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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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FEB 11 2013

**COMMISSIONERS**  
BOB STUMP- Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

CORP COMMISSION  
DOCKET CONTROL

DOCKETED BY *BM*

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 UILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-11-0310

**STAFF'S RESPONSE TO COMPANY'S EXCEPTIONS**

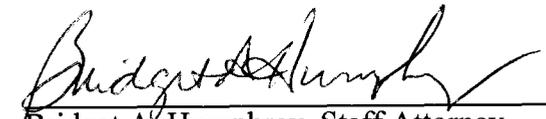
The Commission's Utilities Division ("Staff"), having reviewed the Exception to the Recommended Opinion and Order ("ROO") filed by Arizona Water Company ("AWC" or "Company") on February 8, 2013, hereby makes the following response thereto.

AWC's Exception addresses its proposed Distribution System Improvement Charge ("DSIC") and its willingness to consider the merits of that DSIC in an open generic docket or in a separate rulemaking, as does the ROO. Staff is encouraged by AWC's commitment to participate. However, Staff believes the best venue for addressing a DSIC is in a specific rate case.

Subsequent to the hearing in this case, Staff's recommendations for a DSIC-like mechanism have evolved and Staff now has proposed a System Betterment Cost Recovery ("SBCR") mechanism in Docket No. WS-02676A-12-0196, which it believes is a more acceptable mechanism.

Given AWC's willingness to participate in discussions of a DSIC-like mechanism, Staff proposes that the Commission adopt the ROO, as amended in accordance with Staff's Proposed Amendment No. 1, attached hereto, such that the docket remain open to allow the parties to enter into discussions regarding the SBCR and DSIC. Staff's proposed Amendment would not only enable the existing parties hereto to participate in those discussions, but would also provide other stakeholders to participate in the process.

1           RESPECTFULLY SUBMITTED this 11<sup>th</sup> day of February, 2013.

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5           Bridget A. Humphrey, Staff Attorney  
6           Wesley C. Van Cleve, Staff Attorney  
7           Legal Division  
8           Arizona Corporation Commission  
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10          Phoenix, Arizona 85007  
11          (602) 542-3402

10       Original and thirteen (13) copies  
11       of the foregoing were filed this  
12       11<sup>th</sup> day of February, 2013 with:

12       Docket Control  
13       Arizona Corporation Commission  
14       1200 West Washington Street  
15       Phoenix, Arizona 85007

15       Copies of the foregoing were mailed  
16       this 11<sup>th</sup> day of February, 2013 with:

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# **AMENDMENT NO. 1**

STAFF'S PROPOSED AZ WATER AMENDMENT NO. 1  
W-01445A-11-0310

TIME/DATE PREPARED: February 11, 2013

COMPANY: Arizona Water Company

AGENDA ITEM NUMBER: U15

**Page 104, Line 22 through Page 107, Line 1:**

DELETE

**Page 107, Line 1:**

INSERT:

Although we will not authorize a DSIC herein, we will leave this Docket open to allow the parties the opportunity to enter into discussions regarding AWC's DSIC proposal and the System Betterment Cost Recovery ("SBCR") proposal which Staff has introduced in the Rio Rico Utilities, Inc. ("Rio Rico") rate case, Docket No. WS-02676A-12-0196. We believe Staff's SBCR proposal may have some merit just as AWC's DSIC proposal may have some merit, but believe it would be more beneficial to allow the parties to enter into settlement discussions regarding the two proposals rather than making a final decision on the issue today.

In order to allow other parties that may be interested in this issue the ability to have input, we will allow such parties the opportunity to request late intervention in this Docket for the specific and limited purpose of participating in proceedings addressing the two proposals referenced in the previous paragraph. Requests to intervene shall be filed no later than February 20, 2013. The Hearing Division shall rule on the requests to intervene by February 28, 2013, and shall schedule a Procedural Conference no later than March 8, 2013, to set up a schedule to govern further proceedings in this matter. The parties may enter into settlement discussions any time after February 28, 2013. Staff should provide the Commission an update on the progress of negotiations no later than the Commission's Open Meeting of April 9 and 10, 2013. The Hearing Division shall issue a proposed Order on this matter such that it may be considered by the Commission no later than its Open Meeting on June 11 and 12, 2013.

**Page 112, Line 15:**

DELETE Finding of Fact No. 33

INSERT New Findings of Fact:

The Docket shall remain open to allow the parties to enter into settlement discussions regarding the AWC's DSIC proposal and Staff's SBCR proposal.

We will allow interested parties the opportunity to request late intervention in this Docket for the specific and limited purpose of participating in proceedings addressing AWC's DSIC proposal and Staff's SBCR proposal, and the possibility of achieving a settlement/compromise on the two. Requests to intervene shall be filed no later than February 20, 2013.

The Hearing Division shall rule on the requests to intervene by February 28, 2013, and shall schedule a Procedural Conference no later than March 8, 2013, to govern further proceedings in this matter.

The parties may enter into settlement discussions any time after February 28, 2013.

**Page 115, Line 5:**

INSERT New Ordering Paragraphs:

IT IS FURTHER ORDERED that this Docket shall remain open to allow the parties the opportunity to enter into discussions regarding AWC's DSIC proposal and Staff's "SBCR" proposal which Staff has introduced in the Rio Rico rate case, Docket No. WS-02676A-12-0196.

IT IS FURTHER ORDERED that interested parties shall be allowed the opportunity to request late intervention in this Docket for the specific and limited purpose of discussing Arizona Water Company's DSIC proposal, Staff's SBCR proposal, and the possibility of achieving a settlement/compromise on the two.

IT IS FURTHER ORDERED that requests to intervene shall be filed no later than February 20, 2013, and that the Hearing Division shall rule on the requests to intervene by February 28, 2013, and shall schedule a Procedural Conference no later than March 8, 2013, to set up a schedule to govern further proceedings in this matter.

IT IS FURTHER ORDERED that the parties may enter into settlement discussions any time after February 28, 2013.

IT IS FURTHER ORDERED that Staff should provide the Commission an update on the progress of negotiations no later than the Commission's Open Meeting of April 9 and 10, 2013.

IT IS FURTHER ORDERED that the Hearing Division shall issue a proposed Order on this matter such that it may be considered by the Commission no later than its Open Meeting on June 11 and 12, 2013.