

# OPEN MEETING



0000166027

## MEMORANDUM

**ORIGINAL**

Arizona Corporation Commission

**DOCKETED**

RECEIVED

2015 SEP -3 A 9: 35

TO: THE COMMISSION

SEP 03 2015

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: September 3, 2015

DOCKETED BY	
-------------	--

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM WATER DISTRICT AND ITS SUN CITY WATER DISTRICT, AND POSSIBLE RATE CONSOLIDATION FOR ALL OF ARIZONA-AMERICAN WATER COMPANY'S DISTRICTS. (DOCKET NOS. SW-01303A-09-0343 & W-01303A-09-0343)

### I. INTRODUCTION AND BACKGROUND

In Decision No. 74881, 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."

On August 12, 2015, EWAZ filed a request pursuant to A.R.S. § 40-252, to extend the deadline to file the case until April 29, 2016 with a December 31, 2015 test year. In support of its filing, EWAZ states:

- its accounting records are maintained on two different systems because the systems had been purchased from American Water and that these records need to be reconciled;
- that it believes its cost allocation methodology needs to be reevaluated and updated<sup>1</sup>;
- that its efforts to deconsolidate its systems into smaller districts has never been required before and that these efforts are detailed and time-intensive;
- that it wishes to avoid problems that it experienced in its recent case in Docket No. WS-01303A-14-0010;
- that it needs clarification from the Commission regarding deconsolidation; and
- a December 31, 2015 test year will provide adequate actual data since new rates became effective on January 1, 2015 and again on September 1, 2015.<sup>2</sup>

<sup>1</sup> Discussion with the Company clarified that the Company's intentions are to determine the degree to which additional costs might be charged directly instead of allocating such costs and to retain its existing allocation methodology.

The Company represented to Staff that it notified all of the parties to the filing of its request, and at that time, no party expressed any opposition to the request. The Company has also indicated that it will contact all of the parties to advise them that the matter will be heard by the Commission at the September 8, 2015 Open Meeting and will file a letter in the docket stating as such. (See attached.)

## II. STAFF'S REVIEW OF EWAZ'S APPLICATION

Staff has reviewed the Company's filing and recommends that the Commission approve the Company's request for extension, subject to the following conditions:

- a. There shall be no further test year or other extensions granted.
- b. EWAZ shall file its application in full compliance with the requirements of Decision No. 74881.
- c. EWAZ shall, at its own expense, provide written notice (acceptable to Staff) to all affected customers explaining the reasons for the delay in easy to understand, lay person language, along with the revised date when the filing will occur.
- d. EWAZ is on notice that systemic and other reconciliation costs related to its acquisition of systems from American Water are subject to disallowance in a future rate proceeding.
- e. Staff has reviewed the Company's costs of approximately \$612,000 through July 31, 2015 that the Company has deferred and expects to recover under the accounting order granted in Decision No. 74588. Staff has reviewed the costs incurred to date, identified certain areas of concern, and discussed those concerns with the Company. The Company has agreed to limit the total amount eligible for deferral and possible future recovery to \$400,000, as a condition of being granted an extension of time until April 29, 2016. Therefore, approximately \$212,000 should be removed from the deferral and is ineligible for rate recovery also as a 2015 test-year expense in the upcoming rate case.

## III. COMPLIANCE REVIEW

A review of the compliance database for EWAZ found that the Company has an unresolved delinquency regarding its water loss in its Havasu Water District. In Docket No: W-01303A-10-0448, Decision No. 73145, the Company was required to file with Docket Control, by March 1, 2013, for Staff's review and approval, five-year plans to determine the most cost-effective approach to address non-revenue water in the Mohave and Havasu Water Districts, based on leak survey and system analysis. On March 1, 2013 the Company made the required filing for both districts.

---

<sup>2</sup> Decision No. 74881 decreased the rates effective January 1, 2015 for Agua Fria, Anthem and Mohave wastewater districts while increasing the rates for Sun City and Sun City West wastewater districts. A pending decision in Docket No. WS-01303A-14-0010 increased the rates effective September 1, 2015 for Mohave wastewater customers, subject to a three year phase-in.

THE COMMISSION

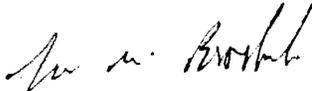
September 3, 2015

Page 3

However, Staff reviewed the filing and determined that the Company's filing for its Havasu Water District was inadequate. Staff notified the Company of its concerns, but the Company has yet to make the necessary corrections and re-file its five-year plan with regards to its Havasu Water District.

#### IV. CONCLUSIONS AND RECOMMENDATIONS

Staff recommends that the Commission approve the Company's request for an extension subject the conditions discussed above.



