductions and operating expense are not directly tied to Tubac but are a part of their overall corporate expenses which RUCO and ACC staff can better evaluate. The Tubac operation is pretty basic to say the least. Two employees operate out of a trailer that rents for $425 per month plus utility costs. The main operating cost would appear to be replacing the arsenic treatment facility media on a periodic basis and that cost is currently charged each customer on a monthly basis and the amount is dependent on water usage. The other costs are normal to most water districts and should not be significant (e.g. meter reading, well pump inspections/maintenance and occasional maintenance/fixing of distribution lines.)

Currently, 482 Tubac residents with a 5/8 X 3/4 size meter pay an average monthly bill of $53.67 for 8,348 galllons (Schedule H-2 Revised, Page 1, witness: Bourassa). A Sun City customer with the same size meter pays an average monthly bill of $17.35 for 7,203 gallons (Schedule H-2 Revised, Page 1, witness: Bourassa). The proposed Tubac increase for this class of customer (the most common for both districts) is 88.08% which amounts to a total monthly bill of $100.76 while the proposed increase for the same class customer in Sun City is 22% and amounts to a total monthly bill of $21.17. The other water districts in this case vary as to water usage and monthly bills, but none are being financially burdened as much as Tubac. Water is an essential requirement of life and the financial disparity that is being imposed on Tubac customers of EPCOR should never have been allowed to occur, let alone be allowed to increase.

Q6. DOES THE "CITIZENS COUNCIL" BELIEVE THAT EPCOR'S OVERALL FINANCIAL OPERATION WILL BE MATERIALLY AFFECTED WHETHER OR NOT TUBAC'S WATER RATES ARE INCREASED?

A6. No. EPCOR is a very large and successful Canadian utility company that has been providing electric and water service for over 100 years. Their net income has averaged approximately $50 million per quarter for 2013 and 2014. They have paid increasing dividends to the City of Edmonton, Canada since 1998 with $141 million paid in 2013. Their recent purchase of Arizona American Water (AAW) and also water districts in New Mexico have expanded their operations in the United States. As with any multi-national company, some areas of expansion prove more profitable than others. The relatively small loss of revenue with the Tubac Water District is basically insignificant to their overall income statement.

Q7. WOULD AN INCREASE IN RATES ACTUALLY RESULT IN A DECREASE IN THE CUSTOMER BASE?

A7. Yes, we believe that has already happened and would certainly continue if rates were to increase at any significant amount. When the arsenic treatment facility was required, customer rates increased even though the "Citizens Council", with help from the ACC and AAW, was able to receive half of the required funding via a government grant and the other half via a low interest WIFA loan. Nevertheless, several AAC and subsequent EPCOR water customers elected to have an exempt well drilled for either irrigation purposes or in some cases these customers elected to give up their meter completely. If this rate proposal is approved at any substantial level, we believe many more customers will follow suit and EPCOR's Tubac revenue would be further eroded, unfortunately at the expense of customers who remain or can't afford to have a well installed.

Q8. ARE THERE ANY OTHER WITNESSES WHO WILL BE PROVIDING TESTIMONY ON BEHALF OF THE "CITIZENS COUNCIL"?

A8. Yes, Jim Patterson, who is succeeding me as President of the "Citizens Council" will be discussing in more detail various concerns of the "Citizens Council" and its members who are EPCOR customers.

Q9. DOES THAT COMPLETE YOUR TESTIMONY?

A9. Yes

SCVCC-2

EXHIBIT
SCVCC-2
ADMITTED

SURREBUTTAL TESTIMONY OF RICH BOHMAN
ON BEHALF OF
THE SANTA CRUZ VALLEY CITIZENS COUNCIL
DOCKET NO. WS-01303A-14-0010

Q1. PLEASE STATE YOUR NAME AND ADDRESS.

A1. My name is Rich Bohman. My address is 1 Trocito Corte, Tubac, Arizona 85646.

Q2. ARE YOU THE SAME RICH BOHMAN THAT SUBMITTED DIRECT TESTIMONY IN THIS CASE?

A2. Yes.

Q3. DOES THE SANTA CRUZ VALLEY CITIZENS COUNCIL (SCVCC) HAVE A POSITION ON THE $101,712 OF DEFERRED ACRM AND HOW IT SHOULD BE HANDLED?

A3. Yes. This is an issue that concerns the SCVCC because it certainly would add to the future burden paid by EPCOR's Tubac water customers and any annual component of this amount would be in addition to the approximate $46,000 annual expense needed for media replacement. The SCVCC intends to hear the testimony from parties other than EPCOR before making a final decision as to its position on this issue, since this particular item seems to have several potential alternative ratemaking treatments.

Q4. DOES THE SCVCC SEE A PHASE IN APPROACH TO ANY RATE INCREASE AS AN APPROPRIATE MITIGATION TO THE "RATE SHOCK" WHICH WOULD RESULT FROM EPCOR'S PROPOSED RATE INCREASE?

A4. Yes. The SCVCC is very concerned about the financial impact any increase on water rates would have on EPCOR's Tubac customers. If a rate increase is to be approved, the SCVCC believes that that increase must be phased in over a minimum three year period and that any forgone revenues not be recovered.

Q5. WHY SHOULD TUBAC WATER CUSTOMERS BEAR THE IMPACT FOR A LACK OF FORESIGHT BY BOTH ARIZONA AMERICAN WATER (AAW) AND NOW EPCOR IN THEIR ATTEMPT TO ACHIEVE A HIGHER RATE OF RETURN?

A5. The customer is this case, the Tubac rate payer, should not be held accountable for business decisions by both the former owner (AAW) and now EPCOR in not addressing their concerns earlier about how to incrementally solve negative rate of returns for residential customers. Now, EPCOR in one drastic proposal which amounts to "rate shock" is attempting to correct past years' problems on the backs of current Tubac customers. In that regard, it should be remembered that it is the utility which has the discretion as to when a rate increase application is filed, not its ratepayers.

Q6. DOES THAT COMPLETE YOUR SURREBUTTAL TESTIMONY?

A6. Yes

EXHIBIT
SCVCC-3
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED
AZ CORP COMMISSION
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2015 JAN 20 PM 2 51

COMMISSIONERS

SUSAN BITTER SMITH, Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

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, SUN CITY WATER DISTRICT, TUBAC WATER DISTRICT, MOHAVE WASTEWATER DISTRICT AND SUN CITY WASTEWATER DISTRICT	DOCKET NO. WS-01303A-14-0010 **NOTICE OF FILING DIRECT TESTIMONY OF JAMES S. PATTERSON ON BEHALF OF THE SANTA CRUZ VALLEY CITIZENS COUNCIL**

The Santa Cruz Valley Citizens' Council ("SCVCC") hereby provides notice of filing of the Direct Testimony of James S. Patterson on behalf of SCVCC.

Dated this 20th day of January 2015.

Respectfully submitted,

Jim Patterson, President-Elect
Santa Cruz Valley Citizens Council

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of the foregoing will be filed
this 20th day of January 2015 with

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Attorneys for EPCOR Water Arizona, Inc.

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DIRECT TESTIMONY OF JAMES S. PATTERSON
REGARDING THE TUBAC WATER DISTRICT
ON BEHALF OF
THE SANTA CRUZ VALLEY CITIZENS' COUNCIL
DOCKET NO. WS-01303A-14-0010

I. BACKGROUND, QUALIFICATIONS AND EXPERIENCE

Q1. PLEASE STATE YOUR NAME AND ADDRESS.

A1. My name is James Patterson. My address is PO Box 1983, Tubac, Arizona.

Q2. WHO DO YOU REPRESENT, AND IN WHAT CAPACITY?

A2. I am the president-elect of the Santa Cruz Valley Citizens Council (Citizens Council), a 400+ member, non-profit organization formed to inform our membership on issues affecting the community, and to advocate on their behalf. A significant portion of our membership is served by Epcor Water, and we are participating on their behalf.

Q3. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND EDUCATION.

A3. I spent most of my career in corporate communications and investor relations. In my capacity of directing investor relations, I worked with the chief financial officer and finance staff, and represented the company with investors, brokers, and portfolio managers. I received my B.A., summa cum laude, in marketing and journalism from Wayne State University. I earned my M.B.A., with distinction, from the University of Michigan School of Business, with a concentration in finance and accounting.

II. TUBAC WATER SYSTEM PROFILE

Q4. DESCRIBE THE SYSTEM OPERATED BY EPCOR'S TUBAC WATER DISTRICT.

A4. The system serves 596 connections with 26 miles of main spanning two sides of an interstate highway. Approximately 85 percent of the customers are residential, 15 percent commercial. In 2010, due to the EPA's lowered maximum contaminant level for arsenic, a $2 million arsenic treatment plant was installed.

Q5. IN THE CONTEXT OF EPCOR ARIZONA, WHY IS THIS RELEVANT?

A5. Because of the district's small customer base, the Company's claimed expenses, utility plant-in-service and resulting revenue requirement place an extraordinarily high rate burden on Epcor's Tubac District customers. For example, monthly average and median 5/8" residential use is 8,348 gallons and 5,000 gallons, respectively. Monthly average- and median-use bills would increase 88% and 85%, respectively, to $100.76 and $77.89.

Q6. WHAT CAN BE DONE TO MITIGATE THE IMPACT OF RATE INCREASES?

A6. Because of the magnitude of the increase, extra scrutiny should be given to the company's claimed cost of capital, claimed expenses such as labor, rent, insurance, chemicals, and particularly depreciation. In this regard, the Citizens Council is in the process of preparing data requests to further understand various aspects of some expense and rate-base claims. To the extent that the company's revenue request is granted, the effect on Tubac customers would result in "rate shock." Therefore, a phase-in period, discussed below, should be considered.

III. COST OF CAPITAL ASSUMPTIONS

Q7. HAS THE COMPANY'S LONG-TERM DEBT COST OF CAPITAL BEEN SUBSTANTIATED?

A7. In our opinion, not as of this time. Specifically, there is a discrepancy between the interest rates shown for Epcor's USA Notes on Schedule D-2, Page 1 revised, and the coupon rates shown in the company's Dec. 15, 2011, announcement of the placement of the Notes. A data request is being prepared asking the company to reconcile the two sets of numbers.

Q8. IS THE TOTAL-COMPANY LONG-TERM DEBT COST OF CAPITAL APPLICABLE TO TUBAC?

A8. We believe that a question exists as to whether a WIFA loan (for the Tubac Arsenic Treatment Facility), for which we successfully wrote the application and lobbied our representatives, should be included in the company's total long-term debt, where it is a small proportion of the total, or whether it should be applied only to Tubac, where it is a significant portion of the long-term debt total. The effect would be to lower the cost of capital for the Tubac district. The Citizens Council is preparing a data request to gather more information relevant to this topic and may address it in surrebuttal.

Q9. WHY SHOULD A SMALL-COMPANY RISK PREMIUM BE ATTACHED TO THE COMPANY'S COST OF EQUITY CAPITAL?

A9. In her direct testimony, Pauline Ahern, a paid consultant to the Company, treats Epcor Arizona as a separate entity and therefore a small company. But as Epcor describes itself in a 2014 investor presentation, it is "one company" with three regions. It is one company with more than $4.5 billion (US) in assets, more than $1.6 billion (US) in revenue, and equity of approximately $1.9 billion (US). The company has an S&P investment grade bond rating of BBB+. Extrapolating risk at the regional level is faulty reasoning for the purposes of these proceedings.

Furthermore, the reason small companies have an additional risk-premium attached is that they typically don't pay dividends and have cash flows that are highly variable, unpredictable, or nonexistent. Small companies typically have concentrations of product and geography. Epcor, by contrast, the "one company," has a diversity of customer types (residential and commercial, water, waste-water, and "wires"), and serves a broadly diversified geography in Canada and the U.S.

Epcor has stable, relatively predictable cash flows. And, Epcor pays its single shareholder a predictable (and increasing) dividend — $141 million last year. Therefore, Epcor is in a much lower risk category than the typical small company. We believe the risk premiums added to the Company's cost of equity capital, which are predicated on "small-company" metrics, should be denied.

