

ORIGINAL



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH - CHAIRMAN
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TOM FORESE

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AZ CORP COMMISSION
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IN THE MATTER OF THE JOINT
APPLICATION OF WILLOW VALLEY
WATER CO., INC. AND EPCOR WATER
ARIZONA INC. FOR APPROVAL OF THE
SALE OF ASSETS AND TRANSFER OF
CERTIFICATE OF CONVENIENCE AND
NECESSITY.

DOCKET NO. W-01732A-15-0131
DOCKET NO. W-01303A-15-0131

**NOTICE OF ERRATA TO
STAFF'S CLOSING BRIEF**

The Staff of the Arizona Corporation Commission ("Staff") hereby files the following Errata to Staff's Closing Brief filed on December 7, 2015, replacing page 3.

RESPECTFULLY SUBMITTED this 7th day of December, 2015.

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Original and thirteen (13) copies of the foregoing filed this 7th day of December, 2015, with:

Docket Control
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Arizona Corporation Commission

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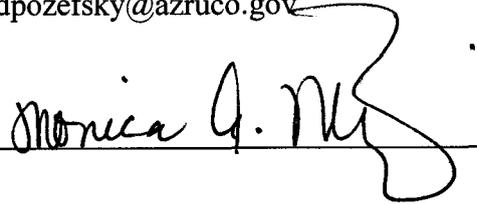
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1 However, upon further research, Staff was concerned that such treatment would violate the Internal
2 Service Revenue regulations regarding normalization. Staff withdrew its recommendation.⁶

3 RUCO's witness, Ralph Smith, testified extensively on the issue of ADIT. Mr. Smith agreed
4 with Staff that the transfer of the ADIT balance could pose a problem with the IRS regulations
5 regarding ADIT.⁷ Mr. Smith also suggested that even creating a regulatory liability in the same
6 amount could also pose a problem.⁸ The risk of transferring the ADIT balance or creating a
7 regulatory liability could cause EPCOR to lose the ability to take accelerated depreciation.⁹ In Mr.
8 Smith's opinion, an option would be for EPCOR to request a private letter ruling from the IRS to
9 determine if the proposed treatment of ADIT as a regulatory liability would violate the IRS
10 regulations on normalization.¹⁰ Because of the risk of running afoul of the IRS regulations on
11 normalization, Staff withdrew its recommendation that the ADIT balance of approximately \$260,000
12 be treated as a regulatory liability.

13 **III. ACQUISITION PREMIUM.**

14 EPCOR has requested an acquisition adjustment mechanism or incentive that is designed to
15 capture the price paid in excess of the rate base.¹¹ According to EPCOR, this methodology would
16 serve as a template to be used in other similar dockets.¹² The Company has proposed that as it makes
17 investments into the system to address Willow Valley's water loss issue, once those investments are
18 placed into service, EPCOR would file a rate case to include the capital investment plus a 20%
19 premium that would represent the incentive, then computing a separate revenue requirement to be
20 recovered over 15 years.¹³

21 According to the exhibit attached to the rebuttal testimony of Company witness Sarah Mahler,
22 the 20 percent is calculated in the amount of the capital invested, which is estimated by EPCOR to be
23 \$1 million.¹⁴ That 20 percent would be multiplied times the return on equity that is established in the

24 ⁶ Carlson Surrebuttal Test., Ex. S-6 at 4.

25 ⁷ Smith Surrebuttal Test., Ex. R-1 at 19.

26 ⁸ Tr. at 86-87.

27 ⁹ Carlson Surrebuttal Test., Ex. S-5 at 4.

28 ¹⁰ Smith Surrebuttal Test., Ex. R-1 at 25; Tr. at 27:7-17.

¹¹ Mahler Rebuttal Test., EWAZ-4 at 7.

¹² Tr. at 12:15-25; 318:1-16.

¹³ Mahler Rebuttal Test., EWAZ-4 at 8.

¹⁴ *Id.* at Ex. SM-1.