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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH - Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

Arizona Corporation Commission
DOCKETED
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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 DECISION NO. **75268** **OPINION AND ORDER**

DATES OF HEARING:	September 12, 2014 (Procedural Conference); October 9, and December 2, 2014 (Public Comments in Tubac, and Phoenix, Arizona, respectively); March 6, 2015 (Pre-Hearing Conference); March 9, 10, 11, 12, 13, 16, 23, and 25, 2015.
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Dwight D. Nodes
APPEARANCES:	Mr. Thomas Campbell and Mr. Michael Hallam, LEWIS ROCA ROTHGERBER, L.L.P., on behalf of EPCOR Water Arizona, Inc.;
	Mr. Daniel W. Pozefsky, Chief Counsel, on behalf of the Residential Utility Consumer Office;
	Mr. Greg Eisert, on behalf of the Sun City Homeowners Association;
	Mr. Rich Bohman and Mr. Jim Patterson, on behalf of the Santa Cruz Valley Citizens Council;
	Mr. Robert J. Metli, MUNGER AND CHADWICK, on behalf of the Sanctuary Camelback Mountain Resort and Spa, JW Marriott Camelback Inn, Omni Scottsdale Resort & Spa at Montelucia;
	Mr. Andrew Miller, Town Attorney, on behalf of the Town of Paradise Valley;

Mr. Delman Eastes, in propria persona;

Mr. Marshall Magruder, in propria persona; and

Ms. Robin Mitchell and Mr. Matthew Laudone, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

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BY THE COMMISSION:

I. INTRODUCTION AND PROCEDURAL HISTORY

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.

On April 4, 2014, the Commission's Utilities Division ("Staff") issued a Letter of Sufficiency pursuant to Arizona Administrative Code ("A.A.C.") R14-2-103, and classified the Company as a Class A utility.

On April 7, 2014, the Residential Utility Consumer Office ("RUCO") filed an Application to Intervene.

On April 25, 2014, Marshall Magruder filed 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.

On April 28, 2014, Mr. Magruder filed an Errata to the Motion to Stay and Remand.

On April 28, 2014, 2014, a Procedural Order was issued scheduling a hearing for December 2, 2014, establishing various procedural and filing deadlines, granting intervention to RUCO, and directing the Company to mail and publish notice by May 30, 2014.

On April 30, 2014, Mr. Magruder filed a Motion to Intervene.

On May 1, 2014, EPCOR filed a Response to [Mr. Magruder's] Motion to Stay and Remand.

On May 7, 2014, EPCOR filed a Request for Corrections to Public Notice of Hearing. In its filing, the Company identified several typographical errors in the notice contained in the April 28, 2014 Procedural Order, and proposed revisions in accordance with the attachment to its filing.

On May 8, 2014, a Procedural Order was issued with a revised public notice incorporating EPCOR's proposed corrections.

On May 19, 2014, Mr. Magruder filed a Reply to EPCOR's Response [to the Motion to Stay and Remand].

On May 28, 2014, RUCO filed a Motion to Compel Discovery and requested an expedited ruling.

On May 30, 2014, EPCOR filed a Stipulation for Extension of Time to File Response to RUCO's Motion to Compel.

On June 2, 2014, a Procedural Order was issued granting intervention to Mr. Magruder and denying his Motion to Stay and Remand the Rate Case.

On June 4, 2014, EPCOR filed a Response to RUCO's Motion to Compel.

On June 4, 2014, an intervention request was filed by Rich Bohman, President of the Santa Cruz Valley Citizens Council ("SCVCC").

On June 11, 2014, the Water Utility Association of Arizona ("WUAA") filed an Application for Leave to Intervene.

On June 12, 2014, EPCOR filed an Amendment to Application, as well as an Affidavit of Publication and Certification of Mailing of the customer notice.

On June 23, 2014, Delman E. Eastes, a residential customer of EPCOR, filed a Motion to Intervene.

On June 24, 2014, a Motion to Intervene was filed by the Paradise Valley Country Club ("PVCC").

On July 1, 2014, Sanctuary Camelback Mountain Resort & Spa, JW Marriott Camelback Inn, and Omni Scottsdale Resort & Spa at Montelucia (collectively "Resorts") filed a Petition to Intervene.

On July 10, 2014, the Town of Paradise Valley filed a Motion to Intervene.

On July 15, 2014, a Procedural Order was issued granting intervention to WUAA, Delman E. Eastes, PVCC, and the Resorts, and directing the SCVCC to file: specific authorization, such as a board resolution, for Mr. Bohman or another specifically named lay person meeting the requirements of Arizona Supreme Court Rule 31(d)(28), to represent SCVCC in this matter; or an intervention request filed by counsel representing SCVCC in this matter.

On July 18, 2014, RUCO filed a Withdrawal of Motion to Compel.

On July 21, 2014, SCVCC filed a Resolution authorizing Mr. Bohman to represent SCVCC in this proceeding.

On July 23, 2014, a Procedural Order was issued granting intervention to the Town of Paradise Valley and SCVCC.

On August 14, 2014, Staff filed a Request to Extend the Date for Intervention for Mohave Wastewater customers in recognition of Decision No. 74588 (July 30, 2014), which directed that consolidation and deconsolidation of the Company's wastewater systems should be considered in Docket No. SW-01303A-09-0343, et al.

On August 15, 2014, Staff filed a Supplement to Request to Extend the Date for Intervention. Staff stated that the intervention deadline extension should apply to any person or entity with an interest in the Company's wastewater rates.

On August 19, 2014, a Procedural Order was issued granting Staff's Request and extending the intervention deadline to September 19, 2014.

On August 20, 2014, RUCO filed a Motion to Continue All Procedural Deadlines, Continue Hearing, and For Tolling of the Rate Case Time Clock. In its Motion, RUCO asserted that the Company's responses to certain of RUCO's data requests had been inadequate and, as a result, RUCO was unable to adequately prepare testimony in this proceeding by the then-current filing deadline (October 3, 2014). RUCO requested that the due date for filing intervenor testimony be extended by 120 days, that all other procedural deadlines and the hearing date be extended accordingly, and that the time clock be extended by 120 days.

On August 25, 2014, EPCOR filed a Response to RUCO's Motion to Continue all Procedural Deadlines, Continue Hearing, and for Tolling of the Rate Case Time-Clock. EPCOR claimed that: responding to RUCO's and Staff's data requests had been challenging; that the Company had responded to RUCO's discovery requests through ongoing updated responses; and that some of RUCO's concerns were not discovery issues but were related to positions that were disputed between the parties. EPCOR proposed that the procedural schedule, hearing date, and time clock be extended by no more than 30 days; that a ruling be made that the Company's responses to Staff data requests 1-

17 and RUCO data requests 1-11 were complete; and that the Company be directed to respond to all additional data requests in a timely manner, but in no more than 10 days from receipt.

On August 28, 2014, RUCO filed a Reply to the Company's Response to RUCO's Motion to Continue. RUCO argued that the issues raised in its Motion were not about substantive positions, but rather about discovery responses and supporting information. RUCO claimed that the Company failed to provide useable plant schedules until two and one-half months after being requested, and that EPCOR had recently provided revised plant schedules for two of the Company's systems. RUCO contended that certain of the depreciation rates used by the Company were previously in error and later corrected through discussions with RUCO. RUCO argued that EPCOR was not prepared to file a rate case for the systems in this proceeding and RUCO should not be denied an opportunity to prepare its case due to the Company's actions.

On September 5, 2014, a Procedural Order was issued scheduling a procedural conference for September 16, 2014, to discuss RUCO's Motion. The Procedural Order also scheduled a public comment session in Tubac, Arizona for October 9, 2014, and directed EPCOR to publish notice of the public comment session.

On September 8, 2014, RUCO filed a Request to Change Procedural Conference Date.

On September 9, 2014, EPCOR filed a Response to RUCO's Request to Change Procedural Conference Date.

On September 9, 2014, a Procedural Order was issued rescheduling the Procedural Conference for September 12, 2014.

On September 11, 2014, Mr. Magruder filed a Response and Recommendation to RUCO's Request to Change Procedural Conference Date.

On September 11, 2014, SCVCC filed an Application for Leave to Telephonically Participate in the September 12, 2014, Procedural Conference.

On September 11, 2014, Jim Stark, President of the Sun City Home Owners Association ("SCHOA"), filed a Motion to Intervene.

On September 12, 2014, a Procedural Conference was held, as scheduled, to discuss RUCO's Motion. At the Procedural Conference, it was determined that a further Procedural Conference should be scheduled to discuss progress between the parties regarding disputed discovery issues and setting a revised procedural schedule in this matter.

On September 12, 2014, a Procedural Order was issued scheduling a procedural conference for October 15, 2014.

On September 26, 2014, a Notice of Substitution of Counsel was filed by EPCOR.

On October 9, 2014, a Notice of Filing Affidavits of Publication and Mailing regarding the Tubac public comment session was filed by EPCOR.

On October 14, 2014, EPCOR filed a Notice of Filing Proposed Schedule to continue the December 2, 2014, hearing date to the second week of March 2015. EPCOR also proposed a revised procedural schedule, and stated that Staff and RUCO were in agreement with the proposed schedule.

On October 14, 2014, Staff filed a Notice of Settlement Discussions.

On October 14, 2014, EPCOR filed Revised Rate Schedules.

On October 15, 2014, the Procedural Conference was held as scheduled. All parties in attendance agreed to EPCOR's proposed hearing and procedural schedule.

On October 16, 2014, a Procedural Order was issued rescheduling the evidentiary hearing to begin on March 9, 2015; reserving the December 2, 2014, hearing date for public comment only; and extending the applicable time clock in this matter accordingly.

On December 5, 2014, a Procedural Order was issued directing the SCHOA to file: specific authorization, such as a board resolution, for Mr. Stark or another specifically named lay person meeting the requirements of Arizona Supreme Court Rule 31(d)(28), to represent SCHOA in this matter; or an intervention request filed by counsel representing SCHOA in this matter.

On December 15, 2014, the SCHOA filed a letter, dated October 27, 2014, indicating that the SCHOA Board of Directors had authorized Jim Stark and Greg Eisert to represent the SCHOA in this matter, and that Mr. Stark and Mr. Eisert met the requirements of Arizona Supreme Court Rule 31(d)(28).

On December 16, 2014, a Procedural Order was issued granting SCHOA intervention.

On January 20, 2015, EPCOR filed a Request for Extension of Time to File Testimony. EPCOR and Staff requested that the deadline for filing Staff and intervenor testimony on issues other than rate design be extended from January 20, 2015, to January 23, 2015.

On January 20, 2015, SCVCC filed the direct testimony of Rich Bohman and Jim Patterson.

On January 23, 2015, a Procedural Order was issued extending the deadline for filing Staff and intervenor testimony on issues other than rate design from January 20, 2015, to January 23, 2015.

On January 23, 2015, Mr. Magruder filed his direct testimony.

On January 23, 2015, the Resorts filed the direct testimony of John S. Thornton, Jr.

On January 23, 2015, RUCO filed the non-rate design direct testimony of Robert Mease, Timothy Coley, Jeffrey Michlik, Frank Radigan, and Ralph Smith (redacted).

On January 23, 2015, Staff filed the non-rate design direct testimony of Michael Thompson, John Cassidy, Mary Rimback, and Christine Payne.

On January 26, 2015, Staff filed a Notice of Settlement Discussions.

On January 30, 2015, EPCOR filed a Response on Issue of Paradise Valley Notice, stating that it had complied with the notice requirements required by the Commission's prior Procedural Order.

On February 2, 2015, RUCO filed the rate design direct testimony of Mr. Michlik.

On February 2, 2015, Staff filed the direct testimony of Mr. Thompson on cost of service issues and the rate design direct testimony of Phan Tsan.

On February 6, 2015, EPCOR filed documents in support of its request for approval of a SIB Mechanism.

On February 9, 2015, EPCOR filed the rebuttal testimony of Sheryl Hubbard, Shawn Bradford, Jeffrey Stuck, Jake Lenderking, Sandra Murrey, Candace Coleman, Mike Worlton, Pauline Ahern, and Thomas Bourassa.

On February 19, 2015, RUCO filed a Request for Extension to File Surrebuttal Testimony.

On February 20, 2015, a Procedural Order was issued granting RUCO's request for an extension of time.

On February 23, 2015, SCHOA filed the surrebuttal testimony of Mr. Eisert.

On February 25, 2015, EPCOR filed a Notice of Errata regarding Ms. Ahern's rebuttal testimony.

On February 26, 2015, Staff filed the surrebuttal testimony of Mr. Thompson, Ms. Rimback, Ms. Payne, Mr. Cassidy, and Britton Baxter.

On February 26, 2015, RUCO filed the surrebuttal testimony of Messrs. Mease, Coley, Michlik, Radigan, and Smith (redacted).

On February 26, 2015, SCVCC filed the surrebuttal testimony of Mr. Patterson and Mr. Bohman.

On February 26, 2015, Mr. Magruder filed his surrebuttal testimony.

On February 27, 2015, Staff filed a Notice of Errata regarding Mr. Cassidy's surrebuttal testimony.

On March 4, 2015, the Town of Paradise Valley filed a Resolution passed by the Mayor and Council stating that the Town would not be filing testimony regarding the requested rate increase, but that the Town opposes approval of a SIB Mechanism.

On March 5, 2015, EPCOR filed the rejoinder testimony of Ms. Hubbard, Ms. Ahern, Ms. Murrey, Troy Day, and Messrs. Bradford, Stuck, Lenderking, Guastella, and Bourassa.

On March 5, 2015, SCVCC filed an Application for Leave to Telephonically Participate in March 6, 2015 Pre-Hearing Conference.

On March 6, 2015, a pre-hearing conference was held to discuss scheduling of witnesses and other procedural matters.

On March 6, 2015, EPCOR filed summaries of its witnesses' testimony.

On March 6, 2015, SCHOA filed a Notice of Errata regarding Mr. Eisert's surrebuttal testimony.

On March 6, 2015, the WUAA filed a Request to be Excused from Attending Hearing to be Held in Connection With This Matter.

On March 9, 2015, RUCO filed a Notice of Errata regarding Mr. Michlik's surrebuttal testimony.

On March 9, 2015, Mr. Magruder filed a summary of his testimony.

The evidentiary hearing commenced on March 9, 2015, and continued on March 10, 11, 12, 13, 16, 23, and 25, 2015.

On March 10, 2015, the Resorts filed testimony summaries.

On March 11, 2015, Staff and RUCO filed testimony summaries.

On March 19, 2015, Staff filed the revised rate design surrebuttal testimony of Mr. Baxter.

On March 20, 2015, EPCOR filed a summary of the rebuttal testimony to be presented by Mr. Bradford and Ms. Hubbard.

On April 6, 2015, RUCO filed the Late-Filed Exhibit of Mr. Michlik.

On April 6, 2015, EPCOR, Staff, and RUCO filed their Final Schedules.

On April 8, 2015, Staff filed the supplemental direct testimony of Mr. Thompson.

On April 17, 2015, Initial Closing Briefs were filed by EPCOR, Staff, RUCO, SCVCC, the Resorts, and Mr. Magruder.

On April 30, 2015, Reply Briefs were filed by EPCOR, Staff, RUCO, and Mr. Magruder.

II. APPLICATION

The application filed in this proceeding involves five of the Company's districts: Mohave Water (approximately 16,000 connections); Paradise Valley Water (approximately 4,860 connections); Sun City Water (approximately 23,000 connections); Tubac Water (approximately 600 connections); and Mohave Wastewater (approximately 1,425 connections). (Ex. S-1.) The current rates for the Paradise Valley Water, Tubac Water, and Mohave Wastewater districts were established in Decision No. 71410 (December 8, 2009), based on a 2007 test year. The current rates for the Sun City Water District were set in Decision No. 72047 (January 6, 2011), based on a 2008 test year, as amended by Decision No. 72229 (March 9, 2011). Current rates for the Mohave Water District were established in Decision No. 73145 (May 1, 2012), based on a test year ending June 30, 2010. (EPCOR Application, at 2.)

EPCOR asserts it filed this Application for an adjustment to its current rates and charges for the Mohave Water District, Paradise Valley Water District, Sun City Water District, Tubac Water District, and Mohave Wastewater District as a result of failing to earn its authorized rate of return in any of these five districts. EPCOR states that it purchased these systems in the first quarter of 2012 from Arizona-American Water Company ("AAWC") and waited two years before filing rate cases for any of the districts, while continuing to provide safe and reliable drinking water and wastewater service to its customers and making substantial system investments.

According to EPCOR, it has made significant concessions to reach a revenue increase that should be acceptable to all the parties by reducing its original request by over one million dollars to reach a total proposed revenue increase of $4,242,376. (EPCOR Initial Brief, citing to its Final Schedules.) EPCOR claims that these concessions include a reduction to its proposed Return On Equity; acceptance of Staff's depreciation expense; a reduction to the Company's incentive compensation expense; acceptance of Staff's recommendation for low income program revenue; a reduction of tank maintenance costs at Staff's recommendation; acceptance of RUCO's chemical expense adjustment and Staff's power and miscellaneous expenses; acceptance of Staff's adjustment to deferred debits; agreement with Staff's and RUCO's State tax rate; a true-up of its 24-month deferral of Allowance for Funds Used During Construction ("AFUDC") and depreciation proposal; acceptance of RUCO's recommendation for asset reclassifications; acceptance of Staff's adjustments to operations and maintenance expenses; and acceptance of Staff's and RUCO's corrections identified during the hearing. (*Id.*, citing to Ex. A-1; Ex. A-2; Ex. A-3; EPCOR Final Schedules.) The Company asserts that the parties have been unable to reach an agreement as to the revenue requirement needed in this case due to differences with regard to a number of issues for which no compromise could be found, including cost of capital, accumulated depreciation balances, post-test year plant additions, a 24-month deferral of AFUDC and depreciation expense, and other issues relating to rate base and operating income, as well as rate design.

The Company's Application is based on a test year ending June 30, 2013. By district, as reflected in their final schedules, the Company's proposed revenues and the final recommendations of the parties who submitted revenue requirement schedules are as follows:

A. <u>Mohave Water</u>

EPCOR proposes a revenue requirement of $8,254,586, which is an increase of $1,864,810, or 29.2 percent, over its adjusted test year revenues of $6,389,776. The Company's proposal would result in an approximate $8.63 increase for the average usage (6,800 gallons per month) 5/8 x ¾-inch meter residential customer, from $20.63 per month to $29.26 per month, or approximately 41.83 percent.

RUCO recommends a revenue requirement of $6,738,520, which is an increase of $247,562, or 3.81 percent, over its adjusted test year revenues of $6,490,958. RUCO's proposal would result in an approximate $0.80 increase for the average usage (6,800 gallons per month) 5/8 x ¾-inch meter residential customer, from $20.63 per month to $21.43 per month, or approximately 3.85 percent.

Staff recommends a revenue requirement of $7,928,767, which is an increase of $1,538,991, or 24.09 percent, over its adjusted test year revenues of $6,389,776. Staff's proposal would result in an approximate $5.15 increase for the average usage (6,800 gallons per month) 5/8 x ¾-inch meter residential customer, from $20.63 per month to $25.79 per month, or approximately 24.98 percent.

B. <u>Sun City Water</u>

EPCOR proposes a revenue requirement of $11,435,427, which is an increase of $1,125,509, or 10.9 percent, over its adjusted test year revenues of $10,309,918. The Company's proposal would result in an approximate $3.10 increase for the average usage (7,203 gallons per month) 5/8 x ¾-inch meter residential customer, from $17.36 per month to $20.46 per month, or approximately 17.86 percent.

RUCO recommends a revenue requirement of $10,477,475, which is a decrease of $51,434, or 0.49 percent, under its adjusted test year revenues of $10,528,908. RUCO's proposal would result in an approximate $0.28 increase for the average usage (7,203 gallons per month) 5/8 x ¾-inch meter residential customer, from $17.36 per month to $17.64 per month, or approximately 1.61 percent.

Staff recommends a revenue requirement of $11,184,140, which is an increase of $888,477, or 8.63 percent, over its adjusted test year revenues of $10,295,663. Staff's proposal would result in an approximate $1.76 increase for the average usage (7,203 gallons per month) 5/8 x ¾-inch meter residential customer, from $17.36 per month to $19.12 per month, or approximately 10.14 percent.

C. <u>Paradise Valley Water</u>

EPCOR proposes a revenue requirement of $10,211,661, which is an increase of $554,267, or 5.74 percent, over its adjusted test year revenues of $9,657,394. The Company's proposal would result in an approximate $3.17 increase for the average usage (19,271 gallons per month) 5/8 x ¾-

inch meter residential customer, from $52.30 per month to $55.47 per month, or approximately 6.06 percent.

RUCO recommends a revenue requirement of $9,019,373, which is a decrease of $778,063, or 7.94 percent, under RUCO's adjusted test year revenues of $9,797,436. RUCO's proposal would result in an approximate $9.40 decrease for the average usage (19,271 gallons per month) 5/8 x ¾-inch meter residential customer, from $52.30 per month to $42.90 per month, or approximately 17.97 percent less.

Staff recommends a revenue requirement of $9,728,393, which is an increase of $80,142, or 0.83 percent, over its adjusted test year revenues of $9,648,251. Staff's proposal would result in a $0 increase for the average usage (19,271 gallons per month) 5/8 x ¾-inch meter residential customer, maintaining current rates at $52.30 per month.

D. <u>Tubac Water</u>

EPCOR proposes a revenue requirement of $833,292, which is an increase of $254,098, or 43.9 percent, over its adjusted test year revenues of $579,194. The Company's proposal would result in an approximate $32.72 increase for the average usage (8,348 gallons per month) 5/8 x ¾-inch meter residential customer, from $53.57 per month to $86.29 per month, or approximately 61.08 percent.

RUCO recommends a revenue requirement of $760,466, which is an increase of $223,078, or 41.51 percent, over its adjusted test year revenues of $537,388. RUCO's proposal would result in an approximate $14.55 increase for the average usage (8,348 gallons per month) 5/8 x ¾-inch meter residential customer, from $53.57 per month to $68.12 per month, or approximately 27.16 percent.

Staff recommends a revenue requirement of $813,643, which is an increase of $234,449, or 40.48 percent, over its adjusted test year revenues of $579,194. Staff's proposal would result in an approximate $21.06 increase for the average usage (8,348 gallons per month) 5/8 x ¾-inch meter residential customer, from $53.57 per month to $74.62 per month, or approximately 39.31 percent.

E. <u>Mohave Wastewater</u>

EPCOR proposes a revenue requirement of $1,499,535, which is an increase of $443,695, or 42.0 percent, over its adjusted test year revenues of $1,055,839. The Company's proposal would result in an approximate $25.00 monthly increase for residential customers, from $56.55 per month to $81.55 per month, or approximately 44.20 percent.

RUCO recommends a revenue requirement of $1,317,776, which is an increase of $261,937, or 24.81 percent, over its adjusted test year revenues of $1,055,839. RUCO's proposal would result in an approximate $14.82 increase for residential customers, from $56.55 per month to $71.37 per month, or approximately 26.2 percent.

Staff recommends a revenue requirement of $1,404,161, which is an increase of $348,322, or 32.99 percent, over its adjusted test year revenues of $1,055,839. Staff's proposal would result in an approximate $19.57 increase for residential customers, from $56.55 per month to $76.12 per month, or approximately 34.61 percent.

F. Other Surcharges and Adjustors

Through its Application, EPCOR is also seeking approval of the following: (1) the ability to defer for 24 months AFUDC and depreciation throughout the test year (Ex. A-8, at 15-18.); an allowance for funding of the Company's tank maintenance plan for Paradise Valley Water (Ex. A-18, at 5.); a System Improvement Benefits ("SIB") mechanism for the Mohave Water, Sun City Water and Paradise Valley Water districts (Ex. A-24, at 2.); a declining usage adjustment (Ex. A-28, at 2-5.); a Power Cost Adjustor Mechanism ("PCAM") (Ex. A-7, at 22-23.); an Affordable Care Act Adjustor Mechanism ("ACAM") (*Id.* at 24.); and the addition of low-income programs in the Tubac Water, Paradise Valley Water and Mohave Wastewater districts (*Id.* at 25.).

G. Difficulties Processing Application

As indicated above, the Company's initial application contained a number of errors and/or omissions that caused the parties, especially Staff and RUCO, significant difficulty in preparing their cases. Indeed, the Company's accounting records were in such a state of disarray that, as Staff and RUCO demonstrated persuasively, inhibited or prevented verification of plant and accumulated depreciation values. Further, the Company could not in a number of instances adequately explain accounting entries, which resulted in the parties' incurring additional discovery time and expenses. These problems caused substantial confusion for the parties, and ultimately required EPCOR to refile new schedules, and effectively its entire rate case application, in October 2014. Due to these issues, all parties, including EPCOR, agreed to delay the hearing by approximately three months.

Even with the refiled schedules, however, a number of substantive issues remained: excessive debit and credit accumulated depreciation balances, which caused added inefficiencies to the regulatory process; the Company's Final Schedules did not present a breakout of plant values in the Rate Base schedules, and schedules produced in later stages of the case (i.e., Rejoinder and Final Schedules) do not show adjustments made in prior phases;[1] in several instances the Company's witness was unable to explain adequately the basis for starting plant values derived in prior cases. These are some of the problems encountered by the parties which hampered their ability to efficiently and effectively evaluate the Company's schedules and data.

As established at the hearing, the Company failed to properly record plant transfers in the Paradise Valley District. The Company recorded a $477,338 debit to accumulated depreciation for the Organization account (which has a zero percent depreciation rate) in Paradise Valley to reconcile the difference between its fixed asset accounting and its general ledger, without Commission approval or adequate explanation, also causing confusion and delay and adding to parties' lack of confidence in the Company's accounting records. Although recording the adjustment in this manner did not provide the Company with any undue economic advantage, it is an atypical transaction that, according to the NARUC USOA, should have been submitted to the Commission for confirmation of the proper treatment. At a minimum, the Company should have identified the transaction and explained it in its testimony in the following rate case (*i.e.*, this proceeding).

In preparation of schedules supporting the Recommended Order, the Hearing Division encountered several discrepancies in EPCOR's case presentation that caused additional delays. For example, it was discovered that EPCOR presented in its rate base schedules its CIAC proposal net of amortization, rather than gross CIAC, which is need to calculate the amortization of CIAC, a

[1] As an example, the Company made adjustments to remove certain corporate allocation costs in its Rebuttal schedules, but the Rejoinder schedules and Final schedules do not reveal the prior adjustment to corporate allocation costs. Although the Rejoinder schedules begin with the Rebuttal results, the Final schedules do not begin with the Rejoinder results but also start with the Rebuttal results, which inconsistency added unnecessary confusion to the process. This is just one example of a number of similar adjustments that made it difficult for the parties during the course of the proceeding and added more complication and confusion for the Hearing Division in attempting to prepare supporting schedules for the Recommended Opinion and Order.

component of depreciation expense. In addition, the Company misstated the conclusions in prior Commission Decisions and made inconsistent proposals regarding tank maintenance costs.[2]

We point out these issues to demonstrate examples of some of the difficulties encountered by the parties and the Hearing Division in preparing recommendations in this case. We believe that EPCOR must improve its accounting records, for which the Company has the sole responsibility to maintain, as well as its preparation of future rate applications, to avoid the types of problems experienced in this proceeding.

III. RATE BASE ISSUES

A. <u>Post-Test Year Plant</u>

EPCOR asserts that it included revenue-neutral, post-test year ("PTY") plant additions as part of rate base and that Staff has agreed as to the plant's value, the plant's in service status, and that the plant was used and useful for the Company's test year customers. (Ex. A-15 at 3; A-17 at 2-3; Tr. 915; Ex. S-1, Exhibits MST-1 to MST-4; Thompson Supp. Direct Testimony, at 6; Staff Schedule MJR-4.) EPCOR claims that RUCO's proposal to limit inclusion of PTY plant to 6 months after the end of the test year is arbitrary and inconsistent with prior Commission decisions regarding this issue. (*e.g.*, *Chaparral City Water Co.*, Decision No. 74568 (June 20, 2014), at 5-6.)

Following its inspection to confirm the used and useful status of the projects, Staff recommends the inclusion of PTY plant additions that were completed by the end of the test year but were treated as construction work in progress ("CWIP"), in addition to inclusion of projects that were still in CWIP but were completed by June 30, 2014. (Ex. A-7, at 15; Ex. A-16, at 5-6; Thompson Supp. Direct Test.) Staff claims that Commission rules contemplate the inclusion of PTY plant in rate base as pro forma adjustments. (Staff Reply Brief at 4, citing to A.A.C. R14-2-103(A)(3)(i).)

