

ORIGINAL NEW APPLICATION



0000168044

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman

2015 DEC 31 P 4:17

BOB STUMP
Commissioner

AZ CORP COMMISSION
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BOB BURNS
Commissioner

Arizona Corporation Commission
DOCKETED

DOUG LITTLE
Commissioner

DEC 31 2015

TOM FORESE
Commissioner

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION)
OF EPCOR WATER ARIZONA INC. FOR)
APPROVAL OF AN ACCOUNTING ORDER)
TO DEFER POST-IN-SERVICE)
ALLOWANCE FOR FUNDS USED)
DURING CONSTRUCTION AND)
DEPRECIATION AND AMORTIZATION)
EXPENSE)

DOCKET NO. WS-01303A-15-0424

APPLICATION FOR APPROVAL
OF AN ACCOUNTING ORDER
TO DEFER POST-IN-SERVICE
AFUDC AND DEPRECIATION
AND AMORTIZATION

EPCOR Water Arizona Inc. ("EWAZ") requests approval of an accounting order to defer post-in-service Allowance for Funds Used During Construction ("AFUDC") and associated depreciation and amortization expense for up to twenty-four months starting January 1, 2015 for the EWAZ districts of Agua Fria Wastewater, Anthem Wastewater, Mohave Wastewater, Sun City Wastewater, and Sun City West Wastewater ("Wastewater Rate Case Districts"), which are the districts for which EWAZ will file a rate case using a 2015 test year.

REQUEST FOR EWAZ WASTEWATER DISTRICTS WITH A 2015 TEST YEAR

EWAZ will file the next rate case for the Wastewater Rate Case Districts using a test year ended December 31, 2015, no later than April 29, 2016. If this accounting order is approved, recovery of the costs deferred during the 24-month deferral period would commence upon effectiveness of new rates for the December 31, 2015 test year rate cases

1 based on the deferral recovery method determined in that proceeding. The specific details
2 of recovery of the deferrals in rates need not be determined as part of approval of an
3 accounting order.

4 After a series of workshops, Commission Staff docketed on March 19, 2012, its
5 compliance report in Docket No. W-00000C-06-0149 and recommended “[c]onsideration
6 of authorizing utilities to record and defer depreciation and a cost of money using an
7 AFUDC rate on qualified plant replacements for up to 24 months after the in-service date
8 to mitigate the effects of regulatory lag.” Attached as Exhibit 1 are relevant excerpts from
9 Staff’s recent compliance report.

10 EWAZ’s previous test years ending from completed rate cases for the Wastewater
11 Rate Case Districts range from 2008 to June 30, 2013, and, therefore, have been subject to
12 the negative effects of regulatory lag. This request, however, is only for the 24-month
13 period recommended by Commission Staff and commencing on January 1, 2015. EWAZ,
14 therefore, has been carrying the cost of plant placed in-service since the end of each
15 district’s respective previous test year - between one and one-half years and six years
16 already depending on the district - before the start of the requested 24-month deferral
17 period for which the negative effects of regulatory lag will continue.

18 The new plant additions during the 24-month deferral period include all capital
19 projects such as collection mains, lift stations, services, pumping equipment, and treatment
20 and disposal equipment. Given that the purpose of the deferral is to mitigate the harmful
21 effects of regulatory lag, there is no reason to exclude any new plant from the deferral.

22 In order to put this deferral request into perspective, the existing approved rate
23 bases for the Wastewater Rate Case Districts, as well as the estimated net utility plant in-
24 service additions, are displayed below:

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	Estimated Net Plant	
	<u>Existing Rate Base*</u>	<u>Additions During 24-Month Period</u>
Agua Fria Wastewater	\$19,147,531	\$ 120,795
Anthem Wastewater	\$25,969,396	\$ 2,323,419
Mohave Wastewater	\$ 4,921,310	\$ 349,845
Sun City Wastewater	\$15,489,977	\$ 5,036,764
Sun City West Wastewater	\$18,096,538	\$ 7,326,973
Total Expenditures		\$15,157,796

*As approved in Decision No. 73227, except Mohave WW which is Decision No. 75268.

The above net plant additions include plant additions for the Northwest Valley Regional Water Reclamation Facility allocated to Agua Fria Wastewater and Sun City West Wastewater districts.¹ All values in the table above are provided for informational purposes only. The deferrals will be based on all actual plant additions during the 24-month period, which may be more or less than the estimated net plant additions above. Greater details on the above estimated net plant additions, AFUDC deferrals, and depreciation deferrals are provided in Exhibit 2, and, of course, more information is available from EWAZ in discovery.

