

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2 BOB STUMP
Chairman

3 GARY PIERCE
4 Commissioner

5 BRENDA BURNS
Commissioner

6 BOB BURNS
7 Commissioner

8 SUSAN BITTER SMITH
Commissioner

9 IN THE MATTER OF ARIZONA-
10 AMERICAN WATER COMPANY'S
11 APPLICATION FOR AN INCREASE IN
12 RATES FOR ITS WATER AND
13 WASTEWATER RATES

) DOCKET NO. W-01303A-09-0343
SW-01303A-09-0343

) **EPCOR WATER COMPANY'S
RESPONSE TO COMMISSION
DECISIONS**

14 EPCOR Water Arizona, Inc. ("EPCOR" or "Company") seeks to address its
15 customers' concerns as promptly as possible and for that reason continues to support the
16 proceeding recommended in the Arizona Corporation Commission ("Commission")
17 Utilities Division Staff's July 8, 2014 Memorandum ("Staff's Memorandum") and ordered
18 by the Commission in Decision No.74588 (the "Decision").¹ As noted in the Decision
19 and Staff's Memorandum, EPCOR's current rates and customer bills comply with
20 approved Commission orders. The rates that are the subject matter of the Agua Fria
21 customer filings are rates that have been authorized by the Commission.

22 Importantly, this proceeding, which has been initiated by Commission Staff, is a
23 departure from established rate making principles and accounting practices. To comply
24 with the scenario recommended by Commission Staff to provide discussion and analysis to
25 fully deconsolidate will require the re-creation of all accounting books and entries back
26

¹ A companion decision, Decision No. 74589, was also issued in Docket No. W-01303A-10-0448. However, given the limitation of this matter to wastewater rates, EPCOR believes that this matter should proceed in the above referenced dockets.

1 multiple years to the original establishment of the individual districts. A proper analysis
2 should include not only the Company's investment by individual developments, but also
3 developer contributions for infrastructure to enable service to new customers within the
4 new areas. Established utility accounting practices alone do not provide this type of data
5 segregation, and as such, this exercise has, and will continue to, cause EPCOR to incur
6 significant costs despite EPCOR's compliance with authorized and approved rate designs.

7 Despite the significant time and expense involved, EPCOR appreciates the
8 opportunity presented by this procedure, which will allow for the examination of the
9 impacts of full consolidation of EPCOR's wastewater districts and the impacts of rate
10 deconsolidation of the Agua Fria Wastewater District. The filing will also address the
11 impact of a "reconsolidation" of the Anthem and Agua Fria Wastewater Districts.
12 Through this filing, EPCOR will address the issues set forth in Decision No.74588, which
13 will provide the parties with an opportunity to examine the various rate design proposals
14 set forth below.

15 **I. This Is a Proceeding under A.R.S. § 40-252 to Examine Wastewater Rate**
16 **Design.**

17 A.R.S. § 40-252 provides that the Commission "may at any time, upon notice to the
18 corporation affected, and after opportunity to be heard as upon a complaint, rescind, alter
19 or amend any order or decision made by it." In the Decision, the Commission ordered that
20 a proceeding commence to look at rate design for EPCOR's wastewater districts. EPCOR,
21 as the corporation affected by this change, has received notice, as have the parties to the
22 underlying proceeding. As such, the Commission has effectively instituted a proceeding
23 under A.R.S. § 40-252 solely for the purpose of looking at potential revisions to rate
24 design that would result from consolidation or deconsolidation of all or certain of the
25 Company's wastewater districts as noted above. EPCOR is not seeking, and this
26 proceeding should not provide, any change in authorized revenues for EPCOR.
27

1 EPCOR concurs with the Commission that this proceeding should focus solely on
2 wastewater rate design, as that is the genesis of the bulk of the complaints filed by the
3 Company's customers. Agua Fria wastewater rates have the most significant impact on
4 the customers who have filed letters and petitions of concern with the Commission. The
5 increase in Agua Fria wastewater rates has resulted primarily from the deconsolidation of
6 the Anthem and Agua Fria Wastewater Districts as ordered by the Commission in
7 Decision No. 73227. As such, the most expeditious and efficient way to address those
8 customer concerns is to review wastewater rate design as outlined by the Commission as
9 part of a proceeding under A.R.S. § 40-252.

10 As the Commission has ordered that this proceeding focus solely on wastewater
11 rate design, this A.R.S. § 40-252 proceeding should proceed solely in the 09-0343 docket
12 and should not continue in the 10-0448 docket which involved the Company's water
13 districts. Accordingly, as part of any procedural order following the procedural
14 conference, EPCOR requests that the Administrative Law Judge confirm that this
15 proceeding will proceed solely in the 09-0343 docket.

16 **II. A Full Rate Case Is Not Required**

17 As noted above, EPCOR is in full compliance with Commission decisions relating
18 to its current rates and those Commission-ordered rates are currently being charged. These
19 rates stem from Commission-approved revenue requirements.² As a proceeding under
20 A.R.S. § 40-252 to look solely at potential, revenue-neutral revisions to rate design, a full
21 rate case is not required nor warranted, as the Company's authorized revenue requirements
22 cannot and will not be impacted by any modification to rate design.³

25 ² As noted below, ultimately a true-up of the rates approved in this proceeding will be necessary to
26 incorporate the final revenue requirement authorized by the Commission for the Mohave Wastewater
27 District in the Company's pending rate case.

³ Because EPCOR is in compliance with Commission orders and is processing this matter as ordered by
the Commission, the costs to process this case will be deferred as authorized by the Commission in the
Decision, and EPCOR will seek recovery of those costs in its next rate case.

1 **III. The Company’s Proposed Procedural Schedule**

2 As the Commission and the parties are aware, the next and final phase of the three-
3 step deconsolidation phase-in ordered by the Commission in Decision No. 73227 is
4 scheduled to commence on January 1, 2015. To examine and potentially address the
5 impact of that last phase-in, this matter must be given an expedited procedural schedule.
6 Accordingly, EPCOR proposes the following procedural schedule for the processing of
7 this matter:

- 8 • On or before **August 25, 2014**: Notice to be provided by the Company to all
9 wastewater customers via mailing and publication. Attached as Exhibit 1 to this
10 filing is a proposed form of notice.
- 11 • On or before **September 8, 2014**: Company’s Direct Testimony.
- 12 • On or before **September 15, 2014**: Intervention deadline.
- 13 • On or before **September 26, 2014**: Staff’s and Intervenors’ Testimony
- 14 • On or before **October 10, 2014**: Company’s Rebuttal Testimony
- 15 • **October 27, 2014**: Hearing commences (parties may provide additional responsive
16 testimony at the hearing)

17 Given the timing considerations noted, the Company would request that the matter
18 be heard no later than the December 11-12, 2014 Open meeting.