Q10. ARE THERE OTHER FACTORS THAT AFFECT THE COMPANY'S CLAIMED COST OF CAPITAL?

A10. We note that the company is asking for adjustment mechanisms for some of its costs, including power and health care. These costs should be viewed as normal costs and risks of doing business. Particularly the health care adjustment mechanism, an area where cost inflation has been slowing for the past five years, is an unusual pass-through by any company. If cost increases become a direct pass-through to customers, then business risk is transferred away from the Company, and in turn Epcor should be granted a lower cost of capital. Furthermore, if adjustment mechanisms are approved, then they should be "symmetrical," meaning the Company can't just benefit on the upside but must provide refunds when costs decrease.

In addition, we note that the Company is shielded from some of the risk of bad debt expense by an inflator to the Gross Revenue Conversion Factor used to gross up the Operating Income Deficiency and arrive at the gross revenue requirement. Again, the Company is shielded from something considered normal business risk, and should not have a risk premium added to its computed cost of equity capital.

IV. AMORTIZATION OF CHEMICALS COST

Q11. HOW IS THE COMPANY TREATING ITS DEFERRED COSTS RELATED TO ARSENIC MEDIA REPLACEMENT?

A11. The company has deferred $101,712 in arsenic media costs (see Schedule C-2, page 27).

They are proposing amortizing this cost over two years by adding $50,856 to Operating Expense for the purpose of determining rates.

Q12. IS THIS A TEMPORARY EXPENSE THAT IS REMOVED FROM "OPERATING EXPENSES" AND RATES ONCE THE AMORTIZATION PERIOD CONCLUDES?

A12. It appears that under the Company's proposal the answer to the question is "No." More specifically, there appears to be no mechanism to reflect a rate reduction once the amortization period ends. If this expense were removed, it would result in a reduction to each customer's billings (on a simple arithmetic basis) of $85 per year.

V. EXPENSE COMPARISON WITH A NEARBY WATER SYSTEM

Q13. IS THERE ANY WAY TO COMPARE THE EXPENSES CLAIMED BY EPCOR WITH ANOTHER COMPANY'S REPORTED EXPENSES?

A13. Yes. In fact, there is another water system in Tubac, the Baca Float Water Company (Baca Float). Baca Float filed a rate application with the Corporation Commission on December 30, 2014, so current comparisons are available and relevant. In making comparisons, the sizes of the two companies, measured by number of customers, gallons pumped, and miles of water distribution pipe, must be considered. Citizens Council Exhibit A lists some comparative expenses for Epcor Water Tubac District and Baca Float Water, and provides direct comparisons on a per-customer or per-million-gallons pumped basis.

Q14. DESCRIBE THE PRIMARY DIFFERENCES IN THE TWO WATER SYSTEMS THAT AFFECT EXPENSES.

A14. Epcor's water system in Tubac has 596 customers, pumped approximately 84.5 million gallons in the test year, and has approximately 26.1 miles of distribution main. Baca Float Water has 411 customers, pumped approximately 24.6 million gallons in the test year, and has 6.5 miles of distribution main. Both systems treat for arsenic.

Q15. PLEASE CITE SOME EXAMPLES OF EXPENSES ADJUSTED FOR CUSTOMERS SERVED OR GALLONS PUMPED.

A15. In several major expense categories, Epcor Water's (Tubac District) cost per customer or cost-per-million gallons pumped are notably higher than Baca Float's. For example, Epcor's Power & Fuel expenses, per customer, are 139% higher than Baca Float's. Epcor's Rents & General Office expenses, per customer, are 143% higher than Baca Float's. Epcor's general "human" costs of providing service (i.e. Labor and Outside Services) are 3% higher than Baca Float's. But adding the costs of Corporate Allocation and Customer Accounting, for which Baca Float either has none or incorporates them into Labor and Outside Services, and Epcor's claimed expenses, per customer, are 34% higher than Baca Float's. Lastly, Epcor's cost of Arsenic Media Replacement, per million gallons pumped, runs 27% higher than Baca Float's.

Based on these differences in comparable expenses, the Citizens Council believes that Epcor's claimed expenses are either inflated or that the Company is inefficiently controlling its costs.

VI. EFFECT OF PROPOSED RATE INCREASE

Q16. IS IT THE POSITION OF THE CITIZENS COUNCIL THAT AN 88% INCREASE TO THE WATER BILL OF THE AVERAGE 5/8"-METER RESIDENTIAL CUSTOMER CONSTITUTES RATE SHOCK?

A16. Yes, as I have previously indicated in this testimony. In addition, the Citizens Council further recommends that any significant increase in rates for Tubac customers that might be authorized by the Commission should be phased in over several years, with the provision that the Company receives no recovery of any foregone revenues.

VII. CONCLUSION

Q17. IS THERE ANYTHING YOU WISH TO ADD TO YOUR DIRECT TESTIMONY?

A17. Yes. The Citizens Council is in the process of preparing data requests to enable us to further examine various aspects of claimed expenses, rate-base and cost of capital assumptions. Therefore, we may offer further testimony in the sur-rebuttal phase.

The Citizens Council, on behalf of its members, also believes Commissioners should consider implementation of fully consolidated rates. We advocate for the long-term goal of rate-consolidation across all of Epcor's districts, bringing that practice in line with that of other utilities, such as telephone and electric. Consolidation would benefit both the company and its customers. We refer to, as precedent, the recent decision in which an interim step toward consolidation was approved for Epcor Waste Water.

Q18. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A18. Yes

Citizens Council Exhibit A

Expense Comparison - Epcor Water Tubac v. Baca Float Water Co.

Citizens Council Exhibit A

Expense	Epcor Water - Tubac	Baca Float Water Co.	Cost per Epcor Customer	Cost per Baca Float Customer	% Difference per Customer	Epcor Cost per Million Gal.	Baca Cost per Million Gallons	% Difference per Million Gallons
Customers	596	411						
Gallons Pumped (Millions)	84.52	24.62						
Labor	179,440	73,091						
Outside Services	26,569	65,342						
Sub-Total	206,009	138,433	$345.65	$336.82	3%			
Corporate Allocation	40,098	0						
Customer Accounting	23,588	0						
Total	269,695	138,433	$452.51	$336.82	34%			
Power (& Fuel)	32,022	9,254	$53.73	$22.52	139%			
Chemicals - Arsenic Media Replacement	46,000	10,510				$544.25	$426.89	27%
Rents	7,566	4,351	$12.69	$10.59	20%			
General Office	29,316	6,134	$49.19	$14.92	230%			
Total	36,882	10,485	$61.88	$25.51	143%			
	from Schedule C-1, page 1	from Docket No. WS-01678A-14-0425						

EXHIBIT
SCVCC-4
ADMITTED

SURREBUTTAL TESTIMONY OF JAMES S. PATTERSON
REGARDING THE TUBAC WATER DISTRICT
ON BEHALF OF
THE SANTA CRUZ VALLEY CITIZENS' COUNCIL
DOCKET NO. WS-01303A-14-0010

Q1. PLEASE STATE YOUR NAME AND ADDRESS.

A1. My name is James Patterson. My address is PO Box 1983, Tubac, Arizona.

Q2. ARE YOU THE SAME JAMES PATTERSON THAT SUBMITTED DIRECT TESTIMONY IN THIS CASE?

A2. Yes.

Q3. DO YOU STILL REPRESENT THE SANTA CRUZ VALLEY CITIZENS COUNCIL ("SCVCC")?

A3. Yes, although I have assumed the office of president, after being elected at the January membership meeting. In this case, we represent a significant number of our 400 members who are customers of Epcor Water.

Q4. DO YOU HAVE ANY OVERVIEW ON STAFF'S AND RUCO'S DIRECT TESTIMONY?

A4. Yes. In general, we support many of Staff's and RUCO's conclusions contained in their Direct Testimony. In particular:

- We support Staff witness John Cassidy's inclusion of the total outstanding WIFA loan amount in the Tubac District's capital structure, with the result that the overall rate of return for the Tubac district is lowered relative to the rates of return for the other districts.

- We support <u>in principle</u> Staff's commodity rate design recommendation, which encourages conservation by establishing a lower first-tier charge and creating a wider spread between the lowest and highest tier charges.
- We support RUCO's conclusion that dividend payments by EWAZ to the parent company are excessive based on comparative payout ratios.
- We support Staff's and RUCO's adjustments that remove excessive amounts from the corporate allocations "pool." However, as outlined below, we believe that the Tubac District is still unfairly burdened by unnecessary layers of corporate overhead.

Q5. MORE SPECIFICALLY, DO YOU BELIEVE THAT THE CORPORATE ALLOCATIONS ASSIGNED TO THE TUBAC DISTRICT ARE FAIR?

A5. No. Although both Staff and RUCO made adjustments in their Direct Testimonies to the corporate allocations pool, the Tubac district would still be burdened with at least $126 thousand of allocations for layers of corporate overhead. That amounts to more than 45% of the Company's Required Revenue Increase for Tubac as proposed in their Rebuttal Testimony.

By comparison, Baca Float Water Company ("Baca Float"), which filed a rate case application on Dec. 30, 2014, is a local water company adjacent to Epcor's Tubac water district. Epcor's costs per customer or per million gallons pumped, as shown in Citizens Council Exhibit A - Revised, are significantly higher than Baca Float's.

For example, Epcor's general "human" costs per customer of providing service (i.e. Labor, Outside Services, Customer Accounting and Corporate overhead) are 30% higher than Baca Float's. A significant portion, more than 40%, ($105,518 of tithe total amount of $261,685) of Epcor's claimed costs are attributed to corporate overhead. Strip corporate overhead out, and Epcor's costs per customer are comparable to Baca Float's.

Although some of these corporate overhead costs would undoubtedly become the

Tubac District's responsibility were it an independent company, we believe that the many layers of corporate overhead unduly burden Tubac ratepayers.

Q6. WHAT IS THE SCVCC'S POSITION ON THE VARIOUS PROPOSALS FOR RECOVERY OF DEFERRED ARSENIC MEDIA COSTS?

A6. We opposed the Company's original proposal of dividing the total amount by 2 and including it as an expense. This method would have provided no clear end date for the recovery. We favor an accounting treatment that results in the least impact on ratepayers. RUCO's proposal of "reclassifying and including the $101,712 as a regulatory asset to be amortized over 5 years…" appears to achieve a favorable outcome for Tubac ratepayers. Staff also proposes capitalizing the deferred arsenic media costs, but we won't know until Staff's surrebuttal by what method the amount would amortized. Also, Epcor may offer another alternative in its rejoinder testimony. Thus, at this time the SCVCC does not have a final position on this issue.

Q7. HOW SHOULD THE CURRENT STEP 1 ACRM SURCHARGE BE TREATED IN FUTURE RATES?

A7. The surcharge should be eliminated and the cost of the arsenic treatment plant, less CIAC* and accumulated depreciation, should be included in rate base.

Q8. WHAT IS SCVCC'S POSITION ON STAFF'S RECOMMENDATION FOR ADDITIONAL STORAGE FOR THE TUBAC WATER DISTRICT?

A8. We aware of Staff's recommendation for at least 100,000 gallons of storage. But there were no details substantiating the need for additional storage or the amount of storage. Before any action is taken on this recommendation, we ask that further details be provided, including a cost analysis and the opportunity to offer written comment.

Q9. IS IT THE POSITION OF SCVCC THAT CURRENTLY PROPOSED INCREASES TO THE WATER BILL OF THE AVERAGE 5/8"-METER RESIDENTIAL CUSTOMER CONSTITUTES RATE SHOCK?

A9. Yes, as I have indicated in prior testimony. Under the various proposals, the average bill would increase anywhere from 40% to the Company's proposed 67%. The Citizens Council recommends that any significant increase in rates for Tubac customers that might be authorized by the Commission should be phased in over at least three years, with the provision that the Company receives no recovery of any foregone revenues.

Q10. IS THERE ANYTHING YOU WISH TO ADD TO YOUR DIRECT TESTIMONY?

A10. The Citizens Council, on behalf of its members, continues to advocate for consideration and implementation of fully consolidated rates. We advocate for the long-term goal of rate-consolidation across all of Epcor's water districts, bringing that practice in line with that of other utilities, such as telephone and electric.

