

# FOUNTAIN HILLS BACKGROUND

On April 26, 2013 Chaparral City Water Company (CCWC) a wholly-owned subsidiary of EPCOR Utilities (EPCOR) filed an application to increase its rates and charges on approximately 13,567 customers residing in City of Fountain Hills and a small section of Scottsdale .

- CCWC proposed a revenue requirement of \$11,742,107, which is a revenue increase of \$2,727,122 -- or 30.25 percent. This would result in a \$13.18 increase for the average rate for residential customers.
- The staff of the Arizona Corporation Commission (ACC) proposed a revenue increase of \$1,304,325 or 14.47 percent. The Residential Utility Consumer Office (RUCO) proposed a far lower revenue increase of \$754,090 or 8.31 percent.
- Five days of hearings began on February 18, 2013. Interveners presented their evidence and case before the Administrative Law Judge (ALJ) Teena Jibilian. On May 28, 2014, Judge Jibilian filed her Recommended Opinion and Order. She recommended an increase of \$1,625,544 or 16.28 percent.

In the June 10, 2014 Open Meeting the ACC considered the CCWC case and voted to give the Company an increase of \$2,054,093 or 22.79 percent. The ACC ignored the recommendations of Judge Jibilian, the ACC staff and RUCO and, instead, increased its Return on Equity (ROE) from 8.65 percent to 9.6 percent. Judge Jibilian tried to explain to the Commissioners they were misapplying the 9.6 percent ROE, but to no avail. The ACC then went on to adopt the Company's position on depreciation expense. The depreciation expense decision increased revenues substantially -- even though the ALJ said there was no evidence on the record to support the Company's position.

This additional revenue increase of over \$429,000 including related impacts represents a 26.4 percent increase over and above what Judge Jibilian recommended. Incredibly, this additional increase was approved without the Commission asking a single question about the impact on residential customers' rates or even how much the revenues were going to increase for the Company.

Because RUCO was created by the Legislature in 1983 to be a watchdog on behalf of all Arizona utility ratepayers, it is rising in this case to vigorously defend the interests of Fountain Hills and Scottsdale ratepayers.

This also includes RUCO's deep concern over the ACC's approval of a System Improvement Benefit Charge (SIB). This is a mechanism that allows the Company to replace infrastructure -- and charge ratepayers to cover those costs -- between rate cases. The price increase over the five-year plan is approximately \$8.58 for the average residential ratepayer. That amount when added to the rate case increase of \$7.68 takes the current rates from \$37.85 to \$54.11 a 43.0 percent increase.

This is far from the 20.3 percent increase that is characterized by the ACC order.

But, that's not all. The ACC approved several new adjustments that contributed to other revenue increases for the Company. One of the most egregious adjustments is the so-called Tank Maintenance expense which will increase Company revenues by over \$200,000, based on an

estimate of costs over the next 18 years. There is no guarantee that tank maintenance will ever be done.

In addition to all of this, the ACC also allowed the Company other adjustments that will boost the Company's revenues.

In sum, the ACC has ignored recommendations of its own staff, a judge, and RUCO and, in so doing, has increased the cost to ratepayers by 26.1 percent before the SIB goes into effect. Including the SIB revenues, over the next five years the increase is actually an astounding 43 percent.

Make no mistake. RUCO is no enemy of Arizona utilities, and neither is it an adversary of the ACC. It understands and appreciates the challenges that utilities – including Chaparral City Water Company --- face.

But RUCO knows when ratepayers are getting a bad deal, and that's what's happening now to Fountain Hills and some Scottsdale ratepayers.