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MEMORANDUM RECEIVED

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TO: Docket Control
FROM: Ernest G. Johnson
for Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

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DATE: November 27, 2007

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RE: DIVERSIFIED WATER UTILITIES, INC. STAFF RESPONSE TO
PROCEDURAL ORDER ISSUED NOVEMBER 16, 2007.
DOCKET NO. W-02859A-04-0844

On November 16, 2007, a Procedural Order was issued by the Hearing Division requesting additional, post-hearing comments from Staff in three specific areas. Staff has listed the requests of the Administrative Law Judge and Staff's responses below:

1. Explain how Staff's recommendations in the Staff Report are affected by Diversified's new position.

Response: Staff's recommendations in the Staff Report are not affected by Diversified's new position.

2. Does Staff believe that it is appropriate for Diversified to terminate its hook-up fee tariff?

Response: In this case, Staff believes it may be appropriate for Diversified to terminate its hook-up fee tariff because it may help Diversified build rate base.

3. Does Staff believe it is appropriate for Diversified to fund the infrastructure for the CC&N extension area only through Advances in Aid of Construction ("AIAC")?

Response: Staff does not generally make recommendations regarding capital structure and financing within the context of extensions of Certificates of Convenience and Necessity. A rate case is the most appropriate setting for such recommendations when the impact of specific capital structures can be better measured. However, Diversified has primarily relied on AIAC and contributions to finance plant. Therefore, Staff recommends that future main extension agreements entered by Diversified should contain refund provisions which exceed those mentioned in A.A.C.R14-2-406.D. Staff further recommends that the refund provisions exceed twenty percent of the total gross annual revenue from the main extension and that refunds be made until the entire balance is refunded. This condition should remain in effect until further order of the Commission.

In the alternative, Diversified could issue equity to finance the extensions.

EGJ:LAJ:kdh

Originator: Linda Jaress