Q11. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A11. Yes

* Note: $1.15 million of the cost of the ARF came in the form of Stimulus Funding via a WIFA grant. The balance of the cost is a low-cost WIFA loan.

Citizens Council Exhibit A - Revised

Expense Comparison - Epcor Water Tubac v. Baca Float Water Co. **Citizens Council Exhibit A - Revised**

Expense	Epcor Water - Tubac	Epcor Corporate Allocations	Baca Float Water Co.	Cost per Epcor Customer	Cost per Baca Float Customer	% Difference per Customer	Epcor Cost per Million Gal.	Baca Cost per Million Gallons	% Difference per Million Gallons
Customers	596		411						
Gallons Pumped (Millions)	84.52		24.62						
Labor	179,440	59,989	73,091						
Outside Services	26,870	7,673	65,342						
Sub-Total	206,310	67,662	138,433	$346.16	$336.82	3%			
Corporate Allocation	34,814	34,814	0						
Customer Accounting	20,561	3,042	0						
Total	261,685	105,518	138,433	$439.07	$336.82	30%			
Power (& Fuel)	33,324	361	9,254	$55.91	$22.52	148%			
Chemicals - Arsenic Media Replacement	46,000	9	10,510				$544.25	$426.89	27%
Rents	7,566	2,407	4,351	$12.69	$10.59	20%			
General Office	28,204	8,835	6,134	$47.32	$14.92	217%			
Total	35,770	11,242	10,485	$60.02	$25.51	135%			
	from Schedule C-1, page 1		from Docket No. WS-01678A-14-0425						

EXHIBIT
SC VCC - 5
ADMITTED

Citizens Council Exhibit B - Cost of Capital

Epcor Claimed						
Total Company	Amount	% of Total Capital	Cost Rate	Weighted Cost	% of LT Debt	% of LT Debt w/o WIFA
LT Debt	231,761,134	59.84%	4.29%	2.57%		
Epcor 30yr. Note as % of total LT Debt	98,000,000				42.28%	42.42%
Epcor 10yr. Note as % of total LT Debt	133,000,000				57.39%	57.58%
WIFA Loan	761,134				0.328%	
Equity	155,533,624	40.16%	10.55%	4.24%		
Total	387,294,758			6.80%		
Tubac District						
Lt Debt	877,898	59.84%	4.29%	2.57%		
Equity	589,153	40.16%	10.55%	4.24%		
Total	1,467,051			6.80%		

Tubac District with WIFA		**Rate**	**Weighted Cost**
WIFA Loan	761,134		
WIFA as % of LT Debt*	86.7%	3.94%	2.044%
Remainder - Epcor Debt	116,764		
Epcor LT as % of LT Debt*	13.3%		
Epcor 30yr. Note		5.02%	0.283%
Epcor 10yr. Note		3.77%	0.289%
Tubac Cost of LT Debt			2.616%
Weighted Cost of Tubac Debt			2.268%
Epcor Equity		10.55%	4.24%
Tubac Total Cost of Capital			6.505%
See Epcor rej. Sched. D-2		Difference	0.299%

WS

Docket No.: SW-01303A-14-0010

SURREBUTTAL TESTIMONY
OF
GREG EISERT
ON BEHALF OF
SUN CITY HOME OWNERS ASSOCIATION
February 23, 2015

Greg Eisert testifies that:

I am appearing on behalf of the Sun City Home Owners Association (SCHOA). SCHOA has *intervened in this proceeding on behalf of Sun City water users that are customers of* EPCOR Water Arizona, Inc. (EPCOR)(Company). The purpose of my testimony is to address our position regarding an acceptable rate adjustment of EPCOR's Sun City Water District base rate relating to various testimony submitted to the Arizona Corporation Commission regarding this Docket.

The Company's *latest* proposed Sun City rates would increase the typical 5/8-inch meter residential bill with median usage of 7,203 gallons from $17.35 to $20.73, for an increase of $3.38 or 19.45 percent. Staff's numbers project an increase for the same meter size with Medan Usage of 7,190 gallons of 7.40% and RUCO's projection is for a slight overall rate decrease.

Some of the numbers used in their calculations are listed below:

Company fair value	- $26,666,676
Staff fair value	- 24,790,106
RUCO fair value	- 22,743,995

Required rate of return:		
	Company	6.87%
	Staff	6.40%
	RUCO	6.10%
Operating Income Deficiency		
	Company	$753,026
	Staff	$405,949
	RUCO	<$2,135>
Required Revenue Income		
	Company	$1,239,639
	Staff	$ 663,681
	RUCO	<$3514>
Proposed Annual Revenue		
	Company	$10,309,919
	Staff	$10,959,344
	RUCO	$10,495,284
Required Increase in Revenue		
	Company	10.02%
	Staff	6.45%
	RUCO	<.03%>

EXHIBIT
SCHOA-1
ADMITTED

WS

Docket No.: SW-01303A-14-0010

SURREBUTTAL TESTIMONY
OF
GREG EISERT
ON BEHALF OF
SUN CITY HOME OWNERS ASSOCIATION
February 23, 2015

There are areas we agree with Staff and areas we agree with RUCO. The company's financial submission is fraught with numbers that are at best suspect making it difficult to pinpoint true causal connections. Just a few are listed below.

Items of interest:

- The company lists a number of items that have continued to be depreciated well beyond their zero balance. The company therefore has collected more than the cost of the assets and seems to owe the ratepayer for those amounts. Both staff and RUCO have identified these numbers, although their numbers diverge somewhat. Per the Company Response Number: STF MJR 16.9 Sun City had a net negative plant balance of $2.24M (over-depreciated assets). There is also evidence that there were negative net balances in the last rate case. Since the company took credits well beyond what it paid for, a credit to the Sun City ratepayers (or on account) should be due.
- NARUC Account 341100-Transportation Equipment Light Duty Trucks. The company lists $976,241 (6/30/2013). Given a generous value of $23,000/unit, the company *would be running over 40 light duty pick-up units for the small 18 square mile Sun City* District. Highly doubtful.
- EPCOR Exhibit Schedule F-2 Revised (Sun City) – Line Item 21 – Dividends Paid - $10,378,122. Certainly not based on Sun City's revenue base?
- Questionable asset & liability increases listed (Sun City):
    - *Plant Materials & Supplies 2012-2013* – 411% increase.
    - Customer Accounts Receivable – 2012-2013 – 11.8% increase.
    - Trade & other payables – 2012-2013 – 222% increase
- Corporate Allocations – Centralized Function Charges – Close to 40% higher than the average of comparably sized U.S., high capital intense companies

Overall, SCHOA must depend on the Commission Staff and RUCO through their due diligence and responsibility to protect the ratepayer, while also allowing the Company a realistic return to ensure its ability to provide the necessary quality service and supply *required by the Commission and State of Arizona.*

Based on our review and analysis of the data supplied by the Company, ACC Staff and RUCO it is clear in this writer's opinion that the Company's numbers are fraught with discrepancies. It is also clear in this writer's opinion, that there are areas where the Company is milking the system, such as the centralized corporate function allocation percentage. Although small, these discrepancies may be an indicator as to some of the varied opinions between Staff and RUCO on a number of items submitted by the Company.

We recognize an upward trend of the Sun City leakage rate, although not yet approaching 10%, are of the opinion that a proactive plan to address infrastructure upgrades is important to thwart possible future rate shock for the Sun City Ratepayers.

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Docket No.: SW-01303A-14-0010

SURREBUTTAL TESTIMONY
OF
GREG EISERT
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February 23, 2015

Therefore, if one were to segregate the *SIB* issue from the equation, the Sun City Ratepayer should expect a 5/8" Residential rate increase of somewhere between 5% - 8%. This range proves realistic given our review of the numbers and rationalization thereof by Staff and RUCO.

There has also been testimony by the Tubac Interveners that somehow the current rate system is in violation of the State Constitution and a system of full consolidation should be imposed.

Copied from our Arizona State Constitution:

§3. <u>Power of commission as to classifications, rates and charges, rules, contracts, and accounts; local regulation</u>

Section 3. The corporation commission shall have full power to, and shall, prescribe just and reasonable classifications to be used and just and reasonable rates and charges to be made and collected, by public service corporations within the state for service rendered therein, and make reasonable rules, regulations, and orders, by which such corporations shall be governed in the transaction of business within the state, and may prescribe the forms of contracts and the systems of keeping accounts to be used by such corporations in transacting such business, and make and enforce reasonable rules, regulations, and orders for the convenience, comfort, and safety, and the preservation of the health, of the employees and patrons of such corporations

§12. <u>Charges for service; discrimination; free or reduced rate transportation</u>

Section 12. All charges made for service rendered, or to be rendered, by public service corporations within this state shall be just and reasonable, and no discrimination in charges, service, or facilities shall be made between persons or places for rendering a like and contemporaneous service, except that the granting of free or reduced rate transportation may be authorized by law, or by the corporation commission, to the classes of persons described in the act of Congress approved February 11, 1887, entitled An Act to Regulate Commerce, and the amendments thereto, as those to whom free or *reduced rate transportation may be granted.*

The above sections are taken from the Arizona State Constitution. The noted sections are regularly used and quoted by those who are in a situation of paying higher rates than users in other districts, other geographical areas and/or offered by other service providers to like customer classifications such as 5/8" Residential...

All charges made and demanded by any utility for any service rendered or to be rendered in connection therewith shall be just and reasonable and not more than allowed by law or by order or decision of the commission under the same or substantially the same circumstances and conditions.

A tariff which defines and establishes prices for a local service or access service as a different service in the geographic area, within which such local service or access service is offered is reasonably necessary to promote the public interest as such.

The commission, may by order, after notice and hearing, define a utility service offered or provided by a given company as a different service dependent upon the geographic area or other market within which such service is offered or provided and apply different service classifications to such service only upon a finding, based on clear and convincing evidence, that such different treatment is reasonably necessary to promote the public interest within such a definition.

An examination of rates and rate structures will only tell part of the story, and there are many different methods of comparing pricing. Ideally, rates should reflect the cost of providing service. Cost of service depends on diverse factors including geographic location, size of treatment facilities, customer base, age of assets, site-specific regulatory requirements, type of water supply, and quality of source water and receiving waters. Two neighboring utilities with similar customer bases may have very different costs that justify very different rate structures and rates.

Calculating what individuals pay for water services is difficult, as many utilities provide only water or wastewater service but not both. Some areas of the state receive water service from one provider and wastewater service from another provider, and in other areas, customers with one utility service may rely on a decentralized source (e.g. private wells or septic tanks) for the other service.

For-profit water utilities, whose rates are regulated by the Arizona Corporation Commission, are *somewhat higher than municipal rates, and Domestic Water Improvement Districts, established* by counties in Arizona, are significantly higher. Further, the size of these utilities makes direct comparisons problematic, as municipal systems tend to be much larger than for-profit and other types of systems.

The costs of treating water are highly dependent on the type of water supply. In general, *withdrawing and treating water from surface supplies costs more than withdrawing and treating* groundwater; however, there are several factors in Arizona including the need to do supplemental treatment for Arsenic, that increase the cost of groundwater sources. In Arizona, the median price charged to customers by utilities relying on surface water is considerably lower than for groundwater systems.

Comparing rates across the State or among specific utilities is complicated by the variation in the extent to which utilities charge the full cost of providing service.

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**SURREBUTTAL TESTIMONY
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GREG EISERT
ON BEHALF OF
SUN CITY HOME OWNERS ASSOCIATION
February 23, 2015**

In any proceeding involving a utility proposed change of rate structure, the burden of proof is on the utility to show that the proposed change, or that the existing rate, if it is proposed to reduce/change rates, is just and reasonable and is in the public's best interest. In this writer's opinion, for such a systemic change from the cost causer philosophy historically adhered to by the Commission, it would prove discriminatory if such a system of "full consolidation" were not to be proclaimed for <u>all water utilities</u> and their customers under the umbrella of the Commission <u>statewide</u>. This would be a monumental task as evidenced by all the rates that *would need to be consolidated noted in Attachment* I.