19 **IV. Consolidation/Deconsolidation Scenarios**

20 **a. Full Consolidation**

21 EPCOR continues to support full consolidation of its wastewater districts as the
22 best long-term solution to address the concerns raised by its customers, but more
23 importantly as the most equitable approach in the long term for establishing rates to
24 recover the reasonable expenses and capital expenditures that will ultimately impact every
25 district at some point in the future. In the long term, all wastewater customers will benefit
26 from predictable, uniform rate structures, reduced regulatory expenses and increased
27 efficiencies. Moving to a consolidated district with a single rate structure mirrors what
consumers experience in most municipal districts and with many large gas and electric

1 utilities. In other words, rates are the same regardless of where a customer lives within a
2 municipal area or within a utility's service territory. As noted by Ms. Diane Smith in her
3 presentation to the Commission, consolidation provides numerous benefits to customers,
4 including the following:

- 5 1. Consolidation would offer and could be a long term solution
- 6 2. Lower administrative costs and unified customer accounting and billing
7 systems
- 8 3. Reduction in the number of rate cases and associated expenses
- 9 4. Elimination of distorted cost allocations among districts in rate filings
- 10 5. Standard customer service policies and related service rates and charges
- 11 6. Improved rate stability and elimination of rate shock
- 12 7. Reduces customer confusion with respect to differing rate schedules among
13 districts, which improves customer service efforts

14 As noted above, the benefits from full consolidation are many. Most importantly,
15 consolidation offers the best short-term and long-term solutions for the issues that have
16 been raised by the Company's customers. This includes the customers that have raised the
17 issues that led to this proceeding as well as customers in other wastewater districts. In the
18 long term, which is the timeframe that the Commission should examine, all customers will
19 benefit. These customers will benefit as consolidation allows for the ability to make
20 needed capital investments in smaller districts without imposing burdensome rate
21 increases, as those costs are spread over the entire, consolidated entity. Over the long
22 term, every EPCOR wastewater district will require needed improvements, and as systems
23 continue to age, these improvements will be costly. Unlike deconsolidation, in which each
24 district would be required to pay for the entire cost of an improvement within that district
25 regardless of its cost (and the smaller the customer base in the district, the greater the
26 proportionate increase), consolidation allows for that to be spread over a greater number of
27 customers.

1 Although it is true that the physical infrastructure and treatment plants of certain of
2 the wastewater districts are separate from one another, this should not be determinative in
3 setting rates. Other major utilities, including electric utilities (Arizona Public Service and
4 Tucson Electric Power), natural gas utilities (Southwest Gas) and telephone utilities
5 (CenturyLink), have unified tariff structures across Arizona even though they serve many
6 different communities. The same is true for large municipal water and wastewater utilities
7 that serve numerous communities within their municipal boundaries (City of Phoenix).
8 For example, if APS constructs a large facility in Phoenix or Flagstaff, the costs of these
9 facilities, while they may not directly benefit the entire service territory, are spread over
10 the entire customer base. This ultimately benefits all customers as infrastructure
11 ultimately ages in all areas and must be replaced. As noted above, rate consolidation
12 would help address the relative imbalance of district-based capital needs and their relative
13 number of customers. Small districts tend to face disproportionately larger rate increases
14 due to necessary capital investments recovered over a smaller customer base as compared
15 to larger districts with more customers. Rate consolidation would lessen the rate shock
16 otherwise associated with capital investments made in small districts.

17 Over the next 5 years, EPCOR expects to spend over \$9.3 million dollars on regular
18 capital improvements for the wastewater operations in Sun City and approximately \$4.9
19 million in Sun City West to improve lift stations and pumps, and a major force main
20 replacement. EPCOR also anticipates spending approximately \$5.3 million in capital
21 improvements for plant facilities and equipment and membrane replacements over that
22 timeframe in the Anthem Wastewater District. Wastewater from the Russell Ranch
23 subdivision is currently treated at the Russell Ranch Water Reclamation Facility
24 (“RRWRF”). RRWRF is an above-ground prefabricated metal treatment plant which is
25 typically designed and constructed to serve as an interim wastewater treatment solution
26 until a permanent in-ground concrete and steel regional water reclamation facility can be
27 brought into service. The Maricopa Association of Governments Regional Wastewater

1 Master Plan has even identified RRWRF as an interim wastewater solution. RRWRF was
2 placed into service in 2004 and currently meets the treatment needs of the existing
3 residents. However, RRWRF is already showing normal signs of wear and tear typically
4 associated with an above-ground package plant. In order for EPCOR to provide long term
5 wastewater treatment service to the existing and future residents of Russell Ranch,
6 EPCOR must either invest in extensive repairs and upgrades to RRWRF or invest in an
7 alternate solution. Either option will require capital investments in infrastructure beyond
8 the day-to-day operations and maintenance expenses currently associated with RRWRF
9 that will need to be recovered from customers. Consolidation will smooth the rate impacts
10 of these capital expenditures over the entire wastewater customer base. The expenditure
11 amounts in each district will likely continue to increase annually over the longer term as
12 the existing facilities continue to age.

13 As shown in the data provided as part of this filing, there is no question that certain
14 districts would benefit in the short term from full consolidation and others would
15 experience rate increases. Generally, these differences occur because of the relative size
16 of the customer base in different districts or because the facilities that serve customers in
17 one district are older and therefore cost less when they were installed many years ago, than
18 newer facilities in another district. This, however, provides only a snapshot of the
19 situation at this moment in time. Over a period of years, all facilities will need to be
20 replaced or upgraded as they wear out or as new regulations come into effect. When these
21 new facilities are installed, they will inevitably be more expensive than the ones they
22 replace. Over time, districts that have older and less costly plant will see it replaced or
23 expanded with newer and more costly plant. For example, in the Mohave Wastewater
24 District, the Wishing Well Treatment Plant was expanded in 2008 at a cost of \$3.9 million,
25 doubling the Company's investment in plant at a time when there were only 1,200
26 customers resulting in an increase in rates of 16%. If all of the wastewater districts had
27 been consolidated at that time, the costs could have been spread over all of the company's

1 53,000 customers instead of the just over the 1,200 customers in the Mohave Wastewater
2 District. Without consolidated rates, the burden for these new more costly facilities will
3 fall only on the customers in that district, the implication being higher rates and possible
4 rate shock. In other words, just because a particular district has lower rates today does not
5 mean that those rates will remain low in the future.

6 In addition, when rate cases must inevitably be filed to address these capital
7 improvements and higher costs, the Company will be unified and only one case will need
8 to be filed. As such, the costs of processing the rate case will not only be reduced, but the
9 individual customer cost will be smaller as they will be spread over the entire customer
10 base.

11 The Decision also asks the Company to address what would occur if certain large
12 improvements were required to serve only a limited area of the Company's service
13 territory. Inevitably, certain districts will require large capital improvements such as the
14 replacement of a wastewater treatment facility that may only benefit a limited area within
15 a utility's service territory. It is this type of occurrence which highlights the benefits of
16 full consolidation. If consolidation is approved, the cost of this type of improvement
17 would be spread over the entire consolidated customer base. As noted above, in the
18 Company's plans to replace a force main that moves wastewater generated only from the
19 Sun City West District along Bell Road to the Northwest Valley Regional Wastewater
20 Treatment Plant. This project is currently being evaluated but early estimates project the
21 cost to be \$3 million. Without consolidation this cost would be solely the responsibility of
22 the Sun City West customer base but under full consolidation this cost would be spread
23 over a much larger customer base. This would lead to smaller rate increases.⁴ Similarly,
24 just as one area of a consolidated system may need a large improvement one year, another
25 area may need a similar or larger improvement a few years or many years later. Over
26

27 ⁴ Although it is possible to create improbable situations in which one particular community might bear the
entire cost of an unnecessary improvement, this situation is unlikely.

1 time, all customers benefit from consolidation, as the rate impacts of these improvements
2 are not as severe.