Thomas M. Broderick  
Director  
Utilities Division

TMB:GWB:red\RRM

ORIGINATOR: Gerald Becker

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

epcor.com

September 2, 2015

Mr. Thomas Broderick  
Director of Utilities  
Arizona Corporation Commission  
1200 West Washington St.  
Phoenix, AZ 85007

**Re: W-01303A-09-0343; SW-01303A-09-0343  
Request Pursuant to A.R.S. § 40-252 For Extension of Filing Deadline**

Dear Mr. Broderick:

On August 12, 2015, EPCOR Water Arizona, Inc. ("EPCOR") filed the above captioned request for an extension to file its rate case until April 29, 2016, with a December 31, 2015 test year. Prior to that filing, EPCOR had contacted the parties who were actively involved in the process and were among the signatories to the Settlement Agreement which was the basis for Decision 74881, which had set a September 30, 2015 filing deadline. EPCOR explained its extension request and none of the parties contacted expressed any opposition.

EPCOR understands that its extension request will be on the September 8, 2015 Open Meeting agenda. As a result, EPCOR has contacted each of the party signatories to notify them of the Open Meeting and their opportunity to comment at the Open Meeting on EPCOR's request. All but three of the parties have been reached and, once again, no party has expressed opposition to the extension.

We have left messages with the remaining three parties, which include Regina Shanney-Saborsky of the Corte Bella community, Bradley Herrema of Brownstein Hyatt Farber Schreck, LLP representing the Anthem Golf and Country Club and David Tenney, Executive Director of the Residential Utility Consumer Office. In our phone conversation with Douglas Edwards and in a voicemail message returned by Diane Smith, they assured us that their team, which includes Regina Shanney-Saborsky, would be made aware and were already aware of the Open Meeting and so while we will continue to reach out to Ms. Shanney-Saborsky, it is our understanding that she has been made aware of the Open Meeting. We will continue to follow up with these three parties, but do not have reason to believe that they will oppose an extension.

EPCOR appreciates the Commission's consideration of its request.

Sincerely,



Shawn Bradford  
Vice President of Corporate Services

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**BEFORE THE ARIZONA CORPORATION COMMISSION**

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

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
COMPANY FOR A DETERMINATION OF  
THE CURRENT FAIR VALUE OF ITS  
UTILITY PLANT AND PROPERTY AND  
FOR INCREASES IN ITS RATES AND  
CHARGES BASED THEREON FOR  
UTILITY SERVICE BY ITS ANTHEM  
WATER DISTRICT AND ITS SUN CITY  
WATER DISTRICT, AND POSSIBLE RATE  
CONSOLIDATION FOR ALL OF  
ARIZONA-AMERICAN WATER  
COMPANY'S DISTRICTS

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

DECISION NO. \_\_\_\_\_  
ORDER EXTENDING TIME DEADLINE  
CONTAINED IN DECISION NO. 74881

Open Meeting  
September 8 and 9, 2015  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. In Decision No. 74881, 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."

...  
...

1           2.       On August 12, 2015, EWAZ filed a request pursuant to A.R.S. § 40-252, to extend the  
2 deadline to file the case until April 29, 2016 with a December 31, 2015 test year. In support of its  
3 filing, EWAZ states:

- 4           •       its accounting records are maintained on two different systems because the  
5 systems had been purchased from American Water and that these records need  
6 to be reconciled;
- 7           •       that it believes its cost allocation methodology needs to be reevaluated and  
8 updated<sup>1</sup>;
- 9           •       that its efforts to deconsolidate its systems into smaller districts has never been  
10 required before and that these efforts are detailed and time-intensive;
- 11           •       that it wishes to avoid problems that it experienced in its recent case in Docket  
12 No. WS-01303A-14-0010;
- 13           •       that it needs clarification from the Commission regarding deconsolidation; and
- 14           •       a December 31, 2015 test year will provide adequate actual data since new rates  
15 became effective on January 1, 2015 and again on September 1, 2015.<sup>2</sup>

16           The Company represented to Staff that it notified all of the parties to the filing of its request,  
17 and at that time, no party expressed any opposition to the request. The Company has also indicated  
18 that it will contact all of the parties to advise them that the matter will be heard by the Commission at  
19 the September 8, 2015 Open Meeting and will file a letter in the docket stating as such.

