

# NEW APPLICATION



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## BEFORE THE ARIZONA CORPORATION COMMISSION

TOM FORESE  
Chairman

DOUG LITTLE  
Commissioner

BOB BURNS  
Commissioner

ANDY TOBIN  
Commissioner

BOYD DUNN  
Commissioner

Arizona Corporation Commission

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W-02113A-17-0141

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IN THE MATTER OF THE JOINT  
APPLICATION OF EPCOR WATER  
ARIZONA INC. AND CHAPARRAL CITY  
WATER COMPANY FOR THE  
APPROVAL OF PRO FORMA  
CORPORATE REORGANIZATION  
AND OTHER RELATED MATTERS

Docket Nos. WS-01303A-17-\_\_\_\_\_  
W-02113A-17-\_\_\_\_\_

Joint Application

EPCOR Water Arizona Inc. ("EPCOR Arizona") and Chaparral City Water Company ("Chaparral City") (collectively, the "Joint Applicants") respectfully submit this Joint Application pursuant to A.A.C. R14-2-801 *et seq.* (the "Rules") and, to the extent applicable, A.R.S. §§ 40-282 and 40-285, to complete the proposed *pro forma* merger of Chaparral City with and into EPCOR Arizona, with EPCOR Arizona as the surviving entity (the "Pro Forma Merger"). The Pro Forma Merger is being undertaken by the Joint Applicants to simplify their existing corporate structures and water operations in Arizona and is in the public interest.

### I. BACKGROUND

EPCOR Arizona, an Arizona public service corporation, is the largest private water and wastewater utility in Arizona and provides water and wastewater services to approximately 130,000 water customers in ten districts throughout the state. EPCOR

1 Arizona is a wholly-owned subsidiary of EPCOR Water (USA) Inc. and was purchased by  
2 EPCOR Water (USA) Inc. from American Water on February 1, 2012. *See* Decision No.  
3 72668.

4 Chaparral City, an Arizona public service corporation, serves approximately 13,500  
5 customers within the Fountain Hills/Scottsdale area. Chaparral City is also a wholly-  
6 owned subsidiary of EPCOR Water (USA) Inc. and was purchased by EPCOR Water  
7 (USA) Inc. from American States on May 31, 2011. *See* Decision No. 72259.

8 A copy of the corporate structure of these entities as of December 31, 2016 and the  
9 *pro forma* corporate structure following the proposed Pro Forma Merger is attached as  
10 Exhibit A.

## 11 **II. THE TRANSACTION**

12 Joint Applicants submit that the proposed Pro Forma Merger is in the public  
13 interest. The Pro Forma Merger will simplify EPCOR Water USA's existing corporate  
14 structure and reduce its reporting and accounting burdens. Chaparral City's certificated  
15 area will become another district within EPCOR Arizona. Except for its corporate  
16 structure, Chaparral City is operated in the same manner as EPCOR Arizona's other water  
17 districts in Arizona. Furthermore, the Pro Forma Merger will be virtually transparent to  
18 customers and will not result in any change in their water services, as services will be  
19 provided under the existing terms and conditions and tariffed rates. Any future change in  
20 rates or terms and condition of water service would require approval by the Arizona  
21 Corporation Commission ("Commission").

22 In addition, both EPCOR Arizona and Chaparral City share the same corporate  
23 officers and technical, managerial and operational personnel. As a result, there will be no  
24 change in the technical, managerial and operational qualifications of the public service  
25 corporation serving the affected customers.  
26

1 **III. AFFILIATED INTERESTS RULES**

2 **A. Request for Waiver**

3 Because both entities will maintain their existing rates and terms and conditions of  
4 services and existing operations will remain the same, the Joint Applicants submit that, to  
5 the extent the Rules apply, a waiver of such rules is appropriate and in the public interest  
6 under A.A.C. R14-2-806 ("Rule 806"). As noted above, the Pro Forma Merger will not  
7 change the manner in which Chaparral City will be operated; it will not impact Chaparral  
8 City's utility service to customers; nor will it eliminate the Commission's regulatory  
9 oversight or ratemaking responsibilities relating to Chaparral City.

10 **B. Rule 803 Information**

11 If the Commission, however, declines to grant a waiver under Rule 806, then the  
12 Company requests in the alternative that the Commission approve the Pro Forma Merger  
13 under A.A.C. R14-2-803 ("Rule 803") without a hearing. For this purpose, the Joint  
14 Applicants provide the following information specified in Rule 803.