RUCO acknowledges the benefit of including the Company's request for \$6.6 million of large PTY plant "investment projects" ("IPs") into rate base, but opposes Staff's recommendation to

[2] In rebuttal testimony, the Company claimed that it was seeking the same treatment in Paradise Valley as was accorded by the Commission in Decision Nos. 72047, 73145, and 74568. However, in Decision No. 72047 the Commission simply authorized the deferral of tank maintenance expenses for Anthem Water for possible recovery in a future case. In Decision No. 73145 (Agua Fria, Havasu, and Mohave), the Commission adopted a settlement agreement which does not mention tank maintenance. In Decision No. 74568 (Chaparral City), a tank maintenance expense was allowed based on a projection of total costs over 18 years, but there was not an authorization of a deferral for tank maintenance. Therefore, these cases do not support the Company's claim that it was seeking in this case the same treatment for tank maintenance.

include $5.6 million for smaller PTY "recurring projects" ("RPs"). (RUCO's Closing Brief at 5, citing to Ex. R-26, at 17.) According to RUCO, Staff should be consistent with its prior recommendations relating to PTY plant and only allow its inclusion where: (1) the magnitude of the investment relative to the utility's total investment is such that not including the PTY plant in the cost of service would place the utility's financial health at risk; (2) the cost of the PTY plant is significant and substantial; (3) the net impact on revenue and expenses for the PTY plant is known and insignificant (or revenue-neutral); and (4) the PTY plant is prudent and necessary for the provision of services and reflects appropriate, efficient, effective, and timely decision-making. (*Id.*, citing to Ex. R-26, at 10-11; Ex. R-8, at 19-20.) RUCO asserts that the RP PTY plant should not be included in rate base because: the plant is made up of routine capital improvements; the costs are not of such a size to impact the Company's financial well-being; the projects are not revenue-neutral; and no showing has been made that the plant is necessary for the continued provision of service. (*Id.* at 6-7, citing to Ex. A-15, at 12, 14; Ex. R-26, at 18.)

We find that inclusion of the PTY plant recommended by Staff is reasonable in this case. Such treatment is consistent with our findings in *Chaparral City Water* (Decision No. 74568, at 5) where we indicated that Staff's verification that the PTY plant was in-service, and used and useful, was sufficient to justify its inclusion in rate base. Further, there was no evidence presented in contravention of Staff's assertion that the costs of the PTY plant were reasonable and appropriate. Staff's recommendation will therefore be adopted.

B. Accumulated Depreciation

1. Arguments of the Parties

RUCO asserted that there are a number of issues with the Company's accounting practices, arguing that ratepayers have been harmed by EPCOR's accounting failures related to over-depreciated assets and debit accumulated depreciation balances. (RUCO Initial Brief, at 9-16.) RUCO claims there were multiple instances where the Company's utility plant in service accounts were over-depreciated or contained excessive credit balances, resulting in ratepayers paying multiple times for the same plant. (Ex. R-1, at 1.)

Staff also noted its opposition to EPCOR's practice of depreciating assets once the original cost of an asset has been recovered through depreciation. (Ex. S-14, at 12-13.) Staff stated that the Company had agreed to stop recording depreciation expense upon full depreciation of the plant asset and agreed to use vintage year to track assets going forward.

EPCOR asserts that the Commission has historically reflected an increase in a company's rate base where debit balances in accumulated depreciation exist because the original cost of plant retired is more than the accumulated depreciation recorded in that account. (EPCOR Initial Brief, at 4-6.) EPCOR argues that prior final decisions of the Commission must be respected to assure confidence in the regulatory system, and the Company states that previously approved rate bases for the five systems at issue in this case were used in calculating their purchase price. EPCOR takes issue with Staff and RUCO for refusing to accept the debit balances in this case that were approved in prior cases, especially given that Staff and RUCO require the use of "roll forward" schedules for auditing purposes upon the filing of a rate application. (*Id.*, citing Tr. 1082.)

EPCOR contends that the balances rolled forward from prior cases have been vigorously litigated through discovery requests, pre-filed testimony, hearing, and final schedules, and argues that claims from Staff and RUCO that the balances are improper and contradict the parties' previous positions. (Exs. A-42, A-44, A-45, A-47, A-50, A-53; Tr. 1082.) The Company claims that Staff, RUCO, and EPCOR were able to reach a consensus as to the initial plant balances for this case which are reflected in EPCOR's October 14, 2014 filing. (Ex. A-1; Tr. 492, 850, 1083.)

To validate its use of debit balance accounts, EPCOR points to the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts' ("USOA") required practice of crediting utility plant in service and debiting accumulated depreciation with the original cost of the asset. (Ex. A-13, at 2; NARUC USOA, at 56 (1996).) The Company states that a debit balance occurs when an asset is retired before expiration of the average service life set by the Commission, resulting in the recorded total accumulated depreciation being less than the original cost of the retired asset. (Ex. A-13, at 2.) EPCOR argues that the Commission requires the same accounting approach as it relates to debit balance accounts and that, although expected, debit balances result in an under-recovery of the original cost of the asset. (*Id.* at 2; A.A.C. R14-2-411.D.2; A.A.C. R14-2-610.D.2; NARUC USOA, at 56; Tr. 851.)

According to EPCOR, the debit balances in accumulated depreciation are undepreciated balances and are unrecovered costs. (Ex. A-13, at 4.) EPCOR argues that acceptance of Staff's and RUCO's position that debit balances are "phantom costs" that should be removed from accumulated depreciation would unfairly reduce rate base and prohibit the Company from receiving a return on its investment.

Although EPCOR recognizes the Commission's ability to modify prior decisions, the Company asserts that the Commission cannot do so without first providing the affected parties notice and an opportunity to be heard. (*See* A.R.S § 40-252.) Additionally, EPCOR states that case law mandates a showing that the public interest would be served by the Commission exercising its authority to amend a final order. (*Ariz. Corp. Comm. v. Tucson Ins. And Bonding Agency*, 3 Ariz. App. 458, 463, 415 P.2d 472, 477 (App. 1966).)

EPCOR also cites to the NARUC USOA to establish that Commission treatment of accumulated depreciation in prior decisions should be final, and should only be changed to correct an error in the financial statements of a prior period or in certain income tax benefits relating to pre-acquisition loss carry forwards of purchased subsidiaries. (NARUC USOA, Accounting Instruction 8.) According to the Company, the NARUC USOA prohibits changes to accounting methods from being considered an accounting error and, as such, Staff and RUCO's attempt to change the Commission's accounting methodology relating to debit balances would not provide a basis for eliminating them as an error. (*Id.*) The Company also points to Staff's use of NARUC USOA Accounting Instruction 8 in a *Goodman Water Company* rate case, in which Staff argued against the propriety of a settlement agreement between RUCO and Goodman that deferred accumulated depreciation on certain plant until the end of the test year and annual depreciation expense on other plant until the next rate case. (Decision No. 72897 (February 21, 2012), at 11-12.)

EPCOR states that it has made adjustments to its Final Schedules to eliminate the inconsistencies RUCO and Staff discovered relating to the Company's current plant balances, but the Company asserts that such inconsistencies do not establish that its prior accounting, as a whole, was flawed. (Ex. R-33; RUCO's Final Schedules; Staff's Final Schedules; EPCOR Final Schedules.) The Company contends that any change to its debit balances must incorporate recovery of the undepreciated balances through amortization and include unrecovered balances in rate base to insure it is made whole. (Ex. A-13, at 3-5; Ex. R-26, at 26-27; Tr. 920-21.)

RUCO questions the legitimacy of EPCOR's numerous debit accumulated depreciation balances and claims that the Company should supply the requisite data to support its application, and not rely on the fact that the balances were approved in prior rate cases. (RUCO Initial Brief, at 13-15.) RUCO contends that Staff's willingness to solely address these issues prospectively, and EPCOR's agreement to cease these practices in the future, is an insufficient remedy and RUCO asserts that ratepayers should be credited for the alleged over-recovery. (*Id.* at 2-3, 10-12.) RUCO seeks several adjustments to correct these claimed accounting errors and recommends that EPCOR be required to perform a depreciation study to be offered in its next rate case filing. (*Id.* at 16-22, citing to RUCO Final Schedules, Table 2.) RUCO states the use of correct depreciation rates or failure to earn the authorized rate of return does not validate these accounting errors. (RUCO Reply Brief at 2.) RUCO also calls into question the Company's ability to appropriately plan and construct plant with ratepayer needs in mind if the number of early retirements claimed by the Company are correct. (*Id.* at 6, citing to Ex. R-15, at 10.)

Staff recommends adjustments to the Company's accumulated depreciation balances, pointing to multiple early retirements, an improperly recorded transfer, and items posted to wrong accounts as abnormalities justifying the adjustments. (Ex. S-14, at 9, 22; Tr. 434.) Staff also disputes the Company's assertion that changes to account balances that were approved in a prior rate order would constitute retroactive ratemaking, arguing that no prior rate would be changed retroactively in this case. (*Id.* at 5-6, citing to Ex. A-13, at 14; *Pueblo Del Sol Water Co. v. Arizona Corp. Comm'n*, 160 Ariz. 285, 287, 772 P.2d 1138, 1140 (App. 1988).) According to Staff, EPCOR has the burden to support its application by establishing that the reported account balances are reasonable and that the Company failed to do so until the hearing, despite prior requests for the information. (*Id.* at 6, citing to Tr. 1139-40.) Staff recommends an increase to accumulated depreciation of $2,826,903, which would reduce rate base by the same amount. (*Id.*, citing to Staff's Final Schedules.) In addition, in order to reduce issues in future rate applications, Staff recommends that the Company file plant and accumulated depreciation schedules by year, by NARUC account number. (Ex. S-14, at 11.)

Mr. Magruder argued that during the course of this case, the Company depreciated assets past the end of their useful lives to its benefit, and carried this excessive depreciation for many years. He claims that the unjustified profit obtained by the Company by depreciating an asset beyond its value must be corrected, and all prior overcharges returned to ratepayers as a part of the Commission's Order. Mr. Magruder contends that this issue raises what appears to be a systemic failure by the Company. He therefore proposed that an outside audit should be conducted and reported to the Commission, and that the Company should consider implementing improved business processes by achieving an IS0 9000 certification for Quality Management and certification under IS0 14000 for Environmental Management. (Magruder Reply Brief, at 13-14.)

2. Resolution

EPCOR uses a group depreciation method whereby a group is comprised of all plant in an account currently in service without regard to which year the plant was originally committed to service. Each plant account/group has its own specific depreciation rate, and depreciation expense is recognized on all plant as long as it remains in service without regard to the accumulated depreciation (reserve) balance for the account/group. The depreciation expense recorded each period for each account/group is tracked and the sum from prior periods is reflected in the accumulated depreciation account for that account/group. The accumulated depreciation account normally has a credit balance. At times, the credit accumulated depreciation balance can even exceed the value in the corresponding plant/group account.[3] Debit accumulated depreciation balances can also occur. Upon retirement of plant the amount of its original cost, adjusted for net salvage, is debited to the accumulated depreciation account. As a result, when the plant service lives are shorter than anticipated by the authorized depreciation rate, retirements may cause the accumulated depreciation balance to have a debit balance for the account/group.

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[3] For example, since depreciation expense is recorded as long as the plant remains in service, a credit accumulated depreciation balance can occur when plant service lives extend beyond those reflected by the authorized depreciation rate for the account/group.

In this proceeding, the frequency and amount of excess credit accumulated depreciation balances and debit accumulated depreciation balances for accounts/groups has brought into question the accuracy and fairness of the depreciation method used by EPCOR. In reference to excess credit accumulated depreciation balances, RUCO proposes that ratepayers receive credit for the excess depreciation they paid. A credit accumulated depreciation balance is a deduction in the calculation of rate base; therefore, ratepayers do receive a benefit from credit accumulated depreciation balances. RUCO also calls for debit Accumulated Depreciation balances to be reset to zero. A debit accumulated depreciation balance results from the retirement of plant that was never recovered by the utility through depreciation expense. As such, a debit accumulated depreciation balance represents an unrecovered investment. EPCOR asserts that any resetting of debit accumulated depreciation balances to zero should only occur by the establishment of a regulatory asset of equal value. We agree with the Company on this point. Resetting accumulated depreciation balances to zero would, absent creation of a compensating regulatory asset of equal value, deprive EPCOR of any opportunity to recover these investments.

Staff recommended a modification of the depreciation method to discontinue recording depreciation on fully depreciated plant. EPCOR agreed with Staff's recommendation to suspend depreciation on fully depreciated plant. However, assessing the fairness of any depreciation method requires a holistic versus a piecemeal approach. In other words, the fairness of any specific element of the depreciation method cannot be determined in isolation of the remaining elements. We find that suspending the depreciation on fully depreciated plant is a piecemeal approach that would be unfair to ratepayers.

Excess credit accumulated depreciation balances and debit accumulated depreciation balances are normal occurrences resulting from a mismatch between expected and actual plant lives that can be addressed by modifying the depreciation rates. Continuing to record depreciation expense on all depreciable plant as long as the plant remains in service is essential to the fairness of the group depreciation method; otherwise, ratepayers will not receive full benefit for the depreciation expense included in rates. Accordingly, we direct EPCOR to continue recording depreciation expense on all depreciable plant that is in service.

The evidence presented in this case identified two recording errors in the Paradise Valley District. First, RUCO identified that the Company's records include a duplicate recording of $14,058 in 2007, which EPCOR agreed to remove from Account No. 332000, along with the associated accumulated depreciation of $1,471. RUCO also identified a reclassification between accounts erroneously recorded as a retirement in 2006, and proposed to correct the error by a $2,981,429 credit to accumulated depreciation for Account No. 331001, a $6,869 debit to accumulated depreciation for Account No. 331200, and a $2,975,560 debit to accumulated depreciation for Account No. 331300. EPCOR agreed that the reclassification was recorded in error. We will adopt the corrections for these errors. However, these recording errors are not attributable to the depreciation method used by the Company.

Nothing in the record in this proceeding demonstrates that the depreciation method used by EPCOR has resulted in inequitable outcomes, or that the depreciation methodology has fundamental systemic flaws that warrant a substantive modification. Nevertheless, both the presence of excess credit accumulated depreciation balances and debit accumulated depreciation balances cause undesirable, intergenerational transfers of cost. Excess credit accumulated depreciation balances represent costs paid by ratepayers in advance and debit accumulated depreciation balances represent costs postponed for recovery from future ratepayers. These intergenerational cost transfers should not continue unabated.

The evidence in this case also demonstrated that such balances are confusing to understand, and they add inefficiencies to the regulatory process. Accordingly, while recognizing that these balances will continue to change, we find it appropriate to mitigate their amounts. EPCOR agreed that the debit accumulated depreciation balances could be eliminated by converting them to a regulatory asset, and RUCO proposed to eliminate the excess credit accumulated depreciation balances by creating a regulatory liability. We agree it is appropriate for the Company to convert all (except corporate allocation) account/group excess credit accumulated depreciation balances at the end of the test year to regulatory liabilities in order to bring the accumulated depreciation balances equal to the corresponding plant balances. We also direct EPCOR to convert each account/group debit accumulated depreciation balance at the end of the test year to a regulatory asset to bring the accumulated depreciation balance in each account/group that had a debit balance to zero. The regulatory assets will be an addition in the calculation of rate base, amortized at 8 percent per annum, resulting in an increase in operating expense. The regulatory liabilities will be a deduction in the calculation of rate base, amortized at 8 percent per annum, resulting in a decrease in operating expense. Further, to mitigate future development of either excess credit accumulated depreciation balances or debit balances, we direct EPCOR to evaluate, in a cost effective manner, the depreciation rates it proposes for the next rate case for each Division.

With respect to the excessive debit balances recorded in the Mohave Wastewater District, however, we find that EPCOR is responsible for, and ratepayers should be held harmless from, any uninsured loss due to flooding in the Mohave Wastewater Division. We make this finding because the primary function of regulation is to mimic competitive market outcomes (*i.e.*, to prevent recovery of monopolist prices that could not be charged in a competitive industry) and, in competitive industries, entities cannot increase prices due to uninsured losses. Accordingly, EPCOR should recognize a loss for any portion of plant retired early due to flood damage that it had not recovered at the time of the damage, or has not subsequently recovered via insurance reimbursement. Therefore, accumulated depreciation should not be debited for the full original cost in affected accounts. The adjustments to accumulated depreciation to reflect the losses adopted herein are shown in Exhibit E.

In its Paradise Valley Water District, EPCOR carries a debit accumulated depreciation balance of $477,338 in Account No. 301000 (Organization), resulting from an entry to reconcile the difference between its general ledger and its fixed accounting system that the Company claims reflects adjustments adopted by the Commission in Decision No. 68858. RUCO questioned whether recording the adjustment in an account with a zero depreciation rate, and thus not reducing its net value, was appropriate. RUCO suggested that it would be more appropriate to create a regulatory asset to be gradually extinguished through amortization. RUCO further asserted that creation of an asset for recovery through amortization is no longer appropriate since the accumulated earnings now exceed the original cost.

To be made whole, a utility must receive a return of its investment in addition to a return on its investment. Since the cumulative earnings have not provided EPCOR with a return of its investment, we conclude that recovery of the $477,338 is appropriate and that continued recovery of a return on the unrecovered balance is also appropriate. Accordingly, we direct the Company to convert this debit accumulated depreciation balance in the same manner as others in this case to a regulatory asset. We agree with RUCO that the original recording of adjustments adopted by Decision No. 68858 in the Organization account was not consistent with the NARUC USOA for Class A Water Utilities which states: "[E]ach utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto" and "[T]o maintain uniformity of accounting, utilities shall submit questions of doubtful interpretation to the Commission for consideration and decision." (NARUC USOA, at 14, 16.)

The magnitude of this adjustment is significant, and the accounting entry made by EPCOR (or its predecessor AAWC) resulted in much confusion, controversy and lack of confidence by other parties in the Company's accounting records. To reduce concern over similar recording of transactions in the future, we direct EPCOR to file documentation with Docket Control, in this docket, explaining any significant transactions (more than 25 basis points of a District's rate base) it records to adjust its plant records to comply with Commission Decisions. We also place the Company on notice that it should expect to be held to a higher standard of recordkeeping for transactions it records pertaining to retirements going forward.

The plant and accumulated depreciation balances by account, as well as the regulatory assets and regulatory liabilities we have adopted, are presented in attachments to this Decision as follows: Mohave Water District, Exhibit A; Paradise Valley District, Exhibit B; Sun City Water District, Exhibit C; Tubac Water District, Exhibit D; and Mohave Wastewater District, Exhibit E.

C. <u>CIAC in CWIP</u>

EPCOR claims that current Commission policy requires contributions in aid of construction ("CIAC") amortization to be matched to the depreciation deduction associated with developer-funded projects and argues that RUCO's proposal to include the associated CIAC as a reduction to rate base must be rejected to remain in compliance. (Ex. A-8, at 21; Decision No. 72251, at 46-47.) The Company states that Staff has accepted EPCOR's adjustment to exclude the developer-funded CIAC associated with plant that remains under construction and part of CWIP at the end of the test year, and that RUCO has acknowledged its proposal is contrary to Commission policy. (Ex. A-8, at 20-21; Ex. R-15, at 19-20.)

Staff agrees with the Company as it pertains to CIAC removal attributed to CWIP, and recommends that the amount of CIAC funds that remain in CWIP at the end of the test year should be excluded from CIAC balances that are used as a reduction in the rate base calculation. (Ex. S-15, at 13-14.)

In its Reply Brief, RUCO addresses the issue of unexpended CIAC and states that if the Commission allows the amount of CIAC funds in CWIP at the end of the test year to be excluded from CIAC balances, the Commission should require EPCOR to place CIAC in a separate interest-bearing account and to treat the interest earned as revenue. (RUCO Reply Brief, at 10.)

CIAC represents funds received from third parties, typically developers, that are used to build plant which is ultimately included in rate base. However, CIAC is normally treated as a reduction to rate base because it is a source of non-investor supplied funding. Plant that is under construction, or CWIP, is not usually included in rate base because it is not used and useful in the provision of service to customers. We agree with the Company and Staff that CIAC related to CWIP projects should not be deducted from rate base until the plant is in service, and thus no longer CWIP, because to do otherwise would create a mismatch between deductions from rate base related to plant that is not in service. We therefore adopt Staff's recommendation.

D. Cash Working Capital

1. Rate Case Expense

The Company proposes to include Rate Case Expense in rate base as cash working capital. Staff opposes the Company's request for rate case expense and points out that the Commission rejected the inclusion of regulatory expense for EPCOR's Chaparral City District in Decision No. 74568. (Ex. S-14, at 27; Decision No. 74568, at 13.)

As we stated in the Chaparral City case cited above, "[i]t is not appropriate to include rate case expense in the calculation of working capital...." (*Id.* at 13.) We see no reason to depart from the conclusion in *Chaparral City* and we therefore adopt Staff's recommendation.

2. Bad Debt Expense

RUCO proposed removal of bad debt expense, and used an industry standard lag of days for interest expense, for purposes of calculating cash working capital. (RUCO Initial Brief, at 21-22.) EPCOR asserts that RUCO's proposal should be rejected because the Company's working capital calculation is based on actual debts written off and on uncollectible accounts that represent a loss of revenue to the Company. (Ex. A-8, at 19-20; Ex. A-9, at 13.)

Although we rejected RUCO's position on this issue in *Chaparral City*, finding that bad debt expense represents an ongoing revenue loss that would otherwise be collected (Decision No. 74568, at 13-14), on further consideration we believe that bad debt expense should be removed from that calculation of working capital because bad debt represents revenues that will never be collected and an expense that will never be paid. As such, there can be no lag in recovery, and no payment related to bad debt expense. RUCO's position on this issue is therefore adopted.

E. <u>24-month Deferral of AFUDC and Depreciation</u>

EPCOR asserts that regulatory lag reduces the Company's return on equity and it has therefore requested a 24-month deferral of AFUDC and depreciation on plant placed in service throughout the test year and for the following 12 months. (Ex. A-8, at 15-16.) Staff and RUCO oppose EPCOR's deferral request, but the Company claims their objection is based on a belief that the deferral is duplicative of EPCOR's request for a SIB mechanism. According to EPCOR, its deferral request would cover the period of time from when an asset is placed into service on the first day of the test year through a 24-month period during which the SIB mechanism would not be in place. (*Id.* at 17-18.) EPCOR argues that Staff has previously made a similar recommendation for a 24-month deferral to minimize regulatory lag. (Ex. A-38.)

Staff is opposed to the Company's request for a 24-month deferral of post in-service AFUDC financing and depreciation as a method to reduce regulatory lag. (Ex. S-14, at 25.) Staff asserts that EPCOR's reliance on a prior Staff Memorandum in which Staff recommended the use of a 24-month deferral mechanism over a Distribution System Improvement Charge ("DSIC") is misplaced, as the context of that recommendation related to the acquisition of troubled water companies and developing a regional infrastructure. Further, Staff raises concerns with EPCOR's proposal due to the potential for additional return of AFUDC on in-service plant not in rate base in a rate case along with associated depreciation expense, as well as continued return on replaced plant that is not fully depreciated. (*Id.*) Staff points out that the Company made a similar proposal for a 24-month deferral in *Chaparral City* which was not adopted by the Commission. (Tr. 121; Decision No. 74568, at 12.)

RUCO also opposes authorization of the deferral request stating that it was rejected in the Chaparral City case. (RUCO Initial Brief, at 21.)

We agree with Staff and RUCO that EPCOR's request for a 24-month deferral of AFUDC and depreciation should be denied. The Staff Report in the Global Water case cited by the Company (Docket No. SW-20445A-09-0077, et al.) was offered to present various alternatives to a DSIC mechanism, and treatment of ICFAs, for the Commission to consider as a result of workshops initiated by the Commission. (*See*, Decision No. 71878, at 89.)

The Company is requesting recovery of deferred carrying costs (AFUDC) and depreciation for a 24-month period beginning with the test year (July 1, 2012). Deferral authorization cannot be retrospective and the Company must obtain Commission authority to defer a cost before that cost can be recorded as a deferral. As such, deferral authorization cannot reach backward into prior years and alter the accounting treatment that was in effect at that time because the effect of a retrospective change would essentially be the equivalent of retrospectively changing rates.

Although the plant for which EPCOR seeks deferral authorization may differ from the plant included in a SIB mechanism, as discussed below we believe that the SIB offers the Company an opportunity to recover investments in a more expedited manner than has previously occurred. Further, EPCOR has not offered sufficient justification for reaching a different conclusion than was determined in the Chaparral City case. (Decision No. 74568, at 9-12.) We therefore decline to adopt the deferral mechanism proposed by EPCOR in this proceeding.

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F. Regulatory Liability – Low Income Over-Collection

EPCOR showed regulatory liabilities for Mohave Water of $106,450 and Sun City Water of $90,329 related to low income programs that were slow to gain traction and resulted in over collection. (Ex. S-14, at 31-32; Ex. A-8, at 22.) Staff recommended, and the Company has agreed, that these amounts should be included in revenues received by each district in the test year and that the over-recovered amounts should be amortized over three years. RUCO also agreed to Staff's recommendation. (RUCO Initial Brief, at 22.)

Staff's recommendation shall therefore be adopted.

G. Arsenic Media Replacement Costs (Tubac)

EPCOR claims it deferred $101,712 of arsenic media costs pursuant to the Company's Tubac Arsenic Cost Recovery Mechanism ("ACRM") and included these costs in its initial application as deferred debits in Schedule B-1. According to the Company, RUCO agrees with recovery of the cost via a surcharge over a three-year period (*i.e.*, $33,904 per year). Staff recommends amortizing the $101,712 amount over 5 years ($20,242 per year) as a component of base rates. (Staff Initial Brief, at 11.)

EPCOR also proposes that the Water Treatment Equipment – Non Media account (320100) in the Company's Schedules, in the amount of $172,839, should remain as part of rate base because it includes an allocation of treatment plant engineering costs and construction overhead costs associated with arsenic remediation. (Ex. A-9, at 16; Ex. S-15, at 15; Tr. 47.) Staff previously recommended that arsenic media replacement costs be capitalized and recovered through depreciation expense. (Ex. S-14, at 33.) However, Staff now recommends that arsenic media replacement be accounted for as a normalized operating expense and Staff has provided an allowance for annual chemical expense to cover the cost of arsenic media. (Ex. S-13, at 15.)

Mr. Magruder claims that this is a new surcharge proposed for the arsenic media used in Tubac. He argues that there are service areas without surcharges for routine changes in the media used to remove arsenic. Mr. Magruder asserts that the surcharge is for expenses associated with routine operations related to media replacement. He contends that this unique, service areadependent, surcharge should be denied and included in the combined Company-wide rate base. (Magruder Reply Brief, at 8-9.)

We agree with Staff that the adjusted $172,839 proposed by EPCOR should be excluded from rate base, and Staff's recommendation for ongoing media replacement expense of $46,000 should be adopted instead. Based on Staff's analysis, the $46,000 annual allowance for media replacement costs is reasonable. In addition, we will adopt the agreement of the Company, RUCO, and Staff that the deferred media costs of $101,712 for expenses incurred in 2011 and 2012 should be permitted. The deferred costs should be recovered through a surcharge mechanism over three years, as proposed by EPCOR and RUCO.

H. Fair Value Rate Base Summary

EPCOR did not prepare schedules showing the elements of Reconstruction Cost New Rate Base for the districts in this case. Therefore, the Company's Original Cost Rate Base shall be treated as its Fair Value Rate Base ("FVRB") for each of the districts. Based on the discussion of rate base issues set forth above, we find the FVRB for each of the individual districts to be: Mohave Wastewater - $4,921,474; Mohave Water - $22,413,983; Paradise Valley Water - $38,490,631; Sun City Water - $25,756,750; and Tubac Water - $1,329,406.

IV. OPERATING INCOME

A. Test Year Operating Revenues

1. Revenue Annualization

RUCO argues that the Company's use of average customers for the revenue annualization is inappropriate and advocates for use of end of test year customer counts. (RUCO Initial Brief, at 24-25.)

RUCO's argument that the seasonal effects of winter visitors coming to Arizona in December have not been recognized due to the use of a test year end at June 30, 2013, is not supported by the record. If there are seasonal changes in customers, those changes will not be properly recognized at either the summer or winter extremes. We believe the Company's and Staff's use of average customers is preferable to the test year end customers as proposed by RUCO for the basis to calculate a revenue annualization adjustment.

B. Operating Expenses

1. Incentive Compensation

EPCOR contends incentive compensation tied to safe, efficient work practices is a necessary consideration, akin to salary and wages, that the Commission has allowed in the past as part of the Company's expenses. (*See* Decision No. 72047, at 50-51.) The Company asserts that, in compliance with past Commission decisions, it has removed incentive amounts based on financial performance, and that the remaining incentive compensation costs are based on specific activities to drive employee performance. (*Id.*; Ex. A-8, at 24; Ex. R-24, at 22-23, RCS-5.) Although both Staff and RUCO seek to decrease the Company's expenses related to incentive compensation, EPCOR argues that such a package provides the requisite tools to incent employees to keep costs low.

RUCO recommends rejection of the Company's request for short term incentive compensation expense, arguing that ratepayers should not bear the costs of rewarding EPCOR employees for "showing up for work and conducting their work in a safe manner" and "over-budgeting and under-spending." (Ex. R-25, at 8; Tr. 778.) RUCO also recommends that EPCOR's request for mid-term incentive compensation expense be disallowed. (Ex. R-24, at 35.)

Staff recommends reducing EPCOR's request for incentive compensation by 50 percent, stating the compensation programs should be borne by both shareholders and ratepayers as each group benefits. (Ex. S-13, at 7-8.)

The real issue in evaluating incentive compensation is whether total compensation, including the incentive pay, is reasonable. If overall compensation for employees is reasonable, it should be allowed assuming the allocation methods are reasonable. Corporate labor costs are also appropriate as long as the benefits (*e.g.*, competence and access to capital) of corporate management are present.