In the deferral calculations, net plant additions are defined as actual utility plant in service each month minus the utility plant in service balance for the prior month and are calculated at the district level net of new contributions and new net advances (advances less refunds).

In calculating the actual deferral of post-in-service AFUDC, EWAZ would apply the existing Commission-approved AFUDC rates to net plant additions as follows:

¹ Amounts for the Northwest Reclamation Facility are listed in Exhibit 2 as "Northwest Valley Wastewater".

	<u>District</u>	<u>AFUDC Debt</u>	<u>AFUDC Equity</u>
1			
2	Agua Fria Wastewater	3.00%	3.70%
3	Anthem Wastewater	3.00%	3.70%
4	Mohave Wastewater	2.56%	3.82%
5	Sun City Wastewater	3.00%	3.70%
6	Sun City West Wastewater	3.21%	4.12%
7			

8 Amounts eligible for deferred depreciation and amortization will be determined by
9 subtracting the actual December 31, 2014 depreciation expense from the actual
10 depreciation expense for each of the 24 months during the deferral period in each of the
11 above districts. Deferred depreciation on utility plant in service additions will be slightly
12 offset by deferred amortization on any new contributions in aid of construction. All
13 depreciation and amortization calculations will use the existing Commission-approved
14 depreciation and amortization rates for each district.

15 **Based on this method and the authorized rates, EWAZ estimates that by the**
16 **end of the 24-month deferral period, the deferral for the Wastewater Rate Case**
17 **Districts will equal approximately \$1.009 million.** The \$1.009 million deferral estimate
18 is comprised of \$0.697 million estimated post-in-service AFUDC deferral and \$0.312
19 million estimated depreciation and amortization deferral.

20 In its Staff Report referenced above, Staff indicated that qualified plant additions
21 would need to pass the used and useful test in the next rate case. Therefore, the selection
22 of the 24-month period is important and should align with the next rate case's procedural
23 schedule. EWAZ believes that it is preferable that the 24-month period end on or about
24 the expected date of the Staff Engineering team's field review. Assuming EWAZ files its
25 next rate case April 29, 2016 as ordered by the Commission, the field review should occur
26 in summer/fall 2016, which lines up reasonably well to the deferral period EWAZ

1 proposes. However, it would be unfortunate for the deferral to cease before its full 24-
2 month period simply because additional plant is placed in service after Staff Engineering's
3 field visits are concluded. Therefore, if Staff believes that a slightly modified 24-month
4 deferral period is preferable to the period proposed by EWAZ (*i.e.*, January 1, 2015
5 through December 31, 2016), EWAZ is amenable to such an alternative.

6 A start date of January 1, 2015 - which is now a historical date - would not raise
7 concerns of retroactive ratemaking. As noted by the Commission in Decision No. 72897
8 (Goodman Water Company), "Deferral of depreciation on utility plant that has never been
9 recognized in rate base or rates, is not retroactive ratemaking." Decision No. 72987 at 21.
10 The same concept would also apply to the associated deferred AFUDC.

11 Each of the districts must earn less than its authorized return during the deferral
12 period, and the deferral, if approved, will improve reported earnings from what they
13 otherwise would be. The Commission will know the earnings of each of these districts for
14 the deferral period because the preferred start date of January 1, 2015 is also the start date
15 of the test year for the next rate case. Detailed earnings information concerning the test
16 year will be provided in the schedules submitted in compliance with the Commission's
17 standard filing requirements for a rate case. Again, if the Commission prefers, EWAZ can
18 accept the establishment of an earnings test for the 24-month period based on actual
19 adjusted test year results such that the deferral would be reduced in the very unlikely event
20 of needing to bring earnings down to authorized levels. The earnings test results would be
21 provided at the district level.

22 If the accounting order is approved, EWAZ's accountants will record the deferrals
23 on the basis that the accounting order is a regulatory promise (but not a guarantee) that the
24 deferred amounts will later be actually recovered in rates. Although EWAZ and other
25 reviewers understand that recovery details will be determined in the next rate case (*e.g.*,
26 the length of the recovery period), the books will be relied upon as accurate and as

1 including a regulatory promise that will keep EWAZ whole (or very close to whole) on a
2 present value basis as regards the specific recovery of the deferral. Any subsequent
3 Commission action that deviates or erodes the regulatory promise will cause an immediate
4 write-off of the amount of the deferral impacted by any deviation or erosion.