3 EPCOR also believes that, particularly with regard to wastewater, the geographical
4 differences in service territory should not be an impediment to consolidation. It is rarely
5 feasible for a large wastewater utility to serve all customers by one treatment plant. For
6 example, the City of Phoenix has three wastewater treatment plants for the treatment of its
7 citizens' wastewater. Ultimately, the benefits of a unified, consolidated rate structure
8 outweigh any issues presented by consolidating geographically distinct service areas.
9 Although cost causation is an important principle in ratemaking, it should not be the only
10 determining factor. Taken to an extreme, each community could be required to pay for
11 and install treatment plants to treat its wastewater. Under true cost causation, that
12 community would bear the entire cost of the improvement. However, this approach
13 eliminates the many efficiencies that arise out of full consolidation both operationally and
14 administratively.

15 A rate structure indicative of the changes that would result from full consolidation
16 is set forth in Exhibit 2 to this filing.⁵ As set forth in that attachment, the Company is
17 proposing a flat usage charge to achieve its authorized revenue requirement. Currently,
18 the Company is charging Commission approved rates that include both a base rate and a
19 volume component in some districts and a flat rate in others. Under this proposal, there
20 would be only a flat rate for all customer classes except for wholesale users and effluent
21 customers, and the wastewater rate would not be tied to water usage. In part, this rate
22 design avoids confusion among residential customers about wastewater rates being tied to
23 usage. The rate structure set forth in Exhibit 2 includes the Company's proposed revenue
24 requirement for its Mohave Wastewater District in the pending rate case in Docket No.
25 WS-01303A-14-0010.⁶ As that proceeding progresses, the Company will update the data

26 _____
27 ⁵ Given the complexities of consolidating rates for these districts, the Company is continuing to analyze
this rate structure and may update the rates and customer classes in its initial direct testimony.

⁶ Mohave Wastewater customers will also receive the notice proposed as part of this proceeding.

1 at appropriate intervals to include current data. Ultimately, a true-up of the rates approved
2 in this proceeding will be necessary to incorporate the final revenue requirement
3 authorized by the Commission for the Mohave Wastewater District in that proceeding.

4 **b. Further Deconsolidation of Agua Fria Wastewater District**

5 In response to the Commission's directive to discuss and provide analysis
6 demonstrating the rate impacts of full deconsolidation of all systems, the Company would
7 respond that only its Agua Fria Wastewater District would be a candidate for further
8 deconsolidation. The further deconsolidation of the Agua Fria Wastewater District
9 presents a number of challenging and costly issues. Any further deconsolidation would
10 likely occur among Agua Fria Wastewater District's three sub-areas of Verrado, Russell
11 Ranch and Northeast Agua Fria (*i.e.*, Corte Bella, Cross River, Dos Rios, and Coldwater
12 Ranch areas). Further deconsolidation is clearly challenging as each of the affected parties
13 has expressed opinions in prior proceedings. As part of the prior deconsolidation
14 proceeding, Corte Bella opposed deconsolidation of the Anthem-Agua Fria Wastewater
15 District, asserting that deconsolidation is unjust, unreasonable, and unnecessary. During
16 that same proceeding, Russell Ranch stated that it "oppose[d] deconsolidation of the
17 Anthem-Agua Fria Wastewater district, but if deconsolidation is approved, Russell Ranch
18 would also like to become its own stand-alone system." Verrado stated that "because
19 deconsolidation would result in customers paying substantially different rates for the same
20 service from the same utility in the same urban area, the deconsolidation should be
21 rejected."

22 Further deconsolidation of the Agua Fria Wastewater District requires a separation
23 of the costs of these three sub-areas into separate utility rate bases as all past costs were
24 recorded in the Agua Fria Wastewater District's accounting records and no individual
25 componentization was performed. The same is true for revenues and operating costs.
26 When plant is constructed, all project costs are typically coded to the appropriate operating
27 district along with the NARUC account number. Since the Agua Fria Wastewater District

1 was maintained as a separate operating district for accounting purposes, these capitalized
2 charges are only identifiable as Agua Fria Wastewater assets. The same is true for
3 operating expenses. This is true of all of the individual districts of the Company and for
4 other utilities with multiple operating districts. The Agua Fria Wastewater District
5 certificates of convenience and necessity (CC&Ns) were granted prior to 2001. The
6 development agreements had terms including contributions and advances with associated
7 refunds. In addition, some of the wastewater was treated at the Northwest Valley Water
8 Reclamation Facility which requires allocations of the common plant and operating
9 expenses. In addition, the original accounting occurred under the ownership of Citizens
10 Utilities later sold to American Water and is now under EPCOR's ownership. The
11 accounting has gone through numerous reviews by the Commission Staff over the years
12 and has been found to be in compliance with NARUC accounting which is required by the
13 Commission. To accurately achieve deconsolidation of these districts, EPCOR estimates
14 that it will cost approximately \$375,000 to create the internal accounting "break outs" of
15 rate base and expenses for Verrado, Russell Ranch, and Northeast Agua Fria. Subject to
16 future prudence determinations, the additional expenses of this deconsolidation work
17 would be borne by the customers as part of a future rate case. Once these accounting
18 breakouts of rate base, revenues, and expenses were completed, the rate impacts on the
19 residents in each of the impacted communities would need to be determined.

20 The process to segregate all of the construction costs and advances and
21 contributions related to each sub-area within the Agua Fria Wastewater District could take
22 anywhere from six months to one year due to the magnitude of the number of work orders
23 and the number of years of data that are involved. Next, a quantification of the
24 contributions of each of the new "mini-districts" to the overall Agua Fria Wastewater
25 District's authorized revenue requirement would need to be performed. In addition, the
26 authorized revenue requirement from Decision No. 73227 would need to be reconstructed
27 to segregate the plant investment and operating expenses associated with the 32%

1 allocated share of the Northwest Valley Water Reclamation Facility. Additionally, the
 2 impact of the deconsolidation of the sub-area of the Agua Fria Wastewater District that has
 3 its wastewater treated at the Northwest Valley Water Reclamation Facility would need to
 4 be assessed along with the Sun City West Wastewater investments and operating expenses
 5 as those costs would now be apportioned to the Sun City West Wastewater District under a
 6 scenario of full deconsolidation.

7 A high level analysis of the impact of further deconsolidation of the Agua Fria
 8 Wastewater District is set forth in Exhibit 3.

9 **c. Re-consolidation of Agua Fria/Anthem Wastewater Districts**

10 The final scenario is the re-consolidation of the Agua Fria and Anthem Wastewater
 11 Districts. A reconsolidation of these districts would effectively return wastewater rates in
 12 the reconsolidated district to those approved by the Commission in Decision No. 72047.
 13 Doing so would increase wastewater rates currently paid by customers in the Anthem
 14 Wastewater District and reduce the rates currently paid by Agua Fria customers. Average
 15 residential rates for customers using approximately 7,000 gallons of water are currently
 16 \$106 for Agua Fria customers and \$64 for Anthem customers. These average rates will
 17 increase January 1, 2015 to \$121 for Agua Fria customers and decrease to \$56 for Anthem
 18 customers. Under the reconsolidation scenario below, average residential customer rates
 19 for customers using approximately 7,000 gallons would be approximately \$75.