The evidence in the record does not indicate that the overall compensation requested by EPCOR is excessive or unreasonable. Rather, Staff and RUCO argue that placing a label of "incentive" on a portion of total wages is sufficient to require the disallowance of some or all of that compensation. We believe that the Company's compensation request is reasonable with the removal of the 10 percent of pay tied to the Company's financial performance. We therefore adopt EPCOR's proposal on this issue.

2. Tank Maintenance (Paradise Valley Water)

Both EPCOR and Staff agree that a 14-year tank maintenance plan for the Paradise Valley District is appropriate. (Ex. A-18, at 5; Ex. A-19, at 2-3; Ex. S-1, PV District Engineering Report, at 17-18; Ex. S-3, at 1-2.) The Company argues that RUCO's objections to the tank maintenance plan are unfounded but, pursuant to RUCO's recommendation, the Company would agree to track the costs for the plan and file them at the end of the program. (Ex. A-20, at 2-3.) EPCOR indicated it is willing to refund any cost difference that may exist at the end of the program, but the Company also contends that a true-up should also be allowed in the event of an under collection. Staff and the Company agree that a 14-year tank maintenance program for Paradise Valley is appropriate at a total cost of $1,731,208 (Ex. S-3, at 2; Ex. S-1, MST-2, at 2.)

RUCO raised concerns with the Company's requested tank maintenance expense, stating that allowance for the recovery of cost estimates rather than "known and measurable" costs shifts the risk to ratepayers because there is no true-up in the event of over-recovery. RUCO argues that EPCOR's tank maintenance proposal over a 14-year period is only an estimate and that no reason has been given as to why these expenses should be pre-paid by ratepayers. (Ex. R-9, at 40.) To more quickly account for tank maintenance expense, RUCO proposed that the Company enter into a 5-year contract with a tank vendor that corresponds to EPCOR's rate case filings and would allow for adjustment of the recovery based on actual costs. (Tr. 391.) Alternatively, RUCO recommends that if the Commission adopts EPCOR's and Staff's recommendation, a true-up mechanism should be required to allow for a refund to ratepayers in the case of over-recovery. (Ex. R-10, at 16.)

Mr. Magruder argues that tank maintenance is a routine Company expense required to maintain safe and reliable water service in all its service areas. He claims that these expenses should be based on the test year and not as an additional charge for a single service area. Mr. Magruder contends that RUCO's proposal is reasonable and appropriate. (Magruder Reply Brief, at 11.)

We believe that the tank maintenance plan agreed to by EPCOR and Staff is reasonable, with the additional requirements that: the Company file annual reports regarding such costs; that the plan include a true-up for over- or under-recovery of actual costs compared to projections; that the Company prepare a Plan of Administration ("POA"), in a form acceptable to Staff, within 60 days of the effective date of this Decision. With these requirements, we adopt the plan and costs agreed to by the Company and Staff.

3. Accumulated Deferred Income Tax and Bonus Depreciation

EPCOR argues that it has treated both accumulated deferred income tax ("ADIT") and bonus depreciation in an appropriate manner, which resulted in the Company's 2013 consolidated tax return reflecting a taxable loss and contributed to a net operating loss deferred tax asset. (Ex. A-9, at 17.) The Company claims that no adjustment to rate base should be made because the bonus depreciation was nullified by the deferred tax asset. (*Id.*) EPCOR asserts that the impact of accelerated depreciation on ADIT should continue to only include that which is recorded on the books as of the end of the test year, rather than looking into post-test year plant additions.

RUCO contends that ADIT is a source of non-investor supplied capital, and should therefore be treated as a reduction to rate base. (Tr. 771; Ex. R-24, at 38.) RUCO asserts that EPCOR has made some significant accounting errors by failing to update ADIT balances through the end of the test year and, as a result, an adjustment to the Company's proposed rate base in the amount of $872,728 is necessary. (Tr. 771-772; Ex. R-25, Attach. RCS-8, Schedule B-1.)

Staff did not address this issue in its Brief.

Accumulated deferred income taxes result from a difference between the time income taxes are recognized for ratemaking purposes and when actual federal and state income tax obligations are incurred. ADIT may have either a debit or a credit balance. A credit balance is created when income taxes for ratemaking are recognized before they are recognized for tax purposes. A credit ADIT balance is a deduction in the calculation of rate base to reflect that the utility has collected taxes from ratepayers prior to paying taxes to the tax authorities. In other words, ratepayers have provided a source of cost-free capital to the utility. A difference between the depreciation expense included in rates and the depreciation expense reported for tax purposes is one cause of ADIT. As a result, a direct relationship exists between ADIT and plant.

In this case, RUCO asserts that EPCOR only reflected bonus depreciation through December 31, 2012, while its test year ended June 30, 2013, and the Company's proposed rate base includes post-test year plant which extends through 2013 and into 2014. (Tr. 787.) RUCO also asserts that to properly match test year plant in rate base with ADIT, the Company's proposed ADIT balance needs to be revised since the proposed ADIT balances have not been updated from December 31, 2012, despite a large increase in the ADIT balance during 2013. (Ex. R-24, at 41-42.) As a result, RUCO proposed adjustments to increase the credit ADIT balance in each of the five Districts (Mohave Water - $302,205; Paradise Valley Water - $92,263; Sun City Water - $439,856; Tubac Water - $11,409; and Mohave Wastewater - $26,995), for a total of $872,728. RUCO's proposed adjustments reflect that regular Modified Accelerated Cost Recovery System ("MACRS") tax depreciation and 50 percent bonus depreciation was available on the Company's 2013 Federal income tax return. (Tr. 771.) EPCOR claims the bonus depreciation caused a net operating loss ("NOL") on its 2013 Federal consolidated income tax return and the NOL should nullify any rate base deduction in this case. (EPCOR Initial Brief, at 34-35.) At hearing, RUCO's witness explained that the Internal Revenue Service ("IRS") issued three Private Letter Rulings in 2014 that indicate the IRS considers regulators' recognition of ADIT credits in rate base when such recognition results in an NOL to be normalization compliant. (Tr. 789-790.)

A fundamental tenet of ratemaking is that a utility should earn a return only on used and useful assets financed by investors. Since ADIT is a source of non-investor capital, matching of plant with ADIT in the calculation of rate base is appropriate. In this case, RUCO's ADIT recommendations provide the best matching. We also believe that ratepayers should not be deprived of rate base recognition of ADIT arising from income tax timing differences when bonus depreciation results in an NOL. The circumstances that result in an NOL are subject to decisions by utility management, not ratepayers, and since an NOL can be carried forward to future years, it represents an asset that a utility can use to provide a tax benefit in future years. Accordingly, we will adopt RUCO's proposed ADIT adjustments.

4. <u>Rate Case Expense</u>

EPCOR claims that its proposed $650,000 allowance for rate case expense is reasonable and actually underestimates the actual costs EPCOR has and will incur to process this case. (Ex. A-11, at 8.) The Company argues that despite its accounting problems, this is a complex case (both in number and breadth of issues) and with multiple intervenors.

Based on prior Commission decisions of similarly situated water and wastewater companies, RUCO recommends $325,000 in rate case expense, to be normalized over three years. (Ex. R-9, at 39.)

Staff did not address this issue in its Brief.

We believe EPCOR's rate case expense was unnecessarily increased by at least two issues for which ratepayers should be held harmless. As RUCO points out, Staff and RUCO had difficulty getting the opening plant balances in this case, which resulted in the parties' incurring additional discovery time and expenses. Due to these difficulties, the Company was required to re-file all of its schedules in October 2014, resulting in a three-month continuance of the hearing. Further, as established at the hearing, the Company failed to properly record plant transfers in the Paradise Valley District, as discussed above. In addition, the Company recorded a $477,338 debit to Accumulated Depreciation for the Organization account in Paradise Valley to reconcile the difference between its fixed asset accounting and its general ledger, which reflected adjustments adopted by the Commission. Although recording the adjustment in this manner did not provide the Company with any undue economic advantage, it is an atypical transaction that, according to the NARUC USOA, should have been submitted to the Commission for confirmation of the proper treatment. At a minimum, the Company should have identified the transaction and explained it in its testimony. Similar to the erroneous recording of transfers of plant among accounts, this transaction also resulted in additional rate case expense for which the Company, not ratepayers, should be held responsible.

We find that RUCO's recommendation for a $325,000 rate case expense allowance is reasonable under the facts of this case. However, the rate case expense should be amortized over three years, rather than "normalized." For accounting purposes, normalized costs are expenses that must be recognized in the year incurred. Therefore, the proper treatment is to amortize the balance over a three-year period. In addition, the Company will be prohibited from recovering the unamortized balance remaining at the time of a future rate case. (*i.e.*, no "pancaking" of rate case expense will be permitted).

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5. Corporate Allocations

SCVCC argues that the Tubac Water Division's share of corporate allocations is approximately $148,000, which SCVCC claims is excessive. SCVCC asserts that allowing corporate allocations provides additional money to investors who should be compensated solely in the form of dividends and gains on investment. (SCVCC Initial Brief, at 3-4.) SCVCC requests that corporate allocations be removed from Tubac's cost structure to allow for a more competitive rate. (*Id.* at 6-7.)

Mr. Magruder also contends that corporate allocations are unreasonable because they have a significant impact on the smaller service areas. He claims that the Tubac corporate allocation burden is as much as $148,000 for the many and various higher layers of EPCOR corporate administrative overhead, and that this amount exceeds Staff's calculated operating income deficiency for Tubac. Mr. Magruder agrees with SCVCC and recommends removal of EPCOR's corporate allocations, arguing these are padded costs to allow investors additional return on "corporate layers" rather than earned income. (Magruder Initial Brief, at 16.)

Although we understand the concerns expressed by the intervenors from Tubac, we believe that Tubac customers, as well as customers in the Company's other systems, receive a number of benefits related to the corporate structure. For example, EPCOR's corporate structure provides access to low-cost capital, as well as financial, technical and managerial expertise, and the ability to share certain operating expenses with other systems. In effect, these benefits should enable the Company to provide better service at lower cost than would otherwise be available from a stand-alone operation.

6. Other Operating Expenses

As it relates to other operating expenses, RUCO has recommended, and the Company has agreed, to reduce EPCOR's corporate information technology affiliated charge expense by $3,169, advertising promotion and donations expense by $24,536, and acquisitions-related expense by $24,310. (RUCO Initial Brief, at 37-38; Tr. 772-773.)

These agreed-upon adjustments are reasonable and shall be adopted.

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7. **Operating Income Summary**

Based on the discussion of operating income issues set forth above, we find the adjusted test year revenues, adjusted operating income, and adjusted operating income for the districts involved in this case to be as follows:

	Revenues	Op. Expenses	Op. Income
Mohave Wastewater	$1,055,839	977,099	$ 78,740
Mohave Water	6,354,293	5,945,982	408,311
Paradise Valley Water	9,648,251	7,387,868	2,260,383
Sun City Water	10,265,553	9,318,318	947,235
Tubac Water	579,194	644,485	(65,291)

V. COST OF CAPITAL

EPCOR recommends that the Commission determine the Company's cost of common equity to be 10.55 percent, with an overall weighted average cost of capital ("WACC") of 6.81 percent. RUCO proposes a cost of common equity of 8.91 percent and a WACC of 6.09 percent. Staff recommends adoption of a cost of equity of 9.50 percent with a WACC of 6.40 percent for all of the districts except Tubac. For the Tubac Water District, Staff recommends the same cost of equity, but a WACC of 6.20 percent due to using a slightly different capital structure and cost of debt for Tubac.

A. Capital Structure

EPCOR proposes the use of a capital structure of 59.76 percent debt and 40.24 percent equity for all of the districts except Tubac. For the Tubac Water District, EPCOR proposes a capital structure of 59.84 percent debt and 40.16 percent equity.

RUCO proposes the use of EPCOR's actual test year end capital structure of 58.46 percent long-term debt, 2.17 percent short-term debt, and 39.37 percent equity. (Ex. R-22, at 2.)

Staff recommends the use of two different capital structures, based on long-term debt and common equity balances. Staff used a consolidated capital structure of 59.76 percent debt and 40.24 percent equity for the Mohave Water, Paradise Valley Water, Sun City Water, and Mohave Wastewater districts, which is the same as that proposed by EPCOR in its test-year end capital structure. (Ex. S-8, at 15.) For the Tubac Water District, Staff recommends a capital structure of

58.53 percent debt and 41.47 percent equity, which includes a Water Infrastructure Financing Authority of Arizona ("WIFA") loan debt principal amortization through December 31, 2014. (*Id.*)

We agree with Staff that given the unique circumstances involving a WIFA loan obtained for arsenic removal infrastructure in Tubac, a slightly different capital structure should adopted for that district. Further, as Staff points out, the short-term debt that existed at the end of the test year on June 30, 2013 matured in January 2014 and should therefore not be incorporated into the capital structure used in this case. We will therefore adopt a capital structure consisting of 59.76 percent debt and 40.24 percent equity for the Mohave Water, Paradise Valley Water, Sun City Water, and Mohave Wastewater districts, and a capital structure of 58.53 percent debt and 41.47 percent equity for the Tubac Water District.

B. Cost of Debt

Staff recommends using a cost of debt of 4.3 percent for the Mohave Water, Paradise Valley Water, Sun City Water, and Mohave Wastewater districts, and a cost of debt of 4.0 percent for Tubac. (Ex. S-8, at 11.) Staff's separate cost of debt for Tubac is due to the carrying values of long-term debt as of the end of the test year. (*Id.*)

EPCOR proposed an overall cost of debt of 4.29 percent for each of the five districts at issue in this proceeding. (*Id.* at 15, Schedule D-1 Revised, at 2.) However, in its Reply Brief, the Company stated that it would agree to a separate cost of debt for Tubac, as calculated by Staff. (EPCOR Reply Brief at 16-17.)

RUCO proposed a 4.29 percent cost of long-term debt and 0.31 percent for short-term debt in its calculations for all systems. (Ex. R-22, at 2.)

Although the Company is proposing the use of a 4.29 percent cost of debt across all systems, it now appears to accept Staff's recommendation to apply a lower cost of debt of 4.0 percent to the Tubac Water District. While the Tubac WIFA loan represents a small portion of the Company's overall debt, for the relatively small Tubac District the WIFA loan balance comprised more than 80 percent of that district's capital structure. Given the unique circumstance present in this case, we agree with Staff's recommendation to apply a cost of debt of 4.29 percent to all of the districts except Tubac, and to apply a 4.0 percent cost of debt to the Tubac Water District.

C. Cost of Common Equity

Determining a company's cost of common equity for setting its overall cost of capital requires an estimate based on a number of factors. There is no fool-proof methodology for making this determination, and the expert witnesses rely on various analyses to support their respective recommendations.

1. EPCOR

EPCOR asserts that the approved rate of return on the Company's equity must be guided by the following: (1) the return should be similar to the return in businesses with comparable risks; (2) the return should be sufficient to ensure confidence in the financial integrity of the utility; and (3) the return should be sufficient to maintain and support the utility's credit. (*Bluefield Water Works & Improvement Co. v. Pub. Ser. Comm'n of West Virginia*, 262 U.S. 679, 692-93 (1923); *Fed'l Power Comm'n v. Hope National Gas Co.*, 320 U.S. 591, 603 (1942).)

EPCOR's common stock is not publicly traded and therefore Ms. Ahern, as well as the other cost of equity analysts in the case, used a proxy group of companies with similar, although not identical, risk. Her unadjusted cost of equity for EPCOR was 9.72 percent. However, because the proxy group of companies is not identical to EPCOR, Ms. Ahearn made further adjustments to the results of her models to reflect what she considers unique financial and business risks. Ms. Ahearn added 30 basis points for business risk, 24 basis points for credit risk, and 30 basis points for economic risk, resulting in a 10.55 percent cost of equity proposal.

According to EPCOR, the Company, Staff, and RUCO each used a proxy group of companies with relatively similar business, credit, and economic risks as that of EPCOR to arrive at a recommended cost of equity. (Ex. A-32, at 3.) EPCOR claims that its recommendation relies on multiple models, including the Discounted Cash Flow ("DCF") model, the Risk Premium Model ("RPM"), and the Capital Asset Pricing Model ("CAPM"), as well as inclusion of Staff's economic risk adjustment, to arrive at a recommended 10.55 percent cost of capital. (Ex. A-32, at 4, 19-45; Ex. A-33, at 59-60.) EPCOR states that Staff's sole use of the DCF model restricts Staff's ability to see the entire perspective of EPCOR's cost of capital, which may result in the Company under-earning. (Ex. A-33, at 11-16.) EPCOR argues that its expert's use of multiple models illustrates the appropriate cost of equity. The Company advocates for the use of forward-looking data in determining a CAPM, as opposed to RUCO's use of historical data, asserting that ratemaking and cost of capital should be based on prospective analyses. (*Id.* at 33-38.) EPCOR asserts that the Commission should recognize the differences between the Company and the proxy group by adopting: a credit risk adjustment to account for the different bond ratings; a business risk adjustment due to EPCOR's small size compared to the proxy group; and Staff's recommended economic risk adjustment to address risks to water utilities as a whole. (*Id.* at 31, 60; Ex. S-8, at 39; Tr. 693, 696, 705.)

2. <u>RUCO</u>

RUCO used the weighted average of its DCF model (8.74 percent), CAPM (7.48 percent), and Comparable Earnings Model (10.50 percent) to reach its proposed 8.91 percent cost of equity. RUCO disagrees with the Company's use of the Predictive Risk Premium Model ("PRPM"), stating it merely increases the cost of equity via an untried and untested model.

RUCO disputes the Company's contention that adjustments for business risk and credit risk are necessary, asserting that EPCOR should support its infrastructure requirements by keeping a larger portion of its retained earnings instead of paying shareholder dividends, which RUCO claims would eliminate the need for a business risk adjustment. (Ex. R-21, at 22-24.) RUCO states that a credit risk adjustment would be inappropriate because of the Company's recent credit rating upgrades and the low cost of its long term debt. (Ex. A-32, at 16; Ex. R-22, at 7.) RUCO also disputes Staff's recommended economic adjustor of 60 basis points because Staff offered no justification for its use.

3. <u>Staff</u>

Staff used both a constant growth DCF model and a multi-stage DCF model in calculating EPCOR's cost of equity. (Ex. S-8, at 24-25.) For the constant growth DCF model, Staff's results were 8.6 percent, while the results for the multi-stage model were 9.2 percent. Staff's overall DCF estimate is 8.9 percent. (*Id.* at 36.) Staff contends that an additional upward 60 basis point "economic assessment adjustment" is also necessary to account for the present uncertainty of the economy and market, resulting in an overall cost of equity recommendation of 9.5 percent. (*Id.* at 39.) Staff argues that EPCOR's proposed upward adjustments for credit risk and business risk, among others, unnecessarily increased the Company's proposed cost of equity to 10.55 percent. (Ex. A-33, at 59-60.) Staff also points out that EPCOR's unadjusted results, whether using the DCF model, the CAPM model, or Risk Premium Model, are all close to, or lower than, Staff's recommendation. (Ex. R-22, at 4; Ex. A-32, PMA RT 1-9.) Staff opposes the use of the PRPM advanced by the Company, arguing that: the model has not been widely accepted; the model regularly results in a higher average cost of equity than more accepted models; and the forecasted risk free rate may result in an inflated estimated market cost of equity. Staff also asserts that the Company's smaller size is not a reasonable basis for a risk adjustment and recommends rejection of EPCOR's request. (Ex. S-8, at 82.)

4. <u>SCVCC</u>

According to SCVCC, Tubac's cost of capital should be reduced by 30 basis points to account for the low-interest-rate WIFA loan that amounts to more than 86 percent of long term debt in Tubac's capital structure. (SCVCC Brief, at 3.) SCVCC also disputes the Company's request for business risk and credit risk adjustments, stating EPCOR should be judged by its parent company rather than the smaller subsidiaries resulting in a decrease of 75 basis points. (*Id.* at 4-5.)

5. <u>Conclusion on Cost of Equity</u>

Based on the record presented through the testimony, exhibits, and arguments, we believe that a cost of equity of 9.50 percent is reasonable under the facts of this case. We are not persuaded that the Company's PRPM, which was developed and sponsored by its witness, should be adopted in this case. Despite Ms. Ahearn's claims, the record does not support a conclusion that the PRPM has been peer-reviewed simply because it appeared in a few journals and that it may be included in future publications. We are also concerned that the other parties did not have access to the actual program and data used by the Company because of the proprietary nature of the model. Access to the model is critical for multiple reasons, ranging from the possibility of data input errors, to formula miscalculations, to manipulation of data.

Nor are we persuaded by Ms. Ahearn's claim that EPCOR's "size" should be recognized as a business risk factor. Although a company's size may sometimes be considered as a business risk factor, for utilities of substantial size (*i.e.*, those that have access to the equity capital markets) it is a minimal consideration in determining business risk. Small utilities, (*e.g.*, non-class A utilities) may have additional risk due to the inability to hire employees or contract for sufficient levels of expertise (management, technical & financial) to perform effectively and efficiently. Small utilities also have other risks such as information access, greater annual variability in operating expenses, and greater regulatory risk both due to lack of skilled rate case personnel and the percentage of operating expenses and rate base components reviewed by Staff and intervenors. Due to the latter two reasons, for any adopted return on equity the distribution of actual returns is greater for a small utility than for a large utility, and greater variability means greater risk. However, most of the proxy companies used in the cost of capital analyses, including EPCOR, are a conglomeration of many smaller water systems and have the capacity to attract the appropriate level of talent for proficient operation. Thus, the business risk for any of the EPCOR systems parallels that of the sample companies, and we do not believe a cost of equity adjustment for size is appropriate.

EPCOR is also critical of RUCO's use of historical data in evaluating cost of equity, which the Company claims should be a forward-looking analysis. However, we believe that consideration of both historical and projected data is appropriate in evaluating cost of equity.

In assessing the appropriate cost of equity for EPCOR, we also believe it is appropriate to take into account the difficulties encountered by the parties in their preparation of this case. As described above, the Company's accounting records caused significant confusion to the parties causing delays and incurrence of additional time and expense. We believe these factors are properly considered in determining EPCOR's cost of equity in this proceeding.

D. <u>Cost of Capital Summary</u>

Based on the discussion above, for the Mohave Wastewater, Mohave Water, Paradise Valley Water, and Sun City Water districts, the cost of capital is determined to be:

	Percentage	Cost	Weighted Avg. Cost
Common Equity	40.24%	9.50%	3.82%
Debt	59.76%	4.29%	2.56%
Weighted Avg. Cost of Cap.			6.38%

For the Tubac Water District, the cost of capital is determined to be:

	Percentage	Cost	Weighted Avg. Cost
Common Equity	41.47%	9.50%	3.94%
Debt	58.53%	4.00%	2.34%
Weighted Avg. Cost of Cap.			6.28%

VI. AUTHORIZED REVENUE INCREASE

Based on the discussion herein, the authorized revenue increase for each of the five districts is as follows:

A. Sun City Water

We find that the Sun City Water District's authorized gross revenue increase is $1,040,530.

Fair Value Rate Base	$25,756,018
Required Fair Value Rate of Return	6.38%
Required Operating Income	1,643,234
Operating Income Available	946,477
Operating Income Deficiency	696,757
Gross Revenue Conversion Factor	1.6406
Gross Revenue Increase	1,143,099

B. Paradise Valley Water

We find that the Paradise Valley Water District's authorized gross revenue increase is $168,255.

Fair Value Rate Base	$38,489,709
Required Fair Value Rate of Return	6.38%
Required Operating Income	2,455,643
Operating Income Available	2,260,022
Operating Income Deficiency	195,621
Gross Revenue Conversion Factor	1.6345
Gross Revenue Increase	319,746

C. Mohave Water

We find that the Mohave Water District's authorized gross revenue increase is $1,598,040.

Fair Value Rate Base	$22,413,566
Required Fair Value Rate of Return	6.38%
Required Operating Income	1,429,986
Operating Income Available	407,280
Operating Income Deficiency	1,022,705
Gross Revenue Conversion Factor	1.6510
Gross Revenue Increase	1,688,513

D. Mohave Wastewater

We find that the Mohave Wastewater District's authorized gross revenue increase is $368,544.

Fair Value Rate Base	$4,921,308
Required Fair Value Rate of Return	6.38%
Required Operating Income	313,979
Operating Income Available	78,739
Operating Income Deficiency	235,241
Gross Revenue Conversion Factor	1.6494
Gross Revenue Increase	388,011

E. Tubac Water

We find that the Tubac Water District's authorized gross revenue increase is $239,177.

Fair Value Rate Base	$1,329,355
Required Fair Value Rate of Return	6.28%
Required Operating Income	80,484
Operating Income Available	(65,414)
Operating Income Deficiency	148,898
Gross Revenue Conversion Factor	1.6443
Gross Revenue Increase	244,840

In light of the size of the bill impacts caused by the revenue increases in the Tubac and Mohave Wastewater Divisions, the Company has agreed to phase in the rates in those two divisions over three years with no recovery of lost revenue or carrying costs. The phase in for these two divisions shall be in equal steps each of these three years. The Company shall provide revised rate schedules for Staff review and approval that detail the rates required to effectuate the three year phase in for the Tubac and Mohave Wastewater Divisions on or before September 15, 2015.

VII. RATE DESIGN

Staff recommends a multi-tier inverted block commodity rate structure, spreading the commodity rates among the blocks to aid in water efficiency. (Ex. S-16, at 2.) For Mohave Water, Staff recommends an increase for the typical 5/8-inch meter residential bill with a median usage of 5,000 gallons from $17.32 to $21.60, an increase of $4.28, or 24.71 percent. (Ex. S-18, at 4.) For Paradise Valley Water, Staff's recommendations would have no impact for a typical 5/8-inch meter residential bill. For Sun City Water, Staff recommends an increase for the typical 5/8-inch meter residential bill with a median usage of 6,000 gallons from $15.72 to $17.31, an increase of $1.59 or 10.15 percent. For Tubac Water, Staff recommends an increase for the typical 5/8-inch meter residential bill with a median usage of 5,000 gallons from $36.40 to $56.57, an increase of $20.17 or 55.41 percent. (*Id.* at 4-5.) For Mohave Wastewater, Staff recommends large commercial customers pay $2.9880 per 1,000 gallons in addition to a $93.99 flat monthly rate and no change in Effluent charge. (Ex. S-16, at 11.) According to Staff, the Mohave Wastewater recommendations would result in an increase to a residential customer's monthly bill by $19.44, or 34.38 percent. (Ex. S-17, at 5.)

EPCOR opposes Staff's rate design, arguing that it fails to allow for recovery of an appropriate amount of fixed costs through the monthly minimum charge, and reduces the likelihood that the Company will achieve its authorized revenue requirement. (Ex. A-29, at Ex. TJB-1RJ; Ex. A-27, at 14.) The Company asserts that its proposed rate design conforms to recent Commission decisions that allow a utility to recover equal amounts from the minimum monthly charge and the commodity charge to ensure revenue stability and an opportunity for it to earn its authorized return. (Decision No. 74391 (March 19, 2014), at 11; Decision No. 74398 (March 19, 2014), at 17-18.)

EPCOR asserts that because the majority of its costs are fixed, rather than being driven by demand, adopting a rate design which recovers only 30 to 40 percent of the revenue requirement from the monthly minimum almost ensures the under-recovery of costs. According to the Company, its proposed rate design would appropriately incent conservation, and would recover a smaller, and more appropriate, percentage of metered revenues from the highest commodity rate. The Company claims it would be appropriate for the Commission to adopt the Company's proposed tiers so that it will have greater revenue stability and an opportunity to earn its authorized return. (EPCOR Initial Brief, at 42-44.)

RUCO asserts that the Company's proposed rate design contains serious design flaws in relation to "cross-over" issues in the Paradise Valley District and claims Staff's rate design is similarly flawed. (RUCO Initial Brief, at 41-42).

Mr. Magruder proposed guidelines to assist in structuring a rate design, such as: using a lowest tier to allow 3,000 gallons of water at a low price for low income families; using at least seven tiers; using standardized rates; employing easy to read billing statements; using identical first tier rates for residential and commercial customers; using standardized fixed service charges; and using a consolidated revenue-neutral rate design.

Mr. Magruder recommends that the total revenue requirements for the four water districts at issue in this case should be combined in setting rates in this case. (Magruder Initial Brief, at 64.) He proposes a first tier residential rate of 3,000 gallons at a cost of $20.00-25.00 per month to accommodate low income customers with the lost income recovered in higher tier rates. (*Id.* at 64-65.)

We believe that in designing rates, the appropriate amount of demand costs that should be placed in the minimum charges is the percentage of the potential overall demand that is anticipated, and placing the remainder of the demand charge in the commodity rates attributes the remainder of the demand costs on individual customers based on their usage relative to that anticipated by the design (*i.e.*, customers are charged according to causation). As EPCOR points out in its Brief, the percentage of revenue attributed to the minimum charges is similar for Staff and the Company. (EPCOR Initial Brief, at 42.) The consumption levels are another factor that affects the minimum versus commodity revenue recovery balance (*i.e.*, as consumption increases, a greater portion of the revenue should be recovered from the commodity rates).

Designing rates is as much an art as it is a technical exercise. However, we believe it is desirable and beneficial to establish and adhere to some general guidelines for rate design. For example, the rate structure for water service provided to customers of residential, commercial and other rate classes with similar usage patterns should generally be the same. Guidelines are useful for establishing consistency within and among utilities and their various systems. Consistency conveys a sense of fairness and objectivity with customers throughout the State of Arizona. In adopting the rate designs herein we have attempted to progress gradually toward achieving greater consistency.