#### 20 **Staff's Review of EWAZ's Application**

21           3.       Staff has reviewed the Company's filing and recommends that the Commission  
22 approve the Company's request for extension, subject to the following conditions:

- 23           a.       There shall be no further test year or other extensions granted.
- 24           b.       EWAZ shall file its application in full compliance with the requirements of  
25 Decision No. 74881.
- 26           c.       EWAZ shall, at its own expense, provide written notice (acceptable to Staff) to  
27 all affected customers explaining the reasons for the delays in easy to  
28 understand, lay person language, along with the revised date when the filing  
will occur.
- d.       EWAZ is on notice that systemic and other reconciliation costs related to its  
acquisition of systems from American Water are subject to disallowance in a  
future rate proceeding.

26 <sup>1</sup> Discussion with the Company clarified that the Company's intentions are to determine the degree to which additional  
27 costs might be charged directly instead of allocating such costs and to retain its existing allocation methodology.

28 <sup>2</sup> Decision No. 74881 decreased the rates effective January 1, 2015 for Agua Fria, Anthem and Mohave wastewater districts  
while increasing the rates for Sun City and Sun City West wastewater districts. A pending decision in Docket No. WS-  
01303A-14-0010 increased the rates effective September 1, 2015 for Mohave wastewater customers, subject to a three year  
phase-in.

1 e. Staff has reviewed the Company's costs of approximately \$612,000 through  
2 July 31, 2015 that the Company has deferred and expects to recover under the  
3 accounting order granted in Decision No. 74588. Staff has reviewed the costs  
4 incurred to date, identified certain areas of concern, and discussed those  
5 concerns with the Company. The Company has agreed to limit the total  
6 amount eligible for deferral and possible future recovery to \$400,000, as a  
7 condition of being granted an extension of time until April 29, 2016.  
8 Therefore, approximately \$212,000 shall be removed from the deferral and is  
9 ineligible for rate recovery also as a 2015 test-year expense in the upcoming  
10 rate case.

11 4. A review of the compliance database for EWAZ found that the Company has an  
12 unresolved delinquency regarding its water loss in its Havasu Water District. In Docket No: W-  
13 01303A-10-0448, Decision No. 73145, the Company was required to file with Docket Control, by  
14 March 1, 2013, for Staff's review and approval, five-year plans to determine the most cost-effective  
15 approach to address non-revenue water in the Mohave and Havasu Water Districts, based on leak  
16 survey and system analysis. On March 1, 2013 the Company made the required filing for both  
17 districts. However, Staff reviewed the filing and determined that the Company's filing for its Havasu  
18 Water District was inadequate. Staff notified the Company of its concerns, but the Company has yet  
19 to make the necessary corrections and re-file its five-year plan with regards to its Havasu Water  
20 District.

21 5. Staff recommends that the Commission approve the Company's request for an  
22 extension subject to the conditions discussed above.

23 6. We find the Company's request to be reasonable, as a complete and accurate  
24 application is an important first step in the rate case process. Staff's recommendation for the  
25 extension of time to file a rate application, subject to the conditions as set forth in Findings of Fact  
26 No. 3 should be adopted.

#### 27 CONCLUSIONS OF LAW

28 1. EPCOR Water Arizona, Inc. is a public service corporation within the meaning of  
Article XV of the Arizona Constitution.

2. The Commission has jurisdiction over EPCOR Water Arizona, Inc. and over the  
subject matter of the application.

...



1 SERVICE LIST FOR: EPCOR WATER ARIZONA, INC.  
 2 DOCKET NOS. SW-01303A-09-0343 and W-01303A-09-0343

3 Thomas H. Campbell  
 4 Michael T. Hallam  
 5 LEWIS AND ROCA ROTHGERBER, LLP  
 6 201 E. Washington, Suite 1200  
 7 Phoenix, AZ 85004  
 8 [tcampbel@lrrlaw.com](mailto:tcampbel@lrrlaw.com)  
 9 [mhallam@lrrlaw.com](mailto:mhallam@lrrlaw.com)  
 10 [Shubbard@epcor.com](mailto:Shubbard@epcor.com)

11 Attorneys for EPCOR Water Arizona, Inc.

12 Lawrence V. Robertson, Jr.  
 13 Munger Chadwick, P.L.C. (of Counsel)  
 14 P.O. Box 1448  
 15 Tubac, AZ 85646-1448  
 16 [tubaclawyer@aol.com](mailto:tubaclawyer@aol.com)  
 17 Attorney for Anthem Community Council

18 Daniel Pozefsky  
 19 Chief Counsel  
 20 Residential Utility Consumer Office  
 21 1110 West Washington Street, Suite 220  
 22 Phoenix, AZ 85007  
 23 [dpozefsky@azruco.gov](mailto:dpozefsky@azruco.gov)  
 24 [cfraulob@azruco.gov](mailto:cfraulob@azruco.gov)

25 Jeffrey W. Crockett  
 26 BROWNSTEIN HYATT FARBER  
 27 SCHRECK LLP  
 28 One East Washington Street, Suite 2400  
 Phoenix, AZ 85004  
[jcrockett@bhfs.com](mailto:jcrockett@bhfs.com)  
[julie.bluesky@gmail.com](mailto:julie.bluesky@gmail.com)  
 Attorney for Russell Ranch Homeowners  
 Association, Inc.