20 A comparison of the rates for residential customers is set forth in the table below:

District	Current Monthly Usage Charge	Current Volumetric Rate (per 1000 gallons up to 7000 gallons)	Phase 3 Monthly Usage Charge	Phase 3 Volumetric Rate(per 1000 gallons up to 7000)	Re-consolidated Monthly Charge	Re-consolidated Volumetric Rate (per 1000 gallons up to 7000 gallons)
Anthem	\$33.28	\$4.3587	\$30.00	\$3.7500	\$39.84	\$4.9946
Agua Fria	\$57.36	\$6.9782	\$66.12	\$7.9700	\$39.84	\$4.9946

27 Further analysis of the re-consolidation of these districts is set forth in Exhibit 4.

1 In this proceeding, the Anthem Community Council claims that de-consolidation of
2 the Anthem/Agua Fria Wastewater District was a settled term as approved by the
3 Commission in Decision No. 72047 (pg. 84). The language incorporated into the
4 Commission's decision provides as follows:

5 Good public policy requires the Commission to correctly assign cost responsibility for
6 all ratemaking components in as expeditious a manner as possible, and deconsolidation
7 of Anthem/Agua Fria Wastewater District is consistent with such action. However, the
8 record does not include adequate rate base or operating income information to
9 immediately implement stand-alone rate designs for the resulting Anthem Wastewater
10 district and Agua Fria Wastewater district at this time. Therefore, we will (i) approve
11 the rates adopted herein for Anthem/Agua Fria Wastewater district as a consolidated
12 district on an interim basis, and (ii) order the docket in the instant proceeding to remain
13 open for the sole purpose of considering the design and implementation of stand-alone
14 revenue requirements and rate designs as agreed to in the settlement reached during the
15 Open Meeting for the Anthem Wastewater district and Agua Fria Wastewater district
16 as soon as possible. The Company shall file its initial application no later than April 1,
17 2011.

18 Ultimately, the language of the settlement, which was incorporated into an amendment⁷
19 and read into the record at the Open Meeting, speaks for itself, as does the language of the
20 Commission's decision in relation to that settlement.

21 **V. Responses to Customer Complaints**

22 The Decision also orders the Company to respond to the complaints filed by the
23 various customers which prompted this proceeding. As the Company has noted in its prior
24 responses on these issues, it is important to examine these issues in the context of the
25 Commission's prior decisions. To provide historical context for the answers to the
26 questions being asked, EPCOR provides a brief summary of the pertinent rate case
27 proceedings. This context is important because the questions raised by customers relate to
existing Commission orders that EPCOR is implementing as required.

The current rates in the Company's Agua Fria Wastewater District arose from two
decisions. In Decision No. 72047 (Jan. 6, 2011), the Commission approved a rate
increase for the Anthem/Agua Fria Wastewater District. As part of that decision, which
resulted in part from a settlement agreement as discussed above, the Commission left open

⁷ The written terms of the Settlement became Pierce Amendment No. 2.

1 the docket to consider de-consolidation of the Anthem/Agua Fria Wastewater District.
2 Following an extensive hearing in which multiple parties participated, including the
3 Russell Ranch Homeowners Association and the Corte Bella Country Club Association,
4 the Commission issued Decision No. 73227 (June 5, 2012), which ordered the de-
5 consolidation of the Anthem/Agua Fria wastewater district into two districts. New rates
6 based on this de-consolidation were ordered to be phased-in over three years, with the
7 final phase beginning on January 1, 2015. As such, EPCOR's next rate case for these
8 districts could not occur until after June 30, 2015, which would be the earliest test year end
9 date (*i.e.*, six months after the commencement of the last phase of these rates). The de-
10 consolidation of these districts and the three year phase-in proposed by the Anthem
11 Community Council was supported by the Residential Utilities Consumer Office. Neither
12 EPCOR nor Commission Staff took a position regarding de-consolidation.

13 With this background and context, EPCOR provides responses to the questions
14 relating to wastewater rates discussed in those complaints:

15 **1. "Why are rates so much higher than the surrounding areas?"**

16 Historically, rates are determined for each utility district based on several factors.
17 The net amount of the utility infrastructure in service, the age and condition of the
18 infrastructure, the amount of infrastructure donated (*i.e.* contributed) by the developer, the
19 operating expenses to operate all of the plant facilities, and the number of customers in
20 each district are major factors that influence the resulting authorized rates. These factors
21 lead to different revenue requirements for each utility district. Additionally, each utility's
22 revenue requirement may be comprised of different components which are from
23 Commission-approved regulatory assets that reflect the unique operating environments of
24 each entity. Municipal utility rates may be calculated differently than Commission-
25 regulated rates and can also be subsidized by other municipal activities such as property
26 taxes or sales taxes to keep the utility rates artificially low. In other words, it is not a true
27 cost comparison to simply compare municipal and private water utility rates.

1 Once it has been determined how the revenue requirements of one utility differs
2 from another utility, an examination of the alternative methods of designing rates is
3 necessary along with an understanding of the different processes and procedures followed
4 in setting rates. Accordingly, a comparison of the differences in the rates is complicated
5 and involves a review and examination of many factors. The rate-making process
6 generally followed by a regulator (such as the Commission) attempts to ensure that the
7 rates approved are fair to both the company and the customers.

8 A chart showing rate comparisons is set forth as Exhibit 5.

9 **2. “Why are customers charged a volume rate based on our water usage when much**
10 **of the water never goes down the sewer system, but into the ground?”**

11 Wastewater rates are designed to recover the capital costs and operating expenses
12 of the wastewater service and often include a volumetric component with a cap, as well as
13 a monthly minimum charge. The volumetric component is based on the amount of water
14 usage often to provide additional motivation to customers to conserve water and to
15 facilitate the recovery on a measurement basis. EPCOR is not aware of any municipality
16 using meters to measure residential flows that are put back into the wastewater system.
17 Wastewater flow measurement is not very accurate and is costly to install and maintain.
18 Water flows subject to a maximum usage cap can provide an affordable way to bill
19 wastewater volumes without any additional cost. The cap is typically established based on
20 industry experience regarding the quantity of water used within the home and that would
21 be collected through a wastewater utility’s collection system for treatment. However, the
22 total cost of service must be recovered through the wastewater rates and if a lower cap is
23 used, the volumetric charge or fixed charges would need to be increased to ensure that the
24 total costs of service are recovered. For example, in the Agua Fria Wastewater District,
25 59% of the cost of service is collected through the fixed charge and the remaining 41% is
26 collected through the volumetric charge. In the Anthem Wastewater District, 46% of the
27 cost of service is collected through the fixed charge while 54% is collected through the

1 volumetric charge. The rate design approved in these districts by the Commission
2 includes a volumetric component. As noted above, however, EPCOR's proposal for full
3 consolidation includes a flat rate and does not include a volumetric component for
4 residential customers.

5 **3. "Why are Agua Fria customers charged a higher rate than Sun City when they**
6 **both use the Northwest treatment plant as does Sun City West and Peoria?"**

7 Wastewater from Sun City is treated at the Tolleson Wastewater Treatment Plant.
8 Wastewater flows from Sun City West and the Northeast Agua Fria customers are treated
9 at the Northwest Valley Water Reclamation Facility. Sun City West and Agua Fria share
10 the capital and operating costs of the Facility, which have been allocated on the basis of
11 the projected residential customers in each area. The total cost of service, however, for
12 each district is different (this includes costs related to the Northwest Valley Water
13 Reclamation Facility and all other costs), and with the larger number of customers in Sun
14 City West, the rates per customer are lower.