Lastly, when I hear the Company spends upward of $500K+ for a <u>typical</u> rate case and I observe:

- The ratepayers pay the tab.
- I see thousands of pages of testimony generated and mailed to numerous locations at a huge cost.
- There are hundreds of pages of other materials generated and mailed at a huge cost.
- The Company hires <u>expert witnesses</u> to appear on its behalf at huge costs – etc....

What I haven't seen is anyone performing an audit justifying the need and efficiency of such costs. How about?

- Better utilizing technologies such as emails to dramatically cut costs
- Using all internal personnel as witnesses. After all, they are the true experts. Take a look at some of the professional witnesses for hire in this case. They have credentials a mile long. However, they use exhibits and examples comparing entities that fit nicely on the east coast – but not in the local Arizona market. Comparisons are made for select issues that are not comparable with EPCOR. There are financial comparisons made using umbrella stock investor data when the company is owned by a single foreign entity – it doesn't fit. So, we are paying for expert witnesses that skillfully pull a lot of data together that sounds good, but really is largely irrelevant.

WS

Docket No.: SW-01303A-14-0010

SURREBUTTAL TESTIMONY
OF
GREG EISERT
ON BEHALF OF
SUN CITY HOME OWNERS ASSOCIATION
February 23, 2015

In conclusion, we need to get some of these costs in line. The Cost Causer philosophy must remain in place, as it is not fair in anyone's book to shift one's debt responsibility to another - 1.The definition of ______________ is a system where all property is public and people work and are given things by the government according to their needs. We don't need the Commission to give us what we haven't earned. That is not what this country is all about. The preponderance of evidence dictates the Sun City District Ratepayer base rate increase should not exceed the limits as prescribed by the Audits of RUCO and/or the ACC Staff. The latest of which *does not exceed eight percent (8%).*

Respectively submitted,

Greg Eisert, Chairman
Governmental Affairs Committee
Sun City Home Owners Association

Cc: This original and thirteen copies have been hand delivered to the Arizona Corporation Commission, 1200West Washington Street, Phoenix, Arizona 85007. Copies have been mailed to the service list.

Rate Table: 2014 AZ Residential Monthly-Equivalent Water Bills at Various Consumption Levels (Includes Base Charges)

Utility / Rate Structure	Service Population (Approx.)	Operating Ratio	Zero Gallons (0 cf)		3,000 Gallons (401 cf)		4,000 Gallons (535 cf)		5,000 Gallons (668 cf)		7,000 Gallons (936 cf)		10,000 Gallons (1,337 cf)		15,000 Gallons (2,005 cf)	
			Inside	Outside	Inside	Outside	Inside	Outside	Inside	Outside	Inside	Outside	Inside	Outside	Inside	Outside
A. Petersen Water Company, Inc.	117 [1]	1.17	$25.00		$36.16		$42.88		$49.60		$63.04		$86.82		$138.52	
ABRA Water Company, Inc.	1,437 [1]	1.12	$14.00		$20.75		$24.55		$28.35		$35.95		$47.35		$77.35	
ACME Water Company-Blue Hills #3	125 [1]		$12.00		$21.00		$25.50		$30.00		$39.00		$52.50		$79.50	
ACME Water Company-Dells	180 [1]		$11.00		$15.11		$17.17		$19.23		$23.35		$29.53		$41.88	
ACME Water Company-Thunderbird Meadows	200 [1]		$16.50		$26.85		$32.03		$37.21		$47.57		$63.11		$94.11	
ACME Water Company-Yavapai Mobile Home Estates System	200 [1]		$9.50		$16.10		$19.75		$23.40		$30.70		$41.65		$62.65	
Adaman Mutual Water Company	800 [1]	1.14	$10.00		$16.00		$18.00		$20.00		$24.00		$30.00		$40.00	
Aguila Water Services, Inc.	964 [1]	1.01	$26.00		$35.39		$38.52		$41.65		$47.91		$57.30		$72.95	
Ajo Domestic Water Improvement District	405 [1]		$22.00		$36.55		$41.40		$46.25		$55.95		$70.50		$94.75	
Ajo Improvement Company	1,600 [1]	0.41														
Allenville Water Company		0.81	$12.00		$12.00		$12.00		$12.00		$14.50		$18.25		$24.50	
Alpine Domestic Water Improvement District	700 [1]	1.25	$31.00		$55.00		$63.00		$71.00		$87.00		$111.00		$151.00	
Alpine Sanitary District																
American Ranch Domestic Water Improvement District	132 [1]		$15.00		$20.60		$23.40		$26.20		$31.80		$40.20		$54.20	
Antelope Lakes Water Company, Inc.		0.14	$15.00		$21.00		$23.00		$25.00		$29.00		$35.00		$45.00	
Antelope Peak Domestic Water Improvement District	59 [1]		$10.00		$45.00		$48.75		$56.25		$73.75		$106.25		$168.75	
Antelope Water Company	163 [1]	0.73	$13.50		$16.50		$17.50		$18.50		$21.30		$25.50		$32.50	
Anway Manville Water Company, L.L.C.	602 [1]	1.40	$30.00		$40.50		$44.00		$47.50		$54.50		$65.00		$89.25	
Apache Junction Water Utilities Community Facilities District	13,657 [1]	1.25	$18.52		$30.16		$34.04		$37.92		$48.40		$64.12		$91.97	
Appaloosa Water Company, Inc.		0.84	$25.00		$30.85		$34.10		$37.35		$43.85		$57.20		$79.45	
Arivaca Townsite Cooperative Water Company, Inc.	150 [1]	0.69	$10.00		$14.50		$16.50		$18.50		$22.50		$30.50		$45.50	
Arizona City Sanitary District		0.75														
Arizona Water Company-Ajo	1,606 [1]	1.24	$25.00		$35.09		$41.04		$46.99		$58.89		$76.74		$122.85	
Arizona Water Company-Apache Junction, Miami, Superior	69,272 [1]	1.24	$22.26		$27.16		$30.49		$33.82		$40.47		$50.45		$74.44	
Arizona Water Company-Bisbee	17,710 [1]	1.24	$17.00		$21.98		$27.39		$32.79		$43.60		$59.82		$92.46	
Arizona Water Company-Casa Grande, Coolidge, Stanfield	844 [1]	1.24	$16.00		$19.56		$21.67		$23.77		$27.97		$34.28		$50.58	
Arizona Water Company-Lakeside, Overgaard	21,308 [1]	1.24	$17.26		$29.01		$34.43		$39.85		$50.69		$66.96		$103.49	
Arizona Water Company-Oracle, Saddlebrooke Ranch	4,943 [1]	1.24	$26.94		$34.76		$40.22		$45.69		$56.62		$73.01		$109.24	
Arizona Water Company-Pinewood, Rimrock, Sedona	21,562 [1]	1.24	$25.33		$31.69		$35.25		$38.80		$45.90		$56.56		$78.99	
Arizona Water Company-San Manuel	5,717 [1]	1.24	$27.00		$33.51		$37.96		$42.41		$51.32		$64.67		$95.86	
Arizona Water Company-Sierra Vista	17,710 [1]	1.24	$17.00		$20.60		$22.53		$24.46		$28.33		$34.12		$49.40	
Arizona Water Company-White Tank	6,205 [1]	1.24	$23.00		$28.40		$30.20		$32.00		$38.00		$47.00		$62.00	
Arizona Water Company-Winkelman	463 [1]	1.24	$21.00		$23.25		$24.90		$26.55		$29.85		$34.80		$49.80	
Ash Creek Water Company	360 [1]	1.07	$18.00		$22.65		$25.40		$28.15		$33.65		$43.10		$62.85	
Ash Fork Water Service	2,150 [1]	0.98	$12.00		$22.05		$26.05		$30.05		$38.71		$52.69		$75.99	
Aubrey Water Company	823 [1]	0.46	$12.50		$17.75		$20.00		$22.25		$26.75		$33.50		$47.00	
Avondale	79,335 [1]	0.73	$10.50		$13.32		$14.26		$15.70		$18.58		$24.34		$38.56	
Avra Water Cooperative	8,360 [1]	1.15	$28.29		$35.79		$38.29		$40.79		$45.79		$54.69		$69.99	

Baca Float Water Company, Inc.	832 [1]	0.71	$15.00		$24.75		$29.65		$34.55		$44.35		$59.05		$88.30	
Beardsley Water Company, Inc.	541 [1]	0.77	$14.00		$20.48		$22.64		$25.09		$29.99		$37.34		$54.99	
Beaver Dam Water Company, Inc.	910 [1]	0.85	$27.50		$34.25		$38.50		$42.75		$51.25		$68.50		$97.25	
Bellemont Water Company, Inc.	100 [1]		$16.00		$61.00		$76.00		$98.50		$143.50		$211.00		$356.00	
Bensch Ranch Utilities		0.29														
Benson	6,306 [1]		$8.00		$12.01		$13.52		$15.53		$19.54		$28.92		$45.63	
Bermuda Water Company, Inc.	18,000 [1]	1.28	$11.00		$14.45		$15.60		$17.15		$20.25		$24.90		$34.60	
Berneil Water Company	1,115 [1]	1.07	$4.40		$5.09		$5.78		$6.47		$7.85		$9.92		$13.37	
Biasi Water Company, Inc.	425 [1]	0.92	$15.00		$24.00		$27.00		$30.00		$36.00		$45.00		$60.00	
Bidegain Water Company	49 [1]	0.95	$9.00		$13.29		$14.72		$16.15		$19.01		$23.30		$30.45	
Big Park Domestic Wastewater Improvement District		1.34														
Big Park Water Company, Inc.	7,006 [1]	1.00	$18.00		$22.72		$25.08		$27.44		$32.16		$39.24		$51.04	
Bisbee		1.07														
Black Mountain Sewer Corporation		1.32														
Bradshaw Mountain View Water Company, Inc.	1,070 [1]	0.86	$17.00		$21.89		$24.34		$26.79		$31.69		$39.04		$53.74	
Bradshaw Water Company, Inc.	440 [1]	0.90	$38.00		$56.00		$62.00		$71.00		$89.00		$129.10		$206.85	
Brooke Water, LLC	6,114 [1]	1.23	$16.90		$28.69		$32.62		$36.55		$44.41		$56.20		$75.85	
Buckeye	4,005 [1]	0.78	$22.35		$31.26		$34.23		$37.20		$44.48		$57.41		$94.26	
Buckskin Sanitary District		0.29														
Bullhead City		1.02														
Cactus Stellar, Ltd.	32 [1]	0.71	$0.00		$9.00		$12.00		$15.00		$21.00		$30.00		$45.00	
Camp Verde Sanitary District		0.54														
Camp Verde Water System	3,730 [1]	1.05	$23.75		$33.80		$37.15		$40.50		$47.20		$57.25		$74.00	
Carefree Water Company, Inc.	2,800 [1]	1.11	$39.95		$49.64		$52.87		$56.10		$62.56		$74.47		$96.17	
Casa Grande West Water Company, Inc.	834 [1]	1.08	$14.22		$21.78		$24.30		$27.22		$33.06		$42.22		$58.82	
Casa Grande-Maricopa		0.98	$20.00		$27.20		$29.60		$32.00		$36.80		$44.00		$56.00	
Casa Grande-Stanfield		0.98	$16.50		$23.70		$26.10		$28.50		$33.30		$40.50		$52.50	
Casitas Bonitas Sanitary Sewer Improvement District																
Cave Creek	5,015 [1]	1.33	$50.00		$59.75		$63.00		$66.25		$72.75		$82.50		$105.00	
C-D Oasis Water Company	21 [1]	0.23	$17.00		$19.80		$22.60		$25.40		$31.00		$40.80		$58.30	
Cedar Grove Water Company, Inc.	1,092 [1]	1.08	$22.50		$32.25		$37.25		$42.25		$52.25		$69.25		$104.25	
Cerbat Water Company, Inc.	648 [1]	0.74	$18.00		$22.95		$24.60		$26.25		$30.75		$37.50		$48.75	
Chandler	300,000 [1]	1.05	$8.87	$12.42	$13.67	$19.14	$15.27	$21.38	$16.87	$23.62	$20.07	$28.10	$24.87	$34.82	$34.77	$48.72
Chaparral Water Company, Inc.	332 [1]	0.82	$13.25		$18.98		$20.89		$22.80		$26.62		$33.82		$45.82	
Chino Meadows II Water Company, Inc.	2,350 [1]	1.07	$17.75		$24.95		$28.15		$31.35		$37.75		$49.35		$70.35	
Chino Valley	1,950 [1]	0.57	$5.13		$17.67		$21.85		$26.03		$34.39		$49.03		$75.18	
Cibola Mutual Water Company	162 [1]	0.77	$19.00		$25.00		$27.00		$29.00		$33.00		$39.70		$51.45	
Cienega Water Company, Inc.	265 [1]	0.96	$30.00		$42.80		$49.60		$56.40		$70.00		$101.80		$154.80	
Circle City Water Company, L.L.C.	672 [1]	0.37	$10.75		$12.70		$14.65		$16.60		$20.50		$26.35		$36.10	
Citrus Park Water Company, Inc.	40 [1]	0.81	$20.00		$24.50		$26.00		$27.50		$30.50		$35.00		$42.50	
Clarkdale	4,027 [1]	1.53	$33.68		$42.38		$46.73		$51.08		$59.98		$73.33		$104.58	
Clay Springs Domestic Water Improvement District	380 [1]		$30.00		$31.83		$35.48		$39.13		$46.43		$57.38		$69.88	
Clear Springs Utility Company, Inc.	1,650 [1]	1.12	$12.75		$17.25		$20.85		$24.45		$31.65		$45.55		$71.30	
Clearwater Utilities Company, Inc.	2,075 [1]	1.04	$10.00		$14.35		$15.80		$17.25		$20.15		$24.90		$33.15	
Clifton		0.69														
Cloud Nine Water Company, Inc.	289 [1]	0.30	$8.00		$9.25		$10.50		$11.75		$14.25		$18.00		$24.25	
Coldwater Canyon Water Company	1,085 [1]	0.84	$12.50		$14.75		$15.50		$16.50		$18.50		$21.50		$29.75	
Community Water Company of Green Valley	20,000 [1]	1.10	$13.00		$16.90		$19.40		$21.90		$26.90		$34.40		$51.50	

