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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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AUG 12 2015

TOM FORESE  
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DOCKETED BY

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM/AGUA FRIA WASTEWATER DISTRICT, SUN CITY WASTEWATER DISTRICT, AND SUN CITY WEST WASTEWATER DISTRICT

DOCKET NOS. SW-01303A-09-0343  
W-01303A-09-0343

REQUEST PURSUANT TO  
A.R.S. § 40-252

In Decision No. 74881 (the "Decision"), the Arizona Corporation Commission ("Commission") ordered EPCOR Water Arizona, Inc. ("EWAZ" or "Company") to file a rate case for all five of its wastewater districts on or before September 30, 2015. According to the Decision, the rate filing must "allow the parties to examine the information on a fully consolidated basis and on a separate wastewater system basis. A fully deconsolidated wastewater proposal, by system, shall also be included in the rate filing."

Since the filing of the Decision, the Company has worked diligently compiling, and with regard to full deconsolidation, creating, the information necessary for the three

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1 scenarios: (1) full consolidation; (2) full deconsolidation into seven wastewater districts  
2 (including consolidation of Northeast Agua Fria and Sun City West); and (3) the status  
3 quo, *i.e.*, keeping the five wastewater districts as they are today. This process has proven  
4 to be extremely complex, time consuming and expensive. During this timeframe, EWAZ  
5 has also learned, in part through its experiences in its most recent, on-going rate case, that  
6 it is critical that these scenarios, and the related accounting information, be accurate from  
7 the outset.

8 Rate case filings not only require balance sheet information but also require  
9 supporting plant and associated accumulated depreciation activity (additions, retirements,  
10 transfers, and depreciation). Since this information has not historically been maintained  
11 on an accounting basis that would enable a segregation of these transactions into the  
12 respective scenarios, additional efforts have been necessary to segregate the data. In  
13 addition, the period since the last rate case encompasses six years for all but one of the  
14 five districts. During this six-year period, the accounting records have been maintained  
15 on two separate accounting systems under two different corporations. American Water  
16 used Power Plant to account for plant transactions, while EWAZ uses Oracle Fixed Assets  
17 to maintain its plant accounting records. These programs, and the historical records, are  
18 unique, distinct and require reconciliation.

19 Historical test year expenses also require segregation into the sub-districts to  
20 enable a filing that will comply with the Commission's directives for full  
21 deconsolidation. In instances where direct charges (for example labor and production  
22 charges) are not available, allocation methodologies must be identified and evaluated for  
23 their reasonableness. This has involved detailed work to identify operational behaviors  
24 that could be used to develop appropriate allocators.

25 Customers, the Commission, and the Company will all benefit from a wastewater  
26 rate case/consolidation filing that is accurate and based on carefully studied,

1 independently reviewed allocations of costs and investments. As demonstrated during the  
2 first phase of this consolidation/deconsolidation proceeding, customers will be very  
3 interested in the rate impacts of the various consolidation and deconsolidation scenarios  
4 and deserve the most up to date, accurate and timely analysis and data that the Company  
5 can provide.

6 With this perspective in mind, the Company respectfully requests that it be given  
7 an extension until April 29, 2016 to file its wastewater rate application. Not only will the  
8 proposed extension provide the Company with the time necessary to assure the quality  
9 and accuracy of its filing, but it will also allow for the use of a December 31, 2015 test  
10 year, providing the most current financial and accounting information necessary for all  
11 parties to effectively review the current cost to deliver wastewater service to customers.

12 **I. Basis for the Request for Additional Time.**

13 In a filing made in February of this year, EWAZ requested clarification on the  
14 intent of the Decision as it related to the required deconsolidation scenario(s). As a result  
15 of that filing, Commission Staff clarified that the Decision required that EWAZ divide the  
16 Agua Fria Wastewater District into three new districts. After creating those three new  
17 districts, the Decision also required EWAZ to take one of the newly-created districts—  
18 Northeast Agua Fria— and combine it with Sun City West Wastewater District. The  
19 deconsolidation scenario also required the division of the Mohave Wastewater District  
20 into two new districts.

21 As EWAZ has explained throughout this proceeding, neither it, nor its  
22 predecessors, has ever split the costs of the current wastewater districts into the smaller  
23 communities that is now required. Contrary to the arguments of some and as noted above,  
24 this is proving to be a very complex, detailed and time-intensive process, as the Company  
25 expected—particularly, when the Company’s predecessor, American Water, created  
26 and/or held much of this information. This exercise is particularly difficult as it relates to

1 the creation of “roll forwards” for this rate case. Roll forwards are the exercise in any rate  
2 case of making all necessary changes in plant and depreciation from the date of the last  
3 rate case until the end of the test year. This is always a very time-consuming and  
4 personnel-intensive process, which is made more complex in this case by the need to  
5 provide this information on a deconsolidated basis.