In designing the rates established in this proceeding we used the following general parameters: the same number of commodity rate tiers and identical break-over points for residential and commercial customer classes; the Arizona Water Works Association flow capacity multiples for establishing the minimum monthly rates; break-over points that graduate by meter size without creating crossovers; uniformity in rates for ¾-inch meters and 5/8 x ¾-inch meters, except for a nominally higher minimum monthly charge for ¾-inch meters; and providing greater revenue stability by moving modestly toward a balance between revenues generated by minimum monthly charges and commodity charges while recognizing that desired conservation is better achieved by moving revenues from non-discretionary use to discretionary use, with a more moderate top commodity tier rate versus having a large increment for the highest commodity rate.

For each of specific districts in this case, the following rate design adjustments were made:

Tubac Water

The percentage of revenue generated by the minimum monthly charges was increased to 45.5 percent (at the end of the three-year phase-in), and the break-over points were increased for 1-inch and larger meters, as is appropriate for the increase in the monthly charges for larger meters. For commercial 5/8-inch and 5/8 x 3/4-inch meters, the commodity tiers were increased from two to four to be consistent with residential meters. The spread between the first and second tier was increased (converting a portion of revenues from non-discretionary to discretionary) and the spread was decreased between the second and third tier.

Mohave Water

The percentage of revenue generated by the minimum monthly charges was increased to 45.11 percent, and the break-over points were increased accordingly. Three commodity tiers were implemented (up from two) for the commercial, industrial and apartment classes with 5/8-inch and 5/8 x 3/4-inch meters, to be consistent with residential meters. The ¾-inch meter minimum monthly charges were increased – and which are now the same as for 5/8 x 3/4-inch meters under current rates.

Sun City Water

The percentage of revenue generated by the minimum monthly charges was increased to 38.22 percent, and the break-over points were increased accordingly. For commercial 5/8-inch and 5/8 x 3/4-inch meters, the commodity tiers were increased from two to four to be consistent with residential meters.

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Paradise Valley Water

The percentage of revenue generated by the minimum monthly charges was increased to 28.53 percent. The remainder of the rate design is simply a percentage increase across all monthly and commodity charges over the current rate design, except that the percent increase for the Paradise Valley Country Club tariff and the Turf tariff are based on 150 percent of 1.7 percent for the rest, or about 2.5 percent.

Mohave Wastewater

The effluent rate is unchanged. Due to the phase-in, all rates were increased by 12.89 percent the first year, and collectively by 25.68 percent and 38.87 percent for the second and third years, respectively.

A. Declining Usage Adjustor

EPCOR and Staff are in agreement that a declining usage adjustment should be implemented to address the anticipated reduction in customer use due to historical trends of declining usage and increased concern for conservation by customers. (Ex. A-29, at 1-2; Ex. S-18.) The Company claims its proposed declining usage adjustment is based upon known and measurable impacts on revenues since the last rate cases. The Company asserts that both residential and non-residential customer classes show trends in declining usage, and that ongoing trends related to conservation will likely cause further declines, thereby understating prospective declining usage. The Company claims that Staff concurs that a declining usage adjustment is appropriate. (EPCOR Initial Brief, at 41-42.)

Staff recommends recognizing declining water use by adjusting rate design based on the decrease in commodity revenue, resulting in a 3.14 percent decrease for Mohave, a 0.52 percent decrease for Paradise Valley, a 1.86 percent decrease for Sun City, and a 6.70 percent decrease for Tubac. (Ex. S-18, at 2.) For Mohave, Sun City, and Tubac, Staff recommends increasing the monthly minimums, and for Paradise Valley Staff recommends that the declining usage adjustment be placed in the top two highest tiers of the commodity rates. (*Id.*)

RUCO contends that the Company has shifted the way it accounts for declining usage by using an average customer count versus the traditional method of test year end customer count in an effort to reduce its test year revenues. (Ex. R-9, at 21; Ex. R-10 at 4.) RUCO argues that the

Company's annualization approach to declining usage should be rejected because it is results oriented, inconsistent with tradition, and there has not been a showing that a change is appropriate or even necessary.

RUCO advocates for the use of a historic test year in determining whether the Company's request for a declining use adjustment is needed and states that such known and measurable data would show water usage is actually increasing in Paradise Valley. RUCO also recommends that if a declining usage adjustment is approved, the Company should be required to submit a Plan of Administration to allow for a true-up in the event EPCOR's projections are not consistent with actual usage as well as file an annual report of actual water usage for each customer class and meter size. RUCO also claims that, at hearing, Staff did not adequately explain the merits of its recommendation, and that Staff's position disregards the test year concept in favor of a future test year. RUCO points out that the Staff witness agreed that the Company should be required to submit a Plan of Administration for the purpose of establishing a true-up of projected versus actual usage. (RUCO Initial Brief, at 26-29.)

Staff is in agreement that a declining usage adjustment is appropriate in this case to recognize the declining usage per customer trend and enable the Company to have a reasonable opportunity to recover its revenue requirement. The record in this case shows that residential customer classes, as well as non-residential, are experiencing consistently declining usage trends, and that future declines in usage per customer are likely. It is likely that the tiered rate structures that we have adopted throughout the state, with higher commodity charges for higher usage, are having their intended effect – to incent customers to conserve water. We believe that the Company's recommendation for a declining usage adjustment should be adopted.

B. <u>Consolidation of Rates</u>

Mr. Magruder claims EPCOR's present and proposed rates are discriminatory in that there are locational and unreasonable differences that violate the Arizona Constitution and Arizona Revised Statutes. (Magruder Initial Brief, at 1.) Mr. Magruder proposes that the four water service areas in this case should be combined into one revenue-neutral, integrated rate structure during these proceedings, and that this rate structure and all other water service area rates should be further combined over several years into a single company-wide rate structure in future rate cases. (Magruder Reply Brief, at 2.) According to Mr. Magruder, the Company's present and proposed rate structure fails to: promote conservation, treat parties equally, minimize rate shock, provide price signals to reduce consumption, adhere to legal requirements, and streamline this process by requiring multiple rate cases. (*Id.*)

SCVCC also requests that the Commission consider consolidation of all EPCOR's water districts to eliminate the disparity in rates.

The issue of rate consolidation is not before us in this proceeding and we do not believe it would be appropriate to address consolidation in this case. However, we will direct EPCOR to file a rate case for all of its systems by no later than July 1, 2018, using a 2017 test year, and include in the application rate consolidation options as an alternative to treating all of the systems as independent. A similar directive is currently in place for all of EPCOR's wastewater districts. (Decision No. 74881 (December 23, 2014), at 35.)

C. Phase-in of Tubac Rates

SCVCC opposes any rate increase for the Tubac Water District but argues that if one is approved, the increase should be phased-in over a three-year period with no recovery of foregone revenue. SCVCC claims that any loss of revenue associated with the phase-in would be negligible to EPCOR's overall income statement. (SCVCC Brief, at 4.) Mr. Magruder also proposes that any Tubac rate increase should be phased-in.

RUCO does not oppose SCVCC's recommendation to phase-in rates if no carrying charges are attached. (RUCO Reply Brief, at 11.)

As discussed above, rates will be phased-in for Tubac and Mohave Wastewater over three years.

VIII. OTHER ISSUES

A. CAP Surcharge (Paradise Valley) and GSF Surcharge (Sun City)

EPCOR asserts that the continued use of a Central Arizona Project ("CAP") Surcharge for the Paradise Valley District and Groundwater Savings Fee ("GSF") Surcharge for Sun City are needed to allow for timely recovery of costs and to alert customers through price points of the source of water.

(Ex. A-21, at 13.) The GSF Surcharge for Sun City allows the Company to recover CAP-related expenses in order to retain its CAP allocation and associated expenses. The CAP Surcharge for Paradise Valley is similar to the GSF Surcharge. Although the Company acknowledged it previously failed to file annual surcharge adjustments, which ultimately required refunds to its customers, EPCOR maintains that recovery of these costs are necessary, either in base rates or via surcharges. (Ex. A-21, at 5, 14; Ex. A-22, at 6; Ex. A-23, at 3.) EPCOR states that if the Commission approves the continuation of the Surcharge, the Power Cost Savings should be removed from the CAP Surcharge because the Company is now storing and recovering its CAP water. (Ex. A-21, at 16-17.)

Staff recommends approval of EPCOR's request to retain the CAP Surcharge based on the changes in the CAP related amounts. (Ex. S-16, at 14-15.)

RUCO points out that the Company is out of compliance with prior Commission decisions that required the Company to include the CAP and GSF Surcharges in base rates in future rate cases. (Ex. A-22, at 6.) RUCO argues that the Company should be ordered to follow the mandates of the prior decisions and eliminate the surcharge.

We agree that EPCOR should be permitted to continue these surcharge mechanisms because they: allow for timely recovery of costs not within the Company's control; provide important pricing signals to customers; and address contingencies such as the uncertain future of the Navajo Generating Station (which currently supplies low-cost power to CAP). RUCO's opposition to continuation of the surcharges is based on the Company's failure to include them in base rates, in accordance with prior Commission Orders. However, the potential ongoing fluctuation of these costs for the Paradise Valley Water and Sun City Water districts makes the costs appropriate for recovery through surcharge mechanisms. EPCOR shall remain subject to the requirement of making annual adjustment filings.

B. <u>SIB Mechanism</u>

1. <u>Arguments of the Parties</u>

The Company agrees to abide by Staff's recommended Plan of Administration relating to EPCOR's request for a SIB mechanism for the Mohave Water, Sun City Water, and Paradise Valley Water Districts. (Ex. A-24; Ex. A-26.) EPCOR points out that the Commission has approved SIB mechanisms in a number of prior cases which disagreed with RUCO's general objections to the use of SIB mechanisms. The Company argues that ratepayers' desire for rate gradualism supports the Company's use of a SIB for those systems. (Decision Nos. 74568 (June 20, 2014), 73938 (June 27, 2014), 74081 (September 23, 2013), and 74364 (February 26, 2014); Tr. 577.)

Staff recommends approval of EPCOR's request for a SIB mechanism which would provide for a surcharge that will enable the Company to recover a return on its investment and depreciation expense between rate cases for infrastructure projects it has submitted for review, and anticipates will be placed into service prior to its next rate case. (Ex. A-24, at 2-3.) Staff argues that its recommended Plans of Administration detail the requisite information needed for the Commission to determine the impact of the newly installed plant on EPCOR's fair value rate base and the resulting impact on the fair value rate of return. (Staff Reply Brief, at 10.)

Staff states that its recommended POA allows for recovery of pre-tax return on investment and depreciation expense associated with specific water infrastructure projects, net of associated plant retirements, which have been submitted for review, and that these projects are subject to usefulness and prudency review in the next rate case. Staff asserts that the Company is required to provide updated financial information, including an earnings test, as part of a filing package that will enable the Commission to update the fair value rate of return and make a fair value finding. (Staff Initial Brief, at 20-21.)

RUCO asserts that the SIB mechanism is not appropriate in this case because the Company has failed to show that a special need exists that the SIB would address, and because the proposed SIB meter program is intended to increase revenues rather than for repairs. (Ex. R-26, at 21-23.) RUCO points to EPCOR's high dividend distributions as another reason for not approving a SIB, claiming that EPCOR should retain more of its earnings for infrastructure improvements. (RUCO Reply Brief, at 11.) RUCO reiterates its prior arguments to SIB mechanisms based on the following: (1) the SIB inappropriately shifts risk from the Company to ratepayers without adequate financial compensation for ratepayers; (2) the SIB is not an adjustor mechanism; (3) the SIB will increase the Company's fair value rate base without any fair value determination; (4) the Company has not requested interim rates; (5) the SIB is not in the public interest; (6) individual circumstances of the case; and (7) the Company does not set aside depreciation expense. (Ex. R-18, at 4.) RUCO claims that ratepayers should have been better informed about the potential rate impact of the SIB at the time the Company filed its rate application, and that the need for specific SIB projects is based on Nessie curves that are used primarily for long-term capital planning and are not applicable for the annual prioritization of pipeline renewal projects. (RUCO Initial Brief, at 53-55.)

RUCO also argues that the SIB is illegal and that any actual cost savings, such as lower operating and maintenance expenses, attributable to the new plant are not truly captured by the mechanism and are not passed through to ratepayers. (*Id.* at 57.) RUCO claims the "efficiency credit" is inadequate and is only imposed until the Company's next rate case. RUCO asserts that the Commission can change a utility's rates only in conjunction with a fair value finding except in limited circumstances, one of which is through an automatic adjustor mechanism that applies to expenses that fluctuate widely. RUCO argues that the SIB is not an adjustor mechanism. (*Id.* at 58-59.)

RUCO claims that the Arizona Constitution contains a fair value requirement but the Commission would not be making a new FVRB finding as part of up to five SIB filings. RUCO contends that an annual earnings test and filing of balance sheets, income statement and other financial information do not cure the constitutional issues. (*Id.* at 60-61.) RUCO also asserts that the Commission will not, as required by law, make a finding of fair value and use that finding as a determination of the Company's rate base for the purpose of establishing rates. According to RUCO, the SIB schedules only show SIB plant and depreciation expense, and the operating expenses used for setting rates in this case would be from a different period than the SIB plant under consideration. (*Id.* at 62-63.) RUCO asserts that the Commission should use its authority under A.R.S. § 40-222 to require the Company to set aside its depreciation expense to be used to pay for improvements and replacement of plant. (*Id.* at 66.)

The Resorts argue that the SIB should be rejected for Paradise Valley Water because EPCOR did not provide adequate notice to those customers about the SIB and its impact on rates and it is an abnormal rate-making mechanism that should only be implemented in extraordinary circumstances. The Resorts claim that this case differs from SIBs approved for Arizona Water (*e.g.*, Decision No.

73938 (June 13, 2013)) because of Arizona Water's critical financial condition and limited, or lack of, access to the capital markets; EPCOR represented that it was financially capable of investing in AAWC in the acquisition proceeding; depreciation expense on SIB assets that replace assets included in rate base will result in duplicate recovery; and the SIB will inarguably lower a utility's risk but the Company has not taken that lower risk into account. (Resort Brief, at 1-2.)

The Resorts argue that the Company lacks the extraordinary circumstances that would justify the implementation of a SIB. (Resorts Ex. 1, at 4.) According to The Resorts, the requested SIB is EPCOR's attempt to obtain a return on and of normal business expenses prior to its next rate case, contrary to the intent of an adjustor mechanism which is to allow for adjustments in instances where significant operating expenses rise and fall precipitously. (*Id.* at 2-3.) The Resorts assert that the Company's financial circumstances sharply contrast with those of Arizona Water Company, which was granted a SIB due to the amount of capital expenditures it faced, its poor financial condition, and its lack of access to financial markets. (*Id.* at 3-4.) The Resorts claim that EPCOR previously represented that it has access to capital markets and has the financial ability to invest in its utility operations. (*Id.* at 4-6.)

The Resorts also argue that granting a SIB in this case raises other issues, such as: depreciation expense of an asset replaced through a SIB resulting in double payment; failure to account for accumulated depreciation; inclusion of ADIT for SIB "rate base;" the potential for double counting of labor expense and overhead; failure to account for the utility's lower risk; and lack of notice to Paradise Valley customers. The Resorts recommend rejection of EPCOR's request for a SIB given that the Company is financially healthy and is able to fund its daily operations. (*Id.* at 4.)

Mr. Magruder argues that the SIB mechanism is simply a plan that would allow the Company obtain prefunding for routine maintenance tasks required to provide reliable service. He claims that such expenses should not be given special treatment for several reasons: the costs of the SIBs are uncertain; detailed actions are unknown; and, without a prudency review, approval is impossible. Alternatively, Mr. Magruder suggested and that any SIBs should be for all service areas, not just a few. (Magruder Reply Brief, at 12-13.)

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2. Discussion of Legal Issues

The Commission generally must determine a fair value rate base and apply a rate of return to that rate base when it develops rates. The case law interpreting the Commission's constitutional duties state that the Commission may diverge from this ratemaking method when authorizing interim rates in the event of an emergency (*i.e.*, interim rates), and when the Commission authorizes (in a rate case) an automatic adjustor mechanism to address specific costs occurring subsequent to the rate case. *Scates v. Arizona Corp. Comm'n* suggests that there may be exceptional situations that warrant a departure from the usual method. (118 Ariz. 531 (App. 1978).)

The Company, Staff, and RUCO discussed in their post-hearing briefs the legality of a SIB under Arizona law. Arizona Constitution, Article XV, § 14 provides: "The Corporation Commission shall, to aid it in the proper discharge of its duties, ascertain the fair value of the property within the State of every public service corporation doing business therein . . . ." This language has been interpreted to require the Commission to establish a utility's authorized rates by applying a fair rate of return to the fair value of the utility's property devoted to the public use at the time of the inquiry (or as near as possible thereto), as determined by the Commission based upon all available relevant evidence. (*See, e.g., Arizona Corp. Comm'n v. Arizona Water Co.*, 85 Ariz. 198, 203-04, 335 P.2d 412, 415 (1959).)

The Arizona Supreme Court has clarified that "the Commission in its discretion can consider matters subsequent to the historic year" when establishing fair value rate base in a rate case (*Arizona Corp. Comm'n v. Arizona Public Service Co.*, 113 Ariz. 368, 371, 555 P.2d 326, 328-29 (1976)), and has specifically approved the portion of a Commission decision that allowed inclusion of CWIP for plant that was under construction during the test year and would go into service within two years after the effective date of a Step II increase, when the step increase methodology had been created in a full permanent rate case that included a determination of fair value. (*Arizona Community Action Assn. v. Arizona Corp. Comm'n*, 123 Ariz. 228, 230, 599 P.2d 184, 186.)

In *Arizona Public Service,* the Arizona Supreme Court held that although the Commission must ascertain fair value, it was not prohibited from taking into consideration in its fair value determination the addition of CWIP after the end of the test year. In so finding, the court stated:

> A plant under construction is at least a relevant factor which the Commission could consider in determining fair value. The attorney general's opinion would cut off consideration of any facts subsequent to the historic year. In Simms v. Round Valley, supra, we said: 'Fair value means the value of properties at the time of inquiry (citing cases),' and '(t)his is necessary for the reason that the company is entitled to a reasonable return upon the fair value of its properties at the time the rate is fixed.' From the foregoing, it is obvious that the Commission in its discretion can consider matters subsequent to the test year, bearing in mind that all parties are entitled to a reasonable opportunity to rebut evidence presented. Construction projects contracted for and commenced during the historical year may certainly be considered by the Commission upon the cutoff time previously indicated. We would not presume to instruct the Commission as to how it should exercise its legislative functions. However, it appears to be in the public interest to have stability in the rate structure within the bounds of fairness and equity rather than a constant series of rate hearings.

(113 Ariz. at 371, 555 P.2d at 329 (internal citations omitted).) The Arizona Supreme Court reinforced this view in *Arizona Community Action,* by affirming the Commission's decision to allow inclusion of CWIP in APS's rate base within two years of a Step II rate increase. (123 Ariz. 228, 230-231, 599 P. 2d 184, 186-187.) In that case, the court considered whether it was permissible for the Commission to authorize a rate of return based on plant construction in progress but not yet in service, which would result in five percent step increases over a three-year time period (1977-1979). Although the court struck down the tying of step increases solely to APS's return on equity, it found the Commission's inclusion of funds expended on CWIP to be "entirely reasonable." (*Id.*) With respect to the legality of the step increase approved by the Commission, the court stated:

> In view of [*Arizona Public Service*], supra, we find entirely reasonable that portion of the Commission's decision allowing the inclusion of [CWIP] to go on line within two years from the effective date of the Step II increase. Nor do we find fault with the Commission's attempt to comply with our indication in [*Arizona Public Service*], supra, that a constant series of rate hearings are not necessary to protect the public interest. The hearing culminating in the order of August 1, 1977, resulted in a determination of fair value. *The adjustments ordered by the Commission in adding the CWIP to that determination of fair value were adequate to maintain a reasonable compliance with the constitutional requirements if used only for a limited period of time.*

((*Id.*)(emphasis added).)

As a general proposition, we recognize that the courts have consistently required that the Commission find fair value before allowing an adjustment in rates. As indicated above, exceptions to the requirement to base rates on a monopolistic utility's fair value rate base have typically been recognized for interim rate increases when an emergency exists, and for rate increases caused by automatic adjustment clauses, when the automatic adjustment clause itself is created in a permanent rate case that meets all legal requirements and the clause is designed to ensure that the utility's profit or rate of return is unchanged by application of the clause. (*See RUCO v. Arizona Corp. Comm'n,* 199 Ariz. 588, 20 P.3d 1169 *("Rio Verde")*; *Scates, supra*, 118 Ariz. 531, 578 P.2d 612; Arizona Attorney General Opinion No. 71-17.)

However, in *Scates,* the Court of Appeals indicated that in exceptional circumstances the Commission may adjust rates outside of a full rate case. Although the court found the Commission did not have authority to allow increases between rate cases to certain of a telephone company's charges without a consideration of the impact on the company's rate of return and financial condition, the court suggested that updated submissions may be permitted to adjust rates between full rate cases. Thus, in *Scates*, the appellate court suggested a third exception to the general rule:

> We do not need to decide in this case whether as a matter of law there must be a de novo compliance with all provisions of the order in connection with every increase in rates. The Commission here not only failed to require any submissions, but also failed to make any examination whatsoever of the company's financial condition, and to make any determination of whether the increase would affect the utility's rate of return. There may well be exceptional situations in which the Commission may authorize partial rate increases without requiring entirely new submissions. We do not decide in this case, for example, whether the Commission could have referred to previous submissions with some updating or whether it could have accepted summary financial information.

(118 Ariz. 531, at 537, 578 P.2d 612, at 618.)

In *Rio Verde,* the Court of Appeals addressed the issue of whether the Commission properly approved a surcharge to recover increased CAP water expenses between rate cases without ascertaining the utility company's fair value. The court, citing *Simms v. Round Valley Light & Power*

Co. and *Arizona Public Service*, held that the Arizona Constitution requires the Commission to determine the company's fair value, and the justness and reasonableness of the rates must be related to this fair value. (*Simms*, 80 Ariz. 145 (1956); *Arizona Public Service*, 199 Ariz. 588, at 591, 20 P.3d 1169, at 1172.)

However, the courts have also consistently upheld the Commission's broad discretion to use fair value in a manner that recognizes changing regulatory circumstances. For example, in *US West Communications, Inc. v Arizona Corp. Comm'n,* (*"US West II"),* the Arizona Supreme Court recognized that although a fair value finding is required under the Constitution, the Commission was not bound by a "rigid formula" in setting just and reasonable rates. (201 Ariz. 242, at 246, 34 P.3d at 355.) Although the court in *US West II* was considering fair value in the context of competitive telecommunications services, and not for a monopoly water company such as EPCOR, the court's discussion of the fair value requirement is instructive.

> Because neither this court nor the corporation commission possesses the power to ignore plain constitutional language, we hold that a determination of fair value is necessary with respect to a public service corporation. But what is to be done with such a finding? In the past, fair value has been the factor by which a reasonable rate of return was multiplied to yield, with the addition of operating expenses, the total revenue that a corporation could earn. That revenue figure was then used to set rates....But while the constitution clearly requires the Arizona Corporation Commission to perform a fair value determination, only our jurisprudence dictates that this finding be plugged into a rigid formula as part of the rate-setting process. Neither section 3 nor section 14 of the constitution requires the corporation commission to use fair value as the *exclusive* "rate basis."...We still believe that when a monopoly exists, the rate-of-return method is proper. Today, however, we must consider our case law interpreting the constitution against a backdrop of competition. In such a climate, there is no reason to rigidly link the fair value determination to the establishment of rates. We agree that our previous cases establishing fair value as the exclusive rate base are inappropriate for application in a competitive environment.... Thus, fair value, in conjunction with other information, may be used to insure that both the corporation and the consumer are treated fairly. In this and any other fashion that the corporation commission deems appropriate, the fair value determination should be considered. The commission has broad discretion, however, to determine the weight to be given this factor in any particular case.

(*Id.* at 245-246, 34 P.3d at 354-355)(internal citations omitted, emphasis original0.) The Court of Appeals reinforced this finding in *Phelps Dodge v. Arizona Electric Power Cooperative,* stating that:

> ...our reading of the court's ruling [in *US West II*]...is consistent with the pronouncement...that the Commission should consider fair value when setting rates within a competitive market, although the Commission has broad discretion in determining the weight to be given that factor in any particular case.

(207 Ariz. 95, at 106, 83 P.3d 573, at 584.)

The Commission has also previously employed mechanisms such as the Arsenic Cost Recovery Mechanism ("ACRM") to address extraordinary regulatory challenges for which traditional ratemaking methods were deemed inadequate. In Decision No. 66400 (October 14, 2003), in which the Commission first adopted the ACRM, the Commission determined that the proposed ACRM was within the Commission's constitutional and statutory authority and permitted under applicable case law. (*See* Decision No. 66400 at 17, 19-20, 22.) Arizona Water's ACRM in that case included a requirement that the Company file with each adjustment filing:

> (1)the most current balance sheet at the time of the filing; (2) the most current income statement; (3) an earnings test schedule; (4) a rate review schedule (including the incremental and pro forma effects of the proposed increase); (5) a revenue requirement calculation; (6) a surcharge calculation; (7) an adjusted rate base schedule; (8) a CWIP ledger (for each project showing accumulation of charges by month and paid vendor invoices); (9) calculation of the three factor formula; and (10) a typical bill analysis under present and proposed rates.

(Id. at 14.)

The Commission further agreed that the ACRM step increase procedure was based on the approach for CWIP discussed by the Arizona Supreme Court in both *Arizona Public Service* and *Arizona Community Action.* The Commission stated that in both cases the court acknowledged the Commission's authority to consider post-test year matters as long as the Commission complied with its constitutional duty to determine fair value. The Commission also cited *Scates* as supporting the Commission's authority to approve step rate increases, although only in "exceptional situations." The Commission found that the ACRM:

> specifically require[s] that [Arizona Water] file updated financial information to verify the actual expenditures incurred for installing arsenic treatment plant, as well as schedules verifying that the requested step increase will not result in a return in excess of the Company's "fair value" rate base return....We disagree with RUCO's contention that inclusion of the recoverable O&M expenses violates the tenets of the *Scates* decision.[4] As the Arizona court explained in that decision, automatic adjustment mechanisms may be approved in the context of a general rate proceeding as long as the expenses are specific and narrowly defined. The modified ACRM proposed by Staff and Arizona Water satisfies the *Arizona Community Action* and *Scates* requirements because it is an automatic adjustment mechanism that is being considered in a rate proceeding which includes a "fair value" analysis of the Company's utility plant. Moreover, the expenses that are eligible for recovery under the ACRM adjustor mechanism are narrowly defined costs that will be incurred by direct payments to third party contactors. We believe these components satisfy the requirements delineated in both the *Scates* and *Arizona Community Action* decisions.

(*Id.* at 19-20.) The Commission concluded that approval of step increases under the ACRM, as described in Decision No. 66400, was consistent with the Commission's authority under the Arizona Constitution, ratemaking statutes, and applicable case law. (*Id.* at 22.)

3. <u>Conclusion</u>

Consistent with our findings in prior Decisions (*e.g.*, Decision Nos. 73938 and 74081), we believe that the proposed SIB mechanism, together with the financial information and analysis required herein, satisfies the fair value concerns addressed by various court decisions. Although RUCO asserts that the proposed SIB does not require a fair value finding by the Commission when the SIB surcharge is adjusted, consistent with prior Arizona Water Decisions the information that EPCOR will be required to file at the time a surcharge adjustment request is made requires "an analysis of the impact of the SIB Plant on the fair value rate base, revenue, and the fair value rate of return as set forth in Decision No. 73736." (*See* Decision No. 73938, at 50.)

As discussed above, the applicable court decisions have found that the express language in Article 15, §14 of the Arizona Constitution requires the Commission to ascertain "fair value." The

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[4] RUCO had objected to inclusion of O&M expense adjustments in the ACRM, arguing that *Arizona Community Action* had only authorized rate base updates and that the inclusion of O&M adjustments presented matching problems.

courts have consistently recognized, however, that the Commission has broad discretion in the rate setting formulas and techniques that it employs, and the courts will not disturb the Commission's findings absent an abuse of that discretion. (*See, Simms, supra*, at 154; *Arizona Public Service, supra*, at 370.) A line of decisions establishes that, as long as fair value is determined, the Commission does not abuse its discretion in adopting varying ratemaking mechanisms that allow rate recovery for: post-test year plant (*Arizona Public Service*); CWIP that is not yet in service (*Arizona Community Action*); interim rates or adjuster mechanisms without a fair value finding (*Rio Verde*); and use of fair value as only one factor to be considered in setting rates in a competitive regulatory environment (*US West II; Phelps Dodge*).

An examination of these cases suggests that courts have understood that while a fair value determination is always required under the plain constitutional language of Article 15, §14, the Commission must have wide latitude to fashion ratemaking methods necessary to address a number of circumstances that may not have been anticipated when the Arizona Constitution was enacted. As long as the fair value finding is related to the rates set by the Commission, and that "just and reasonable rates" result from the methodologies employed (Article 15, §3), the courts have found that the Commission does not abuse its discretion in regard to its ratemaking powers.