Concho Wastewater Improvement District																
Congress Domestic Water Improvement District	1,850 [1]	1.86	$35.00		$41.00		$44.00		$47.00		$53.00		$62.00		$77.00	
Coolidge		0.78														
Cordes Lakes Water Company, Inc.	2,417 [1]	1.04	$11.00		$19.40		$23.70		$28.00		$36.60		$50.90		$75.90	
Coronado Utilities, Inc.		1.12														
Cottonwood	22,770 [1]	0.95	$28.74	$35.75	$34.54	$43.29	$37.44	$47.06	$40.34	$50.83	$48.32	$61.21	$60.29	$76.78	$88.74	$113.78
CP Water Company	37 [1]	0.21	$5.00		$5.00		$5.00		$5.00		$6.00		$7.50		$10.00	
Creekside Sanitary District		0.71														
Dateland Public Service Company, Inc.	319 [1]	0.68	$26.00		$29.00		$30.25		$31.50		$34.00		$38.50		$46.00	
Dateland Water, LLC	31 [1]	0.79	$10.00		$16.00		$18.00		$20.00		$24.00		$30.00		$40.00	
Desert Valencia Water, Inc.		0.14	$6.25		$7.25		$8.25		$9.25		$10.75		$13.00		$16.00	
Desert Vista Sanitary District																
Diamond Valley Water District	2,000 [1]	1.61	$43.00		$63.55		$71.85		$80.15		$96.75		$125.45		$176.45	
Diversified Water Utilities, Inc.	3,808 [1]	0.94	$27.50		$38.45		$42.10		$45.75		$53.05		$64.00		$82.25	
Doney Park Water	8,430 [1]	1.08	$21.95		$39.05		$44.75		$52.45		$67.85		$90.95		$139.45	
Double R Water Distributers, Inc.	84 [1]	0.62	$13.20		$17.20		$19.20		$21.20		$25.20		$31.70		$42.95	
Douglas	13,300 [1]	1.27	$10.50	$14.50	$13.05	$17.20	$13.95	$18.20	$14.85	$19.20	$16.65	$21.20	$19.45	$24.30	$24.20	$29.55
Dragoon Water Company, Inc.	378 [1]	1.06	$32.00		$41.75		$47.15		$52.55		$63.35		$79.55		$113.55	
DS Water Company	244 [1]	0.85	$25.00		$31.00		$33.00		$36.75		$44.25		$55.50		$87.10	
Duncan	348 [1]	0.85	$19.01		$21.62		$24.24		$26.85		$32.08		$39.92		$52.99	
Eagar	4,500 [1]	0.98	$10.30	$20.60	$12.85	$25.69	$15.40	$30.78	$17.95	$35.87	$23.05	$46.05	$30.70	$61.32	$43.45	$86.77
Eagletail Water Company, LLC	130 [1]	0.98	$27.00		$36.60		$40.85		$45.10		$53.60		$66.35		$87.60	
East Slope Water Company, Inc.	3,089 [1]	1.06	$12.23		$15.08		$16.78		$18.48		$21.88		$26.98		$42.83	
Ehrenberg Improvement Association	1,500 [1]	0.92	$15.00		$18.75		$20.40		$22.05		$25.35		$30.80		$40.30	
El Mirage	36,905 [1]	1.55	$19.77		$30.42		$33.97		$37.52		$45.34		$57.07		$76.62	
El Prado Water Company, Inc.	350 [1]	1.05	$15.00		$20.44		$23.16		$25.88		$31.32		$39.48		$53.08	
Elfrida Domestic Water Improvement District	805 [1]	0.99	$25.00		$29.65		$31.20		$32.75		$35.85		$40.50		$48.25	
Eloy	9,700 [1]	0.88	$14.02	$24.04	$20.74	$37.48	$22.98	$41.96	$25.22	$46.44	$29.70	$55.40	$36.42	$68.84	$50.47	$96.94
Empirita Water Company, LLC	64 [1]	0.77	$30.00		$37.50		$42.00		$46.50		$55.50		$70.50		$100.50	
EPCOR Water Company-Agua Fria	52,400 [1]	1.25	$21.19		$29.56		$32.35		$36.53		$44.88		$57.40		$80.11	
EPCOR Water Company-Anthem	25,302 [1]	1.25	$27.08		$33.58		$36.83		$40.08		$50.91		$69.32		$107.23	
EPCOR Water Company-Chaparral City Water Company	26,026 [1]	1.30	$16.50		$23.43		$26.39		$29.35		$35.27		$44.80		$62.85	
EPCOR Water Company-Havasu	4,068 [1]	1.30	$29.00		$38.39		$42.72		$47.05		$55.71		$71.18		$105.24	
EPCOR Water Company-Mohave	36,330 [1]	1.30	$11.00		$13.64		$15.48		$17.32		$21.00		$26.52		$42.55	
EPCOR Water Company-North Mohave	868 [1]	1.30	$11.00		$15.40		$17.60		$19.80		$24.20		$30.80		$41.80	
EPCOR Water Company-Paradise Valley	11,600 [1]	1.30	$25.15		$28.30		$29.35		$30.40		$32.90		$36.65		$42.90	
EPCOR Water Company-Sun City	38,016 [1]	1.25	$8.76		$11.63		$12.99		$14.35		$17.08		$21.46		$30.81	
EPCOR Water Company-Sun City West	25,362 [1]	1.25	$14.80		$22.03		$24.44		$27.39		$33.29		$42.14		$56.89	
EPCOR Water Company-Tubac	1,485 [1]	1.30	$28.26		$36.52		$39.95		$43.38		$50.23		$60.51		$82.65	
Escapees at North Ranch Utilities, LLC	500 [1]	0.98	$12.00		$15.60		$16.80		$18.00		$20.40		$24.00		$30.00	
Far West Water and Sewer, Inc.	32,425 [1]	1.06	$15.53		$20.44		$22.08		$23.72		$26.99		$31.90		$40.09	
Farmers Water Company, Inc.	7,125 [1]	0.94	$8.25		$12.30		$13.65		$15.55		$19.35		$25.05		$37.30	
Fisher's Landing Water and Sewer Works, LLC	402 [1]	0.94	$10.00		$13.00		$14.80		$16.60		$20.20		$25.60		$36.10	
Flagstaff	64,908 [1]	1.09	$6.52	$7.17	$17.26	$18.99	$21.08	$23.19	$25.47	$28.02	$35.38	$38.92	$54.19	$59.62	$103.26	$113.59
Flagstaff Ranch Water Company, Inc.	575 [1]	0.79	$27.00		$32.90		$35.85		$38.80		$44.70		$53.55		$68.30	
Florence	13,733 [1]	2.14	$22.34	$29.04	$27.11	$35.16	$28.70	$37.20	$30.29	$39.24	$33.47	$43.32	$38.24	$49.44	$49.29	$63.59
Flowing Wells Irrigation District	15,500 [1]		$10.35	$14.24	$17.34	$22.31	$19.67	$25.00	$22.00	$27.69	$26.66	$33.07	$33.65	$41.14	$45.30	$54.59
Forest Highlands Water Company	1,485 [1]		$20.00		$27.50		$30.00		$32.50		$38.20		$47.80		$63.80	

