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COMMISSIONERS

Bob Stump - Chairman
Gary Pierce
Brenda Burns
Susan Bitter Smith
Bob Burns

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-11-0310

**ARIZONA WATER COMPANY'S
EXCEPTION TO RECOMMENDED
OPINION AND ORDER**

Pursuant to A.A.C. R14-3-110(B) and the Notice from the Commission in this docket dated January 30, 2013, Arizona Water Company ("Company") respectfully submits the following exception to the Recommended Opinion and Order ("ROO") issued on January 30, 2013.

The Company expresses its appreciation for the thoroughness and balance of the analysis and rulings set forth in the ROO. By this filing, the Company invites the Commission's attention to an important policy issue in this case – namely the proposed Distribution System Improvement Charge ("DSIC").

No party to this case disputes the evidence of the enormity of the infrastructure replacement needs facing the water utility industry in general, and the Company's Eastern Group in particular, or the financial challenge of funding those replacements. The record in this case provides ample justification for the Commission to adopt a regulatory policy that encourages infrastructure investment and supports the creditworthiness of a water utility by reducing regulatory lag, while at the same time providing benefits to consumers through smaller and more gradual rate increases and improved service quality and reliability. A DSIC reflects such sound regulatory policy.

1 ORIGINAL and 13 copies of the foregoing
2 filed this 8th day of February, 2013, with:

3 Docket Control Division
4 Arizona Corporation Commission
5 1200 W. Washington Street
6 Phoenix, AZ 85007

7 COPIES of the foregoing hand-delivered
8 this 8th day of February, 2013, to:

9 Steven M. Olea
10 Director, Utilities Division
11 Arizona Corporation Commission
12 1200 W. Washington Street
13 Phoenix, AZ 85007

14 Lyn A. Farmer
15 Chief Administrative Law Judge
16 Hearing Division
17 Arizona Corporation Commission
18 1200 W. Washington Street
19 Phoenix, AZ 85007

20 Janice Alward, Chief Counsel
21 Wes Van Cleve
22 Bridget Humphrey
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24 Arizona Corporation Commission
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27 Daniel W. Pozefsky, Chief Counsel
28 Residential Utility Consumer Office
1110 W. Washington Street, Suite 220
Phoenix, AZ 85007

29 COPY mailed this 8th day of February, 2013, to:

30 Kathie Wyatt
31 1940 N. Monterey Dr.
32 Apache Junction, AZ 85120

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34 _____