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COMMISSIONERS

GARY PIERCE- Chairman
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BRENDA BURNS

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AZ CORP COMMISSION
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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF
OF MIRABELL WATER COMPANY FOR
APPROVAL OF A RATE INCREASE

DOCKET NO. W-02368A-11-0185

**STAFF'S NOTICE OF FILING RESPONSE
TO MIRABELL'S COMMENTS TO THE
STAFF REPORT**

In accordance with the September 15, 2011 Procedural Order, attached is the Response of Staff of the Arizona Corporation Commission ("Commission Staff" or "Staff") to the Comments of Mirabell Water Company ("Mirabell" or "Company") on the August 16, 2011 Staff Report in this matter.

The September 15, 2011 Procedural Order also ordered Staff and the Company to make any procedural recommendations concerning whether a hearing is necessary or would be beneficial to the resolution of the issues raised in this case. Staff does not believe that a hearing is necessary. However, if the Company believes that a hearing is necessary or would be beneficial to resolving the issues raised, Staff would not object.

RESPECTFULLY SUBMITTED this 3rd day of October 2011.

Maureen A. Scott, Senior Staff Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

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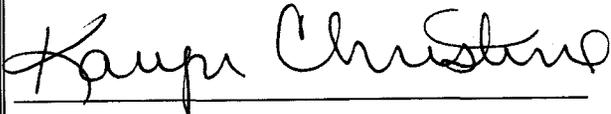
1 Original and thirteen (13) copies
2 of the foregoing filed this
3rd day of October 2011 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

6 Copies of the foregoing mailed this
3rd day of October 2011 to:

7 Ms. Bonnie O'Connor
8 Mirabell Water Company
9 Post Office Box 85160
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10 Morton Freedman
11 3361 Caminito Luna Nueva
Del Mar, California 92014

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Mirabell Water Company
Staff's Response to Mirabell's Comments to the Staff Report
Docket No. W-02368A-11-0185
October 3, 2011

The Mirabell Water Company ("Mirabell" or "Company") Staff Report was filed on August 16, 2011. On August 25, 2011, Mirabell filed comments to the Staff Report. Pursuant to a Procedural Order issued September 15, 2011, Staff's response to the Company's comments follows:

1. Rate Design

Mirabell continues to request its proposed rate design. Mirabell is concerned that any level of conservation would severely impact revenues due to the small customer base.

Response:

Staff recommends rates that are reasonable, encourages conservation and shifts usage cost appropriately to the higher users.

Staff continues to recommend approval of its rates and charges as shown in Schedule BCA-4 of the Staff Report.

2. Southwestern Utility Management Fees and Charges

Mirabell seeks a surcharge to recover the following post test year operating expenses for Southwestern Utility Management ("SUM") billings for work on the system outage and management fees:

Date	Invoice Number	Name	Invoice Amount
April 11, 2011	4250	Southwest Utility Mgt.	\$ 3,864.64
May 20, 2011	4281	Southwest Utility Mgt.	1,387.50
June 9, 2011	4330	Southwest Utility Mgt.	1,250.00
July 8, 2011	4362	Southwest Utility Mgt.	1,377.50
August 8, 2011	4405	Southwest Utility Mgt.	1,275.00

Total \$ 9,154.64

Response:

This Commission does not typically authorize the recovery of operating expenses incurred outside of the test year. The purpose of the test year is to establish a baseline relationship between rate base and operating income. Adjustments are made to actual test year results to more accurately reflect the cost of providing utility service during a "normal" year in order to set rates on a going-forward basis. Staff's review of the SUM invoices indicates that most of the \$9,155 in invoicing is for routine management fees. The base rates recommended by Staff already include provisions for management fees expense and repairs and maintenance expense.

Staff recommends denial of Mirabell's request for a surcharge to pay for post-test year operating expenses.