5 If approved, the order would cause accounting entries such as the following in
6 EWAZ's accounting records:

	<u>Debit</u>	<u>Credit</u>
7		
8 1) 186XXX(1142) Regulatory Asset – Deferred Depreciation	\$XX	
9 680XXX (5351) Depreciation Expense		\$XX

10 Entry 1) defers the depreciation expense on projects completed and placed in service
11 starting January 1, 2015 and thereafter.

12		
13 2) 186XXX (1142) Regulatory Asset – Deferred AFUDC (debt)	\$YY	
14 850XXX (5400) AFUDC debt		\$YY

15 Entry 2) defers the debt portion of AFUDC on projects completed and placed in service
16 starting January 1, 2015 and thereafter.

17		
18 3) 186XXX (1142) Regulatory Asset – Deferred AFUDC (equity)	\$ZZ	
19 705XXX (5400) AFUDC equity		\$ZZ

20
21 Entry 3) above defers the equity return on projects completed and placed in service
22 starting January 1, 2015 and thereafter, but would only be reflected on the company's
23 regulatory books.

24 Therefore, the granting of this deferral request would eliminate - as Staff describes
25 in its recommendation - the immediate drain on earnings that utilities such as EWAZ
26 experience when construction of new utility plant is completed and the asset is placed in

1 service without immediate rate relief through entries such as those described above.
2 Absent the deferral, when plant is placed in service, depreciation expense commences and
3 immediately reduces income without new revenues to offset the expense. In addition to
4 the reduction in income from the new depreciation expense, the income generated by the
5 accumulation of AFUDC while plant is under construction ceases once the plant is place in
6 service. The effect of this is a dollar for dollar reduction in income to the utility
7 effectively eroding EWAZ's return on equity.

8 The deferral requested in this Application would reduce the negative effects of
9 regulatory lag and also provide for the future recovery of the new depreciation expense
10 and the return on the plant investment. If the Commission grants this relief, it would
11 provide a reasonable opportunity for the utility to recover the return of (depreciation
12 expense) and return on (cost of capital) new plant investment.

13 EWAZ notes that this request does not overlap or compete with a distribution
14 system infrastructure surcharge concept ("DSIC"), as that surcharge, if requested by
15 EWAZ and later approved in the rate case, would only apply to plant placed in service
16 during periods after new rates become effective in that rate case. In other words, a DSIC,
17 if approved would pertain to new plant additions after the conclusion of the 24-month
18 deferral period. Also, any plant eligible for inclusion in a DSIC in the future would
19 obviously not be eligible for inclusion in any subsequent re-authorization of a 24-month
20 deferral.

21 CONCLUSION

22 EWAZ appreciates the opportunity the Commission Staff's compliance report has
23 provided for mitigating the harmful effects of regulatory lag for at least part of the interim
24 period between rate cases. The request herein is modest because it a) does not include a
25 request to defer AFUDC and depreciation on plant placed in service from prior test year
26 ending dates through December 31, 2014; b) does not increase rates until after the next

1 rate case concludes; and c) it seeks an approval at this time only for a single 24-month
2 period for each of the Wastewater Rate Case Districts, even though Staff's
3 recommendation was not limited to just mitigating regulatory lag in the next rate case. For
4 all of the reasons set forth in this filing, EWAZ respectfully requests that the Commission
5 approve its request in this Application and issue an accounting order authorizing EWAZ to
6 defer post-in-service AFUDC and associated depreciation and amortization expense.

7 RESPECTFULLY SUBMITTED this 31st day of December 2015.

8 LEWIS ROCA ROTHGERBER, LLP

9
10 

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Attorneys for EPCOR Water Arizona Inc.

16 ORIGINAL and thirteen (13) copies
17 of the foregoing filed
18 this 31st day of December 2015, with:

19 The Arizona Corporation Commission
20 Utilities Division – Docket Control
21 1200 W. Washington Street
22 Phoenix, Arizona 85007

23 Copy of the foregoing hand-delivered
24 this 31st day of December 2015, to:

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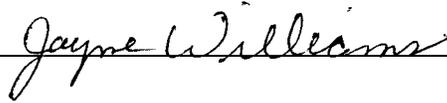
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EXHIBIT 1

MEMORANDUM

RECEIVED

2012 MAR 19 P 2:44

AZ CORP COMMISSION
DOCKET CONTROL

TO: Docket Control Center

FROM: Steven M. Olea
Director
Utilities Division

DATE: March 19, 2012

RE: STAFF REPORT FOR COMPLIANCE FILING IN THE MATTER OF THE APPLICATION OF GLOBAL WATER FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA. DOCKET NOS. SW-20445A-09-0077, W-02451A-09-0078, W-01732A-09-0079, W-20446A-09-0080, W-02450A-09-0081 AND W-01212A-09-0082