15 **1. The Names and Business Addresses of the Proposed Officers and**  
16 **Directors of the Holding Company.**

17 Attached as Exhibit B is a list of the names and business addresses of the  
18 individuals responsible for the management of EPCOR Water (USA) Inc. No change will  
19 result from this Pro Forma Merger.

20 **2. The Business Purposes for Establishing or Reorganizing the Holding**  
21 **Company.**

22 There will be no change in the holding company as a result of this transaction.  
23  
24  
25  
26

1           **3.     The Proposed Method of Financing the Holding Company and the**  
2           **Resultant Capital Structure.**

3           There will be no change in the holding company as a result of this transaction and  
4           the proposed transaction will have no impact on the capital structure of the holding  
5           company, EPCOR Water (USA) Inc.

6           **4.     The Resultant Effect on the Capital Structure of the Public Utility.**

7           The capital structure of EPCOR Arizona will change by virtue of the combination  
8           of the outstanding debt and the balance in the common equity accounts of Chaparral City  
9           at the time of the reorganization. The capital structure of each of these entities and the  
10          consolidated capital structure, both as of December 31, 2016, are attached as Exhibit C.

11          **5.     An Organization Chart of the Holding Company That Identifies All**  
12          **Affiliates and Their Relationships within the Holding Company.**

13          An organization chart of EPCOR Water (USA) Inc. that shows each of its affiliates  
14          and their relationships within the holding company before the Pro Forma Merger is  
15          attached as page 1 of Exhibit A. An organization chart of EPCOR Water (USA) Inc.  
16          showing each of its affiliates and their relationships within the holding company after the  
17          Pro Forma Merger is attached as page 2 of Exhibit A.

18          **6.     The Proposed Method for Allocating Federal and State Income Taxes to**  
19          **the Subsidiaries of the Holding Company.**

20          EPCOR Water (USA) Inc. will continue to file a single consolidated US Federal tax  
21          return and Arizona State tax return. Income taxes for both Federal and State purposes are  
22          computed on a stand-alone basis for recording the income tax liabilities of each subsidiary.  
23          The proposed merger would eliminate the need to compute a stand-alone return for  
24          Chaparral City for recording Federal and State income taxes. For rate making purposes,  
25          Federal and State income taxes are computed for each operating district on a stand-alone  
26          basis and that methodology would not change as a result of this transaction.

1           **7. The Anticipated Changes in the Utility's Cost of Service and the Cost of**  
2           **Capital Attributable to the Reorganization.**

3           Chaparral City's cost of service could be impacted by the reorganization to the  
4           extent that some costs, such as rate case expenses, may be shared among additional  
5           districts as opposed to being applicable to only one operating district as has been the case  
6           in previous rate application. Chaparral City's cost of capital on a going forward basis will  
7           be based on the combined EPCOR Arizona and Chaparral City capital structures, which,  
8           for Chaparral City, will have the effect of reducing the percentage of equity to the total  
9           outstanding capital compared to the percentage of equity on a stand-alone basis. Other  
10          factors, such as the cost of equity, will impact the cost of capital, however, in the  
11          Commission's decision in Chaparral City's last rate case (Decision No. 74568, issued June  
12          20, 2014), Chaparral City was ordered to "rectify the imbalance in its capital structure  
13          relative to the capital structures of its parent companies." The Pro Forma merger is one  
14          method to accomplish this directive.

15          **8. A Description of Diversification Plans of Affiliates of the Holding**  
16          **Company.**

17          This transaction will not result in any change to EPCOR's strategy.

18          **9. Copies of All Relevant Documents and Filings with the United States**  
19          **Securities and Exchange Commission and Other Federal or State**  
20          **Agencies.**

21          Other than this Application, no filings are anticipated as the entities are not publicly  
22          traded.

23          **10. The Contemplated Annual and Cumulative Investment in Each Affiliate**  
24          **for the Next Five Years, In Dollars and as a Percentage of Projected Net**  
25          **Utility Plant, and An Explanation of the Reasons Supporting the Level**  
26          **of Investment and the Reasons This Level Will Not Increase the Risks of**  
              **Investments in the Public Utility.**

              The Pro Forma Merger will not impact the level of investment in Arizona. No  
              utility funds will be co-mingled with non-utility funds, nor will any cross-subsidization of

1 non-utility activities take place. Further, the transaction will not alter the Commission's  
2 existing regulatory oversight and approval authority with respect to EPCOR Arizona's or  
3 Chaparral City's rates, operations, or transactions with affiliates.