15 **4. "There is no substantial reason for the continued consolidation of Corte Bella,**
16 **Cross River, Dos Rios, and Coldwater Ranch, which is geographically remote and**
17 **physically unconnected to the Agua Fria District."**

18 The Agua Fria Wastewater District has approximately 5,700 customers of which
19 approximately 2,295 are situated in the Northeast Agua Fria area, which includes Corte
20 Bella, Cross River, Dos Rios, and Coldwater Ranch and other areas. Issues relating to the
21 further deconsolidation of the Agua Fria Wastewater District are discussed above. As the
22 Company has noted, it is the Company's opinion that based on the facts, further
23 deconsolidation will do more harm than good for the Agua Fria Wastewater District as a
24 whole. The Company continues to support full consolidation to address the concerns
25 raised by customers and to achieve equity in the long term. Consolidation increases the
26 Company's ability to respond to environmental and safety mandates more reliably and
27 efficiently by providing less duplicative record-keeping requirements which results in

1 higher quality operations. It also increases economic and regulatory efficiency and
2 economies of scale that translate into lower costs for customers.

3 **5. "Consolidation of Corte Bella, Cross River, Dos Rios, and Coldwater Ranch in the**
4 **Agua Fria District is inconsistent with cost of service ratemaking principles (who**
5 **uses service pays for service) and contrary to good public policy that requires**
6 **correct assignment of cost responsibilities."**

7 Rates for customers are dependent upon the customer base over which these fixed
8 costs are spread. Privately-owned water/wastewater companies typically serve customers
9 in areas where services were not otherwise available and housing developments were in
10 demand. The rates that are charged to the customers in Corte Bella, Cross River, Dos
11 Rios, and Coldwater Ranch have been authorized by the Commission and are consistent
12 with cost of service ratemaking principles. Unfortunately, with the deconsolidation of the
13 Anthem-Agua Fria Wastewater district, the costs of the Agua Fria Wastewater district
14 have a smaller base over which to be spread. Further deconsolidation of the Agua Fria
15 Wastewater district to remove Corte Bella, Cross River, Dos Rios, Coldwater Ranch, and
16 any other subdivisions located in the northern Agua Fria Wastewater region will only
17 further exacerbate this issue.

18 **6. "Consolidation of Corte Bella, Cross River, Dos Rios, and Coldwater Ranch in the**
19 **Agua Fria District does not result in just and reasonable rates. Corte Bella, Cross**
20 **River, Dos Rios, and Coldwater Ranch does not use, nor can it use, the facilities,**
21 **which resulted in the disparity in rates due to geographical separation, and no**
22 **interconnection facilities."**

23 It is correct that these developments do not use all of the facilities that are part of
24 the Agua Fria Wastewater District. The same is true for all utilities and the same is true
25 with full consolidation. However, as discussed in other sections of this filing, many utility
26 company rates are consolidated. For instance, electric and gas utility rates are not
27 consolidated on the basis of direct use by customers of generating facilities or source of
supply or interconnection of facilities and, in fact, are often geographically separate. For
the deconsolidation portion of this response, the rough calculations yield rates in the
Verrado area in the range of approximately \$121 as compared to the area referred to as

1 Northeast Agua Fria (including the communities of Corte Bella, Cross River, Dos Rios,
2 and Coldwater Ranch) where the deconsolidated rates would be approximately \$114, a
3 difference of only \$7 per month. EPCOR believes that full consolidation will result in just
4 and reasonable rates.

5 **7. Anthem has been deconsolidated. The factors are identical. As a matter of**
6 **fairness, Corte Bella, Cross River, Dos Rios, and Coldwater Ranch must be**
7 **deconsolidated.**

8 EPCOR respectfully disagrees that the factors are identical. First, Corte Bella,
9 Cross River, Dos Rios, and Coldwater Ranch are not merely seeking to deconsolidate from
10 Agua Fria Wastewater District. Rather, Corte Bella, Cross River, Dos Rios, and
11 Coldwater Ranch are asking to consolidate with Sun City West Wastewater District.
12 Second, it is important to note that Anthem Wastewater has approximately 8,800
13 customers compared to the 5,700 customers in the Agua Fria Wastewater District (Corte
14 Bella, Cross River, Dos Rios, and Coldwater Ranch have even less than the Agua Fria
15 Wastewater District at 2,295).

16 **8. Responses to March 7, 2014 Corte Bella Community Letters.**

17 As noted in the Decision, a second set of letters came from the Corte Bella
18 community on March 7, 2014. With regard to wastewater, this letter made certain
19 statements in relation to deconsolidation of the Agua Fria Wastewater District. The issues
20 raised in that letter are primarily position statements by the customers. To the extent
21 EPCOR has a response to those statements, they are set forth above as part of this filing.

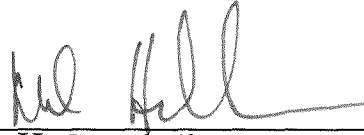
22 **9. Response to June 7, 2014 Letter.**

23 Similarly, the Decision notes a June 7, 2014 letter which requests certain revisions
24 to the current rate structure, including a deferral of the volume charge until after 10,000
25 gallons of usage or a wastewater charge based on 30 percent of the water used. As noted
26 above, EPCOR's proposal for full consolidation includes a flat rate for wastewater service
27 and no longer proposes a volumetric charge. It is important, however, to note, that any
rate design changes must achieve the authorized revenue requirement to cover the

1 approved costs. As a result, the type of changes proposed in the June 7th letter would not
2 likely change the total bill for a customer, as the rate must still be designed to recover the
3 revenue requirement.

4 RESPECTFULLY SUBMITTED this 8th day of August, 2014.

5 LEWIS ROCA ROTHGERBER LLP

6
7 

8 Thomas H. Campbell
9 Michael T. Hallam
10 201 E. Washington Street, Suite 1200
11 Phoenix, AZ 85004
12 Attorneys for EPCOR Water Arizona, Inc.

13 ORIGINAL and thirteen (13) copies
14 of the foregoing filed
15 this 8th day of August, 2014, with:

16 The Arizona Corporation Commission
17 Utilities Division – Docket Control
18 1200 W. Washington Street
19 Phoenix, Arizona 85007

20 Copy of the foregoing hand-delivered
21 this 8th day of August, 2014, to:

22 Steve Olea
23 Utilities Division
24 Arizona Corporation Commission
25 1200 W. Washington Street
26 Phoenix, Arizona 85007

27 Lyn Farmer
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

Janice Alward, Chief Counsel
Legal Department
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

1 Copy of the foregoing mailed
2 this 8th day of August, 2014, to:

3 Judith M. Dworkin
4 Roxanne S. Gallagher
5 SACKS TIERNEY PA
6 4250 N. Drinkwater Blvd., Fourth Floor
7 Scottsdale, AZ 85251-3693
8 judith.dworkin@sackstierney.com
9 Attorney for Anthem Community Council

Lawrence V. Robertson, Jr.
P.O. Box 1448
Tubac, AZ 85646-1448
tubaclawyer@aol.com
Attorney for Anthem Community Council

8 Daniel W. Pozefsky
9 Chief Counsel
10 Residential Utility Consumer Office
11 1110 West Washington Street
12 Suite 220
13 Phoenix, Arizona 85007
14 dpozefsky@azruco.gov

Robert Metli
SNELL & WILMER
One Arizona Center
100 E. Van Buren Street
Phoenix, AZ 85004-2202
jcrockett@swlaw.com
rmetli@swlaw.com
Attorneys for Resorts