We believe that the SIB mechanism proposed in this proceeding, together with the additional financial information and analysis required herein, is compliant with the Commission's constitutional requirements, as well as the case law interpreting the Commission's authority and discretion in setting rates. The SIB surcharge would be based on specific, verified, and in-service plant additions that are reviewed by Staff and approved by the Commission prior to being implemented. EPCOR will be required to submit annual summary schedules showing the actual cost of the infrastructure, and supporting documentation that will enable Staff and the Commission to determine how the proposed surcharge adjustments would impact the fair value rate of return for each affected system.

The SIB mechanism is analogous to the step increases for CWIP plant that the court found to be a reasonable ratemaking device in *Arizona Community Action* (except for tying the increases solely to return on equity). Although the SIB-eligible plant differs from CWIP to the extent that the SIB would not necessarily be under construction during the historical test year in the rate case, the requirement that the SIB plant must be fully constructed, and used in the provision of utility service (with verification that such is the case) prior to inclusion in a surcharge, provides the Commission with an even greater assurance (compared with CWIP) that the SIB plant is used and useful and therefore serves as a proper basis for approving just and reasonable rates. And, by allowing up to five surcharge adjustments between full rate case applications, the SIB takes into account the court's observation in the same case that a constant series of rate hearings is not necessary to protect the public interest. (*Id.* at 230-231, 599 P.2d at 186-187.) By requiring the filing of a full rate case at least every five years (with a review in the subsequent case of all SIB plant that was included in the surcharge during the interim between rate cases), the SIB also addresses the concern that the interim rate adjustments would only be in place for a limited period of time. In addition to the five percent efficiency credit, the SIB mechanism also includes notice requirements to customers, a review period for Staff and RUCO (and an opportunity for other parties or customers to express opposition), and an Order by the Commission evaluating and approving the appropriateness of the SIB-eligible plant, including EPCOR's fair value rate base and rate of return.

As stated in Decision No. 73938, from a practical perspective, the SIB would operate very similarly to existing ACRMs, with which the Commission now has extensive experience, and which the Commission has determined to be lawful. Consistent with prior SIB Decisions, we will require EPCOR to include in each of its surcharge adjustment filings similar financial information required for ACRM adjustments, as described in Decision No. 66400. EPCOR shall also be required to file the following information: (1) the most current balance sheet at the time of the filing; (2) the most current income statement; (3) an earnings test schedule; (4) a rate review schedule (including the incremental and pro forma effects of the proposed increase); (5) a revenue requirement calculation; (6) a surcharge calculation; (7) an adjusted rate base schedule; (8) a CWIP ledger (for each project showing accumulation of charges by month and paid vendor invoices); (9) calculation of the three factor formula (as requested by Staff); and (10) a typical bill analysis under present and proposed rates. (*See also*, Decision No. 74364 (February 26, 2014).)

The Company shall also be required to perform an earnings test calculation for each initial filing and annual report filing to determine whether the actual rate of return reflected by the operating income for the affected system or division for the relevant 12-month period exceeded the most recently authorized fair value rate of return for the affected system or division, with the earnings test to be: based on the most recent available operating income, adjusted for any operating revenue and expense adjustments adopted in the most recent general rate case; and based on the rate base adopted in the most recent general rate case, updated to recognize changes in plant, accumulated depreciation, contributions in aid of construction, advances in aid of construction, and accumulated deferred income taxes through the most recent available financial statement (quarterly or longer). The earnings test results will be considered in the following manner. If the earnings test calculation described herein shows that the Company will not exceed its authorized rate of return with the implementation of the SIB surcharge, the surcharge for the year may go into effect upon issuance of the surcharge approval order and subject to the conditions described herein. But if the earnings test calculation described herein shows that the Company will exceed its authorized rate of return with the implementation of any part of the SIB surcharge, the surcharge for that year may not go into effect. Lastly, if the earnings test calculation described herein shows that the Company will exceed its authorized rate of return with the implementation of the full surcharge, but a portion of the surcharge may be implemented without exceeding the authorized rate of return, then the surcharge may be authorized up to that amount, again upon issuance of the surcharge approval order and subject to the conditions described herein. We reiterate that the proposed SIB surcharges shall be evaluated by the Commission according to all relevant factors, including the results of the earnings test. In any event, the earnings test shall not impact the approval of the SIB mechanism or the possibility of SIB surcharges in future years where authorized in accordance with the SIB mechanism.

With this additional information, the SIB allows for a consideration of all of EPCOR's costs at the time a surcharge adjustment is made, and is therefore permissible under *Scates*. The SIB mechanism also addresses the concerns cited in *Scates* in that the SIB: is an adjustment mechanism established within a rate case as part of a company's rate structure; adopts a set formula that would allow only readily identifiable and narrowly defined plant to be recovered through the surcharge; and will apply the rate of return authorized herein to SIB plant (less the five percent efficiency credit).

In accordance with the court's holding in *Simms*, which states that the Commission must find and use the fair value of the utility company's property at the time of the inquiry, and the reasonableness and justness of rates established by the Commission "must be related to this finding of fair value" (80 Ariz. at 151, 294 P.2d at 382), the SIB mechanism requires a determination of the Company's fair value rate base, including the SIB plant, at the time the surcharges are proposed and approved.

Finally, we note that although a SIB mechanism could potentially result in much greater resource demands upon the Commission and Staff than would the current regulatory structure, as noted in Decision No. 73938 (at page 54), the proposed SIB places more of the informational filing burdens on the Company, thus mitigating many of the resource concerns that had previously existed. With these provisions and protections, as well as others discussed herein, we find that proposed SIB mechanism is in accord with Arizona law and, as a whole, is consistent with the public interest.

In light of the Court of Appeals' recent decision on August 18, 2015, which vacated the Commission's approval of the SIB mechanism, we will stay the implementation of the SIB mechanism, pending the outcome of any future ruling.

C. Power Cost Adjustor Mechanism

EPCOR requested approval of a Power Cost Adjustor Mechanism ("PCAM") which it claims will comply with the Commission's requirements for such mechanisms. (*See*, Decision No. 74437 (April 14, 2014), at 10.) The Company argues that the PCAM does not harm ratepayers and sends appropriate price signals. (EPCOR Initial Brief, at 39-40.)

Staff recommends approval of the Company's proposed PCAM, subject to the following conditions: (1) EPCOR is allowed to pass through to its customers the increase or decrease in purchased power costs that result from a rate change from any regulated electric service provider supplying retail service to EPCOR; (2) within 90 days of this Decision, EPCOR must file a Plan of Administration for the PCAM for Commission approval; and (3) EPCOR will only recover increases or refund decreases that are due to changes in purchased power rates. (Staff Reply Brief, at 5; Ex. S-12, at 59.)

RUCO opposes the PCAM, arguing that EPCOR has failed to establish a need for the mechanism. (Ex. R-9, at 48.) RUCO claims the Company has not provided any evidence that its power bills are increasing substantially. RUCO asserts that adjustor mechanisms should be reserved for volatile, very large expense items, in extraordinary circumstances. (RUCO Initial Brief, at 42-43.)

Mr. Magruder agrees with RUCO that only Commission-approved fixed (non-variable) electricity rate changes should be recovered, and not "projected" future costs. He argues that electric bills are a normal business cost and should not be recovered through a variable billing adjustment, without customer notice or inputs. Mr. Magruder contends that EPCOR's systems are served by different electric providers and the Company should only recover prudent electric costs. He claims that constantly changing surcharges should not be approved because they create customer confusion. (Magruder Reply Brief, at 7-8.)

We find that a properly conditioned power cost adjustor is reasonable for EPCOR in this case. Although the evidence does not indicate significant volatility in the Company's electricity expenses, such costs can fluctuate between rate cases and are properly recoverable through an adjustment mechanism. We believe that Staff's recommended conditions, which include implementation of an approved Plan of Administration, will afford customers adequate protection.

D. Health Care Cost Adjustor

The Company also seeks a health care cost adjustor it calls an Affordable Care Act Adjustment Mechanism ("ACAM") to recognize the unpredictability of employee medical costs. EPCOR claims the adjustor would provide protection for both the Company and its customers. (Ex. A-7, at 24.) The Company's proposal would adjust to allow recovery based on an "average cost per employee" and would use the current employee count as a base. (EPCOR Initial Brief, at 40.)

RUCO opposes EPCOR's ACAM proposal, arguing that the Company failed to show the Affordable Care Act has adversely affected it, and asserting that such costs are within the Company's control. RUCO argues that the Company has provided no data, information, studies or other support for the need for an ACAM. (RUCO Initial Brief, at 43; Ex. R-9, at 50.)

Staff recommends denial of the Company's request for an ACAM because Staff claims that such costs are not known or measurable. (Staff Reply Brief, at 6.) Staff points out that no other company has requested an ACAM, and that it is not clear that large companies will be significantly affected by health care costs. (Ex. S-12, at 56-57.)

Mr. Magruder also opposes the ACAM because it represents normal employee expenses and adopting such a surcharge would be "frivolous." He claims that the Congressional Budget Office forecasts lower medical insurance costs in the next decade. (Magruder Reply Brief, at 6.)

We agree with Staff and the intervenors that the Company's ACAM proposal should be denied. As RUCO points out, the Company has some degree of control over health care costs. Although it is unclear how this adjustor would operate, the Company could decide to provide as much health care cost as it desires and pass those costs on to ratepayers because the average cost per employee increased. Moreover, EPCOR has not demonstrated that health care costs are especially volatile and should be treated differently than many other normal business expenses that are addressed through the normal rate case process.

E. <u>Tubac Storage Tank</u>

Staff claims that the Company's Tubac water system lacks adequate storage capacity and recommends that EPCOR be required to install an additional 100,000 gallons of storage. (Ex. S-1, MST-4, at 2.) Staff also recommends that this docket remain open for the inclusion of the storage tank into rate base to allow the Company to recover the costs by adjusting rates. Staff points out that EPCOR will have to submit an Approval to Construct with the Arizona Department of Environmental Quality ("ADEQ") by June 30, 2016 to verify costs. (*Id.*) Staff's recommendation for additional storage in Tubac is based on the number of connections and peak month usage. (*Id.*)

EPCOR supports Staff's recommendations related to the Tubac Water District including installing an additional storage tank (subject to a hydraulic study), using the Company's own funds for the tank, and keeping this docket open to include the new tank in rate base once it is completed. (Ex. A-5, at 5; Tr. 874, 885-887.)

RUCO claims that a determination on additional storage for Tubac is premature and proposes that an engineering assessment be completed prior to the determination of necessity of additional storage. RUCO also opposes leaving the docket open in this case to include the additional storage tank.

SCVCC, which represents the interests of Tubac customers, claims that a prior docket showed one well was out of service for an extended period of time but has now been returned to service and produces water that meets quality standards. SCVCC asserts that this well will provide sufficient capacity without the need for additional storage. SCVCC requested that any requirement for additional storage be delayed and separated from the current case, so that adequate consideration can be given to the issues of need, capacity, location and cost. (SCVCC Brief, at 3.)

In its Brief, SCVCC cited to a 2009 case in which Staff recommended 100,000 gallons of additional storage for Tubac to serve the existing customer base and reasonable growth, but subsequently withdrew that recommendation. (*Id.* at 7-8, citing to June 1, 2009 Staff Memorandum in Docket No. WS-01303A-09-0152.) SCVCC asserts that the circumstances today are similar to those that were present in 2009, in that there is currently adequate storage capacity and little customer growth. As a result, SCVCC requests that Staff's recommendation for additional storage be stayed to allow for adequate consideration of the issue. (*Id.* at 8.)

Mr. Magruder, a Tubac resident, also opposes Staff's recommendation. He argues that the amount of a storage surcharge associated with Staff's recommendation is unknown, and agrees with SCVCC that the current need for additional storage is debatable. He states that this docket should not be left open for an unknown capital asset that may not be necessary and contends that the project needs additional review before the Commission orders construction of a water storage tank by the end of 2015 (or mid-2016), as proposed by Staff. Mr. Magruder recommends a new water storage tank should be added to the rate base in a subsequent rate case and reflected in the Company-wide revenue requirements when EPCOR rates are consolidated statewide. (Magruder Reply Brief, at 15-16.) He argues that the rate base asset associated with additional storage should not be levied as a surcharge on only the Tubac service area but should, instead, be made part of the total companywide combined revenue requirements, along with all other capital improvements. (*Id.* at 11.)

We believe that it is appropriate, at this time, to delay a specific directive to EPCOR to add storage capacity in Tubac. However, the Company should conduct a hydraulic study to determine whether additional storage needs in Tubac are imminent and, if they are, to ensure that the additional storage tank is sized correctly. EPCOR should complete the hydraulic study as soon as possible, and file its recommendation regarding the need for additional storage in this docket, as a compliance item, within 90 days from the effective date of this Decision. Staff and intervenors shall file responses to the Company's recommendation within 30 days thereafter. This docket shall remain open for consideration and disposition of this issue.

F. Miscellaneous Service Charges

EPCOR requested approval of its proposed revisions to its miscellaneous service charges. (Ex. A-4, at 6-10; Ex. A-5, at 6.) Staff proposed certain changes to the Company's miscellaneous charges. (Ex. S-16, at 15-17.)

The miscellaneous service charges recommended by Staff are reasonable and shall be adopted.

G. Low Income Tariff

EPCOR is proposing a new low income tariff for the Tubac Water District, Paradise Valley Water District, and Mohave Wastewater District, and seeks to continue its low income tariff for the Sun City Water District and Mohave Water District. (Ex. A-7, at 25-26.) The Company requests that the Commission adopt low income amounts in the final rate design for Tubac, Paradise Valley, Sun City, and Mohave Water Districts, but requests that it be permitted to defer amounts related to Mohave Wastewater District until the next rate case. (*Id.*) Under EPCOR's proposal, recovery of the program costs would be made through increases in the highest tier commodity rate for the water districts and would be deferred to the next rate case for the Mohave Wastewater District. (EPCOR Initial Brief, at 44.)

RUCO proposes that EPCOR be required to submit a Plan of Administration relating to the operation of the proposed low income tariff. (Ex. R-9, at 51.)

Mr. Magruder opposes EPCOR's proposed low income program, claiming it is illegal, inequitable, dysfunctional, and unworkable. He claims that the proposed low income surcharge differs between service areas and increases the rate differences between districts. Mr. Magruder instead proposes use of a "water lifeline" rate for all ratepayers rather than incurrence of administrative and other program costs associated with the proposed low income tariff. He argues that the proposed plan should be rejected due to its high cost to benefit ratio. (Magruder Reply Brief, at 3.)

We believe EPCOR's proposed low income tariff should be continued for the Sun City Water and Mohave Water districts, and that it should be expanded to the other districts in this proceeding as well. The rate designs adopted in this case include revised low income surcharges for the Sun City Water and Mohave Water districts and establish initial low income surcharges for the Tubac Water and Paradise Valley Water districts to provide recovery of revenues lost due to the low income program. In addition, the Company may defer the revenues lost associated with the Mohave Wastewater District low income program, and may request recovery of the deferred amount in a future rate case.

H. Property Tax Rate

RUCO asserts that the proper property tax ratio to be used in this case is 18.056 percent rather than the 18.5 percent ratio used by the Company. (Ex. R-9, at 45.)

The Company disputes RUCO's assertion and states that the property tax ratio it used reflects the one that will be in use at the time new rates go into effect. (EPCOR Reply Brief at 39, citing to Ex. A-11, at 17.)

We find that the property tax ratio employed by the Company and Staff is reasonable in this case because it reflects the ratio that will be in effect at the time rates become effective, rather than being based on a three-year future average as advocated by RUCO.

I. Accounting Compliance Requirements

RUCO asserts that, given the identification of many accounting errors and multiple iterations of standard plant in service schedules, it is concerned with EPCOR's internal controls over its plant records and recommends the following to address these concerns: (1) EPCOR shall include in all future rate case applications for each of its districts, plant schedules that include plant additions, retirements, and accumulated depreciation balances by year and by NARUC plant account number that reconcile to the prior Commission decision; (2) EPCOR shall file an accounting action plan to correct the lack of internal control over plant schedules and records, within 90 days of a decision in this docket; (3) Adoption of RUCO's recommended rate case expense; and (4) The Commission shall require EPCOR Water Arizona to be audited by an independent external auditing firm for correctness, accuracy, and assurance that internal controls are working. (Ex. R-9, at 54, 57.)

RUCO claims that the Company established a pattern in this case of not providing basic schedules to support its rate case filings which caused delays in the nature, timing, and extent of RUCO's audit. (RUCO Initial Brief, at 44.) RUCO estimates that the Company submitted 15 iterations of its plant schedules in this case, and asserts that the Company is out of compliance with NARUC accounting requirements. RUCO contends that the NARUC USOA and/or Commission rules require: keeping records to support information useful in determining the facts regarding a transaction; distributing the cost of depreciable plant adjusted for net salvage in a rational and systemic manner over the estimated service life of such plant; and giving complete and authentic information as to its properties and operations. (*Id.* at 45-46.)

RUCO also expressed concerns regarding the Company's internal controls regarding all aspects of financial reporting, asserting that the lack of internal controls created significant additional work for the parties and additional expense for ratepayers. (*Id.* at 46.) RUCO recommends that EPCOR be required to file certain plant schedules in future rate cases and to develop an accounting action plan to correct its lack of internal controls. RUCO further proposes that the Commission direct the Company to be audited by an independent external auditing firm to review its accounts for correctness and accuracy, and to determine whether internal controls are in place and working. (*Id.* at 46-47.)

Mr. Magruder also recommends a company-wide audit of EPCOR's financial records.

The Company objects to these proposed requirements (independent audit and accounting action plan). The Company claims it is already audited by an external accounting firm as part of the annual audit of EPCOR Utilities Inc. and that the accounting issues arose as a result of the transition from AAWC to EPCOR.

We believe that the rate application filed by EPCOR showed that there were significant issues not only with prior accounting entries, but with how the application was presented even after the Company effectively refiled its entire case in October 2014. The Company is responsible for addressing these issues prior to its next rate application and we intend to scrutinize the next application to determine if the problems described in this Decision have been addressed. The Company is on notice that it is at risk in future cases for non-recovery of costs related to unsupported accounting entries and plant values.

The Commission has concerns with respect to the accuracy of the Company's accounting and whether the Company's internal controls are in place and effective. Accurate accounting records set the foundation for the Commission to fulfill its fundamental oversight responsibilities. The Commission Staff, and RICO identified numerous errors throughout this rate case filing that required additional time and additional resources to analyze and resolve. Accordingly, we find it appropriate to adopt RUCO's recommendations and require the Company to file an action plan to correct the lack of internal controls over plant schedules and records, within 90 days of a decision in this docket. In addition, EPCOR shall engage an external accounting firm to perform an independent review of the Company's plant records to determine the accuracy and correctness of plant balances and to further determine if the internal controls are sufficient, in place and working. A report detailing the results of this external review shall be filed in this docket on or before May 27, 2016. Finally, the Company shall also be required to have an independent depreciation study performed and file it as part of its application in the Company's next rate case. The costs associated with preparing the action plan, retaining the external accounting firm and the independent depreciation study shall not be passed on to rate payers in a future rate case.

J. <u>Prohibit New Wells in AMA Service Areas</u>

In his Reply Brief, Mr. Magruder raises the question as to whether the Company should be ordered to apply to the Arizona Department of Water Resources to prohibit new exempt wells within EPCOR's service territory. (Magruder Reply Brief, at 15.)

There is no evidence in the record on this issue and, in any event, the argument raises a concern that is beyond the scope of the Commission's authority.

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Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. On March 10, 2014, EPCOR filed 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.

2. On April 4, 2014, Staff issued a Letter of Sufficiency and classified the Company as a Class A utility.

3. Intervention in this proceeding was granted to RUCO, SCVCC, Mr. Magruder, WUAA, the Resorts, PVCC, Delman Eastes, SCHOA, and the Town of Paradise Valley.

4. On April 25, 2014, Mr. Magruder filed 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.

5. On April 28, 2014, a Procedural Order was issued scheduling a hearing for December 2, 2014, establishing various procedural and filing deadlines, and directing the Company to mail and publish notice by May 30, 2014.

6. On May 8, 2014, a Procedural Order was issued with a revised public notice incorporating EPCOR's proposed corrections.

7. On May 28, 2014, RUCO filed a Motion to Compel Discovery and requested an expedited ruling.

8. On June 2, 2014, a Procedural Order was issued denying Mr. Magruder's Motion to Stay and Remand the Rate Case.

9. On June 12, 2014, EPCOR filed an Amendment to Application, as well as an Affidavit of Publication and Certification of Mailing of the customer notice.

10. On July 18, 2014, RUCO filed a Withdrawal of Motion to Compel.

11. On August 14, 2014, Staff filed a Request to Extend the Date for Intervention for Mohave Wastewater customers in recognition of Decision No. 74588, which directed that

consolidation and deconsolidation of the Company's wastewater systems should be considered in Docket No. SW-01303A-09-0343, et al.

12. On August 15, 2014, Staff filed a Supplement to Request to Extend the Date for Intervention. Staff stated that the intervention deadline extension should apply to any person or entity with an interest in the Company's wastewater rates.

13. On August 19, 2014, a Procedural Order was issued granting Staff's Request and extending the intervention deadline to September 19, 2014.

14. On August 20, 2014, RUCO filed a Motion to Continue All Procedural Deadlines, Continue Hearing, and For Tolling of the Rate Case Time Clock. In its Motion, RUCO asserted that the Company's responses to certain of RUCO's data requests had been inadequate and, as a result, RUCO was unable to adequately prepare testimony in this proceeding by the then-current filing deadline (October 3, 2014). RUCO requested that the due date for filing intervenor testimony be extended by 120 days, that all other procedural deadlines and the hearing date be extended accordingly, and that the time clock be extended by 120 days.

15. On August 25, 2014, EPCOR filed a Response to RUCO's Motion to Continue all Procedural Deadlines, Continue Hearing, and for Tolling of the Rate Case Time-Clock. EPCOR claimed that: responding to RUCO's and Staff's data requests had been challenging; that the Company had responded to RUCO's discovery requests through ongoing updated responses; and that some of RUCO's concerns were not discovery issues but were related to positions that were disputed between the parties. EPCOR proposed that the procedural schedule, hearing date, and time clock be extended by no more than 30 days; that a ruling be made that the Company's responses to Staff data requests 1-17 and RUCO data requests 1-11 were complete; and that the Company be directed to respond to all additional data requests in a timely manner, but in no more than 10 days from receipt.

16. On August 28, 2014, RUCO filed a Reply to the Company's Response to RUCO's Motion to Continue all Procedural Deadlines, Continue Hearing, and for Tolling of the Rate Case Time-Clock. RUCO argued that the issues raised in its Motion were not about substantive positions, but rather about discovery responses and supporting information. RUCO claimed that the Company failed to provide useable plant schedules until two and one-half months after being requested, and

that EPCOR had recently provided revised plant schedules for two of the Company's systems. RUCO contended that certain of the depreciation rates used by the Company were previously in error and later corrected through discussions with RUCO. RUCO argued that EPCOR was not prepared to file a rate case for the systems in this proceeding and RUCO should not be denied an opportunity to prepare its case due to the Company's actions.

17. On September 5, 2014, a Procedural Order was issued scheduling a procedural conference for September 16, 2014, to discuss RUCO's Motion. The Procedural Order also scheduled a public comment session in Tubac, Arizona for October 9, 2014, and directed EPCOR to publish notice of the public comment session.

18. On September 9, 2014, a Procedural Order was issued rescheduling the Procedural Conference for September 12, 2014.

19. On September 12, 2014, a Procedural Conference was held, as scheduled, to discuss RUCO's Motion. At the Procedural Conference, it was determined that a further Procedural Conference should be scheduled to discuss progress between the parties regarding disputed discovery issues and setting a revised procedural schedule in this matter.

20. On September 12, 2014, a Procedural Order was issued scheduling a procedural conference for October 15, 2014.

21. On October 14, 2014, EPCOR filed a Notice of Filing Proposed Schedule to continue the December 2, 2014, hearing date to the second week of March 2015. EPCOR also proposed a revised procedural schedule, and stated that Staff and RUCO were in agreement with the proposed schedule.

22. On October 14, 2014, Staff filed a Notice of Settlement Discussions.

23. On October 14, 2014, EPCOR filed Revised Rate Schedules.

24. On October 15, 2014, the Procedural Conference was held as scheduled. All parties in attendance agreed to EPCOR's proposed hearing and procedural schedule.

25. On October 16, 2014, a Procedural Order was issued rescheduling the evidentiary hearing to begin on March 9, 2015; reserving the December 2, 2014, hearing date for public comment only; and extending the applicable time clock in this matter accordingly.

26. On January 26, 2015, Staff filed a Notice of Settlement Discussions.

27. On February 6, 2015, EPCOR filed documents in support of its request for approval of a SIB Mechanism.

28. On March 4, 2015, the Town of Paradise Valley filed a Resolution passed by the Mayor and Council stating that the Town would not be filing testimony regarding the requested rate increase, but that the Town opposes approval of a SIB Mechanism.

29. On March 6, 2015, a pre-hearing conference was held to discuss scheduling of witnesses and other procedural matters.

30. On March 6, 2015, EPCOR filed summaries of its witnesses' testimony.

31. On March 6, 2015, the WUAA filed a Request to be Excused from Attending Hearing to be Held in Connection With This Matter.

32. The evidentiary hearing commenced on March 9, 2015, and continued on March 10, 11, 12, 13, 16, 23, and 25, 2015.

33. On April 6, 2015, EPCOR, Staff, and RUCO filed their Final Schedules.

34. On April 8, 2015, Staff filed the supplemental direct testimony of Mr. Thompson.

35. On April 17, 2015, Initial Closing Briefs were filed by EPCOR, Staff, RUCO, SCVCC, the Resorts, and Mr. Magruder.

36. On April 30, 2015, Reply Briefs were filed by EPCOR, Staff, RUCO, and Mr. Magruder.

37. The fair value rate base of the Mohave Water District is $22,413,566.

38. The fair value rate base of the Mohave Wastewater District is $4,921,308.

39. The fair value rate base of the Paradise Valley Water District is $38,489,709.

40. The fair value rate base of the Sun City Water District is $25,756,018.

41. The fair value rate base of the Tubac Water District is $1,329,355.

42. A fair value rate of return for the Mohave Water, Paradise Valley Water, Sun City Water, and Mohave Wastewater districts of 6.38 percent is reasonable and appropriate for purposes of setting rates in this case.

43. A fair value rate of return for the Tubac Water District of 6.28 percent is reasonable and appropriate for purposes of setting rates in this case.

44. Adjusted test year revenues, expenses, and operating income on an individual system basis were as follows: $6,354,293, $5,947,013, and $407,280, respectively, for Mohave Water; $1,055,839, $977,099, and $78,739, respectively, for Mohave Wastewater; $9,648,251, $7,389,229, and $2,260,022, respectively, for Paradise Valley Water; $10,265,553, $9,319,076, and $946,477, respectively, for Sun City Water; and $579,194, $644,608, and $(65,414), respectively, for Tubac Water.

45. The rate design as adopted herein is just and reasonable.

46. The gross revenues of the Mohave Water District should increase by $1,688,513.

47. Under the rates adopted herein, an average usage (6,800 gallons per month) Mohave Water residential customer on a 5/8 x 3/4-inch meter would experience an increase of $7.21, approximately 34.97 percent, from $20.63 to $27.85.

48. The gross revenues of the Mohave Wastewater District should increase by $388,011.

49. Under the rates adopted herein, in Phase 1 Mohave Wastewater residential customers would experience an increase of $7.29, approximately 12.89 percent, from $56.55 to $63.84. In Phases 2 and 3, the same customer would experience additional increases of $7.23 and $7.46, respectively.

50. The gross revenues of the Paradise Valley Water District should increase by $319,746.

51. Under the rates adopted herein, an average usage (19,271 gallons per month) Paradise Valley Water residential customer on a 5/8 x 3/4-inch meter would experience an increase of $2.68, approximately 5.12 percent, from $52.30 to $54.98.

52. The gross revenues of the Sun City Water District should increase by $1,143,114.

53. Under the rates adopted herein, an average usage (7,203 gallons per month) Sun City Water residential customer on a 5/8 x 3/4-inch meter would experience an increase of $2.67, approximately 15.40 percent, from $17.36 to $20.03.

54. The gross revenues of the Tubac Water District should increase by $244,840.

55. Under the rates adopted herein, in Phase 1 an average usage (8,348 gallons per month) Tubac Water residential customer on a 5/8 x 3/4-inch meter would experience an increase of $17.53, approximately 37.74 percent, from $46.44 to $63.97. In Phases 2 and 3, the same customer would experience additional increases of $8.03 and $8.15, respectively.

56. To reduce future concerns over accumulated depreciation balances, it is reasonable and appropriate to require EPCOR to file documentation with Docket Control explaining any significant transactions (more than 25 basis points of a District's rate base) it records to adjust its plant records and accumulated depreciation in compliance with Commission decisions.

57. To mitigate future development of either excess credit accumulated depreciation balances or debit balances, it is reasonable and appropriate to direct EPCOR to evaluate, in a cost effective manner, the depreciation rates it proposes for the next rate case for each Division.

