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BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner

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Commissioner

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Commissioner

BRENDA BURNS
Commissioner

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

AUG 5 2011

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IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY FOR A WAIVER UNDER
A.A.C. R14-2-806 OR, IN THE
ALTERNATIVE, NOTICE OF INTENT TO
REORGANIZE UNDER A.A.C. R14-2-803

DOCKET NO. W-01303A-11-0101

**JOINT RESPONSE TO STAFF
AND INTERVENOR DIRECT
TESTIMONY**

Arizona-American Water Company, Inc. ("the Company") and EPCOR Water (USA), Inc. ("EPCOR USA") hereby provide their joint response to the direct testimony filed by the Utilities Division ("Staff"), the Residential Utility Consumer Office ("RUCO") and Corte Bella Country Club Association ("Corte Bella").

Generally, the Company and EPCOR USA have no objections to or disagreements with the pre-filed testimony of Staff witnesses Becker and Hains and RUCO witness Rigsby concerning the proposed sale of the Company's common stock to EPCOR USA.

These witnesses have accurately described the transaction and the impact on the Company and its ability to furnish safe and reliable water utility service. Mr. Becker and Mr. Rigsby conclude that the proposed transaction satisfies the standard set forth in A.A.C. R14-2-803 for the reorganization of a public utility holding company.¹ The only

¹ Under R14-2-803(C), "the Commission may reject the proposal if it determines that it would impair the financial status of the public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the ability of the public utility to provide safe, reasonable and adequate service."

1 aspects of the direct testimony filed by Staff and RUCO that require response and
2 discussion are three of the conditions recommended by Staff.

3 First, in Staff's Proposed Condition No. 1, Mr. Becker recommends that the
4 Company and its affiliates "fully cooperate with Staff in any future inquiries or requests
5 for information and/or documents regarding any transactions that Staff determines might
6 have some effect, direct or indirect, on the Company's operational or financial health."
7 (Becker at 5.) The Company and EPCOR USA acknowledge that the Commission has
8 been delegated broad regulatory and investigatory authority with respect to public service
9 corporations. Under A.A.C. R14-2-804, for example, the Commission has the power to
10 review and approve certain transactions between a public service corporation and its
11 affiliates.

12 The proposed condition thus appears to require that the Company continue to
13 comply with existing law and agency regulations. The Company and EPCOR USA intend
14 to cooperate with the Commission. As Staff notes, the Company and EPCOR have been
15 cooperative in this proceeding. (Becker at 5). We understand that this condition would
16 not require the Company or EPCOR USA to waive its legal right to raise legitimate
17 objections to information requests. Consequently, if the condition is adopted by the
18 Commission, the language should be modified to clarify that it does not override the
19 Company's or its affiliates' rights to object to inquiries or requests for information and to
20 argue for the confidentiality of submitted information in an appropriate case.

21 Second, in Staff's Proposed Condition No. 3, Mr. Becker recommends that the
22 Company be ordered "to maintain its quality of service, including, but not limited to, that
23 the number of service complaints should not increase, that the response time to service
24 complaints not increase, and that service interruptions should not increase as a result of the
25 reorganization." (Becker at 7.) As a general matter, this condition is not problematic.
26 EPCOR USA intends to ensure that the Company continues to provide high quality
service, high levels of customer care, and the highest levels of system reliability and

1 adequacy. And, it is clearly appropriate for the Commission to make certain that the
2 quality of service is not adversely affected by the transaction. However, the standards
3 employed in this condition are uncertain and could lead to confusion later.

4 The fact that a service complaint is filed does not necessarily mean that the quality
5 of service has deteriorated. Likewise, a service interruption may not indicate a problem
6 with the quality of service or the system's reliability, but instead may be caused by
7 circumstances beyond the Company's and EPCOR USA's control. Therefore, the
8 Company and EPCOR USA suggest that this recommendation be clarified to more
9 precisely define the events that would be used to determine if a change in the quality of
10 service has occurred or to recognize the ability of the Company to demonstrate that certain
11 customer complaints or service interruptions may not evidence a decline in quality of
12 service.

13 Third, in Staff's Proposed Condition No. 4, Mr. Becker recommends that the
14 Company provide Staff with the terms of any long-term debt that will replace the current
15 short-term debt. Staff will then make recommendations to the Commission for its
16 consideration. (Becker at 9). The Company wants to clarify Condition No. 4, and
17 particularly how this condition will be implemented in conjunction with the two other debt
18 replacement conditions (Conditions 5 and 6).

19 After discussion with Staff, the Company's understanding is as follows:

- 20 1. Staff is recommending that, as part of the decision in this proceeding, the
21 Commission approve all debt replacement if the new debt reflects substantially
22 the same terms as the debt that presently exists.
- 23 2. If the Company replaces the current short-term debt with long-term debt, the
24 new long-term debt must be approved by the Commission. That approval may
25 be given in this docket after the Company files the details of the replacement
26 debt. This approval may be given either concurrently with the sale approval or
subsequent to an approval of the sale in a separate decision issued in this docket.

1 With regard to Corte Bella's testimony, the Company intends to address the
2 concerns raised by Mr. Rials' in the company's testimony at the hearing. Mr. Rials'
3 testimony is based on the erroneous assumption that EPCOR USA intends to change the
4 plans and management of the Company. And, as Mr. Townsley will confirm during the
5 hearing, the "near term plans" of the Company will remain the same.

6 As indicated, the Company and EPCOR USA have no serious disagreements with
7 the Staff and RUCO direct testimony, and generally do not take issue with the conditions
8 they have recommended. The foregoing suggestions are intended to ensure that there is no
9 subsequent confusion over standards and requirements imposed on the Company if the
10 conditions recommended by Staff are adopted by the Commission.

11 RESPECTFULLY SUBMITTED this 5th day of August, 2011.

12
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27 ORIGINAL and thirteen (13) copies
28 of the foregoing filed
29 this 5th day of August, 2011, with:

1 The Arizona Corporation Commission
Utilities Division – Docket Control
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Phoenix, Arizona 85007

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4 Copy of the foregoing hand-delivered
this 5th day of August, 2011, to:

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Utilities Division
6 Arizona Corporation Commission
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7 Phoenix, Arizona 85007

8 Teena Jibilian, Administrative Law Judge
Hearing Division
9 Arizona Corporation Commission
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10 Phoenix, Arizona 85007

11 Charles Hains
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1200 W. Washington Street
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15 Copy of the foregoing mailed
this 5th day of August, 2011, to:

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