4 **11. An Explanation of the Manner in Which the Utility Can Ensure That**  
5 **Adequate Capital Will Be Available for the Construction of New Utility**  
6 **Plant and For Improvements In Existing Utility Plant At No Greater**  
7 **Cost Than If the Utility or Its Affiliate Did Not Organize or Reorganize**  
8 **a Public Utility Holding Company.**

9 EPCOR Arizona will continue to have access to capital for construction and  
10 improvements in Arizona in the same manner as today.

11 **IV. CONCLUSION**

12 For the reasons set forth above, Joint Applicants request all necessary approvals for  
13 the Pro Forma Merger described in this Joint Application, including:

- 14 • A waiver of the Rules, or in the alternative, necessary approvals under A.A.C.  
15 R14-2-803 for the proposed Pro Forma Merger without a hearing;
- 16 • to the extent required, approvals pursuant to A.R.S. §§ 40-285 and 40-282 for  
17 the proposed Pro Forma Merger without a hearing;
- 18 • all other approvals necessary to consummate the transactions contemplated in  
19 this Joint Application.

20 RESPECTFULLY SUBMITTED this 12th day of May, 2017.

21 LEWIS ROCA ROTHGERBER CHRISTIE, LLP

22 

23 Thomas Campbell  
24 Michael T. Hallam  
25 201 E. Washington Street  
26 Phoenix, AZ 85004  
Attorneys for Joint Applicants

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ORIGINAL AND thirteen (13) copies  
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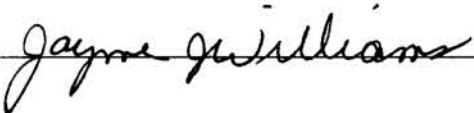
The Arizona Corporation Commission  
Utilities Division – Docket Control  
1200 W. Washington Street  
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered  
this 12th day of May, 2017, to:

Elijah Abinah  
Acting Director, Utilities Division  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

Dwight Nodes  
Chief Administrative Law Judge, Hearing Division  
1200 W. Washington Street  
Phoenix, Arizona 85007

Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007



VERIFICATION

STATE OF ARIZONA     )  
                                          ) ss.  
COUNTY OF MARICOPA )

I, Sheryl L. Hubbard, am Director, Regulatory & Rates at EPCOR Water (USA) Inc. I hereby certify that the facts stated in the above Joint Application are true and accurate to the best of my knowledge and belief.



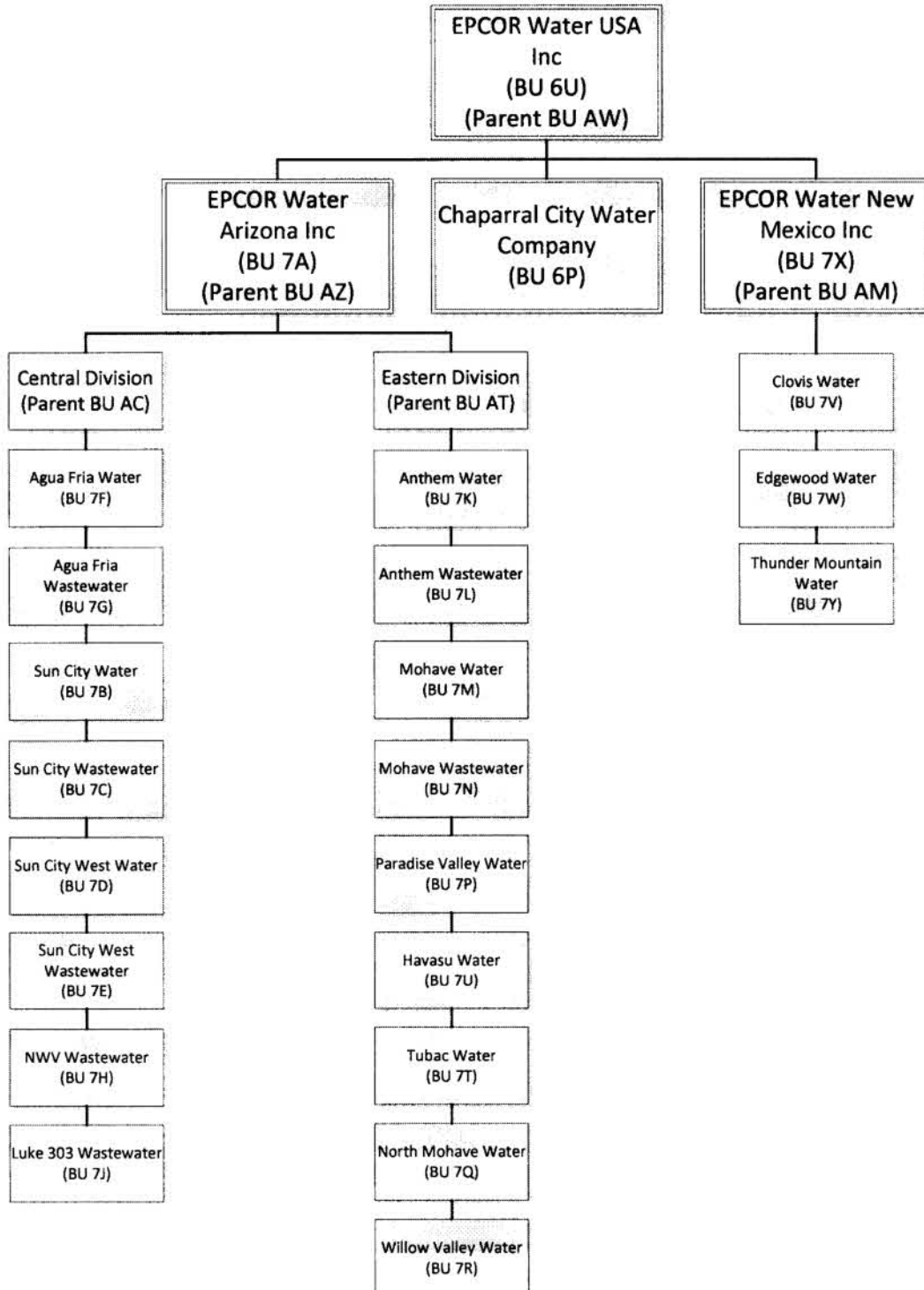
Subscribed and sworn to before me this 12 day of May, 2017.