6 **A. EPCOR Wants to Avoid the Accounting Issues that Arose in its Last**  
7 **Rate Case.**

8 In the Company’s most recent rate case, the Company experienced challenges  
9 using accounting records from both EPCOR’s systems and the systems of its predecessor,  
10 American Water.<sup>1</sup> The Company experienced difficulties reconciling these records,  
11 which ultimately led to delays in the proceeding until the Company could provide the data  
12 in a format required by Commission Staff and RUCO.<sup>2</sup> These difficulties were outlined  
13 in great detail in a recent Recommended Opinion and Order (“ROO”) issued August 7,  
14 2015.<sup>3</sup> As noted in the ROO, these accounting issues led to confusion, which in turn led  
15 to difficulties in processing the Application.<sup>4</sup> As set forth in the ROO, EWAZ is on  
16 notice that these issues need to be rectified for all districts prior to filing its next rate  
17 application.

18 Given the multiple scenarios and complexities involved in the current  
19 consolidation and deconsolidation scenarios, the Company is concerned about the  
20 potential for similar confusion to arise in this new application. To avoid these issues, the  
21 Company plans to provide Commission Staff and RUCO with a preview of the  
22 Company’s data and the multiple scenarios once they are completed. This will take time  
23 and additional pre-filing effort, but will be intended to result in a rate filing that meets the  
24 expectations of all interested parties and ultimately results in a more efficient proceeding.

25 <sup>1</sup> Docket No. WS-01303A-14-0010.

26 <sup>2</sup> Procedural Order dated October 16, 2014.

<sup>3</sup> Recommended Opinion and Order dated August 7, 2015, Docket No. WS-01303A-14-0010, at 14-15.

<sup>4</sup> ROO at 14-15.

1 If the Company is not able to allow for this initial pre-filing review, it is possible, if not  
2 likely, that the same delays that arose in the prior rate case will arise in this case. Based  
3 on the current progress, the Company does not believe that sufficient time exists prior to  
4 September 30, 2015 to complete this exercise.

5 **B. EWAZ Has Required Additional Resources to Create the New Districts.**

6 As noted above, EWAZ strongly believes that a key component of this case is the  
7 accuracy of the costs, and their allocation, for purposes of the deconsolidation scenarios.  
8 To assist in this task, the Company commissioned the assistance of Ernst & Young to  
9 deconstruct the Agua Fria and Mohave systems so that the rate base of each of the  
10 deconsolidated districts could be determined. Following the Motion for Clarification  
11 filed by EWAZ in February, the Company suspended work by Ernst & Young until it  
12 became clear what the Commission desired in relation to the deconsolidation scenarios.  
13 This suspension proved wise, as Ernst & Young was required to change its approach  
14 based on this clarification. However, this also meant that the work did not resume until  
15 late May when clarification from the Commission was received, which put the work  
16 behind the original schedule. In addition, the current tasks are proving to be more  
17 complex and challenging than originally expected.

18 **II. A December 31, 2015 Test Year Should Be Used.**

19 During this proceeding, customers, Commission Staff and RUCO have all  
20 indicated that a new test year (rather than combining multiple test years from prior cases)  
21 is needed to properly examine consolidation and deconsolidation. Typically, Commission  
22 Staff requires that rates be in effect for between six and 12 months before a rate case is  
23 filed so that a more accurate snapshot of the Company's revenues and expenses may be  
24 examined. As part of the initial consolidation proceeding, new rates went into effect  
25 January 1, 2015. New rates for the Mohave Wastewater District are likely to go into  
26 effect within the next month. Accordingly, as part of this extension request, the Company

1 is also requesting the use of a December 31, 2015 test year as the most appropriate test  
2 year to use for purposes of its new rate case.

3 **II. The Company Continues to Support Full Consolidation.**

4 The Company continues to believe consolidation is the best long-term solution and  
5 that it will be even more important as it continues to face the ever increasing need to  
6 renew aging infrastructure work. A broad customer base is the most efficient way of  
7 ensuring safe, reliable, affordable, high-quality wastewater service for all of the  
8 Company's customers. Consolidation will allow the Company to be more efficient with  
9 operations and provide an even higher level of customer service. With the costs  
10 associated with replacing aging infrastructure distributed over a larger base of customers,  
11 the Company can make timelier infrastructure investments based on the needs of all  
12 systems. Currently, with multiple, small systems, the Company is often forced to prolong  
13 needed infrastructure replacements to avoid triggering a large rate spike that can result  
14 from even a relatively small investment that impacts only a small subset of the  
15 Company's customers. The disparity of the current rates among our various wastewater  
16 districts is the result of that uneven investment impact.

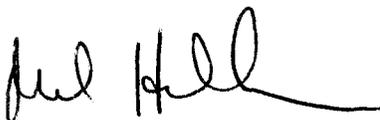
17 **III. Conclusion.**

18 For the reasons discussed above, the Company respectfully requests that the  
19 Commission extend the deadline to file its rate case until April 29, 2016, with a December  
20 31, 2015 test year.

21 Respectfully submitted this 12th day of August, 2015.

22 LEWIS ROCA ROTHGERBER, LLP

23  
24 By \_\_\_\_\_

  
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3 this 12th day of August, 2015, with:

4 The Arizona Corporation Commission  
5 Utilities Division – Docket Control  
6 1200 W. Washington Street  
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8 Copy of the foregoing hand-delivered  
9 this 12th day of August, 2015, to:

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