14 Larry Woods
15 President
16 Property Owners and Residents Assoc.
17 13815 E. Camino Del Sol
18 Sun City West, AZ 85375-4409

Bradley J. Herrema
Robert J. Saperstein
Brownstein Hyatt Farber Schreck, LLP
21 E. Carrillo St
Santa Barbara, CA 83101
BHerrema@BHFS.com
RSaperstein@BHFS.com

19 W.R. Hansen
20 12302 W. Swallow Drive
21 Sun City West, AZ 85375

Greg Patterson
Water Utility Association of Arizona
916 W. Adams, Suite 3
Phoenix, AZ 85007
greg@azcpa.org

23 Andrew M. Miller, Town Attorney
24 Town of Paradise Valley
25 6401 E. Lincoln Drive
26 Paradise Valley, AZ 85253
27 amiller@paradisevalleyaz.gov

Desi Howe
Anthem Golf and Country Club
2708 W. Anthem Club Drive
Anthem, AZ 85086

1 Norman D. James
2 Fennemore Craig, P.C.
3 3003 N. Central
4 Suite 2600
5 Phoenix, AZ 85012
6 njames@fclaw.com
7 Attorney for DMB White Tank, L.L.P.

8 Philip H. Cook
9 10122 W. Signal Butte Circle
10 Sun City, AZ 85373

11 Marshall Magruder
12 P.O. Box 1267
13 Tubac, AZ 85646
14 mmagruder@earthlink.net

15 Gary Verburg, City Attorney
16 Daniel L Brown, Assistant City Attorney
17 Cynthia Campbell
18 Office of the City Attorney
19 200 W. Washington, Suite 1300
20 Phoenix, AZ 85003

21 Pauline A. Harris Henry, President
22 Board of Directors
23 Russell Ranch Homeowners' Association,
24 Inc.
25 21448 N. 75th Ave., Suite 6
26 Glendale, AZ 85308

27 Craig A. Marks
28 Craig A. Marks, PLC
29 10645 N. Tatum Blvd, Suite 200-676
30 Phoenix, AZ 85028

31 Lynn M. Krupnik
32 Ekmark & Ekmark, LLC
33 6720 N. Scottsdale Rd, Suite 261
34 Scottsdale, AZ 85253

35 Joan S. Burke
36 Law Office of Joan S. Burke
37 1650 N. First Avenue
38 Phoenix, AZ 85003
39 Joan@jsburkelaw.com
40 Attorney for Mashie, L.L.C.

41 Larry D. Woods
42 15141 W. Horseman Lane
43 Sun City West, AZ 85375
44 larry@lwoods.com

45 Frederick G. Botha
46 23024 N. Giovota Drive
47 Sun City West, AZ 85375

48 Michele L. Van Quathem
49 Ryley Carlock & Applewhite
50 One N. Central Ave, Suite 1200
51 Phoenix, AZ 85012

52 Sun City Grand Community Association
53 Palm Center
54 19726 N. Remington Drive
55 Surprise, AZ 85374

56 Scottsdale Citizens for Sustainable Water
57 7322 E. Cactus Wren Road
58 Scottsdale, AZ 85250-4526

59 Peter and Rochanee Corpus
60 8425 N. 181st Drive
61 Waddell, AZ 85355

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23
24
25
26
27

George M. Turner
President, Board of Directors
Russell Ranch Homeowners' Assoc., Inc.
PO Box 12560
Glendale, AZ 85318

Jason D. Gellman
Roshka, DeWulf & Pattern, PLC
400 East Van Buren St., Suite 800
Phoenix, AZ 85004

Kenneth Hewitt
18729 North Palermo Court
Surprise, AZ 85387

Mr. Jim Weihman
The Happy Trails Community Association
17200 West Bell Road
Surprise, Arizona 85374

Ms. Sharon Wolcott
20117 North Painted Cove Lane
Surprise, Arizona 85387

Mr. Owen Dejanovich
Clearwater Farms Three HOA
P.O. Box 72
Waddell, Arizona 85355

Mr. Stan Mucha
The Sun Village Community Association
17300 North Sun Village Pkwy
Surprise, Arizona 85374

Tammy Ryan
Andy Terrey
City of Phoenix
Water Services Department
200 W. Washington, Suite 1300
Phoenix, AZ 85003

Chard R. Kaffer
Troy Stratmen, Esq.
Mack Drucker & Watson, PLC
3200 N. Central Ave., Suite 1200
Phoenix, AZ 85012

Thomas and Laurie Decatur
924 Torridon Court
Pickerington, Ohio 43147

Peggy H. Rahkola
The Arizona Traditions HOA
17221 North Citrus
Surprise, AZ 85374

Mr. Nicholas Mascia
The Surprise Farms III Community Assn.
1600 West Broadway Road, Suite 200
Tempe, Arizona 85282

Mr. William B Lipscomb
Kingswood Parke Community Association
14976 West Bottletree Avenue
Surprise, Arizona 85374

Mr. Kevin Chiariello
Greer Ranch South HOA
16074 West Christy
Surprise, Arizona 85379

1 Mr. Garry D. Hays
2 The Law Offices of Garry D. Hays, PC
3 1702 East Highland Avenue, Suite 204
4 Phoenix, Arizona 85016

Mr. Michael D. Bailey
City Attorney
City of Surprise
16000 North Civic Center Plaza
Surprise, Arizona 85374

5 Mr. Timothy L. Duffy
6 Ms. Cindy J. Duffy
7 19997 North Half Moon Drive
8 Surprise, Arizona 85374

Mr. Mike Albertson
6634 North 176th Avenue
Waddell, Arizona 85355

8 Dana Rosenbaum
9 Surprise Farms Community Assn., Phase 1A
10 PO Box 25466
11 Tempe, AZ 85285

Mr. Brian O'Neal
21373 West Brittle Bush Lane
Buckeye, Arizona 85396

11 Jerome M. Ellison II
12 Cortessa Community Association
13 PO Box 25466
14 Tempe, AZ 85285

Craig and Nancy Plummer
17174 West Saguardo Lane
Surprise, Arizona 85388

15 Ms. Jeanne Stockard
16 Northwest Ranch Homeowners Association
17 4742 North Central Ave., Suite 2600
18 Phoenix, AZ 85012

William and Erin Parr
18044 West Georgia Court
Litchfield Park, Arizona 85034

18 Jared Evenson
19 Cross River Homeowners Association
20 1600 West Broadway Road, Suite 200
21 Tempe, Arizona 85282

Mr. Jim Oravetz
Legacy Parc South Homeowners Assn.
1600 West Broadway Road, Suite 200
Tempe, Arizona 85282

21 Mr. Mike Smith
22 Sierra Montana Homeowners Association
23 c/o Rossmar & Graham
24 15396 North 83rd Ave., Bldg. B, Suite 101
25 Peoria, Arizona 85381

Ms. Jan Garcia
Sycamore Estates Parcel 13 Comm. Assn.
1600 West Broadway Road, Suite 200
Tempe, Arizona 85282

1 Mr. Jay Shapiro
2 Mr. Patrick Black
3 Fennemore Craig, P.C.
4 3003 North Central Avenue, Suite 2600
5 Phoenix, Arizona 85012

Ms. Susan Harr
Summerfield at Litchfield Subdivision HOA
13201 North 35 Avenue, Suite B-3
Phoenix, Arizona 85029