  
Notary Public

## **EXHIBIT A**

# EPCOR Water USA Inc

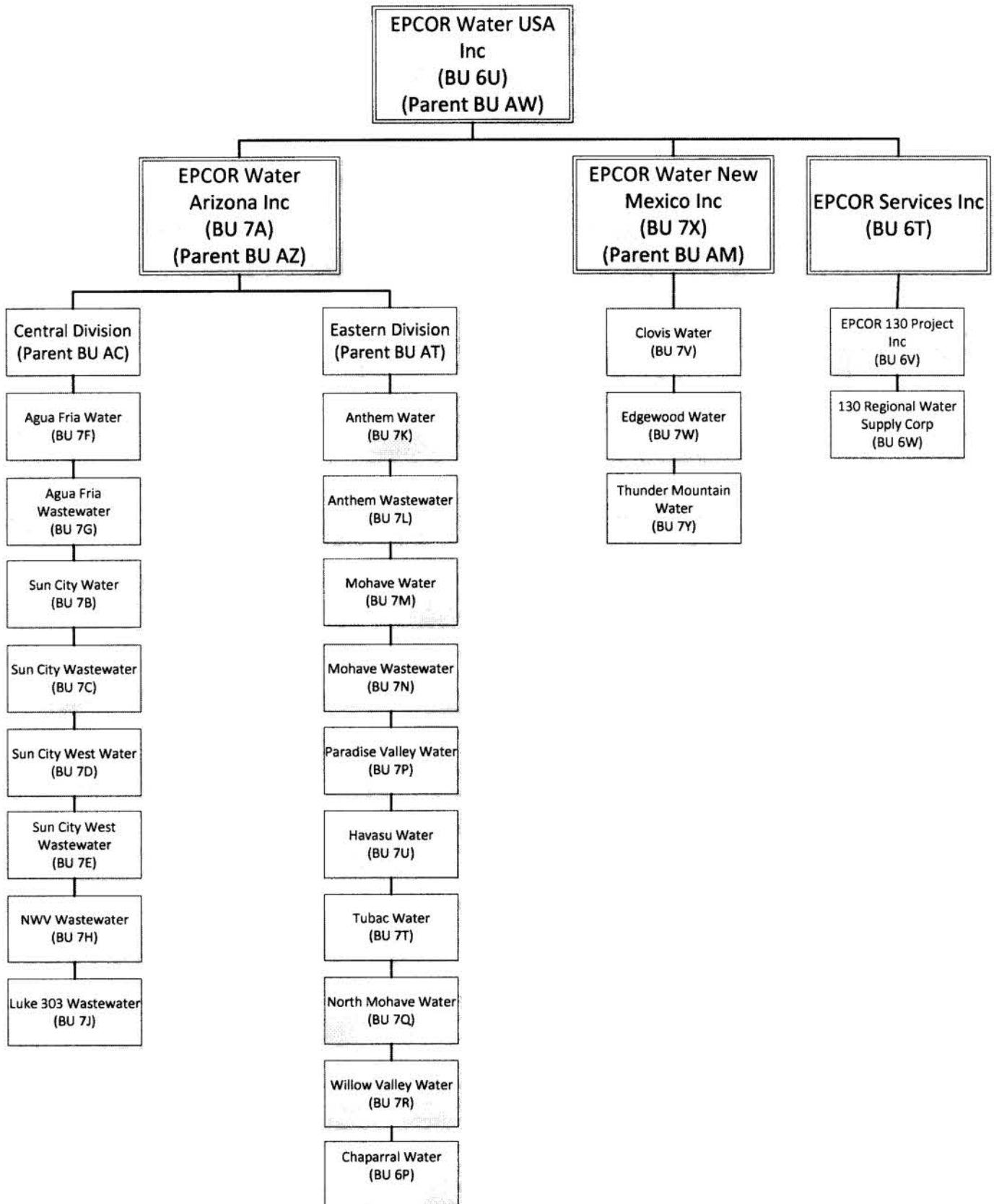
## District Chart



# EPCOR Water USA Inc

## District Chart

EXHIBIT A  
Page 2 of 2



## **EXHIBIT B**

## OFFICERS:

Name	Title	Address
JOSEPH GYSEL	PRESIDENT	2355 W PINNACLE PEAK RD SUITE 300 PHOENIX, AZ 85027
MARTIN STANEK	SECRETARY	2355 W PINNACLE PEAK RD SUITE 300 PHOENIX, AZ 85027
SHAWN BRADFORD	VICE-PRESIDENT	2355 W PINNACLE PEAK RD SUITE 300 PHOENIX, AZ 85027
DANIEL BAILET	VICE-PRESIDENT	2355 W PINNACLE PEAK RD SUITE 300 PHOENIX, AZ 85027
GREGORY BARBER	VICE-PRESIDENT	2355 W PINNACLE PEAK RD SUITE 300 PHOENIX, AZ 85027

## DIRECTORS:

Name	Title	Address
STUART LEE	DIRECTOR	2355 W PINNACLE PEAK RD SUITE 300 PHOENIX, AZ 85027
JOHN KEEGAN	DIRECTOR	2355 W PINNACLE PEAK RD SUITE 300 PHOENIX, AZ 85027
C LEE MALLOY	DIRECTOR	2355 W PINNACLE PEAK RD SUITE 300 PHOENIX, AZ 85027
R GLENN WILLIAMSON	DIRECTOR	2355 W PINNACLE PEAK RD SUITE 300 PHOENIX, AZ 85027