Andrew M. Miller, Town Attorney  
 Town of Paradise Valley  
 6401 East Lincoln Drive  
 Paradise Valley, AZ 85253  
[amiller@paradisivalleyaz.gov](mailto:amiller@paradisivalleyaz.gov)

Michele L. Van Quathem  
 RYLEY CARLOCK & APPLEWHITE  
 One North Central Avenue, Suite 1200  
 Phoenix, AZ 85004-4417  
[mvanquathem@rcalaw.com](mailto:mvanquathem@rcalaw.com)  
[lgefroh@rcalaw.com](mailto:lgefroh@rcalaw.com)  
 Attorneys for Verrado Community Assn., Inc.

Cynthia S. Campbell  
 Paul Norman  
 Assistant City Attorneys  
 Office of the City Attorney  
 CITY OF PHOENIX  
 200 West Washington, Suite 1300  
 Phoenix, AZ 85003-1611  
[cynthia.campbell@phoenix.gov](mailto:cynthia.campbell@phoenix.gov)  
[paul.norman@phoenix.gov](mailto:paul.norman@phoenix.gov)

Judith M. Dworkin  
 Roxanne S. Gallagher  
 SACKS TIERNEY, P.A.  
 4250 North Drinkwater Blvd., Fourth Floor  
 Scottsdale, AZ 85251-3693  
[Judith.Dworkin@SacksTierney.com](mailto:Judith.Dworkin@SacksTierney.com)  
[Roxann.Gallagher@SacksTierney.com](mailto:Roxann.Gallagher@SacksTierney.com)  
[Jessica.Chester@SacksTierney.com](mailto:Jessica.Chester@SacksTierney.com)  
 Attorneys for Anthem Community Council

Bradley J. Herrema  
 Robert J. Saperstein  
 BROWNSTEIN HYATT FARBER  
 SCHRECK, LLP  
 21 E. Carillo Street  
 Santa Barbara, CA 93101  
[BHerrema@bhfs.com](mailto:BHerrema@bhfs.com)  
[RSaperstein@bhfs.com](mailto:RSaperstein@bhfs.com)  
 Attorneys for Anthem Golf and  
 Country Club

Diane Smith  
 Government Affairs Committee  
 13234 W. Cabrillo Drive  
 Sun City West, AZ 85375  
[skylar\\_98@q.com](mailto:skylar_98@q.com)

1 Albert E. Gervenack  
14751 W. Buttonwood Drive  
2 Sun City West, AZ 85375  
3 [agervenack@bmi.net](mailto:agervenack@bmi.net)

4 Karen D. Proctor  
11716 W. Villa Chula Court  
5 Sun City, AZ 85373  
6 [Kdprocto@gmail.com](mailto:Kdprocto@gmail.com)

7 Douglas Edwards  
Government Affairs Committee  
8 13517 W. Sola Drive  
Sun City West, AZ 85375  
9 [d.edwards795@yahoo.com](mailto:d.edwards795@yahoo.com)

10 Frances A. Noe  
11756 W. Daley Ln.  
11 Sun City, AZ 85373  
12 [noeshomes@earthlink.net](mailto:noeshomes@earthlink.net)

13 Regina Shanney-Saborsky  
Government Affairs Committee  
14 c/o Corte Bella Country Club  
22155 North Mission Drive  
15 Sun City West, AZ 85375  
16 [rsaborsky@cox.net](mailto:rsaborsky@cox.net)

17 Robert J. McKenzie, Jr.  
41633 N. Panther Creek Trail  
18 Anthem, AZ 85086  
19 [jrbobmck@gmail.com](mailto:jrbobmck@gmail.com)

Greg Eisert, Director & Chairman  
Government Affairs Committee  
Sun City Homeowners Association  
10401 W. Coggins Drive  
Sun City, AZ 85351  
[gregeisert@gmail.com](mailto:gregeisert@gmail.com)

Frederick G. Botha  
Mary L. Botha  
23024 North Giovota Drive  
Sun City West, AZ 85375  
[fgbotha45@gmail.com](mailto:fgbotha45@gmail.com)

Mr. Thomas M. Broderick  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Janice M. Alward  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Dwight Nodes  
Chief Administrative Law Judge, Hearing  
Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

20  
21  
22  
23  
24  
25  
26  
27  
28