Attached is the Staff Report, pursuant to the compliance filing ordered in the above-named docket, resulting from the series of workshops held in Docket No. W-00000C-06-0149, Generic Evaluation of the Regulator Impacts from the Use of Non-Traditional Financing Arrangements by Water Utilities and Their Affiliates.¹

Staff recommends:

1. Consideration of authorizing utilities to record and defer depreciation and a cost of money using an Allowance For Funds Used During Construction ("AFUDC") rate on qualified plant replacements² for up to 24 months³ after the in-service date to mitigate the effects of regulatory lag.
2. Consideration of allowing acquisition premiums and/or a premium on the rate of return on a case by case basis and subject to certain conditions, in those cases where the impacts may be offset to some extent by the effects of operational improvements. If granted, acquisition premiums would be subject to review and re-justification in future proceedings.
3. Consideration of establishing a mechanism to recognize the effect of delays in the processing of rate cases when applicant is not culpable for those delays.

¹ Staff will prepare separate reports to address distribution system improvement charge ("DSIC") and the treatment of income taxation for S corporations and limited liability companies.

² At a minimum qualified plant would need to be found used and useful during the 24-month period.

³ Terminates before 24 months if rates become effective that include the qualified plant in rate base in the 24-month period.

Staff Analysis

Staff attended the workshops and has reviewed the filings of the various participants. In this filing Staff's comments are limited to its recommendations on:

1. Post-in-Service Allowance for Funds Used During Construction ("AFUDC") and Deferred Depreciation
2. Acquisition premiums and/or rate of return premiums.
3. A possible mechanism to capture the effects of untimely delays in the processing of a rate case.
4. Continued treatment of ICFAs per Decision No. 71878 pending results of an independent audit.

Post-in-Service AFUDC and Deferred Depreciation

At one of the workshops, participants expressed concern regarding the inability to earn an awarded Rate of Return ("ROR") due to the carrying costs incurred between the time when Construction Work in Progress ("CWIP") is transferred to Utility Plant in Service ("UPIS") and considered for recognition in rate bases. This occurs because the recording of AFUDC ceases when CWIP is transferred to UPIS.

Under present treatment, utilities record projects in the CWIP accounts and are allowed to record AFUDC on those balances using a rate that equals the utility's cost of capital. Upon transferring the cost of the completed project from CWIP to UPIS, the recording of AFUDC ceases and the utility begins depreciating the asset. During the interim period between the transfer from CWIP to UPIS and the date when the asset may be recognized in rate base, the utility bears the carrying costs of the asset which are unavoidable and unrecoverable under the present regulatory process. Once a project is completed, it is transferred to UPIS.

Staff recommends that some consideration be given to mitigating the effects of carrying costs of net plant additions between rate proceedings. Under optimal conditions, a utility would transfer plant to UPIS concurrently with filing a rate case which would require up to 12 months to process. In addition, Staff prefers 12 months of data after a Company has received new rates before it can file another rate case. Realistically, the utility will bear the carrying costs of the incremental net plant additions during the interim period which is at least 24 months. While the utility is technically not entitled to earn on that incremental plant absent a fair value determination, Staff recommends that some consideration be given to mitigate effects of associated carrying costs which could be significant. Staff recommends the deferral of post-in-service AFUDC for a period of up to 24 months to mitigate the effect of regulatory lag.

Staff also recognizes that a utility records depreciation expense from the date that the asset is placed into service. If this occurs during or prior to the end of the test year in a rate proceeding, the utility incurs depreciation expense but has no opportunity to recover it. Similar to the reason associated with regulatory lag discussed more fully above regarding post-in-service

AFUDC, Staff further recommends that depreciation expense be deferred for a period of up to 24 months to mitigate the effects of regulatory lag. (The precise entries to effect this would need to be determined.)

The deferral of AFUDC and depreciation would allow a Company to request recovery of both amounts, which it would not normally be allowed to do absent an approved deferral.

Acquisition Premiums

Some participants cite two instances when Staff recommended and the Commission approved an acquisition premium. In researching this issue, there are two cases to consider which may serve to clarify the record.