Forest Lakes Domestic Water Improvement District	1,740 [f]	0.59	$28.00		$34.00		$36.00		$38.00		$42.00		$48.00		$58.00	
Fountain Hills Sanitary District		1.18														
Francesca Water Company, Inc.	318 [f]	0.92	$22.00		$28.90		$32.90		$36.90		$44.90		$56.90		$80.55	
Fredonia	1,300 [f]	1.03	$42.12		$44.67		$45.52		$46.37		$48.27		$51.12		$56.37	
Gadsden Water Company, Inc.	930 [f]	0.89	$8.00		$11.00		$12.00		$13.00		$15.00		$18.00		$23.00	
Gila Bend	1,922 [f]	0.71	$26.50	$33.13	$29.80	$37.25	$30.90	$38.63	$32.00	$40.00	$34.50	$43.13	$38.25	$47.81	$45.50	$56.88
Gilbert	210,000 [f]	1.04	$14.63		$17.87		$18.95		$20.03		$22.19		$25.43		$31.13	
Glendale	180,000 [f]	1.38	$9.70	$12.61	$16.12	$20.98	$18.26	$23.77	$20.40	$26.56	$25.22	$32.84	$33.26	$43.31	$46.66	$60.76
Globe	10,417 [f]	0.91	$9.55	$22.25	$17.65	$32.66	$20.35	$36.13	$24.20	$41.55	$30.06	$49.27	$38.85	$60.85	$53.50	$80.15
Golden Corridor Water Company, Inc.	176 [f]	1.13	$15.25		$24.25		$27.25		$30.25		$36.25		$45.25		$60.25	
Golden Shores Water Company, Inc.	2,740 [f]	0.93	$16.05		$19.98		$21.29		$22.60		$25.22		$29.15		$35.70	
Golden Valley Domestic Water Improvement District	3,950 [f]	0.62	$15.00		$15.00		$18.30		$22.87		$33.47		$49.37		$88.87	
Goodman Water Company	1,600 [f]	1.20	$40.94		$53.36		$61.77		$70.18		$87.00		$113.30		$160.71	
Goodyear	34,000 [f]	1.42	$10.23	$12.79	$13.77	$17.23	$14.95	$18.71	$16.13	$20.19	$19.67	$24.62	$26.75	$33.47	$42.09	$52.66
Graham County Utilities, Inc.	3,025 [f]	1.47	$19.50		$28.50		$31.70		$34.90		$41.30		$51.21		$68.76	
Granite Dells Water Company	50 [f]	0.35	$4.00		$10.21		$11.68		$13.15		$16.09		$19.83		$25.85	
Granite Mountain Water Company	278 [f]	0.95	$25.00		$38.20		$42.60		$49.20		$62.40		$82.20		$121.70	
Granite Oaks Water Users Association	1,200 [f]	1.02	$20.00		$24.00		$26.00		$28.00		$32.00		$38.00		$48.00	
Groom Creek Water Users Association	810 [f]	1.27	$50.00		$83.00		$96.00		$109.00		$137.50		$184.00		$339.00	
Hacienda Acres Water System		0.04	$15.00		$16.00		$17.00		$18.00		$20.00		$23.00		$28.00	
Halcyon Acres Annex #2 Water Company, Inc.	100 [f]	1.01	$14.00		$19.25		$21.00		$23.30		$27.90		$34.80		$47.80	
Halcyon Acres Water Users Association, Inc.	234 [f]	0.63	$32.00		$32.00		$32.00		$32.00		$34.00		$37.00		$42.00	
Harrisburg Utility Company	1,300 [f]	0.89	$16.00		$25.00		$28.00		$31.00		$37.00		$48.50		$69.75	
Hassayampa Utility Company, Inc.																
Hatch Valley Domestic Water Improvement District	150 [f]	1.52	$25.00		$35.50		$39.50		$43.50		$52.50		$67.50		$102.50	
Havasu Heights Domestic Water Improvement District	395 [f]		$10.00		$17.65		$20.20		$22.75		$27.85		$35.50		$49.35	
Hayden-AZ Water Division	870 [f]		$10.50		$11.80		$13.10		$14.40		$17.00		$20.90		$27.40	
Hayden-Hayden Division	870 [f]		$7.00		$7.00		$7.00		$7.75		$9.25		$11.50		$15.25	
Heckethorn Water Company	90 [f]	1.96	$25.25		$32.51		$34.93		$37.35		$42.19		$49.45		$61.55	
High Country Pines Water Company	496 [f]	1.10	$20.00		$30.75		$34.50		$38.25		$45.75		$57.00		$77.00	
High Valley Ranch Domestic Wastewater Improvement District																
Highland Pines Domestic Water Improvement District	450 [f]	1.05	$50.00		$90.67		$108.10		$132.26		$192.66		$319.50		$613.65	
Holbrook	5,318 [f]		$6.50	$13.00	$11.15	$18.25	$12.70	$20.00	$14.25	$21.75	$17.35	$25.25	$22.00	$30.50	$29.75	$39.25
Holiday Hills Domestic Water Improvement District	150 [f]	1.09	$48.10		$92.35		$107.10		$121.85		$151.35		$195.60		$269.35	
Holiday Water Company	555 [f]	1.13	$15.00		$19.50		$21.75		$24.00		$28.50		$35.25		$55.25	
Ho-Tye Water Company	10 [f]	0.13	$25.00		$30.75		$33.00		$35.25		$39.75		$46.50		$57.75	
Huachuca City	1,950 [f]	0.96	$10.00	$13.00	$12.00	$15.00	$14.00	$17.00	$16.00	$19.00	$20.00	$23.00	$26.00	$29.00	$36.00	$39.00
Humboldt Water Systems, Inc.	700 [f]	0.82	$22.50		$28.50		$31.60		$34.70		$40.90		$50.20		$73.70	
ICR Water Users Association	201 [f]	0.75	$20.00		$28.40		$31.20		$35.20		$43.20		$56.20		$81.20	
Inscription Canyon Ranch Sanitary District		0.72														
J.D. Campbell Water-Sunrise Water Company	440 [f]	0.98	$17.00		$22.25		$24.00		$26.50		$31.50		$39.00		$52.80	
J.D. Campbell Water-West End Water Company	725 [f]	0.89	$16.50		$24.60		$28.60		$32.60		$40.60		$52.60		$78.85	
Jackson Acres Domestic Water Improvement District	30 [f]	1.09	$29.00		$30.60		$32.85		$35.10		$39.60		$46.35		$62.60	
Jake's Corner Water System	35 [f]		$12.00		$15.70		$17.55		$19.40		$23.10		$28.65		$37.90	
Jerome	400 [f]	1.23	$41.05	$51.56	$41.05	$51.56	$41.05	$51.56	$41.05	$51.56	$41.05	$51.56	$41.05	$51.56	$41.05	$51.56
Johnson Utilities Company	59,640 [f]	0.92	$16.90		$22.21		$23.98		$26.13		$30.43		$36.88		$49.41	
Joseph City Utilities	1,500 [f]		$21.88		$22.83		$23.78		$24.73		$26.63		$29.48		$33.23	

Joshua Valley Utility Company	965 [1]	0.98	$13.50		$23.70		$27.10		$30.50		$38.30		$50.00		$69.50	
Kachina Village Improvement District	3,300 [1]		$19.67		$24.35		$27.03		$29.71		$37.07		$53.91		$106.28	
Kearny	2,250 [1]	1.04	$19.00		$19.00		$19.00		$19.00		$21.70		$25.75		$32.50	
Kingman	45,000 [1]	1.67	$10.96	$13.39	$16.75	$21.19	$18.68	$23.79	$20.61	$26.39	$24.47	$31.59	$30.26	$39.39	$42.36	$55.79
Kings Ranch Unit 2 Domestic Wastewater Improvement District																
La Casita Water Company, Inc.	1,059 [1]	0.96	$21.00		$31.50		$35.00		$38.50		$45.50		$56.00		$73.50	
Lago Del Oro Water Company	12,727 [1]	0.93	$14.50		$19.30		$20.90		$24.05		$30.35		$39.80		$60.80	
Lagoon Estates Water Company, Inc.	1,860 [1]	0.99	$16.00		$23.50		$27.10		$30.70		$37.90		$48.70		$70.85	
Lake Havasu City	54,610 [1]	1.23	$5.16	$6.45	$10.57	$13.23	$12.38	$15.49	$14.18	$17.75	$17.79	$22.27	$23.36	$29.23	$35.12	$43.94
Lake Verde Water Company, Inc.	125 [1]		$10.50		$14.50		$16.50		$18.50		$22.50		$28.50		$38.50	
Lakewood Water Company	900 [1]	1.04	$12.00		$15.00		$16.00		$17.40		$20.20		$24.40		$32.90	
Las Quintas Serenas Water Company	3,042 [1]	1.25	$22.00		$26.50		$28.00		$30.50		$35.50		$43.00		$60.50	
Lazy C Water Service	335 [1]	0.75	$19.00		$26.35		$30.35		$34.35		$42.35		$55.85		$83.35	
Liberty Utilities-Carefree, Cave Creek, Scottsdale, Black Mountain Sewer		1.32														
Liberty Utilities-Entrada Del Oro		0.81														
Liberty Utilities-Gold Canyon		1.16														
Liberty Utilities-Hereford, Bella Vista Water, Huachuca City, Sierra Vista, Whetstone	25,540 [1]	1.30	$15.00		$19.35		$20.80		$23.01		$27.43		$34.06		$47.66	
Liberty Utilities-Litchfield Park, Avondale, Glendale, Goodyear	34,000 [1]	1.39	$10.20		$13.20		$15.11		$17.02		$20.84		$27.69		$42.84	
Liberty Utilities-Northern Sunrise	760 [1]	0.45	$15.00		$19.35		$20.80		$23.01		$27.43		$34.06		$47.66	
Liberty Utilities-Rio Rico	20,000 [1]	1.57	$15.46		$19.93		$22.91		$25.89		$31.85		$41.30		$58.75	
Liberty Utilities-Southern Sunrise	2,920 [1]	0.63	$15.00		$19.35		$20.80		$23.01		$27.43		$34.06		$47.66	
Little Colorado Sanitary District																
Little Park Water Company	175 [1]	0.84	$21.21		$26.46		$29.46		$32.46		$38.46		$47.46		$67.86	
Livco Water Company	900 [1]	1.16	$18.75		$23.25		$25.99		$28.73		$34.21		$42.43		$65.03	
Loma Estates Water Company, LLC	80 [1]	0.74	$22.00		$38.80		$44.40		$50.00		$61.20		$78.00		$106.00	
Loma Linda Water Company	362 [1]	0.99	$16.63		$23.74		$26.11		$29.68		$36.82		$47.53		$65.38	
Lord Arizona Water Systems, Inc.	867 [1]	1.02	$22.00		$29.44		$31.92		$34.40		$39.36		$46.80		$59.20	
Los Cerros Water Company, Inc.	3,332 [1]	1.19	$12.50		$19.82		$22.26		$24.70		$29.58		$36.90		$49.10	
Lyn Lee Water Company	120 [1]	0.92	$17.80		$23.80		$26.80		$29.80		$35.80		$44.80		$59.80	
Marana	15,431 [1]	0.66	$16.18		$25.36		$28.42		$31.48		$37.60		$46.78		$67.28	
Marana Domestic Water Improvement District	1,939 [1]	1.00	$27.40		$33.75		$36.40		$39.05		$44.35		$54.05		$70.80	
Maricopa Domestic Water Improvement District	1,200 [1]	1.04	$22.00	$44.00	$28.75	$50.75	$31.00	$53.00	$33.25	$55.25	$37.75	$59.75	$44.50	$66.50	$55.75	$77.75
Maricopa Mountain Domestic Water Improvement District	540 [1]	1.18	$15.00		$31.80		$37.40		$43.00		$54.20		$71.00		$99.00	
Martinez Lake Sewer Company		1.08														
Mayer Domestic Water Improvement District	2,050 [1]		$25.50		$30.50		$33.00		$36.00		$42.00		$54.00		$78.50	
McAdams Water Company		0.46	$18.00		$18.00		$18.00		$18.00		$18.00		$18.00		$18.00	
Mesa	466,000 [1]	1.22	$21.14		$21.14		$23.79		$26.44		$31.74		$39.69		$56.90	
Mescal Lakes Water Systems, Inc.	1,479 [1]	1.32	$16.50		$27.00		$30.50		$34.00		$41.00		$51.50		$69.00	
Metropolitan Domestic Water Improvement District-Metro-Main, Metro-Hub	48,003 [1]	1.56	$22.00		$28.60		$30.80		$33.70		$39.50		$48.20		$68.74	
Metropolitan Domestic Water Improvement District-Metro-Southwest(Diablo Village)	3,304 [1]	1.56	$20.00		$29.60		$32.80		$36.00		$42.40		$52.00		$68.00	
Metropolitan Domestic Water Improvement District-Metro-Southwest(E&T)	977 [1]	1.56	$15.00		$23.40		$26.20		$29.00		$34.60		$43.00		$60.25	
Metropolitan Domestic Water Improvement District-Metro-Southwest(Lazy B)	84 [1]	1.56	$30.00		$42.30		$46.40		$50.50		$58.70		$71.00		$91.50	
Miami																