58. It is reasonable and appropriate to direct EPCOR to file a rate case for all of its systems by no later than July 1, 2018, using a 2017 test year, and include in the application rate consolidation options (e.g., statewide, regional, other rational basis) as an alternative to treating all of the systems as independent.

59. With respect to the tank maintenance program for the Paradise Valley Water District, it is reasonable and appropriate to require EPCOR to prepare a Plan of Administration, in a form acceptable to Staff, within 60 days of the effective date of this Decision.

60. With respect to the Power Cost Adjustor Mechanism, it is reasonable and appropriate to require EPCOR to implement a Plan of Administration, in a form acceptable to Staff, within 60 days of the effective date of this Decision.

61. With respect to additional storage for the Tubac Water District, it is reasonable and appropriate to require EPCOR to conduct a hydraulic study as soon as possible, and within 90 days file its recommendation regarding the need for additional storage with Docket Control, as a compliance item in this docket.

62. It is reasonable and appropriate to approve the Company's proposed low income tariffs and to allow deferral of lost revenues associated with the program in the Mohave Wastewater District for recovery in its next rate case.

63. It is reasonable and appropriate to approve the Company's proposed SIB mechanism, subject to the conditions and requirements discussed herein.

64. In light of the Court of Appeals' recent decision on August 18, 2015, which vacated the Commission's approval of the SIB mechanism, the implementation of the SIB mechanism is stayed, pending the outcome of any future ruling.

CONCLUSIONS OF LAW

1. EPCOR is a public service corporation pursuant to Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over EPCOR and the subject matter of the application.

3. Notice of the proceeding was provided in conformance with law.

4. The fair value of EPCOR's Mohave Water District rate base is $22,413,566, and applying a 6.38 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

5. The fair value of EPCOR's Mohave Wastewater District rate base is $4,921,308, and applying a 6.38 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

6. The fair value of EPCOR's Paradise Valley Water District rate base is $38,489,709, and applying a 6.38 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

7. The fair value of EPCOR's Sun City Water District rate base is $25,756,018, and applying a 6.38 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

8. The fair value of EPCOR's Tubac Water District rate base is $1,329,355, and applying a 6.28 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

9. The rates and charges approved herein are reasonable.

ORDER

IT IS THEREFORE ORDERED that EPCOR Water Arizona, Inc. is hereby authorized and directed to file with the Commission, on or before September 15, 2015, the schedules of rates and charges set forth below, which shall become effective for all service rendered on or after September 1, 2015.

MOHAVE WATER DISTRICT

MONTHLY USAGE CHARGE:	
5/8" x ¾" Meter-Residential Low Income	$ 8.77
5/8" x ¾" Meter	14.61
¾" Meter	16.88
¾" Meter –Apartment	16.88
1" Meter*	36.53
1 ½" Meter	73.05
2" Meter	116.88
3" Meter	233.76
4" Meter	365.25
6" Meter	730.50
8" Meter	1,168.80
10" Meter	1,680.15
12" Meter	3,141.15
BHC Veterans Memorial	14.61
Fire 2"	6.08
Fire 4"	12.16
Fire 6"	18.24
Fire 8"	24.32
Fire 10"	30.40
Private Hydrant	14.98
Public Hydrant	14.98
Public Sprinkler Head	0.89

COMMODITY RATES-PER 1,000 GALLONS:	
5/8 x ¾" & ¾" Meter (Residential)*	
First 3,000 Gallons	$1.41
From 3,001 to 10,000 Gallons	2.37
Over 10,000 Gallons	3.24
5/8 x ¾" & ¾" Meter (Com. & Ind.)	
First 3,000 Gallons	$1.41
From 3,001 to 10,000 Gallons	2.37
Over 10,000 Gallons	3.24

¾" Meter (Apartment)	
First 3,000 Gallons	$1.41
From 3,001 to 10,000 Gallons	2.37
Over 10,000 Gallons	3.24
1" Meter (Res*, Apt. Com & Ind.)	
First 25,000 Gallons	2.37
Over 25,000 Gallons	3.24
1 1/2" Meter (Res*, Apt. Com & Ind.)	
First 50,000 Gallons	2.37
Over 50,000 Gallons	3.24
2" Meter (Res*, Apt. Com & Ind.)	
First 80,000 Gallons	2.37
Over 80,000 Gallons	3.24
3" Meter (Res*, Apt. Com & Ind.)	
First 170,000 Gallons	2.37
Over 170,000 Gallons	3.24
4" Meter (Res*, Apt. Com & Ind.)	
First 250,000 Gallons	2.37
Over 250,000 Gallons	3.24
6" Meter (Res*, Apt. Com & Ind.)	
First 450,000 Gallons	2.37
Over 450,000 Gallons	3.24
8" Meter (Res*, Apt. Com & Ind.)	
First 750,000 Gallons	2.37
Over 750,000 Gallons	3.24
10" Meter (Res*, Apt. Com & Ind.)	
First 1,000,000 Gallons	2.37
Over 1,000,000 Gallons	3.24
12" Meter (Res*, Apt. Com & Ind.)	
First 2,100,000 Gallons	2.37
Over 2,100,000 Gallons	3.24
BHC Veterans Memorial	
First 10,000 Gallons	2.37
Over 10,000 Gallons	3.24
OPA (All Meters)	
All Gallons	2.37

Low Income Surcharge**	$0.05460

*Includes Rio Residential Customers

**The surcharge will be added to the highest block commodity rate (residential, apartment, industrial and commercial customers only), and will change upon the Company's annual reconciliation of number of participants and top tier usages.

SERVICE CHARGES:

Establishment or Re-establishment of Service	$35.00
Reconnection of Service (Delinquent)	35.00
Meter Test (If Correct)	35.00
Meter Reread (If Correct)	25.00
Deposit Requirement (Residential)	(a)
Deposit Requirement (non-res. Meter)	(a)
Deposit Interest	(a)
NSF Check	25.00
Deferred Payment, Per Month	1.5% per month
Late Charge, Per Month	1.5% per month
After Hours Service Charge (b)	35.00

(a) Per Commission Rules (R14-2-403.B)
(b) After Hours Service: After regular working hours, on Saturdays, Sundays or holidays if at the customer's request.

SERVICE LINE AND METER INSTALLATION CHARGES:

	Service Line	Meter	Total
5/8" x ¾ " Meter	$ 370.00	$ 130.00	$ 500.00
3/4 " Meter	370.00	205.00	575.00
1" Meter	420.00	240.00	660.00
1-1/2" Meter	450.00	450.00	900.00
2" Turbine Meter	580.00	945.00	1,525.00
2" Compound Meter	580.00	1,640.00	2,220.00
3" Turbine Meter	745.00	1,420.00	2,165.00
3" Compound Meter	465.00	2,195.00	2,660.00
4" Turbine Meter	1,090.00	2,270.00	3,360.00
4" Compound Meter	1,120.00	3,145.00	4,265.00
6" Turbine Meter	1,610.00	4,425.00	6,035.00
6" Compound Meter	1,630.00	6,120.00	7,750.00
8" or Larger	Cost	Cost	Cost

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use and franchise tax. Per Commission Rule 14-2-409(D)(5).

PARADISE VALLEY WATER DISTRICT

MONTHLY USAGE CHARGE:

Meter Size (All Classes)	
5/8" x ¾" Meter Residential Low Income	$16.19
5/8" x ¾" Meter	26.98
¾" Meter	29.68
1" Meter	50.90

1 ½" Meter	91.63
2" Meter	142.53
3" Meter	300.21
4" Meter	469.33
6" Meter	941.16
8" Meter	2,271.94
10" Meter	3,266.74
12" Meter	6,106.41

COMMODITY RATES-PER 1,000 GALLONS:

2" and smaller (Residential)	
First 5,000 Gallons	$1.08
From 5,001 to 15,000 Gallons	1.29
From 15,001 to 40,000 Gallons	2.27
From 40,001 to 80,000 Gallons	2.85
Over 80,000 Gallons	3.34
3" and larger (Residential)	
First 400,000 Gallons	2.01
Over 400,000 Gallons	2.40
All Meters (Comm. And Industrial)	
First 400,000 Gallons	2.01
Over 400,000 Gallons	2.40
Turf – All Gallons	1.74
Other Public Authority – All Gallons	2.01
PV Country Club – All Gallons	1.62
Private Fire Protection	10.00
Low Income Surcharge*	$0.0084

*The surcharge will be added to the highest block commodity rate (residential, apartment, individual and commercial customers only), and will change upon the Company's annual reconciliation of number of participants and top tier usage.

SERVICE CHARGES:

Establishment or Re-establishment of Service	$35.00
Reconnection of Service (Delinquent)	35.00
Meter Test (If Correct)	35.00
Meter Reread (If Correct)	25.00
Deposit Requirement (Residential)	(a)
Deposit Requirement (non-res. Meter)	(a)
Deposit Interest	(a)
NSF Check	25.00
Deferred Payment, Per Month	1.5%

Late Charge, Per Month	1.5%
After Hours Service Charge (b)	35.00

(a) Per Commission Rules (R14-2-403.B)
(b) After Hours Service: After regular working hours, on Saturdays, Sundays or holidays if the customer's request.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use and franchise tax. Per Commission Rule 14-2-409(D)(5).

SERVICE LINE AND METER INSTALLATION CHARGES:

	Service Line	Meter	Total
5/8" x ¾ " Meter	$ 445.00	$ 155.00	$ 600.00
3/4 " Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2" Meter	830.00	1,045.00	1,875.00
3" Meter	Cost	Cost	Cost
4" Meter	Cost	Cost	Cost
6"TurbineMeter	Cost	Cost	Cost
6" or Larger	Cost	Cost	Cost

SUN CITY WATER DISTRICT

MONTHLY USAGE CHARGE:

5/8" x ¾" Meter-Residential Low Income	$6.01
5/8" x ¾" Meter	10.02
¾" Meter	11.50
1" Meter	25.00
1 ½" Meter	50.10
2" Meter	80.20
3" Meter	160.40
4" Meter	250.60
6" Meter	501.20
8" Meter	801.90
Public Interruptible – Peoria	10.09
Irrigation – 2"	85.80
Irrigation – Raw	N/A
Private Fire 3"	10.91
Private Fire 4"	10.91
Private Fire 6"	10.91
Private Fire 8"	15.72
Private Fire 10"	22.59
Private Fire – Peoria	9.22

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COMMODITY RATES-PER 1,000 GALLONS:

5/8 x ¾", ¾", & 1" Meter (Residential)	
First 1,000 Gallons	$0.74
From 1,001 to 3,000 Gallons	1.08
From 3001 to 9,000 Gallons	1.69
From 9,001 to 12,000 Gallons	1.92
Over 12,000 Gallons	2.16
5/8 x ¾" & ¾" Meter (Commercial)	
First 1,000 Gallons	$0.74
From 1,001 to 3,000 Gallons	1.08
From 3001 to 9,000 Gallons	1.69
From 9,001 to 12,000 Gallons	1.92
Over 12,000 Gallons	2.16
1" Meter (Commercial)	
First 22,000 Gallons	1.69
Over 22,000 Gallons	2.16
1 1/2" Meter (Residential & Commercial)	
First 55,000 Gallons	$1.69
Over 55,000 Gallons	2.16
2" Meter (Residential & Commercial)	
First 90,000 Gallons	1.69
Over 90,000 Gallons	2.16
3" Meter (Residential & Commercial)	
First 200,000 Gallons	1.69
Over 200,000 Gallons	2.16
4" Meter (Residential & Commercial)	
First 300,000 Gallons	1.69
Over 300,000 Gallons	2.16
6" Meter (Residential & Commercial)	
First 650,000 Gallons	1.69
Over 650,000 Gallons	2.16
8" Meter (Residential & Commercial)	
First 1,000,000 Gallons	1.69
Over 1,000,000 Gallons	2.16
Public Interruptible – all usage	1.26

2" Irrigation – all usage	1.46
Irrigation Raw – all usage	1.21
Private Hydrant – Peoria – all usage	1.31
Central AZ Project – all usage	1.03
Low Income Surcharge*	$0.0209

*The surcharge will be added to the highest block commodity rate (residential, apartment, individual and commercial customers only), and will charge upon the Company's annual reconciliation of number of participants and top tier usage.

SERVICE CHARGES:

Establishment or Re-establishment of Service	$35.00
Reconnection of Service (Delinquent)	35.00
Meter Test (If Correct)	35.00
Meter Reread (If Correct)	25.00
Deposit Requirement (Residential)	(a)
Deposit Requirement (non-res. Meter)	(a)
Deposit Interest	(a)
NSF Check	25.00
Deferred Payment, Per Month	1.5%
Late Charge, Per Month	1.5%
After Hours Service Charge (b)	35.00

(a) Per Commission Rules (R14-2-403.B)
(b) After Hours Service: After regular working hours, on Saturdays, Sundays or holidays if at the customer's request.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use and franchise tax. Per Commission Rule 14-2-409(D)(5).

SERVICE LINE AND METER INSTALLATION CHARGES:

	Service Line	Meter	Total
5/8" x ¾ " Meter	$ 370.00	$ 130.00	$ 500.00
3/4 " Meter	370.00	205.00	575.00
1" Meter	420.00	240.00	660.00
1-1/2" Meter	450.00	450.00	900.00
2" Turbine Meter	580.00	945.00	1,525.00
2" Compound Meter	580.00	1,640.00	2,220.00
3" Turbine Meter	745.00	1,420.00	2,165.00
3" Compound Meter	765.00	2,195.00	2,660.00
4" Turbine Meter	1,090.00	2,270.00	3,360.00
4" Compound Meter	1,120.00	3,145.00	4,265.00
6" Turbine Meter	1,610.00	4,425.00	6,035.00
6" Compound Meter	1,630.00	6,120.00	7,750.00
8" or Larger	Cost	Cost	Cost

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TUBAC WATER DISTRICT

MONTHLY USAGE CHARGE:	**PHASE 1**	**PHASE 2**	**PHASE 3**
5/8" x ¾" Meter – Residential Low Income	$18.85	$21.23	$23.62
5/8" x ¾" Meter	31.42	35.38	39.37
¾" Meter	34.63	38.98	43.38
1" Meter	78.67	88.56	98.56
1 ½" Meter	157.07	176.86	196.85
2" Meter	251.31	282.98	314.97
3" Meter	502.63	565.97	629.93
4" Meter	785.36	884.33	984.27
6" Meter	1,570.97	1,768.91	1,968.79
8" Meter	2,513.42	2,830.11	3,149.92
10" Meter	3,613.18	4,068.43	4,528.16
12" Meter	6,754.88	7,606.00	8,465.50

COMMODITY RATES – PER 1,000 GALLONS:			
5/8 x ¾" & ¾" Meter (Residential and Commercial)*			
First 3,000 Gallons	$2.74	$3.08	$3.43
From 3,001 to 10,000 Gallons	4.55	5.12	5.70
From 10,001 to 20,000Gallons	5.44	6.13	6.82
Over 20,000 Gallons	6.24	7.03	7.82
1" Meter (Res. & Com.)			
First 60,000 Gallons	5.44	6.13	6.82
Over 60,000 Gallons	6.24	7.03	7.82
1 1/2" Meter (Res. & Comm.)			
First 120,000 Gallons	5.44	6.13	6.82
Over 120,000 Gallons	6.24	7.03	7.82
2" Meter (Res. & Comm.)			
First 180,000 Gallons	5.44	6.13	6.82
Over 180,000 Gallons	6.24	7.03	7.82
3" Meter (Res. & Comm.)			
First 390,000 Gallons	5.44	6.13	6.82
Over 390,000 Gallons	6.24	7.03	7.82
4" Meter (Res. & Comm.)			
First 575,000 Gallons	5.44	6.13	6.82
Over 575,000 Gallons	6.24	7.03	7.82
6" Meter (Res. & Comm.)			
First 1,200,000 Gallons	5.44	6.13	6.82
Over 1,200,000 Gallons	6.24	7.03	7.82

8" Meter (Res. & Comm.)			
First 1,800,000 Gallons	5.44	6.13	6.82
Over 1,800,000 Gallons	6.24	7.03	7.82
10" Meter (Res. & Comm.)			
First 2,500,000 Gallons	5.44	6.13	6.82
Over 2,500,000 Gallons	6.24	7.03	7.82
12" Meter (Res. & Comm.)			
First 5,000,000 Gallons	5.44	6.13	6.82
Over 5,000,000 Gallons	6.24	7.03	7.82

Low Income Surcharge* $0.5503

Arsenic Media Surcharge (36 months)**

Meter Size	AWWA Capacity Multiples	Monthly Minimum Charge
5/8" Meter	1	$1.77
3/4" Meter	1.5	2.66
1" Meter	2.5	4.43
1 ½" Meter	5	8.85
2" Meter	8	14.16
3" Meter	16	28.32
4" Meter	25	44.25
6" Meter	50	88.50
8" Meter	80	141.60
10" Meter	115	203.55
12" Meter	215	380.55
Commodity Rate Per 1,000 gallons (all gallons)		0.23

*The surcharge will be added to the highest block commodity rate (residential, apartment, individual and commercial customers only), and will charge upon the Company's annual reconciliation of number of participants and top tier usage.

** The Arsenic Media Surcharge will be recovered 50 percent through a monthly minimum and 50 percent through a commodity charge. For 5/8" x 3/4" meters, the monthly minimum is $1.77, with other meter sizes calculated by applying the AWWA meter capacity multiples. The commodity charge is $0.23 per thousand gallons for all meter sizes.

SERVICE CHARGES:

Establishment or Re-establishment of Service	$35.00
Reconnection of Service (Delinquent)	35.00
Meter Test (If Correct)	35.00
Meter Reread (If Correct)	25.00
Deposit Requirement (Residential)	(a)
Deposit Requirement (non-res. Meter)	(a)
Deposit Interest	(a)
NSF Check	25.00

Deferred Payment, Per Month	1.5%
Late Charge, Per Month	1.5%
After Hours Service Charge (b)	35.00

(a)Per Commission Rules (R14-2-403.B)
(b)After Hours Service: After regular working hours, on Saturdays, Sundays or holidays if at the customer's request.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use and franchise tax. Per Commission Rule 14-2-409(D)(5).

SERVICE LINE AND METER INSTALLATION CHARGES:

	Service Line	Meter	Total
5/8" x ¾ " Meter	$ 445.00	$ 155.00	$ 600.00
3/4 " Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2" Turbine Meter	830.00	1,045.00	1,875.00
2" Compound Meter	830.00	1,890.00	2,720.00
3" Turbine Meter	Cost	Cost	Cost
3" Compound Meter	Cost	Cost	Cost
4" Turbine Meter	Cost	Cost	Cost
4" Compound Meter	Cost	Cost	Cost
6" Turbine Meter	Cost	Cost	Cost
6" Compound Meter	Cost	Cost	Cost
8" or Larger	Cost	Cost	Cost

MOHAVE WASTEWATER DISTRICT

MONTHLY USAGE CHARGE:	**PHASE 1**	**PHASE 2**	**PHASE 3**
Residential (per ERU)	$63.84	$71.07	$78.53
Commercial (per ERU)	63.84	71.07	78.53
OPA (Per ERU)	63.84	71.07	78.53
Large Commercial	82.29	91.61	101.23

COMMODITY CHARGES – PER 1,000 GALLONS:			
Residential (per ERU)	N/A		
Commercial (per ERU)	N/A		
OPA (Per ERU)	N/A		
Large Commercial	$2.57	$2.87	$3.17

EFFLUENT (PER ACRE FOOT)	
0 to 24	$227.79
25 to 99	227.79
100 to 199	227.79
200 and above	227.79

SERVICE CHARGES:	
Establishment or Re-establishment of Service	$35.00
Reconnection of Service (Delinquent)	35.00

Deposit	(a)
Deposit Interest	(a)
NSF Check	$25.00
Deferred Payment (per month)	1.5%
Late Payment Fee (per month)	1.5%
After hour service charge (b)	$35.00

(a) Per Commission Rules R14-2-603.B
(b) After Hours Service: After regular working hours, on Saturday, Sunday or holidays if at the customer's request.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use and franchise tax. Per Commission Rule 14-2-609(D)(5).

SERVICE LINE CONNECTION CHARGES:

Residential	Cost
Commercial	Cost
School	Cost
Multiple Dwelling	Cost
Mobile Home Park	Cost
Effluent	Cost

TREATMENT PLANT HOOK-UP FEE:

4" Connection	$785.00
6" Connection	1,570.00
8" Connection	2,748.00

IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc. shall notify its affected customers of the revised schedules of rates and charges authorized herein by means of an insert in its next regularly scheduled billing in a form and manner acceptable to the Commission's Utilities Division Staff.

IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc. shall evaluate, in a cost effective manner, the depreciation rates it proposes for the next rate case for each of its districts.

IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc. shall file documentation with Docket Control explaining any significant transactions (more than 25 basis points of a District's rate base) it records to adjust its plant records and accumulated depreciation in compliance with Commission decisions. This requirement will cease upon the issuance of a Decision in the next general rate cases for each of the Divisions in this proceeding.

IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc. shall prepare a Plan of

Administration regarding its tank maintenance program for the Paradise Valley Water District, in a form acceptable to Staff, and file the Plan of Administration within 60 days of the effective date of this Decision, with Docket Control, as a compliance item in this docket.

IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc. shall prepare a Plan of Administration regarding the Power Cost Adjustor Mechanism, in a form acceptable to Staff, and file the Plan of Administration within 60 days of the effective date of this Decision, with Docket Control, as a compliance item in this docket.

IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc. shall evaluate, in a cost effective manner, the depreciation rates it proposes for the next rate case for each Division.

IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc. shall file a rate case for all of its systems by no later than July 1, 2018, using a 2017 test year, and include in the application rate consolidation options as an alternative to treating all of the systems as independent.

IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc.'s proposed low income tariffs are approved. The Company is authorized to defer revenues lost associated with the Mohave Wastewater District low income program and may request recovery of the deferred amount in its next rate case.

IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc.'s proposed SIB mechanism is approved, subject to the conditions and requirements discussed herein.

IT IS FURTHER ORDERED that the implementation of the proposed SIB mechanism is stayed pending further order of the Commission.

IT IS FURTHER ORDERED that the depreciation rates set forth in Exhibits A through E, attached hereto, are adopted.

IT IS FURTHER ORDERED that in the event EPCOR Water Arizona, Inc. places any plant-in service in the accounts referenced in Footnote 1 of Exhibits A through E, attached hereto, the Company is directed to file an application proposing a depreciation rate for such accounts, and Staff shall prepare a Recommended Order for the Commission's consideration that proposes an appropriate depreciation rate for those accounts to be effective beginning with the plant in-service date.

IT IS FURTHER ORDERED that, with respect to the Paradise Valley tank maintenance program, EPCOR Water Arizona, Inc. shall: file annual reports regarding the tank maintenance costs; include a true-up for over- or under- recovery of actual costs compared to projections; and prepare a Plan of Administration, in a form acceptable to Staff, within 60 days of the effective date of this Decision.

IT IS FURTHER ORDERED that EPCOR Water Arizona, Inc. shall conduct a hydraulic study as soon as possible regarding the need for additional storage for the Tubac Water District, and within 180 days file its recommendation regarding the need for additional storage with Docket Control, as a compliance item in this docket.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 8th day of September, 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT

DISSENT ____________________

DDN:dp

SERVICE LIST FOR: EPCOR WATER COMPANY

DOCKET NO.: WS-01303A-14-0010

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EPCOR Water Arizona, Inc.

Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

Exhibit A

DOCKET NO. WS-01303A-14-0010

MOHAVE WATER

Line No.	Account No.	Description	Depreciation Rate	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Before Conversion	[4] A/D Before Conversion	[5] Debit A/D Converted to Reg. Asset	[6] Excess A/D Converted Reg. Liability	[7] Adopted Original Cost Plant	[8] Adopted Accumulated Depreciation	[9] Depreciation Expense
1		**Intangible**										
2	301000	Organization	0.000%	$ 34,004	$ -	$ 34,004	$ -	$ -	$ -	$ 34,004	$ -	$ -
3	302000	Franchises	0.000%	37,061	-	37,061	-	-	-	37,061	-	-
4	303100	Other Intangible Plant	0.000%	-	-	-	-	-	-	-	-	-
5		**Subtotal Intangible**		$ 71,064	$ -	$ 71,064	$ -	$ -	$ -	$ 71,064	$ -	$ -
6												
7		**Source of Supply & Pumping Plant**										
8	303200	Land and Land Rights - Supply	0.000%	$ 528,700	$ -	$ 528,700	$ -	$ -	$ -	$ 528,700	$ -	$ -
9	303300	Land and Land Rights - Pumpir	0.000%	2,351	(10)	2,351	(10)	10	-	2,351	-	-
10	304100	Structures and Improvements -	2.500%	475,826	220,832	475,826	220,832	-	-	475,826	220,832	11,896
11	304200	Structures and Improvements -	2.000%	31,201	(225)	31,201	(225)	225	-	31,201	-	624
12	305000	Collecting and Impounding Res	1.667%	663,944	261,543	663,944	261,543	-	-	663,944	261,543	11,066
13	306000	Lakes, Rivers, Other Intakes	0.000%	-	-	-	-	-	-	-	-	-
14	307000	Wells and Springs	2.500%	6,542,946	544,596	6,542,946	544,596	-	-	6,542,946	544,596	163,574
15	308000	Infiltration Galleries and Tunnel	0.000%	-	-	-	-	-	-	-	-	-
16	309000	Supply Mains	1.667%	93,481	5,717	93,481	5,717	-	-	93,481	5,717	1,558
17	310000	Power Generation Equipment	3.333%	50,355	15,586	50,355	15,586	-	-	50,355	15,586	1,679
18	310100	Power Generation Other	3.333%	-	-	-	-	-	-	-	-	-
19	311000	Pumping Equipment - Steam	4.000%	409,521	11,448	409,521	11,448	-	-	409,521	11,448	16,381
20	311100	Pumping Equipment - Other	4.000%	-	-	-	-	-	-	-	-	-
21	311200	Pumping Equipment - Electric	4.000%	2,782,895	1,852,565	2,782,895	1,852,565	-	-	2,782,895	1,852,565	111,316
22	311300	Pumping Equipment - Diesel	4.000%	-	-	-	-	-	-	-	-	-
23	311400	Pumping Equipment - Hydrauli	4.000%	-	-	-	-	-	-	-	-	-
24	311500	Pumping Equipment - Other	4.000%	1,009	270	1,009	270	-	-	1,009	270	40
25	311530	Pumping Equipment - Water Tı	4.000%	-	-	-	-	-	-	-	-	-
26		**Subtotal Source of Supply & Pumping Plant**		$ 11,582,230	$ 2,912,321	$ 11,582,230	$ 2,912,321	$ 235	$ -	$ 11,582,230	$ 2,912,556	$ 318,133
27												
28		**Water Treatment**										
29	303400	Land and Land Rights - Treatm	0.000%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
30	304300	Structures and Improvements -	2.000%	47,846	19,748	47,846	19,748	-	-	47,846	19,748	957
31	320000	Water Treatment Plant	0.000%	-	-	-	-	-	-	-	-	-
32	320100	Water Treatment Equipment - N	5.000%	96,932	117,495	96,932	117,495	-	(20,563)	96,932	96,932	4,847
33	320200	Water Treatment Equipment - N	10.000%	360,547	18,027	360,547	18,027	-	-	360,547	18,027	36,055
34		**Subtotal Water Treatment**		$ 505,325	$ 155,271	$ 505,325	$ 155,271	$ -	$ (20,563)	$ 505,325	$ 134,708	$ 41,858

DECISION NO. 75268

DOCKET NO. WS-01303A-14-0010

EPCOR Water Arizona, Inc.