1. Paradise Valley Water Company ("PVWC")/Mummy Mountain Water Company ("Mummy Mountain") – In this proceeding, Docket Nos. W-01342A-98-0678 and W-01303A-98-0678, Decision No. 61307, the owners of Mummy Mountain sold their system for approximately \$150,000 which included a \$40,000 payment to the sellers, approximately \$47,000 forgiveness of debt for the utility service owed by the seller to the buyer (PVWC), \$32,000 of property taxes owed by the seller but to be paid by the buyer, and administrative costs of \$20,000 associated with the sale. Unfortunately, the record is silent regarding the net book value of the assets transferred to PVWC, and Mummy Mountain's most recent rate case, Docket No. W-01342A-91-0224, Decision No. 57877, is too stale to provide reliable information regarding an appropriate valuation of the business. Staff is therefore unable to ascertain the existence, or lack thereof, of an acquisition premium associated with this transaction.
2. The sale of the "McClain systems" to Northern and Southern Sunrise Water Companies – Staff reviewed the record underlying Decision Nos. 68412 and 68826. Dated January 23, 2006, Decision No. 68412 was a rate case which approved a negative goodwill of \$52,141 for substandard operating conditions of the McClain systems. Dated June 29, 2006, Decision No. 68826 approved the transfer of the "McClain systems" to Northern and Southern Sunrise Water Companies and approved acquisition costs of \$300,000, including \$100,000 for reorganization, bankruptcy and other costs, \$100,000 for Commission related activities, and \$100,000 for transition costs such as support for an interim operator, capitalized labor costs, etc.² Thus, Staff could not find any evidence of the Commission granting recovery of a true acquisition premium, although Staff also notes that it is aware of few requests by utilities to recover an acquisition premium.

While a policy of granting acquisition premiums has the theoretical potential to encourage healthy utilities to acquire non-viable utilities, it also has the undesirable effect of providing owners an incentive to underperform and become non-viable by design to place their utilities in a position to become a lucrative acquisition target. Thus, establishing a general policy

² Decision No 68826, Findings of Fact, paragraph 47.

EXHIBIT 2

**EPCOR Water Arizona Inc.
Estimated 24-Month Deferral**

Exhibit 2

Note: All values are estimated and subject to change

BU District	Jan-15 12015	Feb-15 22015	Mar-15 32015	Apr-15 42015	May-15 52015	Jun-15 62015	Jul-15 72015	Aug-15 82015	Sep-15 92015	Oct-15 102015	Nov-15 112015	Dec-15 122015
Capital Spend												
7C Sun City Wastewater	-	-	-	4,227	579	9,535	(750)	13,181	5,495	(819)	112,597	1,144,238
7E Sun City West Wastewater	-	-	8,906	(87,339)	-	-	-	(69,219)	-	57,680	-	807,891
7G Agua Fria Wastewater	1,166,235	32,851	33,224	(39,892)	-	2,003	-	-	-	57,147	(4,186)	1,115,914
7H Northwest Valley Wastewater	-	-	38,501	56,333	(1,412)	23,953	(28,272)	(27,542)	12,003	166,165	(77,290)	1,644,896
7L Anthem Wastewater	-	4,616	72,666	(103,363)	6,960	(53,728)	(19,606)	91,231	8,913	5,236	30,768	139,641
7N Mohave Wastewater	-	-	18,661	17,487	5,498	(2,152)	(4,366)	1,929	-	-	1,515	17,685
Capital Spend Total	\$ 1,166,235	\$ 37,467	\$ 171,959	\$ (152,546)	\$ 11,625	\$ (20,389)	\$ (52,995)	\$ 9,579	\$ 26,411	\$ 285,408	\$ 63,403	\$ 4,870,265

Contributions / Advances / Refunds

7C Sun City Wastewater	-	-	-	-	-	-	-	4,558	-	-	-	-
7E Sun City West Wastewater	-	-	-	-	-	-	-	220	-	-	-	-
7G Agua Fria Wastewater	(310,590)	(1,691,102)	66,050	(6,120)	(13,196)	(1,146,634)	(1,103,094)	160,367	(1,530)	(2,500)	(14,535)	-
7H Northwest Valley Wastewater	-	-	-	-	-	-	(870)	-	-	-	870	-
7L Anthem Wastewater	-	-	-	-	-	-	-	159,160	-	-	-	-
7N Mohave Wastewater	-	-	-	(1,570)	-	-	(3,140)	(3,363)	0	(3,140)	-	-
CAC / AIAC / Refund Total	\$ (310,590)	\$ (1,691,102)	\$ 66,050	\$ (7,690)	\$ (13,196)	\$ (1,146,634)	\$ (1,107,104)	\$ 320,942	\$ (1,530)	\$ (5,640)	\$ (13,665)	\$ -

