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BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner

Arizona Corporation Commission

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JUL 14 2014

BOB BURNS
Commissioner

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SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE ARIZONA-AMERICAN WATER COMPANY'S APPLICATIONS FOR AN INCREASE IN RATES FOR ITS WATER AND WASTEWATER RATES

) DOCKET NO. W-01303A-09-0343
) SW-01303A-09-0343
) **EPCOR WATER COMPANY'S**
) **RESPONSE TO STAFF**
) **MEMORANDUM AND**
) **APPLICATION FOR**
) **ACCOUNTING ORDER**

EPCOR Water Arizona, Inc. ("EPCOR") believes it is important to address its customers' concerns as promptly as possible and for that reason supports the proceeding recommended in the Arizona Corporation Commission ("Commission") Utilities Division Staff's July 8, 2014 Memorandum ("Staff's Memorandum"). EPCOR also respectfully requests an accounting order to defer the expenses related to participating in the proceeding recommended by Staff and responding to the issues raised by certain Agua Fria customers.

EPCOR appreciates the Staff's efforts in compiling the Staff Memorandum outlining the history, prior Commission decisions and customer filings. EPCOR supports the Staff's proposed procedure and looks forward to participating in the proceeding described in the Staff's Memorandum. EPCOR particularly appreciates Staff's recognition that EPCOR's current rates and customer bills are in compliance with approved

1 Commission orders. The rates that are the subject matter of the Agua Fria customer filings
2 are rates that have been authorized by the Commission.

3 With respect to the substance of Staff's Memorandum, EPCOR, in this initial filing,
4 will just address four issues. EPCOR will file a more complete response on August 8,
5 2014.

6 First, EPCOR concurs with Staff's proposal that the Commission should initially
7 and immediately focus on wastewater rate design. It is the Agua Fria wastewater rates that
8 have the most significant impact on the customers who have filed letters and petitions of
9 concern with the Commission. The most expeditious and efficient way to address those
10 customer concerns is to review wastewater rate design.

11 Second, EPCOR will provide information on the three consolidation and
12 deconsolidation scenarios requested by the Staff, but EPCOR will be advocating for a
13 revenue neutral consolidation of all its wastewater districts. EPCOR believes complete
14 wastewater consolidation is the best long-term solution to the concerns raised and is also
15 the most equitable in the long-term for establishing rates for recovery of the reasonable
16 expenses and capital expenditures that will be necessary in the future. Further
17 deconsolidation is likely to exacerbate the current situation and likely result in similar
18 complaints of this nature in the future. EPCOR believes that over the long term, everyone
19 could benefit from predictable, uniform rate structures, reduced regulatory expenses and
20 increased efficiencies. Moving to a consolidated district with a single rate structure mirrors
21 what consumers experience in most municipal districts. In other words, rates are the same
22 regardless of where a customer lives within a municipal area.

23 Third, EPCOR urges the Commission to resolve this wastewater rate design issue
24 expeditiously and preferably no later than December 31, 2014. To that end, EPCOR
25 supports Staff's recommendation that EPCOR file a response by August 8, and that a
26 procedural conference be conducted within seven to ten days after EPCOR's filing. At that
27 procedural conference, EPCOR will propose a procedural schedule that will allow the

1 Commission to address wastewater rate design in a revenue neutral way prior to December
2 31, 2014.

3 Fourth, EPCOR respectfully requests an accounting order to defer the expenses
4 associated with this proceeding. As noted by the Staff, EPCOR has been in full
5 compliance with the Commission's rate case decisions. The expenses that EPCOR has and
6 will prudently incur should be recoverable in a future rate case. The specific details of
7 recovery of the deferrals in rates need not be determined as part of the approval of an
8 accounting order. Granting approval of an accounting order reduces further financial harm
9 to EPCOR, because without deferral authorization, these cost increases must be
10 immediately recognized as operating expenses and result in a drain on EPCOR's net
11 income. Unless special consideration is given to these new and previously unanticipated
12 expenses, EPCOR will have no opportunity to recover these costs.

13 These new and previously unanticipated expenses associated with a proceeding to
14 respond to customer complaints in the Agua Fria Districts will create a drain on the
15 authorized return absent deferral authorization, and the deferral, if approved, will provide
16 a vehicle for future recovery of these costs and keep EPCOR whole. If the accounting
17 order is approved, EPCOR will record the deferrals on the basis that the accounting order
18 is a regulatory promise (but not a guarantee) that the deferred amounts will later be
19 actually recovered in rates. Although the specific recovery details will be determined in a
20 future rate case, the regulatory accounting records will be relied upon as accurate and as
21 including a regulatory promise that will keep EPCOR whole (or very close to whole) on a
22 present value basis as regards the specific recovery. Any subsequent deviation or erosion
23 in the regulatory promise will cause an immediate write-off of the amount of the deferral.
24 The granting of this accounting order will eliminate an immediate drain on earnings and
25 will provide a reasonable opportunity for EPCOR to recover the expenses.

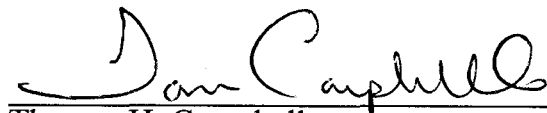
26 EPCOR respectfully requests that the Commission adopt the order proposed by
27 Staff and approve an accounting order to record for accounting purposes the expenses

1 related to this proceeding. To that end, EPCOR requests that the following language be
2 added as a new ordering paragraph to the Staff's proposed order:

3
4 IT IS FURTHER ORDERED that EPCOR is authorized to
5 defer and record in its regulatory accounting records the
6 expenses incurred related to this proceeding and the customer
7 complaints described above.

8
9 RESPECTFULLY SUBMITTED this 14th day of July, 2014.

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18 ORIGINAL and thirteen (13) copies
19 of the foregoing filed
20 this 14th day of July, 2014, with:

21 The Arizona Corporation Commission
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25 Copy of the foregoing hand-delivered
26 this 11th day of July, 2014, to:

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