Michael's Ranch Water Users Association	40 [1]	0.74	$20.00		$31.25		$35.00		$38.75		$51.15		$69.75		$100.75	
Mirabell Water Company, Inc.	130 [1]	0.82	$20.00		$29.35		$33.70		$38.05		$46.75		$67.10		$107.10	
Mohawk Utility Company, Inc.	300 [1]		$12.50		$19.10		$21.30		$23.50		$27.90		$34.50		$45.50	
Monte Vista Water Company, LLC	150 [1]	0.90	$6.00		$7.00		$8.00		$9.00		$11.00		$14.00		$19.00	
Montezuma Rimrock Water Company, LLC	429 [1]	0.91	$28.00		$35.35		$40.30		$45.25		$55.15		$71.30		$102.55	
Morenci Water and Electric Company	5,466 [1]	0.50	$10.25		$13.73		$15.56		$17.39		$21.05		$27.70		$39.75	
Morristown Water Company	120 [1]		$0.00		$6.60		$8.80		$11.00		$15.40		$22.00		$33.00	
Mount Lemmon Domestic Water Improvement District	279 [1]	1.19	$41.85		$59.85		$65.85		$74.85		$92.85		$119.85		$194.85	
Mount Tipton Water Company, Inc.	1,780 [1]	1.00	$22.25		$31.40		$34.45		$39.05		$48.25		$62.95		$90.45	
Mountain Dell Water, Inc.	215 [1]	0.98	$24.00		$33.30		$38.00		$42.70		$52.10		$66.20		$96.20	
Mountain Glen Water Service	36 [1]	0.99	$21.65		$30.29		$33.17		$36.05		$43.09		$53.65		$71.25	
Mountain Pass Utility Company		0.28														
MWC Inc. (McNeal Water Company)	120 [1]	0.85	$20.73		$27.69		$31.17		$34.65		$41.61		$52.05		$69.45	
Naco Water Company, L.L.C.	972 [1]	1.15	$32.16		$45.78		$52.60		$59.42		$73.06		$94.89		$135.84	
Navajo Tribal Utility Authority			$8.22		$17.94		$22.97		$28.00		$38.06		$53.15		$78.30	
Navajo Water Company, Inc.	737 [1]	0.95	$16.19		$26.69		$30.19		$33.69		$40.69		$51.19		$68.69	
New River Utility Company, Inc	11,475 [1]	1.04	$7.50		$11.10		$12.30		$13.50		$15.90		$19.50		$26.10	
New Saddleback Vista Domestic Water Improvement District	129 [1]	0.75	$45.00		$51.75		$54.00		$56.25		$60.75		$67.50		$80.50	
Nogales	22,000 [1]	0.69	$7.11	$21.33	$12.45	$29.34	$14.52	$32.18	$16.59	$35.02	$20.73	$40.70	$27.30	$49.82	$39.03	$66.36
Northern Gila County Sanitary District		0.95														
Oak Creek Public Service, LLC	588 [1]	1.23	$12.00		$17.85		$19.80		$21.90		$26.10		$32.40		$43.65	
Oak Creek Utility Corporation	62 [1]	1.28	$30.00		$38.70		$42.70		$46.70		$54.70		$66.70		$86.70	
Oak Creek Water Company, No. 1	1,500 [1]	0.91	$8.00		$11.46		$13.19		$15.59		$20.87		$29.51		$43.91	
Oatman Water Company	536 [1]	0.80	$25.00		$39.85		$46.80		$53.75		$67.65		$90.65		$136.15	
Ojo Bonito Estates Domestic Water Improvement District	53 [1]	1.30	$32.00		$32.00		$32.00		$37.00		$47.00		$62.00		$112.00	
Orange Grove Water Company	800 [1]	0.97	$18.15		$24.15		$26.90		$29.65		$35.15		$44.52		$61.07	
Oro Valley	54,513 [1]	1.33	$14.19		$23.73		$26.91		$30.09		$36.45		$48.33		$68.13	
Page	7,705 [1]	1.17	$14.13		$14.13		$16.48		$18.83		$23.53		$30.58		$42.33	
Palo Verde Utilities Company																
Papago Butte Domestic Water Improvement District	500 [1]	0.95	$36.00		$42.30		$44.40		$46.50		$50.70		$60.00		$75.50	
Paradise Valley		1.02														
Park Water Company	348 [1]	1.02	$25.00		$34.00		$39.00		$44.00		$54.00		$72.80		$116.80	
Parker	3,186 [1]	1.10	$9.05		$15.89		$18.17		$20.45		$25.01		$31.85		$43.25	
Parker Springs Water Company		1.10	$35.00		$43.10		$47.60		$52.10		$61.10		$76.40		$103.40	
Patagonia	850 [1]	0.81	$16.85		$18.25		$19.65		$21.05		$23.85		$28.05		$38.05	
Payson	17,682 [1]	1.03	$26.96		$30.60		$34.24		$37.88		$47.62		$62.23		$89.68	
Payson Water Company, Inc.	3,489 [1]	0.66	$16.00		$21.79		$23.72		$26.71		$32.69		$41.66		$56.61	
Peeples Valley Water Company	500 [1]	0.90	$23.75		$31.85		$35.90		$39.95		$48.05		$60.20		$85.20	
Peoria	124,500 [1]	1.14	$15.54		$18.54		$19.54		$22.13		$27.31		$35.08		$53.38	
Phoenix	1,505,100 [1]	1.40	$4.36	$6.54	$4.36	$6.54	$4.36	$6.54	$6.58	$9.87	$15.24	$22.86	$28.24	$42.35	$49.89	$74.84
Picacho Peak Water Company	321 [1]	1.07	$15.00		$24.15		$28.73		$33.31		$42.47		$56.21		$83.66	
Picacho Sewer Company		0.56														
Picacho Water Company	1,270 [1]	1.07	$15.00		$24.00		$27.00		$30.00		$36.00		$45.00		$60.00	
Picacho Water Improvement Corporation	400 [1]	0.50	$14.00		$15.50		$17.00		$18.50		$21.50		$26.00		$33.50	
Pima																
Pima County		1.25														
Pima Utility Company	20,000 [1]		$7.72		$9.85		$10.56		$11.57		$13.59		$16.62		$23.87	

Pine Creek Canyon Domestic Water Improvement District	160 [1]	0.79	$37.50		$45.50		$49.50		$53.50		$65.50		$89.50		$145.50	
Pine Meadows Utilities, LLC		0.60														
Pine Strawberry Domestic Water Improvement District	8,000 [1]	1.12	$42.50		$47.75		$54.75		$61.75		$77.75		$104.75		$149.75	
Pine Valley Water Company	300 [1]	0.96	$18.65		$28.61		$31.93		$36.91		$46.87		$61.81		$87.71	
Pine Water Association Domestic Water Improvement District	400 [1]	1.02	$25.00		$55.00		$65.00		$75.00		$95.00		$125.00		$195.00	
Pinecrest Water Company, Inc.	73 [1]	0.58	$30.00		$39.75		$45.25		$50.75		$61.75		$78.25		$105.75	
Pinedale Domestic Water Improvement District	304 [1]		$28.00		$28.00		$28.00		$28.00		$32.50		$39.25		$50.50	
Pinetop Water Community Facilities District	3,550 [1]	0.92	$23.48		$34.07		$37.60		$41.13		$48.19		$58.78		$76.43	
Pinetop-Lakeside Sanitary District		1.04														
Pinewood Sanitary District		1.13														
Ponderosa Park Domestic Water Improvement District	600 [1]	1.10	$48.30		$56.88		$61.87		$70.03		$92.48		$149.65		$333.95	
Ponderosa Utility Corporation	1,100 [1]	0.99	$24.25		$34.88		$38.88		$42.88		$50.88		$63.38		$84.63	
Porter Creek Domestic Water Improvement District	300 [1]		$12.00		$21.00		$25.50		$30.00		$39.00		$52.50		$75.00	
Prescott	43,217 [1]	1.31	$12.90	$17.93	$25.08	$33.86	$30.76	$41.42	$36.44	$48.98	$47.80	$64.10	$64.84	$86.78	$105.34	$141.43
Prescott Valley	43,985 [1]	0.99	$9.00		$18.06		$21.08		$24.10		$30.14		$40.40		$58.50	
Pueblo del Sol Water Company	12,804 [1]	1.36	$13.45		$18.05		$20.35		$22.65		$27.25		$34.15		$48.15	
Q Mountain Vista Water Company	440 [1]	1.14	$14.00		$21.70		$25.40		$29.10		$36.50		$52.20		$82.20	
Q Mountain Water, Inc.	848 [1]	0.64	$15.00		$21.00		$23.00		$25.00		$29.00		$35.00		$45.00	
Quail Creek Water Company	4,953 [1]	1.40	$15.00		$23.40		$26.20		$29.00		$34.60		$43.00		$57.00	
Quail Ridge Domestic Water Improvement District	333 [1]		$35.00		$42.30		$45.95		$49.60		$56.90		$67.85		$86.10	
Quartzsite	1,971 [1]	1.06	$27.04		$34.15		$36.52		$38.89		$43.63		$50.74		$62.59	
Queen Creek	32,597 [1]	1.53	$18.33		$21.87		$23.64		$25.41		$28.95		$34.26		$46.11	
Queen Valley Sanitary District																
Raindance Water Co-op	159 [1]		$10.00		$23.05		$27.40		$31.75		$40.45		$53.50		$75.25	
Rancho Del Conejo Community Water Co-op, Inc.	558 [1]	1.02	$30.00		$34.80		$37.40		$40.00		$45.20		$53.00		$71.85	
Ray Water Company, Inc.	4,500 [1]	0.89	$18.00		$21.00		$22.75		$24.50		$28.00		$36.25		$50.00	
Red Rock Utilities, LLC	1,500 [1]	0.40	$25.00		$25.00		$25.00		$25.00		$25.00		$25.00		$25.00	
Ridgeview Utility Company		1.01	$25.00		$35.23		$38.64		$42.05		$48.87		$59.10		$76.15	
Rillito Water Users Association	100 [1]	0.86	$11.50		$14.50		$16.00		$17.50		$20.50		$25.00		$32.50	
Rim Trail Domestic Water Improvement District	204 [1]	1.99	$79.00		$79.00		$84.00		$89.50		$103.50		$127.50		$167.50	
Rincon Water Company	171 [1]	0.56	$12.00		$27.00		$32.00		$37.00		$47.00		$62.00		$87.00	
Rio Verde Utilities, Inc.	3,024 [1]	2.66	$9.00		$13.77		$15.36		$16.95		$20.13		$24.90		$32.85	
Roosevelt Lake Resort, Inc.	26 [1]		$17.00		$28.64		$32.52		$36.40		$44.16		$55.80		$75.20	
Rose Valley Water Company	6,250 [1]	0.98	$5.25		$8.55		$10.20		$11.85		$15.15		$20.75		$32.25	
Saddlebrooke Utility Company		1.61														
Safford	18,900 [1]	1.06	$21.56		$25.88		$27.32		$28.76		$31.64		$36.97		$45.97	
Safford-County	18,900 [1]	1.15	$26.96		$32.39		$34.20		$36.01		$39.63		$46.32		$57.62	
Safford-Thatcher	18,900 [1]	1.15	$23.72		$28.46		$30.04		$31.62		$34.78		$40.64		$50.54	
Saguaro Water Company	2,748 [1]	1.19	$12.00		$20.90		$25.35		$29.80		$38.70		$52.05		$74.30	
Sahuarita	120 [1]	1.02														
Sahuarita Water Company, LLC	13,243 [1]	1.45	$17.15		$24.89		$28.64		$32.39		$39.89		$51.84		$74.09	
San Luis	27,800 [1]	1.21	$12.03		$13.87		$15.71		$17.55		$21.23		$26.75		$35.95	
Sandario Water Company, Inc.	1,062 [1]	0.92	$17.00		$20.30		$22.55		$24.80		$29.30		$36.55		$50.30	
Santa Cruz Water Company	46,103 [1]	1.22	$27.68		$29.62		$30.36		$31.10		$33.16		$52.16		$70.96	
Scottsdale	230,000 [1]	1.15	$10.75		$15.70		$17.35		$19.00		$24.70		$33.25		$49.30	
Sedona		0.95														