Net Capital Expenditure

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
7C Sun City Wastewater	-	-	-	4,227	579	9,535	(750)	17,739	5,495	(819)	112,597	1,144,238
7E Sun City West Wastewater	-	-	8,906	(87,339)	-	-	-	(69,000)	-	57,680	-	807,891
7G Agua Fria Wastewater	855,645	(1,658,251)	99,274	(46,012)	(13,196)	(1,144,632)	(1,103,094)	160,367	(1,530)	54,647	(18,721)	1,115,914
7H Northwest Valley Wastewater	-	-	38,501	56,333	(1,412)	23,953	(29,142)	(27,542)	12,003	166,165	(76,420)	1,644,896
7L Anthem Wastewater	-	4,616	72,666	(103,363)	6,960	(53,728)	(19,606)	250,391	8,913	5,236	30,768	139,641
7N Mohave Wastewater	-	-	18,661	15,917	5,498	(2,152)	(7,506)	(1,435)	0	(3,140)	1,515	17,685
Net Capital Expenditure Total	\$ 855,645	\$ (1,653,635)	\$ 238,009	\$ (160,236)	\$ (1,571)	\$ (1,167,024)	\$ (1,160,099)	\$ 330,521	\$ 24,881	\$ 279,768	\$ 49,738	\$ 4,870,265

AFUDC

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Debt												
7C Sun City Wastewater	-	-	-	24	3	53	(4)	99	31	(5)	629	6,389
7E Sun City West Wastewater	-	-	54	(533)	-	-	-	(421)	-	352	-	4,935
7G Agua Fria Wastewater	4,777	(9,259)	554	(257)	(74)	(6,391)	(6,159)	895	(9)	305	(105)	6,231
7H Northwest Valley Wastewater	-	-	235	344	(9)	146	(178)	(168)	73	1,015	(467)	10,048
7L Anthem Wastewater	-	26	406	(577)	39	(300)	(109)	1,398	50	29	172	780
7N Mohave Wastewater	-	-	99	85	29	(11)	(40)	(8)	0	(17)	8	94
Cumulative AFUDC Deferral	\$ 4,777	\$ (4,455)	\$ (3,107)	\$ (4,022)	\$ (4,033)	\$ (10,536)	\$ (17,026)	\$ (15,231)	\$ (15,086)	\$ (13,405)	\$ (13,168)	\$ 15,307

Composite Depreciation Rate

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
7C Sun City Wastewater	-	-	-	8	1	18	(1)	34	10	(2)	214	2,173
7E Sun City West Wastewater	-	-	20	(200)	-	-	-	(158)	-	132	-	1,851
7G Agua Fria Wastewater	2,067	(4,005)	240	(111)	(32)	(2,765)	(2,664)	387	(4)	132	(45)	2,695
7H Northwest Valley Wastewater	-	-	157	230	(6)	(119)	(112)	49	678	678	(312)	6,711
7L Anthem Wastewater	-	13	212	(301)	20	(157)	(57)	730	26	15	90	407
7N Mohave Wastewater	-	-	50	43	15	(6)	(20)	(4)	0	(8)	4	47
Cumulative Depreciation Deferral	\$ 2,067	\$ (1,925)	\$ (1,246)	\$ (1,578)	\$ (1,580)	\$ (4,391)	\$ (7,253)	\$ (6,376)	\$ (6,294)	\$ (5,347)	\$ (5,396)	\$ 8,489

**EPCOR Water Arizona Inc.
Estimated 24-Month Deferral**

Exhibit 2

BU District	Jan-15 12015	Feb-15 22015	Mar-15 32015	Apr-15 42015	May-15 52015	Jun-15 62015	Jul-15 72015	Aug-15 82015	Sep-15 92015	Oct-15 102015	Nov-15 112015	Dec-15 122015
7C Sun City Wastewater	-	-	-	32	4	71	(6)	133	41	(6)	843	8,562
7E Sun City West Wastewater	-	-	75	(734)	-	-	-	(580)	-	485	-	6,786
7G Agua Fria Wastewater	6,844	(13,264)	794	(368)	(106)	(9,155)	(8,823)	1,283	(12)	437	(150)	8,926
7H Northwest Valley Wastewater	-	-	392	574	(14)	244	(297)	(281)	122	1,693	(779)	16,758
7L Anthem Wastewater	-	39	618	(879)	59	(457)	(167)	2,128	76	45	262	1,187
7N Mohave Wastewater	-	-	149	127	44	(17)	(60)	(11)	0	(25)	12	141
	\$ 6,844	\$ (13,224)	\$ 2,028	\$ (1,247)	\$ (12)	\$ (9,314)	\$ (9,352)	\$ 2,672	\$ 227	\$ 2,628	\$ 188	\$ 42,361
Cumulative Total AFUDC & Depreciation Deferral	\$ 6,844	\$ (5,380)	\$ (4,352)	\$ (5,600)	\$ (5,612)	\$ (14,926)	\$ (24,279)	\$ (21,607)	\$ (21,380)	\$ (18,752)	\$ (18,564)	\$ 23,797