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8
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EXHIBIT 1

**PUBLIC NOTICE TO ALL WASTEWATER CUSTOMERS OF EPCOR WATER
ARIZONA, INC. OF A HEARING ON RATE
CONSOLIDATION/DECONSOLIDATION PROPOSALS FOR POSSIBLE RATE
CHANGES FOR UTILITY SERVICE IN ALL OF ITS ARIZONA WASTEWATER
DISTRICTS.**

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

Summary

In Decision No. 74588, the Arizona Corporation Commission ordered EPCOR Water Arizona, Inc. (the "Company") to provide information relating to the rate impacts of consolidation and deconsolidation of the Company's wastewater districts. As ordered by the Commission, the Company made that filing on August 8, 2014, in the above-referenced dockets. To allow for the consideration of revenue neutral consolidation/deconsolidation of the Company's wastewater districts only, prior Commission decisions have been re-opened pursuant to A.R.S §40-252 and a hearing will be held to address the parties' proposals. **A decision in this matter may impact the rates of every wastewater customer of the Company – either as an increase or decrease.** The Commission will determine the appropriate relief to be granted (if any) based on the evidence presented by the parties. The Commission is not bound by the proposals made by Commission Staff, the Company, or any of the intervenors.

Rate Consolidation/Deconsolidation

Currently, the Company's rates are unique for each of its Arizona wastewater districts and the existing rates reflect the differing cost to serve each geographic area. Alternatively, rate consolidation is the process of combining two or more districts for the purpose of averaging the differing rates into a single rate for comparable customers (i.e., residential customers). Therefore, under consolidation, instead of charging a different rate to customers in different wastewater districts, all comparable customers would pay the same rate. Deconsolidation would potentially create additional wastewater districts based on additional geographic areas of service and rates would be set based on the cost to serve that specific area.

How You Can View or Obtain a Copy of the Company's August 8, 2014 Filing

Copies of the Commission-ordered filing made by the Company are available from EPCOR Water Arizona, Inc., 2355 W. Pinnacle Peak Road, Suite 300, Phoenix, AZ 85027, on the Company's website at www.epcor.com and at the Commission's Docket Control Center, 1200 W. Washington Street, Phoenix, Arizona, for public inspection during regular business hours and on the internet via the Commission's website (www.azcc.gov) using the eDocket function.

Arizona Corporation Commission Public Hearing Information

As part of this proceeding, the Company's direct testimony will be due _____, 2014. Responsive testimony of the intervenors, including Commission Staff, will be due _____, 2014. The Commission will hold a hearing on this matter beginning _____, 2014, at 10:00 a.m. in Hearing Room No. __, at the Commission's offices, 1200 W. Washington Street, Phoenix, Arizona, 85007.

An interested person may participate in this matter by (1) providing written or oral public comment; or (2) filing for intervention and becoming a formal party to the proceeding.

How to Make Public Comment

Oral public comments will be taken on the first day of the hearing. Written public comments may be submitted by mailing a letter referencing Docket Nos. W-01303A-09-0343 and SW-01303A-09-0343 to Arizona Corporation Commission, Consumer Services, 1200 W. Washington Street, Phoenix, Arizona 85007. You may also file written comments electronically by going to the following link:

<http://www.azcc.gov/Divisions/Utilities/forms/PublicCommentForm2013PDFEmail.pdf>

If you require assistance, you may contact the Commission's Consumer Services Section at 602-542-4251 or 1-800-222-7000.

If you do not intervene, you will receive no further notice of the proceedings in this docket. **However, all documents filed in this docket are available online** (usually within 24 hours after docketing) at the

Commission's website www.azcc.gov using the eDocket function, located at the bottom of the website homepage. RSS feeds are also available through eDocket.

About Intervention

You do not need to intervene if you want to appear at the hearing and provide public comment, or if you want to file written comments in the record of the case.

Any person or entity entitled by law to intervene and having a direct and substantial interest in the matter will be permitted to intervene. The granting of intervention entitles a party to present sworn evidence at hearing and to cross examine other parties' witnesses. **If you wish to intervene, you must file an original and 13 copies of a written motion to intervene with the Commission's Docket Control Center no later than _____, 2014, and send a copy of the motion to the Company or its counsel and to all parties of record.** Contact information for the Company and parties of record may be obtained using the Commission's eDocket Function referencing Docket No. W-01303A-09-0343 or SW-01303A-09-0343.

Your motion to intervene must contain the following:

1. Your name, address and telephone number, and the name, address and telephone number of any person upon whom service of documents is to be made, if not yourself;
2. A short statement of your interest in the proceeding (e.g., a customer of the Company, a shareholder of the Company, etc.); and
3. A statement certifying that you have mailed a copy of the motion to intervene to the Company or its counsel and to all parties of record in the case.

The granting of motions to intervene is governed by A.A.C. R14-3-105, except that all motions to intervene must be filed on or before _____, 2014. For a sample intervention request form, go to <http://www.azcc.gov/divisions/utilities/FORMS/interven.pdf>. All parties must comply with Arizona Supreme Court Rules 31 and 38 and A.R.S. § 40-243 with respect to the practice of law.

If you do intervene, and wish to present direct testimony and associated exhibits at the hearing, you must, on or before _____, 2014: (1) reduce your direct testimony and associated exhibits to writing, (2) file the original and 13 copies with the Commission's Docket Control Center by 4:00 p.m., and (3) mail a copy to each party.

ADA/Equal Access Information

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, email SAbernal@azcc.gov, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

EXHIBIT 2

Wastewater District Rate Design Proceeding

Consolidation Scenario

	Total Authorized Revenue	Total # of Billing Units	Total Consumption	Flat Rate per Unit¹
1 Residential (Single and Multi-Unit)	\$ 25,792,489	751,604	870,371	\$ 34.30
2				
3 Commercial				
4 Single Unit	906,934	11,259	229,898	\$ 81.59
5 Multi-Unit	169,877	564	94,212	\$ 301.00
6 Large User (Meter >2")	665,981	1,692	107,224	\$ 394.00
7 Mobile Home Parks (Paradise Park)	160,998	12	30,079	\$ 13,416.00
8 Commercial-Flat (Mohave ONLY)	14,902	180	0	\$ 83.00
9				
10 Other Public Authority-Flat (Mohave ONLY)	12,915	156	0	\$ 82.79
11				
12 Other Wholesale Users - City of Phoenix	792,489	24	184,710	² \$ 4.29
13				
14 Effluent (AF, AN, MO ONLY)	631,157	632	825,559	\$ 0.76
15				
16 Totals	<u>\$ 29,147,741</u>	<u>766,124</u>	<u>2,342,054</u>	

¹ Mohave bills on an Equivalent Residential Unit (ERUs) basis instead of Units. Rates for Mohave Commercial and Other Public Authority customers are per ERU.

² Consumption based on flume flow thousand gallons.