Sedona Venture Water Company	700 [1]	2.22	$9.65		$14.15		$15.65		$17.15		$20.15		$24.65		$36.65	
Seligman Sanitary District																
Seven Canyons Water and Water Treatment Company	250 [1]	0.53	$20.00		$38.05		$44.06		$50.08		$62.11		$80.16		$110.24	
Seven Ranches Domestic Water Improvement District	95 [1]	1.18	$30.00		$36.75		$39.00		$41.25		$45.75		$52.50		$63.75	
Shepard Water Company, Inc.	429 [1]	1.80	$14.75		$18.50		$20.30		$22.10		$25.70		$31.10		$42.60	
Show Low	13,561 [1]	1.00	$27.84	$34.61	$27.84	$34.61	$27.84	$34.61	$27.84	$34.61	$33.16	$41.27	$41.14	$51.26	$54.44	$67.91
Sierra Vista																
Sierrita Mountain Water Co-op	234 [1]	1.06	$26.35		$28.35		$32.35		$36.35		$44.35		$56.35		$77.35	
Sky High Domestic Water Improvement District	168 [1]		$24.00		$34.50		$38.00		$41.50		$48.50		$59.00		$76.50	
Snowflake	5,590 [1]	1.28	$18.22		$19.89		$21.56		$23.23		$26.57		$31.58		$39.93	
So-Hi Domestic Water Improvement District	500 [1]	0.57	$29.00		$33.00		$37.00		$41.00		$51.50		$70.38		$112.25	
Somerton	14,500 [1]	0.76	$11.50		$11.50		$11.50		$11.50		$16.28		$23.45		$35.40	
Sonoita Valley Water Company	142 [1]	1.18	$30.00		$51.69		$62.54		$73.39		$95.09		$127.64		$192.74	
South Grand Canyon Sanitary District		1.07														
Southland Utilities Company, Inc.	1,797 [1]	1.70	$29.39		$35.49		$38.49		$41.49		$48.49		$60.49		$87.03	
Spanish Trail Water Company	1,050 [1]	0.61	$10.00		$13.00		$14.00		$15.00		$17.75		$23.00		$31.75	
Springerville	1,972 [1]	0.95	$14.95	$22.82	$17.70	$28.33	$20.45	$33.84	$23.20	$39.35	$28.70	$50.37	$36.95	$66.90	$54.65	$102.30
St. Johns	3,800 [1]	1.07	$25.00		$26.50		$29.15		$31.80		$37.10		$45.05		$58.30	
Starlight Water Company, Inc.	1,962 [1]	1.00	$33.70		$44.20		$47.70		$52.70		$62.70		$77.70		$117.70	
Stoneman Lake Water Company, Inc.	204 [1]	0.33	$10.00		$10.00		$10.00		$10.00		$10.00		$10.00		$10.00	
Sun Valley Farms Unit VI Water Company, Inc.	600 [1]	1.14	$7.50		$10.50		$11.50		$12.50		$14.50		$17.50		$22.50	
Sunizona Water Company	120 [1]		$13.75		$21.75		$25.75		$31.75		$43.75		$64.00		$105.25	
Sunland Water Company	188 [1]	0.81	$14.00		$20.00		$24.25		$28.50		$37.00		$51.25		$80.00	
Sunrise Vistas Utilities Company	1,500 [1]	1.18	$18.45		$25.05		$27.25		$29.45		$33.85		$40.45		$51.45	
Superstition Mountains Community Fascilities District No. 1		1.30														
Surprise	27,116 [1]	0.99	$19.39		$24.19		$25.79		$27.39		$30.59		$35.39		$51.14	
Sweetwater Creek Utilities, Inc.		1.07														
Tacna Water Management Company	240 [1]		$34.78		$37.78		$39.28		$40.78		$43.78		$49.03		$57.78	
Taylor	3,175 [1]	1.20	$15.00		$18.00		$19.00		$20.00		$22.00		$25.00		$30.00	
Tempe	165,000 [1]	1.43	$11.50	$14.95	$17.50	$22.75	$19.50	$25.35	$21.50	$27.95	$25.50	$33.15	$32.50	$42.25	$45.00	$58.50
Thatcher		0.94														
The Links at Coyote Wash Utilities, LLC		1.18														
Thim Utility Company	300 [1]	1.05	$24.50		$30.10		$32.90		$35.70		$41.30		$49.70		$63.70	
Tierra Buena Water Company, Inc.	310 [1]	0.97	$9.00		$13.00		$15.00		$17.00		$21.00		$27.00		$37.00	
Tierra Linda Water Company, Inc.	165 [1]	0.49	$25.00		$31.75		$34.00		$36.95		$42.85		$51.70		$66.45	
Tierra Mesa Estates Water Company, Inc.	680 [1]	1.01	$13.25		$17.15		$18.45		$19.75		$22.35		$26.25		$32.75	
Tolleson	6,680 [1]	1.14	$19.85		$19.85		$23.57		$27.29		$34.73		$46.52		$66.17	
Tombstone	1,635 [1]	1.18	$29.19	$45.11	$39.63	$57.95	$43.11	$62.23	$46.59	$66.51	$53.55	$75.07	$63.99	$87.91	$81.39	$109.31
Tonto Basin Water Company	2,691 [1]	1.05	$16.00		$20.65		$22.20		$24.53		$29.19		$36.18		$47.83	
Tonto Creek Water Company, LLC	213 [1]	0.81	$24.00		$29.10		$32.50		$35.90		$42.70		$60.70		$90.70	
Tonto Hills Domestic Water Improvement District			$40.00		$60.40		$67.20		$77.40		$97.80		$128.40		$183.60	
Tonto Hills Utility Company	225 [1]		$40.00		$60.40		$67.20		$77.40		$97.80		$128.40		$183.60	
Tonto Village Water Company, Inc.	300 [1]	1.03	$10.00		$13.15		$15.30		$17.45		$21.75		$32.25		$49.75	

Truxton Canyon Water Company	2,126 [f]	0.69	$19.50		$23.85		$25.30		$26.75		$30.55		$36.25		$45.75	
Tucson	675,686 [f]	1.36	$9.68		$14.85		$16.58		$18.30		$21.75		$31.61		$70.70	
Twin Hawks Utility, Inc.		1.20	$30.00		$36.00		$39.00		$42.00		$48.00		$57.00		$72.00	
Utility Source, LLC		0.69	$6.48		$14.97		$17.80		$20.63		$27.27		$37.23		$53.83	
Utility Systems, LLC		0.78	$18.80		$31.80		$36.80		$41.80		$51.80		$70.80		$105.80	
Vail Water Company	10,705 [f]	1.26	$14.70		$23.52		$27.67		$31.82		$40.12		$52.57		$78.97	
Valencia Water Company-Greater Buckeye Division	1,773 [f]	1.13	$27.72		$34.17		$36.72		$39.27		$46.77		$58.02		$82.77	
Valencia Water Company-Town Division	15,309 [f]	0.96	$30.88		$32.95		$33.77		$34.58		$45.60		$54.15		$73.30	
Valle Escondido Domestic Water Improvement District	82 [f]		$35.00	$70.00	$41.00	$82.00	$43.00	$86.00	$45.00	$90.00	$49.00	$98.00	$55.00	$110.00	$65.00	$130.00
Valle Verde Water Company	2,322 [f]	1.10	$18.00		$21.90		$24.80		$27.70		$33.50		$42.20		$63.45	
Valley Pioneers Water Company, Inc.	6,000 [f]	0.90	$18.00		$25.80		$28.40		$31.00		$36.20		$48.50		$69.00	
Valley Utilities Water Company, Inc.	4,780 [f]	1.08	$18.40		$23.20		$26.08		$28.96		$34.72		$43.36		$62.36	
Valley View Water Company, Inc.	60 [f]		$30.50		$37.25		$39.50		$41.75		$46.25		$53.00		$65.50	
Verde Lakes Water Corporation	2,400 [f]	1.01	$8.75		$13.70		$15.35		$17.00		$21.15		$28.65		$41.15	
Verde Lee Water Company	450 [f]	1.36	$21.25		$28.90		$32.73		$36.56		$44.22		$55.71		$78.71	
Verde Santa Fe Wastewater Company, Inc.		1.00														
Vernon Valley Water Company, Inc.	51 [f]	0.84	$24.00		$33.00		$36.00		$40.55		$49.65		$63.30		$94.30	
Virgin Mountain Utilities Company	149 [f]	0.86	$30.00		$39.00		$42.00		$47.00		$57.00		$72.00		$107.00	
Voyager Water Company	6,314 [f]	1.19	$11.00		$17.00		$19.00		$21.00		$25.00		$31.00		$41.00	
Walnut Creek Water Company, Inc.	645 [f]	0.93	$18.00		$24.00		$27.75		$31.50		$39.00		$52.40		$81.90	
Watco, Inc.	843 [f]	0.68	$22.00		$31.00		$36.00		$39.00		$47.00		$59.00		$84.00	
Water Utility of Greater Buckeye, Inc.			$16.00		$24.25		$27.00		$29.75		$35.25		$43.50		$60.25	
Water Utility of Greater Tonopah, Inc.	483 [f]		$22.55		$27.71		$29.70		$31.69		$37.47		$46.14		$65.14	
Water Utility of Northern Scottsdale, Inc.	225 [f]		$27.00		$42.00		$47.00		$53.00		$65.00		$83.00		$118.00	
Weaver Mountain Domestic Wastewater Improvement District		0.80														
Wellton	2,068 [f]	0.65	$17.00	$19.00	$17.00	$19.00	$17.93	$20.38	$19.78	$23.13	$23.48	$28.63	$29.03	$36.88	$38.28	$50.63
West Village Water Company	220 [f]	0.50	$26.00		$42.50		$51.10		$59.70		$76.90		$106.75		$156.50	
Whetstone Domestic Water Improvement District	1,000 [f]		$25.00		$28.25		$31.50		$34.75		$41.25		$51.00		$67.25	
White Hills Water Company	107 [f]	0.87	$19.00		$40.00		$50.50		$61.00		$82.00		$113.50		$166.00	
White Horse Ranch Owners Association, Inc.	360 [f]	1.30	$35.00		$49.00		$55.00		$63.00		$79.00		$107.00		$167.00	
White Mountain Water Company	500 [f]	1.00	$17.00		$28.28		$32.04		$35.80		$43.32		$54.60		$73.40	
Why Domestic Water Improvement District	450 [f]		$40.00		$40.00		$42.50		$45.00		$50.00		$58.25		$73.00	
Wickenburg	6,200 [f]	1.00	$11.04	$22.08	$11.04	$22.08	$11.04	$22.08	$12.13	$24.26	$14.31	$28.62	$17.58	$35.16	$25.03	$50.06
Willcox		1.21	$14.55		$16.18		$17.81		$19.44		$22.89		$28.35		$38.50	
Williams	2,900 [f]	0.84	$10.73		$21.49		$26.87		$32.25		$43.01		$59.15		$87.45	
Willow Springs Water Company			$28.00		$35.50		$38.00		$41.50		$48.50		$60.00		$82.50	
Willow Valley Water Company, Inc.	4,554 [f]	0.63	$21.12		$28.58		$31.57		$34.56		$43.58		$57.11		$87.11	
Wilmot Water Users Group	40 [f]		$50.00		$50.00		$50.00		$50.00		$50.00		$50.00		$50.00	
Winchester Water Company, LLC	480 [f]	1.33	$13.50		$16.50		$18.40		$20.30		$24.10		$29.80		$46.30	
Winkelman																
Winslow	9,655 [f]	1.07	$12.75	$19.13	$19.80	$29.72	$22.15	$33.25	$24.50	$36.78	$29.20	$43.84	$36.25	$54.43	$48.00	$72.08
Winslow West Water Company, Inc.	24 [f]	0.30	$6.00		$6.00		$6.50		$7.00		$8.00		$9.50		$12.00	
Wonderland Acres Domestic Water Improvement District	380 [f]		$17.00		$24.50		$27.00		$29.50		$34.50		$42.00		$54.50	
Woodruff Water Company, Inc.		0.41	$20.00		$26.24		$28.32		$31.44		$37.68		$47.04		$62.64	
Worden Water Company	50 [f]	0.95	$24.00		$25.50		$27.00		$28.50		$31.50		$36.00		$43.50	
Yarnell Water Improvement Association	1,600 [f]	0.90	$23.00		$33.80		$37.90		$42.00		$50.20		$67.45		$96.20	
Yuma	103,264 [f]	1.12	$15.68	$20.86	$21.38	$28.44	$23.27	$30.97	$25.17	$33.49	$28.97	$38.55	$35.00	$46.60	$45.16	$60.17

DOCKET NO. WS-01303A-14-0010

EXHIBIT
tabbies
SCHOA-2
ADMITTED

NOTICE OF ERRATA

GREG EISERT
ON BEHALF OF
SUN CITY HOME OWNERS ASSOCIATION
March 3, 2015

On February 23, 2015 the Sun City Home Owners Association filed its Surrebuttal Testimony for this Docket WS-01303A-14-0010. After filing the testimony, we realized we mistakenly made notations which must be corrected:

- Page three (3) paragraph three (3)
  - Delete - "increase of somewhere between a 5% - 8%. This range proves realistic given our review of the numbers and rationalization thereof by Staff and RUCO.
  - Replace with – "not to exceed cost of service".

  Corrected paragraph should read - Therefore, if one were to segregate the SIB issue from the equation, the Sun City Ratepayer should expect a 5/8" Residential rate increase not to exceed the cost of service.

- Last page, last paragraph, last two sentences
  - Delete - "limits as prescribed by the Audits of RUCO and/or the ACC Staff. The latest of which does not exceed eight percent (8%)."
  - Replace with – the cost of service.

  Corrected last two sentences should read - The preponderance of evidence dictates the Sun City District Ratepayer base rate increase should not exceed the cost of service.