**EPCOR Water Arizona Inc.
Estimated 24-Month Deferral**

Exhibit 2

Note: All values are estimated and subject to change

BU District	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	TOTAL
	12016	22016	32016	42016	52016	62016	72016	82016	92016	102016	112016	122016	
Capital Spend													
7C Sun City Wastewater	425,000	1,460,975	577,778	392,095	145,975	170,778	240,975	162,095	107,778	40,475	10,000	10,000	5,032,206
7E Sun City West Wastewater	500,000	1,153,325	617,567	510,325	508,567	492,325	378,567	210,325	17,567	3,325	10,942	-	5,120,753
7G Agua Fria Wastewater	10,000	460,000	82,500	55,000	5,000	84,000	159,500	65,000	104,000	106,000	100,000	200,000	3,794,297
7H Northwest Valley Wastewater	-	-	-	-	-	361,000	508,000	365,000	20,000	-	-	-	3,061,334
7L Anthem Wastewater	5,000	43,300	125,500	175,000	114,500	159,000	438,000	165,000	113,000	148,000	145,000	267,875	2,078,509
7N Mohave Wastewater	-	58,640	4,832	-	-	3,000	-	18,000	15,500	1,832	25,000	178,000	361,058
Capital Spend Total	\$ 940,000	\$ 3,176,240	\$ 1,408,176	\$ 1,130,420	\$ 774,042	\$ 1,270,103	\$ 1,725,042	\$ 983,420	\$ 377,844	\$ 299,632	\$ 290,942	\$ 655,875	\$ 19,448,157

Contributions / Advances / Refunds

7C Sun City Wastewater	-	-	-	-	-	-	-	-	-	-	-	-	4,558
7E Sun City West Wastewater	-	-	-	-	-	-	-	1,841	-	-	-	-	2,060
7G Agua Fria Wastewater	(40,417)	(40,417)	(40,417)	(40,417)	(40,417)	(40,417)	(40,417)	(23,208)	(40,417)	(40,417)	(40,417)	(40,417)	(4,530,676)
7H Northwest Valley Wastewater	(2,168)	(2,168)	(2,168)	(2,168)	(2,168)	(2,168)	(2,168)	109,592	(2,168)	(2,168)	(2,168)	(2,168)	244,910
7L Anthem Wastewater	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(11,213)
7N Mohave Wastewater	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(42,584)	(4,290,361)
CIAC / AIAC / Refund Total	\$ (42,584)	\$ 88,224	\$ (42,584)	\$ (42,584)	\$ (42,584)	\$ (42,584)	\$ (4,290,361)						

Net Capital Expenditure

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	TOTAL	w/ NVRWRE
7C Sun City Wastewater	425,000	1,460,975	577,778	392,095	145,975	170,778	240,975	162,095	107,778	40,475	10,000	10,000	5,036,764	5,036,764
7E Sun City West Wastewater	500,000	1,153,325	617,567	510,325	508,567	492,325	378,567	210,325	17,567	3,325	10,942	-	5,122,813	7,326,973
7G Agua Fria Wastewater	(30,417)	419,583	42,083	14,583	(35,417)	43,583	119,083	41,792	63,583	65,583	59,583	159,583	(736,379)	120,795
7H Northwest Valley Wastewater	-	-	-	-	-	361,000	508,000	365,000	20,000	-	-	-	3,061,334	-
7L Anthem Wastewater	2,833	41,133	123,333	170,833	112,333	156,833	435,833	272,592	110,833	145,833	142,833	265,708	2,323,419	2,323,419
7N Mohave Wastewater	-	58,640	4,832	-	-	3,000	-	18,000	15,500	1,832	25,000	178,000	349,845	349,845
Net Capital Expenditure Total	\$ 897,416	\$ 3,133,656	\$ 1,365,592	\$ 1,087,836	\$ 731,457	\$ 1,227,519	\$ 1,682,457	\$ 1,071,644	\$ 335,260	\$ 257,047	\$ 248,357	\$ 613,291	\$ 15,157,796	\$ 15,157,796