## **EXHIBIT C**

**EPCOR WATER ARIZONA-CURRENT**  
**Capital Structure as of December 31, 2016**

Line No.	Item of Capital	Dollar Amount	Percent of Total
1	Long-Term Debt*	231,637,306	54.24%
2			
3			
4			
5	Stockholder's Equity	195,421,973	45.76%
6			
7 Totals		<u>\$ 427,059,279</u>	<u>100.00%</u>

\* Includes WIFA Loan Balance of \$637,306 (Tubac Only)

**CHAPARRAL CITY WATER COMPANY-CURRENT**  
**Capital Structure as of December 31, 2016**

Line No.	Item of Capital	Dollar Amount	Percent of Total
1	Long-Term Debt	3,260,000	9.86%
2			
3			
4			
5	Stockholder's Equity	29,803,860	90.14%
6			
7 Totals		<u>\$ 33,063,860</u>	<u>100.00%</u>

**EPCOR WATER ARIZONA-PROPOSED MERGER**  
**Capital Structure as of December 31, 2016**  
**Chaparral City and EPCOR Arizona Combined**

Line No.	Item of Capital	Dollar Amount	Percent of Total
1	Long-Term Debt*	234,897,306	51.05%
2			
3			
4			
5	Stockholder's Equity	225,225,834	48.95%
6			
7 Totals		<u>\$ 460,123,140</u>	<u>100.00%</u>

\* Includes WIFA Loan Balance of \$637,306 (Tubac Only)