EXHIBIT 3

Wastewater District Rate Design Proceeding

Deconsolidation of Agua Fria District Scenario

LINE NO.	DESCRIPTION	Verrado	NE Agua Fria	Russell Ranch	Totals
1	Adjusted Rate Base	\$ 12,050,468	\$ 7,097,062	\$ -	\$ 19,147,531
2	Adjusted Operating Income (Loss)	\$ (548,068)	\$ (391,818)	\$ (33,380)	\$ (973,265)
3	Current Rate of Return (L2 / L1)	-4.55%	-5.52%	0.00%	-5.08%
4	Required Rate of Return	6.70%	6.70%	6.70%	6.70%
5	Required Operating Income (L4 * L1)	\$ 807,381	\$ 475,503	\$ -	\$ 1,282,885
6	Operating Income Deficiency (L5 - L2)	\$ 1,355,449	\$ 867,321	\$ 33,380	\$ 2,256,150
7	Gross Revenue Conversion Factor	1.6561	1.6561	1.6561	1.6561
8	Required Revenue Increase (L7 * L6)	\$ 2,244,807	\$ 1,436,401	\$ 55,282	\$ 3,736,490
9	Adjusted Test Year Revenue	\$ 1,506,275	\$ 1,076,847	\$ 91,740	2,674,862
10	Proposed Annual Revenue (L8 + L9)	\$ 3,751,083	\$ 2,513,248	\$ 147,021	\$ 6,411,352
11	Total Customer Count	2,577	1,842	157	4,576
12	Flat Rate per Customer per month	\$ 121.31	\$ 113.69	\$ 78.07	\$ 116.76
13	Final Avg Rates per month per Decision No. 73837	\$ 121.00	\$ 121.00	\$ 121.00	\$ 121.00
14	Difference in Deconsolidated Rates & Authorized	\$ (0.31)	\$ 7.31	\$ 42.93	\$ 4.24

EXHIBIT 4

Wastewater District Rate Design Proceeding

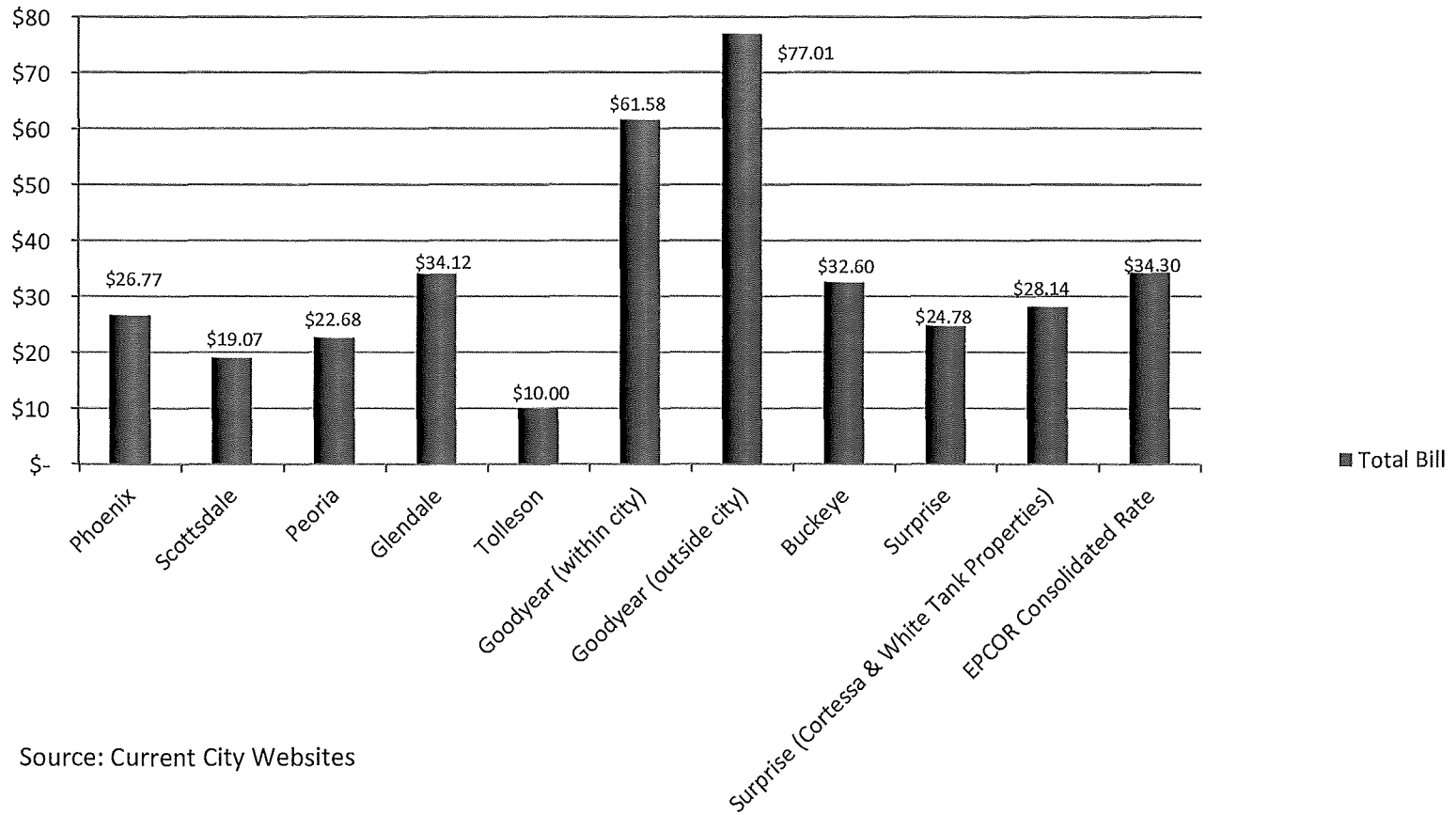
Re-Consolidation of Anthem / Agua Fria Wastewater Scenario

Anthem Wastewater & Agua Fria Wastewater
Test Year Ended December 31, 2008

Line No.	Rate Schedule	Description	Kgals Billed (Cap)	Average Number of Customers	Average Consumption (Gallons)	Service Chg # of Billing Units	Billed Consumption (Kgals)	(Deconsolidated) Revenue	Re-consolidation Base Charge	Commodity Charge
1	E1MS1	Anthem/Agua Fria Sewer Residential	7,000	12,879	11,111	154,551	870,371	10,504,815	\$ 39.84	\$ 4.99
2	E2MS1	Anthem/Agua Fria Sewer Commercial	10,000	4	5,925	51	302	3,951	\$ 44.48	\$ 5.58
3	E2MS2	Anthem/Agua Fria Sewer Commercial	15,000	1	-	12	-	801	\$ 66.72	\$ 5.58
4	E2MS3	Anthem/Agua Fria Sewer Commercial	15,000	20	18,324	237	2,104	32,803	\$ 89.06	\$ 5.58
5	E2MS4	Anthem/Agua Fria Sewer Commercial	All Gallons	130	103,650	1,571	79,868	725,128	\$ 178.05	\$ 5.58
6	E5M2	Anthem Wholesale (Phoenix) OWU	All Gallons	2	9,655,083	24	231,722	1,292,082	\$ -	\$ 5.58
7	D7M1	Anthem Effluent	All Gallons	48	840,540	572	480,873	370,272	\$ -	\$ 0.77
8	D7M2	Anthem Effluent - Const	All Gallons	5	1,717,117	60	103,027	79,331	\$ -	\$ 0.77
9	C8M2A	Agua Fria DMB @ Verrado Golf	All Gallons	1	13,683,831	0	177,890	136,975	\$ -	\$ 0.77
Total Anthem / Agua Fria Sewer - Billed Revenues				13,090	26,035,581	157,078	1,946,156	13,146,157		

EXHIBIT 5

Wastewater Residential Bill Comparison at 7Kgals



Source: Current City Websites