AFUDC

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	TOTAL
7C Sun City Wastewater	2,373	8,157	3,226	2,189	815	954	1,345	905	602	226	56	56	28,122
7E Sun City West Wastewater	3,054	7,045	3,772	3,117	3,106	3,007	2,312	1,296	107	20	67	-	31,292
7G Agua Fria Wastewater	(170)	2,343	235	81	(198)	243	665	233	355	366	333	891	(4,111)
7H Northwest Valley Wastewater	-	-	-	-	-	2,205	3,103	2,230	122	-	-	-	18,700
7L Anthem Wastewater	16	230	689	954	627	876	2,433	1,522	619	814	797	1,484	12,972
7N Mohave Wastewater	-	312	26	-	-	16	-	96	82	10	133	946	1,860
Cumulative AFUDC Deferral	\$ 5,273	\$ 18,086	\$ 7,947	\$ 6,342	\$ 4,351	\$ 7,301	\$ 9,859	\$ 6,282	\$ 1,887	\$ 1,436	\$ 1,386	\$ 3,377	\$ 88,834
Cumulative AFUDC Deferral	\$ 20,580	\$ 38,666	\$ 46,614	\$ 52,955	\$ 57,306	\$ 64,607	\$ 74,466	\$ 80,748	\$ 82,635	\$ 84,072	\$ 85,458	\$ 88,834	\$ 696,960

Composite Depreciation Rate

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	TOTAL
7C Sun City Wastewater	807	2,775	1,097	745	277	324	458	308	205	77	19	19	9,566
7E Sun City West Wastewater	1,146	2,643	1,415	1,169	1,165	1,128	868	486	40	8	25	-	11,740
7G Agua Fria Wastewater	(73)	1,013	102	35	(86)	105	288	101	154	158	144	385	(1,779)
7H Northwest Valley Wastewater	-	-	-	-	-	1,473	2,073	1,489	82	-	-	-	12,489
7L Anthem Wastewater	8	120	360	498	328	457	1,271	795	323	425	417	775	6,777
7N Mohave Wastewater	-	157	13	-	-	8	-	48	41	5	67	476	936
Cumulative Depreciation Deferral	\$ 1,888	\$ 6,708	\$ 2,987	\$ 2,448	\$ 1,685	\$ 3,496	\$ 4,957	\$ 3,227	\$ 845	\$ 673	\$ 671	\$ 1,656	\$ 39,730
Cumulative Depreciation Deferral	\$ 10,377	\$ 17,085	\$ 20,072	\$ 22,520	\$ 24,205	\$ 27,701	\$ 32,658	\$ 35,885	\$ 36,730	\$ 37,403	\$ 38,074	\$ 39,730	\$ 311,614

**EPCOR Water Arizona Inc.
Estimated 24-Month Deferral**

Exhibit 2

BU District	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	TOTAL
	12016	22016	32016	42016	52016	62016	72016	82016	92016	102016	112016	122016	
7C Sun City Wastewater	3,180	10,932	4,323	2,934	1,092	1,278	1,803	1,213	806	303	75	75	37,688
7E Sun City West Wastewater	4,200	9,688	5,188	4,287	4,272	4,136	3,180	1,782	148	28	92	-	43,032
7G Agua Fria Wastewater	(243)	3,356	337	117	(283)	349	952	334	509	525	477	1,276	(5,890)
7H Northwest Valley Wastewater	-	-	-	-	-	3,678	5,176	3,719	204	-	-	-	31,189
7L Anthem Wastewater	24	350	1,048	1,452	955	1,333	3,705	2,317	942	1,240	1,214	2,259	19,749
7N Mohave Wastewater	-	469	39	-	-	24	-	144	124	15	200	1,423	2,796
	\$ 7,161	\$ 24,794	\$ 10,934	\$ 8,789	\$ 6,036	\$ 10,797	\$ 14,816	\$ 9,509	\$ 2,732	\$ 2,110	\$ 2,057	\$ 5,033	\$ 128,565
	\$ 30,958	\$ 55,752	\$ 66,686	\$ 75,476	\$ 81,511	\$ 92,308	\$ 107,124	\$ 116,653	\$ 119,365	\$ 121,475	\$ 123,532	\$ 128,565	\$ 1,008,573

Cumulative Total AFUDc & Depreciation Deferral