Exhibit A

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Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

MOHAVE WATER

Line No.	Account No.	Description	Depreciation Rate	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Before Conversion	[4] A/D Before Conversion	[5] Debit A/D Converted to Reg. Asset	[6] Excess A/D Converted Reg. Liability	[7] Adopted Original Cost Plant	[8] Adopted Accumulated Depreciation	[9] Depreciation Expense
1		**Transmission and Distribution Plant**										
2	303500	Land and Land Rights - T&D	0.000%	$ 9,609	$ -	$ 9,609	$ -	$ -	$ -	$ 9,609	$ -	$ -
3	304400	Structures and Improvements -	2.000%	43,546	6,097	43,546	6,097	-	-	43,546	6,097	871
4	330000	Distribution Reservoirs & Stand	1.538%	2,832,819	627,010	2,832,819	627,010	-	-	2,832,819	627,010	43,582
5	330100	Elevated Tank & Standpipes	1.538%	-	3,569	-	3,569	-	(3,569)	-	-	-
6	330200	Ground Level Tanks	1.538%	-	-	-	-	-	-	-	-	-
7	330300	Below Ground Tanks	0.000%	-	-	-	-	-	-	-	-	-
8	331001	T&D Mains Not Classified	2.000%	269,444	5,719	269,444	5,719	-	-	269,444	5,719	5,389
9	331100	T&D Mains 4in & less	1.429%	12,008,818	6,473,604	12,008,818	6,473,604	-	-	12,008,818	6,473,604	171,555
10	331200	T&D Mains 6in to 8in	1.429%	3,693,499	492,852	3,693,499	492,852	-	-	3,693,499	492,852	52,764
11	331300	T&D Mains 10in to 16in	1.429%	1,484,810	52,751	1,484,810	52,751	-	-	1,484,810	52,751	21,212
12	331400	TD Mains 18in & Grtr	1.429%	76,265	6,813	76,265	6,813	-	-	76,265	6,813	1,089
13	332000	Fire Mains	1.429%	-	-	-	-	-	-	-	-	-
17	333000	Services	2.500%	$ 7,853,908	$ 2,767,241	$ 7,853,908	$ 2,767,241	$ -	$ -	$ 7,853,908	$ 2,767,241	$ 196,348
18	334100	Meters	8.333%	2,638,552	827,982	2,638,552	827,982	-	-	2,638,552	827,982	219,879
19	334200	Meter Installations	2.500%	276,354	96,672	276,354	96,672	-	-	276,354	96,672	6,909
20	334300	Meter Vaults	2.500%	-	-	-	-	-	-	-	-	-
21	335000	Hydrants	2.000%	185,402	12,554	185,402	12,554	-	-	185,402	12,554	3,708
22	335100	Hydrants Replaced	2.000%			-	-	-	-	-	-	-
23	336000	Backflow Prevention Devices	6.670%	-	-	-	-	-	-	-	-	-
24	339100	Other P/E-Intangible	0.000%	-	-	-	-	-	-	-	-	-
25	339200	Other P/E-Supply	3.333%	82,583	9,128	82,583	9,128	-	-	82,583	9,128	2,753
26	339500	Other P/E-TD	3.333%	-	-	-	-	-	-	-	-	-
27	339600	Other P/E-CPS	3.333%	186,826	32,654	186,826	32,654	-	-	186,826	32,654	6,228
28		Subtotal Transmission and Distribution Plant		$ 31,642,436	$ 11,414,646	$ 31,642,436	$ 11,414,646	$ -	$ (3,569)	$ 31,642,436	$ 11,411,077	$ 732,286
29												
30		**General Plant**										
31	303600	Land and Land Rights	0.000%	$ 47,358	$ -	$ 47,358	$ -	$ -	$ -	$ 47,358	$ -	$ -
32	304500	Structures and Improvements -	2.500%	43,231	4,016	43,231	4,016	-	-	43,231	4,016	1,081
33	304600	Structures and Improvements -	2.500%	449,617	137,766	449,617	137,766	-	-	449,617	137,766	11,240
34	304620	Structures and Improvements -	0.000%	-	-	-	-	-	-	-	-	-
35	304700	Structures and Improvements -	2.500%	29,223	13,582	29,223	13,582	-	-	29,223	13,582	731
36	304800	Structures and Improvements -	2.500%	-	-	-	-	-	-	-	-	-
37	340100	Office Furniture & Equipment	4.500%	101,669	(5,919)	101,669	(5,919)	5,919	-	101,669	-	4,575
38	340200	Computers & Software	10.000%	109,956	(254,621)	109,956	(254,621)	254,621	-	109,956	-	10,996
39	340300	Computer Software	20.000%	3,521	1,468	3,521	1,468	-	-	3,521	1,468	704
40	340310	Computer Software Mainframe	20.000%	-	-	-	-	-	-	-	-	-
41	340325	Computer Software Customizer	20.000%	-	-	-	-	-	-	-	-	-
42	340330	Computer Software Other	20.000%	-	-	-	-	-	-	-	-	-
43	340500	Other Office Equipment	6.667%	-	-	-	-	-	-	-	-	-
44	341100	Transportation Equip Light Duty	20.000%	99,015	808,721	99,015	808,721	-	(709,706)	99,015	99,015	19,803
45	341200	Transportation Equip Heavy Du	14.286%	72,088	29,241	72,088	29,241	-	-	72,088	29,241	10,298
46	341300	Transportation Equipment Auto	0.000%	-	-	-	-	-	-	-	-	-
47	341400	Transportation Equipment Othe	16.667%	59,848	18,023	59,848	18,023	-	-	59,848	18,023	9,975
48	342000	Stores Equipment	4.000%	1,420	1,529	1,420	1,529	-	(109)	1,420	1,420	57
49	343000	Tools and Work Equipment	4.000%	221,156	209,262	221,156	209,262	-	-	221,156	209,262	8,846
50	344000	Laboratory Equipment	4.000%	7,623	9,781	7,623	9,781	-	(2,158)	7,623	7,623	305
51	345000	Power Operated Equipment	5.000%	171,959	192,293	171,959	192,293	-	(20,334)	171,959	171,959	8,598
52	346100	Communication Equipment Nor	10.000%	188,877	86,199	188,877	86,199	-	-	188,877	86,199	18,888
53	346190	Remote Control & Instrument	10.000%	880,737	44,939	880,737	44,939	-	-	880,737	44,939	88,074
54	346200	Communication Equipment Tel	10.000%	-	(10,833)	-	(10,833)	10,833	-	-	-	-
55	346300	Communication Equipment Oth	10.000%	5,111	(6,235)	5,111	(6,235)	6,235	-	5,111	-	511
56	347000	Structures and Improvements -	6.250%	-	-	-	-	-	-	-	-	-
57	348000	Structures and Improvements -	0.000%	-	-	-	-	-	-	-	-	-
58		**Subtotal General Plant**		$ 2,492,409	$ 1,279,211	$ 2,492,409	$ 1,279,211	$ 277,609	$ (732,307)	$ 2,492,409	$ 824,513	$ 194,681
59		**Total Direct Plant**		$ 46,293,465	$ 15,761,449	$ 46,293,465	$ 15,761,449	$ 277,844	$ (756,439)	$ 46,293,465	$ 15,282,854	$ 1,286,958

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EPCOR Water Arizona, Inc.

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Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

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MOHAVE WATER

Line No.	Account No.	Description	Depreciation Rate	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Before Conversion	[4] A/D Before Conversion	[5] Debit A/D Converted to Reg. Asset	[6] Excess A/D Converted Reg. Liability	[7] Adopted Original Cost Plant	[8] Adopted Accumulated Depreciation	[9] Depreciation Expense
1		**Allocated General Plant**										
2	399000	Allocated Corporate General Plant		$ 391,360	$ 126,369	$ 391,360	$ 126,369	$ -	$ -	$ 391,360	$ 126,369	$ 31,808
3	399000	NMVC Allocation (MW)		-	-	-	-	-	-	-	-	-
4	399000	Reconcilation to PIS Balance		-	-	-	-	-	-	-	-	-
5		**Test Year Ended June 30, 2013**		$ 391,360	$ 126,369	$ 391,360	$ 126,369	$ -	$ -	$ 391,360	$ 126,369	$ 31,808
6		Rounding										
7		Total Plant		$ 46,684,824	$ 15,887,818	$ 46,684,824	$ 15,887,818	$ 277,844	$ (756,439)	$ 46,684,824	$ 15,409,223	$ 1,318,766

[1] Although 0.000% is designated for depreciable plant accounts with no plant, upon placing any plant in service for these accounts, EPCOR is directed to file an application proposing a depreciation rate, and Staff is directed to prepare a recommended opinion and order for Commission consideration for a depreciation rate that will be effective beginning with the plant in-service date.

[2] The regulatory asset is composed of converted debit Accumulated Depreciation balances.

[3] The regulatory liability is composed of converted excess credit Accumulated Depreciation balances.

[4] Depreciation Expense excludes Amortizaion of Constributions in Aid of Construction and Mummay Mountain.

EPCOR Water Arizona, Inc.

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Plant and Acculumated Depreciation

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PARADISE VALLEY WATER

Line No.	Account No.	Description	Depreciation Rate[1]	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Adjustments	[4] Accumulated Depreciation Adjustments[2]	[5] Plant Before Conversion	[6] A/D Before Conversion	[7] Debit A/D Converted to Reg. Asset[3]	[8] Excess A/D Converted Reg. Liability[4]	[9] Adopted Original Cost Plant	[10] Adopted Accumulated Depreciation	[11] Depreciation Expense[5]
1		**Intangible**												
2	301000	Organization	0.000%	$ 1,831	$ (477,283)			$ 1,831	$ (477,283)	$ 477,283	$ -	$ 1,831	$ -	$ -
3	302000	Franchises	0.000%	-	-			-	-	-	-	-	-	-
4	303100	Other Intangible Plant	0.000%	-	-			-	-	-	-	-	-	-
5		**Subtotal Intangible**		$ 1,831	$ (477,283) #	$ -	$ -	$ 1,831	$ (477,283)	$ 477,283	$ -	$ 1,831	$ -	$ -
6														
7		**Source of Supply & Pumping Plant**												
8	303200	Land and Land Rights - Supply	0.000%	$ -	$ -			$ -	$ -	$ -	$ -	$ -	$ -	$ -
9	303300	Land and Land Rights - Pumping	0.000%	-	-			-	-	-	-	-	-	-
10	304100	Structures and Improvements - Supply	2.500%	158,547	986,421			158,547	986,421	-	(827,874)	158,547	158,547	3,964
11	304200	Structures and Improvements - Pumping	2.000%	1,282,693	(70,795)			1,282,693	(70,795)	70,795	-	1,282,693	-	25,654
12	305000	Collecting and Impounding Res.	1.667%	-	-			-	-	-	-	-	-	-
13	306000	Lakes, Rivers, Other Intakes	0.000%	-	-			-	-	-	-	-	-	-
14	307000	Wells and Springs	2.500%	2,639,547	814,870			2,639,547	814,870	-	-	2,639,547	814,870	65,989
15	308000	Infiltration Galleries and Tunnels	0.000%	-	-			-	-	-	-	-	-	-
16	309000	Supply Mains	1.667%	373,503	18,387			373,503	18,387	-	-	373,503	18,387	6,225
17	310000	Power Generation Equipment	3.333%	230,827	8,677			230,827	8,677	-	-	230,827	8,677	7,694
18	310100	Power Generation Other	3.333%	554,631	157,986			554,631	157,986	-	-	554,631	157,986	18,488
19	311000	Pumping Equipment - Steam	4.000%	-	-			-	-	-	-	-	-	-
20	311100	Pumping Equipment - Other	4.000%					-	-	-	-	-	-	-
21	311200	Pumping Equipment - Electric	4.000%	3,893,762	1,116,616			3,893,762	1,116,616	-	-	3,893,762	1,116,616	155,750
22	311300	Pumping Equipment - Diesel	4.000%	190	(62,413)			190	(62,413)	62,413	-	190	-	8
23	311400	Pumping Equipment - Hydraulic	4.000%	-	-			-	-	-	-	-	-	-
24	311500	Pumping Equipment - Other	4.000%	-	-			-	-	-	-	-	-	-
25	311530	Pumping Equipment - Water Treatment	4.000%	358,319	39,546			358,319	39,546	-	-	358,319	39,546	14,333
26		**Subtotal Source of Supply & Pumping Plant**		$ 9,492,019	$ 3,009,295 #	$ -	$ -	$ 9,492,019	$ 3,009,295	$ 133,208	$ (827,874)	$ 9,492,019	$ 2,314,629	$ 298,104
27														
28		**Water Treatment**												
29	303400	Land and Land Rights - Treatment	0.000%	$ -	$ -			$ -	$ -	$ -	$ -	$ -	$ -	$ -
30	304300	Structures and Improvements - Treatment	2.000%	20,737,611	2,410,288			20,737,611	2,410,288	-	-	20,737,611	2,410,288	414,752
31	320000	Water Treatment Plant	0.000%	-	-			-	-	-	-	-	-	-
32	320100	Water Treatment Equipment - Non-media	5.000%	10,628,951	8,353,934	-	-	10,628,951	8,353,934	-	-	10,628,951	8,353,934	531,448
33	320200	Water Treatment Equipment - Media	10.000%	702,863	127,303			702,863	127,303	-	-	702,863	127,303	70,286
34		**Subtotal Water Treatment**		$ 32,069,425	$ 10,891,526 #	$ -	$ -	$ 32,069,425	$ 10,891,526	$ -	$ -	$ 32,069,425	$ 10,891,526	$ 1,016,486

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EPCOR Water Arizona, Inc.

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Plant and Acculumated Depreciation

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PARADISE VALLEY WATER

Line No.	Account No.	Description	Depreciation Rate[1]	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Adjustments	[4] Accumulated Depreciation Adjustments[2]	[5] Plant Before Conversion	[6] A/D Before Conversion	[7] Debit A/D Converted to Reg. Asset[3]	[8] Excess A/D Converted Reg. Liability[4]	[9] Adopted Original Cost Plant	[10] Adopted Accumulated Depreciation	[11] Depreciation Expense[5]
1		**Transmission and Distribution Plant**												
2	303500	Land and Land Rights - T&D	0.000%	$ 8,324	$ 30 #			$ 8,324	$ 30	$ -	$ -	$ 8,324	$ 30	$ -
3	304400	Structures and Improvements - T&D	2.000%	23,764	3,825 #			23,764	3,825	-	-	23,764	3,825	475
4	330000	Distribution Reservoirs & Standpipes	1.538%	2,400,280	516,355 #			2,400,280	516,355	-	-	2,400,280	516,355	36,927
5	330100	Elevated Tank & Standpipes	1.538%	-	- #			-	-	-	-	-	-	-
6	330200	Ground Level Tanks	1.538%	-	- #			-	-	-	-	-	-	-
7	330300	Below Ground Tanks	0.000%	-	- #			-	-	-	-	-	-	-
8	331001	T&D Mains Not Classified	2.000%	3,911,448	(2,734,125) #		2,981,428	3,911,448	247,303	-	-	3,911,448	247,303	78,229
9	331100	T&D Mains 4in & less	1.429%	364,519	9,063 #			364,519	9,063	-	-	364,519	9,063	5,207
10	331200	T&D Mains 6in to 8in	1.429%	5,987,202	3,166,751 #		(5,869)	5,987,202	3,160,882	-	-	5,987,202	3,160,882	85,531
11	331300	T&D Mains 10in to 16in	1.429%	9,380,895	6,053,081 #		(2,975,559)	9,380,895	3,077,522	-	-	9,380,895	3,077,522	134,013
12	331400	TD Mains 18in & Grtr	1.429%	547,004	56,120 #			547,004	56,120	-	-	547,004	56,120	7,814
13	332000	Fire Mains	1.429%	-	- #			-	-	-	-	-	-	-
17	333000	Services	2.500%	$ 3,818,826	$ 1,953,218			$ 3,818,826	$ 1,953,218	$ -	$ -	$ 3,818,826	$ 1,953,218	$ 95,471
18	334100	Meters	8.333%	1,426,812	195,794			1,426,812	195,794	-	-	1,426,812	195,794	118,901
19	334200	Meter Installations	2.500%	177,916	23,882			177,916	23,882	-	-	177,916	23,882	4,448
20	334300	Meter Vaults	2.500%	-	-			-	-	-	-	-	-	-
21	335000	Hydrants	2.000%	1,368,179	525,547			1,368,179	525,547	-	-	1,368,179	525,547	27,364
22	335100	Hydrants Replaced	2.000%	16,118	161			16,118	161	-	-	16,118	161	322
23	336000	Backflow Prevention Devices	6.670%	-	-			-	-	-	-	-	-	-
24	339100	Other P/E-Intangible	0.000%	-	-			-	-	-	-	-	-	-
25	339200	Other P/E-Supply	3.333%	-	-			-	-	-	-	-	-	-
26	339500	Other P/E-TD	3.333%	-	-			-	-	-	-	-	-	-
27	339600	Other P/E-CPS	3.333%	180,523	(573,501)			180,523	(573,501)	573,501	-	180,523	-	6,017
28		**Subtotal Transmission and Distribution Plant**		$ 29,611,810	$ 9,196,200 #	$ -	$ -	$ 29,611,810	$ 9,196,200	$ 573,501	$ -	$ 29,611,810	$ 9,769,702	$ 600,721
29														
30		**General Plant**												
31	303600	Land and Land Rights	0.000%	$ -	$ -			$ -	$ -	$ -	$ -	$ -	$ -	$ -
32	304500	Structures and Improvements - General	2.500%	26,113	(704)			26,113	(704)	704	-	26,113	-	653
33	304600	Structures and Improvements - Offices	2.500%	-	-			-	-	-	-	-	-	-
34	304620	Structures and Improvements - Leasehold	0.000%	0	-			0	-	-	-	0	-	-
35	304700	Structures and Improvements - Sore,Shop,Gge	2.500%	4,629	(17,912)			4,629	(17,912)	17,912	-	4,629	-	116
36	304800	Structures and Improvements - General	2.500%	(8,633)	(133,751)			(8,633)	(133,751)	133,751	(8,633)	-	-	-
37	340100	Office Furniture & Equipment	4.500%	61,561	32,201			61,561	32,201	-	-	61,561	32,201	2,770
38	340200	Computers & Software	10.000%	38,077	93,695			38,077	93,695	-	(55,618)	38,077	38,077	3,808
39	340300	Computer Software	20.000%	37,405	181,341			37,405	181,341	-	(143,937)	37,405	37,405	7,481
40	340310	Computer Software Mainframe	20.000%	-	-			-	-	-	-	-	-	-
41	340325	Computer Software Customized	20.000%	-	-			-	-	-	-	-	-	-
42	340330	Computer Software Other	20.000%	(6,528)	(9,129)			(6,528)	(9,129)	9,129	(6,528)	-	-	-
43	340500	Other Office Equipment	6.667%	321	(14,473)			321	(14,473)	14,473	-	321	-	21
44	341100	Transportation Equip Light Duty Truks	20.000%	(0)	20,414			(0)	20,414	-	(20,414)	(0)	(0)	(0)
45	341200	Transportation Equip Heavy Duty Truks	14.286%	-	-			-	-	-	-	-	-	-
46	341300	Transportation Equipment Autos	0.000%	(0)	13			(0)	13	-	(13)	(0)	(0)	-
47	341400	Transportation Equipment Other	16.667%	194,854	88,624			194,854	88,624	-	-	194,854	88,624	32,476
48	342000	Stores Equipment	4.000%	1,943	438			1,943	438	-	-	1,943	438	78
49	343000	Tools and Work Equipment	4.000%	294,430	46,950			294,430	46,950	-	-	294,430	46,950	11,777
50	344000	Laboratory Equipment	4.000%	17,620	7,630			17,620	7,630	-	-	17,620	7,630	705
51	345000	Power Operated Equipment	5.000%	32,228	(43,446)			32,228	(43,446)	43,446	-	32,228	-	1,611
52	346100	Communication Equipment Non-Telephone	10.000%	456,755	458,900			456,755	458,900	-	(2,145)	456,755	456,755	45,676
53	346190	Remote Control & Instrument	10.000%	609,765	34,482			609,765	34,482	-	-	609,765	34,482	60,977
54	346200	Communication Equipment Telephone	10.000%	-	-			-	-	-	-	-	-	-
55	346300	Communication Equipment Other	10.000%	58,841	49,939			58,841	49,939	-	-	58,841	49,939	5,884
56	347000	Structures and Improvements - Offices	6.250%	-	-			-	-	-	-	-	-	-
57	348000	Structures and Improvements - Leasehold	0.000%	-	-			-	-	-	-	-	-	-
58		**Subtotal General Plant**		$ 1,819,381	$ 795,210 #	$ -	$ -	$ 1,819,381	$ 795,210	$ 219,416	$ (237,287)	$ 1,834,542	$ 792,500	$ 174,032
59		**Total Direct Plant**		$ 72,994,466	$ 23,414,949 #	$ -	$ -	$ 72,994,466	$ 23,414,949	$ 1,403,408	$ (1,065,161)	$ 73,009,627	$ 23,768,357	$ 2,089,342

EPCOR Water Arizona, Inc.

Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

Exhibit B

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PARADISE VALLEY WATER

Line No.	Account No.	Description	Depreciation Rate[1]	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Adjustments	[4] Accumulated Depreciation Adjustments[2]	[5] Plant Before Conversion	[6] A/D Before Conversion	[7] Debit A/D Converted to Reg. Asset[3]	[8] Excess A/D Converted Reg. Liability[4]	[9] Adopted Original Cost Plant	[10] Adopted Accumulated Depreciation	[11] Depreciation Expense[5]
1		**Allocated General Plant**												
2	399000	Allocated Corporate General Plant		$ 119,482	$ 38,964			$ 119,482	$ 38,964	$ -	$ -	$ 119,482	$ 38,964	$ 8,540
3	399000	Reconcilation to PIS Balance		-	-			-	-	-	-	-	-	-
4		**Test Year Ended June 30, 2013**		$ 119,482	$ 38,964 #	$ -	$ -	$ 119,482	$ 38,964	$ -	$ -	$ 119,482	$ 38,964	$ 8,540
5		Rounding												
6		Total Plant		$ 73,113,948	$ 23,453,913 #	$ -	$ -	$ 73,113,948	$ 23,453,913	$ 1,403,408	$ (1,065,161)	$ 73,129,109	$ 23,807,321	$ 2,097,882

[1] Although 0.000% is designated for depreciable plant accounts with no plant, upon placing any plant in service for these accounts, EPCOR is directed to file an application proposing a depreciation rate, and Staff is directed to prepare a recommended opinion and order for Commission consideration for a depreciation rate that will be effective beginning with the plant in-service date.

[2] RUCO's recommendation to debit Accumulated Depreciation in Acct. No. 331001 by $2,981,429 and credit Accumulated Depreciation in Acct. Nos. 331200 and 331300 by $5,869 and $2,975,559, respectively, due to a recordkeeping error is adopted.

[3] The regulatory asset is composed of converted debit Accumulated Depreciation balances.

[4] The regulatory liability is composed of $1,050,000 in converted excess credit Accumulated Depreciation balances and $15,161 of converted negative plant balances in Acct. No. 304800 ($8,633) and Acct. No. 340330 ($6,528).

[5] Depreciation Expense excludes Amortizaion of Constributions in Aid of Construction and Mummay Mountain.

EPCOR Water Arizona, Inc.

Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

Exhibit C

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DOCKET NO. WS-01303A-14-0010

SUN CITY WATER

Line No.	Account No.	Description	Depreciation Rate[1]	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Before Conversion	[4] A/D Before Conversion	[5] Debit A/D Converted to Reg. Asset[2]	[6] Excess A/D Converted Reg. Liability[3]	[7] Adopted Original Cost Plant	[8] Adopted Accumulated Depreciation	[9] Depreciation Expense[4]
1		**Intangible**										
2	301000	Organization	0.000%	$ 471	$ -	$ 471	$ -	$ -	$ -	$ 471	$ -	$ -
3	302000	Franchises	0.000%	-	-	-	-	-	-	-	-	-
4	303100	Other Intangible Plant	0.000%	-	-	-	-	-	-	-	-	-
5		**Subtotal Intangible**		$ 471	$ -	# $ 471	$ -	$ -	$ -	$ 471	$ -	$ -
6												
7		**Source of Supply & Pumping Plant**										
8	303200	Land and Land Rights - Supply	0.000%	$ 268,738	$ (60)	$ 268,738	$ (60)	$ 60	$ -	$ 268,738	$ -	$ -
9	303300	Land and Land Rights - Pumping	0.000%	8,456	3,646	8,456	3,646	-	(3,646)	8,456	0	-
10	304100	Structures and Improvements - Supply	2.500%	1,579,931	515,526	1,579,931	515,526	-	-	1,579,931	515,526	39,498
11	304200	Structures and Improvements - Pumping	2.000%	2,788,639	256,219	2,788,639	256,219	-	-	2,788,639	256,219	55,773
12	305000	Collecting and Impounding Res.	1.667%	314	139	314	139	-	-	314	139	5
13	306000	Lakes, Rivers, Other Intakes	0.000%	-	-	-	-	-	-	-	-	-
14	307000	Wells and Springs	2.500%	3,812,341	1,684,935	3,812,341	1,684,935	-	-	3,812,341	1,684,935	95,309
15	308000	Infiltration Galleries and Tunnels	0.000%	-	-	-	-	-	-	-	-	-
16	309000	Supply Mains	1.667%	787,835	56,753	787,835	56,753	-	-	787,835	56,753	13,131
17	310000	Power Generation Equipment	3.333%	1,430,917	214,496	1,430,917	214,496	-	-	1,430,917	214,496	47,697
18	310100	Power Generation Other	3.333%	-	-	-	-	-	-	-	-	-
19	311000	Pumping Equipment - Steam	4.000%	-	-	-	-	-	-	-	-	-
20	311100	Pumping Equipment - Other	4.000%	4,473	428	4,473	428	-	-	4,473	428	179
21	311200	Pumping Equipment - Electric	4.000%	11,150,383	5,265,102	11,150,383	5,265,102	-	-	11,150,383	5,265,102	446,015
22	311300	Pumping Equipment - Diesel	4.000%	213,446	68,059	213,446	68,059	-	-	213,446	68,059	8,538
23	311400	Pumping Equipment - Hydraulic	4.000%	16,219	1,919	16,219	1,919	-	-	16,219	1,919	649
24	311500	Pumping Equipment - Other	4.000%	210,006	106,288	210,006	106,288	-	-	210,006	106,288	8,400
25	311530	Pumping Equipment - Water Treatment	4.000%	35,035	3,540	35,035	3,540	-	-	35,035	3,540	1,401
26		**Subtotal Source of Supply & Pumping Plant**		$ 22,306,733	$ 8,176,990	# $ 22,306,733	$ 8,176,990	$ 60	$ (3,646)	$ 22,306,733	$ 8,173,404	$ 716,595
27												
28		**Water Treatment**										
29	303400	Land and Land Rights - Treatment	0.000%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
30	304300	Structures and Improvements - Treatment	2.000%	126,815	37,923	126,815	37,923	-	-	126,815	37,923	2,536
31	320000	Water Treatment Plant	0.000%	-	-	-	-	-	-	-	-	-
32	320100	Water Treatment Equipment - Non-media	5.000%	881,710	373,405	881,710	373,405	-	-	881,710	373,405	44,085
33	320200	Water Treatment Equipment - Media	10.000%	120,791	15,099	120,791	15,099	-	-	120,791	15,099	12,079
34		**Subtotal Water Treatment**		$ 1,129,315	$ 426,427	# $ 1,129,315	$ 426,427	$ -	$ -	$ 1,129,315	$ 426,427	$ 58,701

DECISION NO. 75268

EPCOR Water Arizona, Inc.

Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

Exhibit C

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DOCKET NO. WS-01303A-14-0010

SUN CITY WATER

Line No.	Account No.	Description	Depreciation Rate[1]	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Before Conversion	[4] A/D Before Conversion	[5] Debit A/D Converted to Reg. Asset[2]	[6] Excess A/D Converted Reg. Liability[3]	[7] Adopted Original Cost Plant	[8] Adopted Accumulated Depreciation	[9] Depreciation Expense[4]
1		**Transmission and Distribution Plant**										
2	303500	Land and Land Rights - T&D	0.000%	$ 10,493	$ 210	$ 10,493	$ 210	$ -	$ (210)	$ 10,493	$ (0)	$ -
3	304400	Structures and Improvements - T&D	2.000%	34,162	6,676	34,162	6,676	-	-	34,162	6,676	683
4	330000	Distribution Reservoirs & Standpipes	1.538%	5,621,435	745,411	5,621,435	745,411	-	-	5,621,435	745,411	86,484
5	330100	Elevated Tank & Standpipes	1.538%	-	-	-	-	-	-	-	-	-
6	330200	Ground Level Tanks	1.538%	88,434	13,900	88,434	13,900	-	-	88,434	13,900	1,361
7	330300	Below Ground Tanks	0.000%	-	-	-	-	-	-	-	-	-
8	331001	T&D Mains Not Classified	2.000%	1,128,335	34,429	1,128,335	34,429	-	-	1,128,335	34,429	22,567
9	331100	T&D Mains 4in & less	1.429%	13,290,123	5,408,278	13,290,123	5,408,278	-	-	13,290,123	5,408,278	189,859
10	331200	T&D Mains 6in to 8in	1.429%	4,576,963	358,605	4,576,963	358,605	-	-	4,576,963	358,605	65,385
11	331300	T&D Mains 10in to 16in	1.429%	5,251,696	291,225	5,251,696	291,225	-	-	5,251,696	291,225	75,024
12	331400	TD Mains 18in & Grtr	1.429%	152,237	39,673	152,237	39,673	-	-	152,237	39,673	2,175
13	332000	Fire Mains	1.429%	0	11	0	11	-	(11)	0	0	0
17	333000	Services	2.500%	$ 6,609,463	$ 3,746,393	$ 6,609,463	$ 3,746,393	$ -	$ -	$ 6,609,463	$ 3,746,393	$ 165,237
18	334100	Meters	8.333%	6,145,033	1,892,211	6,145,033	1,892,211	-	-	6,145,033	1,892,211	512,086
19	334200	Meter Installations	2.500%	660,094	(137,217)	660,094	(137,217)	137,217	-	660,094	-	16,502
20	334300	Meter Vaults	2.500%	952	62	952	62	-	-	952	62	24
21	335000	Hydrants	2.000%	2,941,652	1,135,598	2,941,652	1,135,598	-	-	2,941,652	1,135,598	58,833
22	335100	Hydrants Replaced	2.000%	-	-	-	-	-	-	-	-	-
23	336000	Backflow Prevention Devices	6.670%	7,036	2,112	7,036	2,112	-	-	7,036	2,112	469
24	339100	Other P/E-Intangible	0.000%	-	-	-	-	-	-	-	-	-
25	339200	Other P/E-Supply	3.333%	-	-	-	-	-	-	-	-	-
26	339500	Other P/E-TD	3.333%	523	345	523	345	-	-	523	345	17
27	339600	Other P/E-CPS	3.333%	179,653	(62,895)	179,653	(62,895)	62,895	-	179,653	-	5,988
28		Subtotal Transmission and Distribution Plant		$ 46,698,285	$ 13,475,026	# $ 46,698,285	$ 13,475,026	$ 200,112	$ (221)	$ 46,698,285	$ 13,674,917	$ 1,202,694
29												
30		**General Plant**										
31	303600	Land and Land Rights	0.000%	$ 2,125	$ 98	$ 2,125	$ 98	$ -	$ (98)	$ 2,125	$ 0	$ -
32	304500	Structures and Improvements - General	2.500%	374,292	68,930	374,292	68,930	-	-	374,292	68,930	9,357
33	304600	Structures and Improvements - Offices	2.500%	47,528	36,673	47,528	36,673	-	-	47,528	36,673	1,188
34	304620	Structures and Improvements - Leasehold	0.000%	-	-	-	-	-	-	-	-	-
35	304700	Structures and Improvements - Sore,Shop,Gge	2.500%	-	-	-	-	-	-	-	-	-
36	304800	Structures and Improvements - General	2.500%	1,383,151	520,460	1,383,151	520,460	-	-	1,383,151	520,460	34,579
37	340100	Office Furniture & Equipment	4.500%	779,242	234,635	779,242	234,635	-	-	779,242	234,635	35,066
38	340200	Computers & Software	10.000%	223,286	(833,278)	223,286	(833,278)	833,278	-	223,286	-	22,329
39	340300	Computer Software	20.000%	43,402	54,103	43,402	54,103	-	(10,701)	43,402	43,402	8,680
40	340310	Computer Software Mainframe	20.000%	9,105	5,285	9,105	5,285	-	-	9,105	5,285	1,821
41	340325	Computer Software Customized	20.000%	16,914	8,284	16,914	8,284	-	-	16,914	8,284	3,383
42	340330	Computer Software Other	20.000%	-	-	-	-	-	-	-	-	-
43	340500	Other Office Equipment	6.667%	3,854	(3,387)	3,854	(3,387)	3,387	-	3,854	-	257
44	341100	Transportation Equip Light Duty Truks	20.000%	976,241	3,021,077	976,241	3,021,077	-	(2,044,836)	976,241	976,241	195,248
45	341200	Transportation Equip Heavy Duty Truks	14.286%	54,958	64,356	54,958	64,356	-	(9,398)	54,958	54,958	7,851
46	341300	Transportation Equipment Autos	0.000%	-	-	-	-	-	-	-	-	-
47	341400	Transportation Equipment Other	16.667%	85,411	22,612	85,411	22,612	-	-	85,411	22,612	14,235
48	342000	Stores Equipment	4.000%	20,135	13,981	20,135	13,981	-	-	20,135	13,981	805
49	343000	Tools and Work Equipment	4.000%	376,007	119,200	376,007	119,200	-	-	376,007	119,200	15,040
50	344000	Laboratory Equipment	4.000%	107,428	(5,932)	107,428	(5,932)	5,932	-	107,428	-	4,297
51	345000	Power Operated Equipment	5.000%	151,899	114,136	151,899	114,136	-	-	151,899	114,136	7,595
52	346100	Communication Equipment Non-Telephone	10.000%	218,768	453,077	218,768	453,077	-	(234,308)	218,768	218,768	21,877
53	346190	Remote Control & Instrument	10.000%	396,434	118,762	396,434	118,762	-	-	396,434	118,762	39,643
54	346200	Communication Equipment Telephone	10.000%	1,126	724	1,126	724	-	-	1,126	724	113
55	346300	Communication Equipment Other	10.000%	174,797	85,981	174,797	85,981	-	-	174,797	85,981	17,480
56	347000	Structures and Improvements - Offices	6.250%	10,219	1,942	10,219	1,942	-	-	10,219	1,942	639
57	348000	Structures and Improvements - Leasehold	0.000%	-	-	-	-	-	-	-	-	-
58		Subtotal General Plant		$ 5,456,321	$ 4,101,720	# $ 5,456,321	$ 4,101,720	$ 842,598	$ (2,299,342)	$ 5,456,321	$ 2,644,976	$ 441,483
59		Total Direct Plant		$ 75,591,125	$ 26,180,162	# $ 75,591,125	$ 26,180,162	$ 1,042,770	$ (2,303,209)	$ 75,591,125	$ 24,919,723	$ 2,419,474

DECISION NO. 75268

EPCOR Water Arizona, Inc.

Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

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SUN CITY WATER

Line No.	Account No.	Description	Depreciation Rate[1]	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Before Conversion	[4] A/D Before Conversion	[5] Debit A/D Converted to Reg. Asset[2]	[6] Excess A/D Converted Reg. Liability[3]	[7] Adopted Original Cost Plant	[8] Adopted Accumulated Depreciation	[9] Depreciation Expense[4]
1		**Allocated General Plant**										
2	399000	Allocated Corporate General Plant		$ 569,612	$ 183,927	$ 569,612	$ 183,927	$ -	$ -	$ 569,612	$ 183,927	$ 46,268
	399001	Youngtown Plnt (SC)		(149,497)	(22,008)	(149,497)	(22,008)	22,008	(149,497)	-	-	-
3	399000	Reconcilation to PIS Balance		-	344	-	344	-	(344)	-	-	-
4		**Test Year Ended June 30, 2013**		$ 420,115	$ 162,263 #	$ 420,115	$ 162,263	$ 22,008	$ (149,841)	$ 569,612	$ 183,927	$ 46,268
5		Rounding										
6		Total Plant		$ 76,011,241	$ 26,342,425 #	$ 76,011,241	$ 26,342,425	$ 1,064,778	$ (2,453,050)	$ 76,160,738	$ 25,103,650	$ 2,465,742
										$ 290,283	$ 1	$ -

[1] Although 0.000% is designated for depreciable plant accounts with no plant, upon placing any plant in service for these accounts, EPCOR is directed to file an application proposing a depreciation rate, and Staff is directed to prepare a recommended opinion and order for Commission consideration for a depreciation rate that will be effective beginning with the plant in-service date.

[2] The regulatory asset is composed of $1,042,770 in converted debit Accumulated Depreciation balances and the $22,008 debit Accumulated Depreciation balance in Acct. No. 3999001.

[3] The regulatory liability is composed of $2,299,599 in converted excess credit Accumulated Depreciation balances, the converted $149,497 negative plant balance in Acct. No. 399000 and $3,954 of converted Accumulated Depreciation balances in non-depreciable accounts (Acct. No. 303300, $3,646; Acct. No. 303500, $210 and Acct. No. 303600, $98).

[4] Depreciation Expense excludes Amortizaion of Constributions in Aid of Construction and Y2K and Sun City Fire Flow.

EPCOR Water Arizona, Inc.

Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

Exhibit D

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DOCKET NO. WS-01303A-14-0010

TUBAC WATER

Line No.	Account No.	Description	Depreciation Rate[1]	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Adjustments[2]	[4] Accumulated Depreciation Adjustments[2]	[5] Plant Before Conversion	[6] A/D Before Conversion	[7] Debit A/D Converted to Reg. Asset3	[8] Excess A/D Converted Reg. Liability[4]	[9] Adopted Original Cost Plant	[10] Adopted Accumulated Depreciation	[11] Depreciation Expense[5]
1		**Intangible**												
2	301000	Organization	0.000%	$ 567	$ -			$ 567	$ -	$ -	$ -	$ 567	$ -	$ -
3	302000	Franchises	0.000%	2,030	-			2,030	-	-	-	2,030	-	-
4	303100	Other Intangible Plant	0.000%	-	-			-	-	-	-	-	-	-
5		**Subtotal Intangible**		$ 2,597	$ -	$ -	$ -	$ 2,597	$ -	$ -	$ -	$ 2,597	$ -	$ -
6														
7		**Source of Supply & Pumping Plant**												
8	303200	Land and Land Rights - Supply	0.000%	$ 61,190	$ -			$ 61,190	$ -	$ -	$ -	$ 61,190	$ -	$ -
9	303300	Land and Land Rights - Pumping	0.000%	50	-			50	-	-	-	50	-	-
10	304100	Structures and Improvements - Supply	2.500%	25,292	10,361			25,292	10,361	-	-	25,292	10,361	632
11	304200	Structures and Improvements - Pumping	2.000%	14,608	11,543			14,608	11,543	-	-	14,608	11,543	292
12	305000	Collecting and Impounding Res.	1.667%	-	-			-	-	-	-	-	-	-
13	306000	Lakes, Rivers, Other Intakes	0.000%	-	-			-	-	-	-	-	-	-
14	307000	Wells and Springs	2.500%	236,074	148,925			236,074	148,925	-	-	236,074	148,925	5,902
15	308000	Infiltration Galleries and Tunnels	0.000%	-	-			-	-	-	-	-	-	-
16	309000	Supply Mains	1.667%	-	-			-	-	-	-	-	-	-
17	310000	Power Generation Equipment	3.333%	20,225	2,629			20,225	2,629	-	-	20,225	2,629	674
18	310100	Power Generation Other	3.333%	-	-			-	-	-	-	-	-	-
19	311000	Pumping Equipment - Steam	4.000%	-	-			-	-	-	-	-	-	-
20	311100	Pumping Equipment - Other	4.000%	-	-			-	-	-	-	-	-	-
21	311200	Pumping Equipment - Electric	4.000%	279,401	211,048			279,401	211,048	-	-	279,401	211,048	11,176
22	311300	Pumping Equipment - Diesel	4.000%	879	569			879	569	-	-	879	569	35
23	311400	Pumping Equipment - Hydraulic	4.000%	-	-			-	-	-	-	-	-	-
24	311500	Pumping Equipment - Other	4.000%	403,824	135,138			403,824	135,138	-	-	403,824	135,138	16,153
25	311530	Pumping Equipment - Water Treatment	4.000%	-	-			-	-	-	-	-	-	-
26		**Subtotal Source of Supply & Pumping Plant**		$ 1,041,543	$ 520,213	$ -	$ -	$ 1,041,543	$ 520,213	$ -	$ -	$ 1,041,543	$ 520,213	$ 34,865
27														
28		**Water Treatment**												
29	303400	Land and Land Rights - Treatment	0.000%	$ 50	$ -			$ 50	$ -	$ -	$ -	$ 50	$ -	$ -
30	304300	Structures and Improvements - Treatment	2.000%	302	21			302	21	-	-	302	21	6
31	320000	Water Treatment Plant	0.000%	-	-			-	-	-	-	-	-	-
32	320100	Water Treatment Equipment - Non-media	5.000%	1,858,903	412,766	(162,716)	(60,639)	1,696,187	352,127	-	-	1,696,187	352,127	84,809
33	320200	Water Treatment Equipment - Media	10.000%	(0)	35,609			(0)	35,609	-	(35,609)	(0)	(0)	(0)
34		**Subtotal Water Treatment**		$ 1,859,255	$ 448,397	$ (162,716)	$ (60,639)	$ 1,696,539	$ 387,758	$ -	$ (35,609)	$ 1,696,539	$ 352,148	$ 84,815

DECISION NO. 75268

EPCOR Water Arizona, Inc.

Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

Exhibit D

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TUBAC WATER

Line No.	Account No.	Description	Depreciation Rate[1]	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Adjustments[2]	[4] Accumulated Depreciation Adjustments[2]	[5] Plant Before Conversion	[6] A/D Before Conversion	[7] Debit A/D Converted to Reg. Asset3	[8] Excess A/D Converted Reg. Liability[4]	[9] Adopted Original Cost Plant	[10] Adopted Accumulated Depreciation	[11] Depreciation Expense[5]
		Transmission and Distribution Plant												
1	303500	Land and Land Rights - T&D	0.000%	$ 422	$ (117)			$ 422	$ (117)	$ 117	$ -	$ 422	$ -	$ -
2	304400	Structures and Improvements - T&D	2.000%	156	109			156	109	-	-	156	109	3
3	330000	Distribution Reservoirs & Standpipes	1.538%	210,840	58,259			210,840	58,259	-	-	210,840	58,259	3,244
4	330100	Elevated Tank & Standpipes	1.538%	-	-			-	-	-	-	-	-	-
5	330200	Ground Level Tanks	1.538%	-	-			-	-	-	-	-	-	-
6	330300	Below Ground Tanks	0.000%	-	-			-	-	-	-	-	-	-
7	331001	T&D Mains Not Classified	2.000%	364,469	62,042			364,469	62,042	-	-	364,469	62,042	7,289
8	331100	T&D Mains 4in & less	1.429%	886,119	410,163			886,119	410,163	-	-	886,119	410,163	12,659
9	331200	T&D Mains 6in to 8in	1.429%	896,807	95,922			896,807	95,922	-	-	896,807	95,922	12,812
10	331300	T&D Mains 10in to 16in	1.429%	37,161	3,971			37,161	3,971	-	-	37,161	3,971	531
11	331400	TD Mains 18in & Grtr	1.429%	-	-			-	-	-	-	-	-	-
12	332000	Fire Mains	1.429%	-	-			-	-	-	-	-	-	-
16	333000	Services	2.500%	$ 617,549	$ 170,114			$ 617,549	$ 170,114	$ -	$ -	$ 617,549	$ 170,114	$ 15,439
17	334100	Meters	8.333%	194,259	59,958			194,259	59,958	-	-	194,259	59,958	16,188
18	334200	Meter Installations	2.500%	22,040	3,190			22,040	3,190	-	-	22,040	3,190	551
19	334300	Meter Vaults	2.500%	-	-			-	-	-	-	-	-	-
20	335000	Hydrants	2.000%	136,093	18,802			136,093	18,802	-	-	136,093	18,802	2,722
21	335100	Hydrants Replaced	2.000%	-	-			-	-	-	-	-	-	-
22	336000	Backflow Prevention Devices	6.670%	-	-			-	-	-	-	-	-	-
23	339100	Other P/E-Intangible	0.000%	-	-			-	-	-	-	-	-	-
24	339200	Other P/E-Supply	3.333%	-	-			-	-	-	-	-	-	-
25	339500	Other P/E-TD	3.333%	-	-			-	-	-	-	-	-	-
26	339600	Other P/E-CPS	3.333%	461	8			461	8	-	-	461	8	15
27		**Subtotal Transmission and Distribution Plant**		$ 3,366,376	$ 882,421	$ -	$ -	$ 3,366,376	$ 882,421	$ 117	$ -	$ 3,366,376	$ 882,538	$ 71,453
28														
29		**General Plant**												
30	303600	Land and Land Rights	0.000%	$ 2,755	$ -			$ 2,755	$ -	$ -	$ -	$ 2,755	$ -	$ -
31	304500	Structures and Improvements - General	2.500%	-	-			-	-	-	-	-	-	-
32	304600	Structures and Improvements - Offices	2.500%	498	211			498	211	-	-	498	211	12
33	304620	Structures and Improvements - Leasehold	0.000%	-	-			-	-	-	-	-	-	-
34	304700	Structures and Improvements - Sore,Shop,Gge	2.500%	44,598	2,640			44,598	2,640	-	-	44,598	2,640	1,115
35	304800	Structures and Improvements - General	2.500%	-	-			-	-	-	-	-	-	-
36	340100	Office Furniture & Equipment	4.500%	5,453	2,546			5,453	2,546	-	-	5,453	2,546	245
37	340200	Computers & Software	10.000%	1,336	5,104			1,336	5,104	-	(3,769)	1,336	1,336	134
38	340300	Computer Software	20.000%	-	-			-	-	-	-	-	-	-
39	340310	Computer Software Mainframe	20.000%	-	-			-	-	-	-	-	-	-
40	340325	Computer Software Customized	20.000%	-	-			-	-	-	-	-	-	-
41	340330	Computer Software Other	20.000%	-	-			-	-	-	-	-	-	-
42	340500	Other Office Equipment	6.667%	-	-			-	-	-	-	-	-	-
43	341100	Transportation Equip Light Duty Truks	20.000%	17,166	59,578			17,166	59,578	-	(42,412)	17,166	17,166	3,433
44	341200	Transportation Equip Heavy Duty Truks	14.286%	-	-			-	-	-	-	-	-	-
45	341300	Transportation Equipment Autos	0.000%	-	-			-	-	-	-	-	-	-
46	341400	Transportation Equipment Other	16.667%	-	-			-	-	-	-	-	-	-
47	342000	Stores Equipment	4.000%	0	(1,760)			0	(1,760)	1,760	-	0	-	0
48	343000	Tools and Work Equipment	4.000%	22,179	5,510			22,179	5,510	-	-	22,179	5,510	887
49	344000	Laboratory Equipment	4.000%	-	-			-	-	-	-	-	-	-
50	345000	Power Operated Equipment	5.000%	-	-			-	-	-	-	-	-	-
51	346100	Communication Equipment Non-Telephone	10.000%	1,932	1,570			1,932	1,570	-	-	1,932	1,570	193
52	346190	Remote Control & Instrument	10.000%	-	-			-	-	-	-	-	-	-
53	346200	Communication Equipment Telephone	10.000%	-	-			-	-	-	-	-	-	-
54	346300	Communication Equipment Other	10.000%	659	508			659	508	-	-	659	508	66
55	347000	Structures and Improvements - Offices	6.250%	-	-			-	-	-	-	-	-	-
56	348000	Structures and Improvements - Leasehold	0.000%	-	-			-	-	-	-	-	-	-
57		**Subtotal General Plant**		$ 96,576	$ 75,907	$ -	$ -	$ 96,576	$ 75,907	$ 1,760	$ (46,181)	$ 96,576	$ 31,487	$ 6,086
58		**Total Direct Plant**		$ 6,366,348	$ 1,926,938	$ (162,716)	$ (60,639)	$ 6,203,632	$ 1,866,299	$ 1,877	$ (81,790)	$ 6,203,632	$ 1,786,386	$ 197,218

EPCOR Water Arizona, Inc.

Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

Exhibit D

TUBAC WATER

Line No.	Account No.	Description	Depreciation Rate[1]	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Adjustments[2]	[4] Accumulated Depreciation Adjustments[2]	[5] Plant Before Conversion	[6] A/D Before Conversion	[7] Debit A/D Converted to Reg. Asset3	[8] Excess A/D Converted Reg. Liability[4]	[9] Adopted Original Cost Plant	[10] Adopted Accumulated Depreciation	[11] Depreciation Expense[5]
1		**Allocated General Plant**												
2	399000	Allocated Corporate General Plant		$ 14,772	$ 4,770			$ 14,772	$ 4,770	$ -	$ -	$ 14,772	$ 4,770	$ 1,078
3	399000	Reconcilation to PIS Balance		-	406			-	406	-	(406)	-	-	
4		**Test Year Ended June 30, 2013**		$ 14,772	$ 5,176	$ -	$ -	$ 14,772	$ 5,176	$ -	$ (406)	$ 14,772	$ 4,770	$ 1,078
5		Rounding												
6		Total Plant		$ 6,381,120	$ 1,932,114	$ (162,716)	$ (60,639)	$ 6,218,404	$ 1,871,475	$ 1,877	$ (82,196)	$ 6,218,404	$ 1,791,156	$ 198,296

[1] Although 0.000% is designated for depreciable plant accounts with no plant, upon placing any plant in service for these accounts, EPCOR is directed to file an application proposing a depreciation rate, and Staff is directed to prepare a recommended opinion and order for Commission consideration for a depreciation rate that will be effective beginning with the plant in-service date.

[2] Staff recommended removing $249,315 from Water Treatment and $70,762 in associated Accumulated Depreciation. EPCOR agreed to remove $86,599 from Water Treatment and $10,123 in associated Accumulated Depreciation. Adopting Staff's recommendation requires removing an addition $162,716 from Water Treatment and $60,639 from Accumulated Depreciation.

[3] The regulatory asset is composed of converted debit Accumulated Depreciation balances.

[4] The regulatory liability is composed of converted excess credit Accumulated Depreciation balances.

[5] Depreciation Expense excludes Amortizaion of Constributions in Aid of Construction and Y2K.

DOCKET NO. WS-01303A-14-0010

EPCOR Water Arizona, Inc.

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Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

Exhibit E

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MOHAVE WASTEWATER

Line No.	Account No.	Description	Depreciation Rate[1]	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Adjustments	[4] Accumulated Depreciation Adjustments[2]	[5] Plant Before Conversion	[6] A/D Before Conversion	[7] Debit A/D Converted to Reg. Asset3	[8] Excess A/D Converted Reg. Liability[4]	[9] Adopted Original Cost Plant	[10] Adopted Accumulated Depreciation	[11] Depreciation Expense[5]
1		**Intangible**												
2	351000	Organization	0.000%	$ -	$ -			$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	352000	Franchise	0.000%	364	-			364	-	-	-	364	-	-
4	353000	Land	0.000%	-	-			-	-	-	-	-	-	-
5		**Subtotal Intangible**		$ 364	$ -	$ -	$ -	$ 364	$ -	$ -	$ -	$ 364	$ -	$ -
6														
7		**Collection Plant**												
8	353200	Land and Land Rights - Collection	0.000%	$ -	$ -			$ -	$ -	$ -	$ -	$ -	$ -	$ -
9	354200	Structures and Improvements - Collection	3.333%	196,581	7,259			196,581	7,259	-	-	196,581	7,259	6,553
10	360000	Collection Sewer Forced	1.429%	5,385	(15,840)			5,385	(15,840)	15,840	-	5,385	-	77
11	361100	Collection Sewers Gravity	1.429%	2,721,870	401,695			2,721,870	401,695	-	-	2,721,870	401,695	38,884
12	362000	Special Collecting Structures	3.333%	138,063	18,829			138,063	18,829	-	-	138,063	18,829	4,602
13	363000	Customer Services	2.000%	530,251	59,874			530,251	59,874	-	-	530,251	59,874	10,605
14	364000	Flow Measuring Devices	6.667%	218,748	52,164			218,748	52,164	-	-	218,748	52,164	14,583
15		**Subtotal Collection Plant**		$ 3,810,898	$ 523,980	$ -	$ -	$ 3,810,898	$ 523,980	$ 15,840	$ -	$ 3,810,898	$ 539,820	$ 75,304
16														
17		**System Pumping Plant**												
18	355300	WW Power Generation Equipment Pumping	0.000%	-	-			-	-	-	-	-	-	-
19	370000	Receiving Wells	0.000%	-	-			-	-	-	-	-	-	-
20	371100	WW Pumping Equipment Electric	5.000%	82,445	51,888			82,445	51,888	-	-	82,445	51,888	4,122
21	371200	Manholes	0.000%	-	-			-	-	-	-	-	-	-
22		**Subtotal System Plumping Plant**		$ 82,445	$ 51,888	$ -	$ -	$ 82,445	$ 51,888	$ -	$ -	$ 82,445	$ 51,888	$ 4,122
23														
24		**Reclaimed Water Distrbution Plant**												
25	366000	Reuse Services	0.000%	$ -	$ -			$ -	$ -	$ -	$ -	$ -	$ -	$ -
26	367000	Reuse Meters And Installation	0.000%	-	-			-	-	-	-	-	-	-
27	370000	Receiving Wells	0.000%	-	-			-	-	-	-	-	-	-
28	374000	Reuse Distribution Reservoirs	0.000%	-	-			-	-	-	-	-	-	-
29	375000	Reuse Trans. and Dist. System	0.000%	-	-			-	-	-	-	-	-	-
30		**Subtotal Recalimed Water Dist Plant**		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
31														
32		**Treatment & Disposal Plant**												
33	354400	WW Structures & Improvements Treatment	2.000%	$ 1,047,352	$ 153,109			$ 1,047,352	$ 153,109	$ -	$ -	$ 1,047,352	$ 153,109	$ 20,947
34	355400	WW Power Generation Equipment Treatment	3.333%	142,907	(14,910)		45,591	142,907	30,681	-	-	142,907	30,681	4,764
35	380000	WW Treatment and Disposal Equipment	5.000%	1,013,753	41,021		1,177	1,013,753	42,198	-	-	1,013,753	42,198	50,688
36	380050	WW TD Equipment Grit Removal	5.000%	135,165	29,400			135,165	29,400	-	-	135,165	29,400	6,758
37	380100	WW TD Equipment Sed Tanks/Acc	5.000%	336,115	(371,356)		695	336,115	(370,661)	370,661	-	336,115	-	16,806
38	380300	WW TD Equipment Sldge Dry/Filt	5.000%	39,113	6,258			39,113	6,258	-	-	39,113	6,258	1,956
39	380500	WW TD Equipment Chemical Treatment Plant	5.000%	232,909	50,934			232,909	50,934	-	-	232,909	50,934	11,645
40	380600	WW TD Equipment Other Disp	5.000%	28,914	(1,235)			28,914	(1,235)	1,235	-	28,914	-	1,446
41	380625	WW TD Equipment Gen Treatment	5.000%	1,818,565	168,530		269,905	1,818,565	438,435	-	-	1,818,565	438,435	90,928
42	380650	WW TD Equipment Influent Lift Station	0.000%	-	-			-	-	-	-	-	-	-
43	381000	Plant Sewers	0.000%	-	-			-	-	-	-	-	-	-
44	382000	Outfall Sewer Lines	0.000%	-	-			-	-	-	-	-	-	-
45	389100	WW Oth Plt & Misc Equip Intang	0.000%	-	-			-	-	-	-	-	-	-
46	389600	WW Other P/E - CPS	3.333%	3,549	59			3,549	59	-	-	3,549	59	118
47		**Subtotal Transmission and Distribution Plant**		$ 4,798,344	$ 61,810	$ -	$ 317,368	$ 4,798,344	$ 379,178	$ 371,896	$ -	$ 4,798,344	$ 751,074	$ 206,056

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EPCOR Water Arizona, Inc.
Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013
Plant and Acculumated Depreciation

Exhibit E

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MOHAVE WASTEWATER

Line No.	Account No.	Description	Depreciation Rate[1]	[1] EPCOR Adjusted Original Cost Plant	[2] EPCOR Accumulated Depreciation	[3] Plant Adjustments	[4] Accumulated Depreciation Adjustments[2]	[5] Plant Before Conversion	[6] A/D Before Conversion	[7] Debit A/D Converted to Reg. Asset3	[8] Excess A/D Converted Reg. Liability[4]	[9] Adopted Original Cost Plant	[10] Adopted Accumulated Depreciation	[11] Depreciation Expense[5]
1		**General Plant**												
2	354500	WW Structures & Improvements General	0.000%	$ -	$ -			$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	335000	Hydrants	0.000%	-	-			-	-	-	-	-	-	-
4	390000	Office Furniture & Equipment	0.000%	-	-			-	-	-	-	-	-	-
5	390200	Computers and Software	10.000%	10,496	1,961			10,496	1,961	-	-	10,496	1,961	1,050
6	391000	Transportation Equipment	0.000%	-	-			-	-	-	-	-	-	-
7	392000	Stores Equipment	0.000%	-	-			-	-	-	-	-	-	-
8	393000	Tools, Shop And Garage Equip	4.000%	71,567	23,374			71,567	23,374	-	-	71,567	23,374	2,863
9	394000	Laboratory Equip	4.000%	14,336	994		642	14,336	1,636	-	-	14,336	1,636	573
10	395000	Power Operated Equipment	5.000%	16,703	3,916			16,703	3,916	-	-	16,703	3,916	835
11	396000	Communication Equip	10.000%	26,322	22,930			26,322	22,930	-	-	26,322	22,930	2,632
12	397000	Miscellaneous Equipment	0.000%	-	(9,824)		10,152	-	328	-	(328)	-	-	-
13	398000	Other Tangible Plant	0.000%	-	-			-	-	-	-	-	-	-
14		**Subtotal General Plant**		$ 139,424	$ 43,351	$ -	$ 10,794	$ 139,424	$ 54,145	$ -	$ (328)	$ 139,424	$ 53,817	$ 7,953
15		**Total Direct Plant**		$ 8,831,474	$ 681,029	$ -	$ 328,162	$ 8,831,474	$ 1,009,191	$ 387,735	$ (328)	$ 8,831,474	$ 1,396,599	$ 293,435
16														
17		**Allocated General Plant**												
18	399000	Allocated Corporate General Plant		34,952	11,286			34,952	11,286	-	-	34,952	11,286	814
19	399000	Reconcilation to PIS Balance		-	1,145			-	1,145	-	(1,145)	-	-	-
20		**Test Year Ended June 30, 2013**		$ 34,952	$ 12,431	$ -	$ -	$ 34,952	$ 12,431	$ -	$ (1,145)	$ 34,952	$ 11,286	$ 814
21		Total Plant		$ 8,866,427	$ 693,460	$ -	$ 328,162	$ 8,866,427	$ 1,021,622	**$ 387,735**	**$ (1,473)**	**$ 8,866,427**	**$ 1,407,885**	$ 294,249

[1] Although 0.000% is designated for depreciable plant accounts with no plant, upon placing any plant in service for these accounts, EPCOR is directed to file an application proposing a depreciation rate, and Staff is directed to prepare a recommended opinion and order for Commission consideration for a depreciation rate that will be effective beginning with the plant in-service date.

[2] Accumulated Depreciation for Acct. Nos. 355400, 380000, 380100, 380625, 394000 and 397000 were credited to recognize a combined $328,162 loss on early plant retirements due to flood loss.

[3] The regulatory asset is composed of converted debit Accumulated Depreciation balances.

[4] The regulatory liability is composed of converted excess credit Accumulated Depreciation balances.

[5] Depreciation Expense excludes Amortizaion of Constributions in Aid of Construction and Y2K.