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Arizona Corporation Commission
DOCKETED
MAR 11 2013

ARIZONA CORPORATION COMMISSION
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Attorneys for Rio Rico Utilities, Inc.

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BEFORE THE ARIZONA CORPORATION COMMISSION

9 IN THE MATTER OF THE
10 APPLICATION OF RIO RICO
11 UTILITIES, INC., AN ARIZONA
12 CORPORATION, FOR A
13 DETERMINATION OF THE FAIR
14 VALUE OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN
ITS WATER AND WASTEWATER
RATES AND CHARGES FOR UTILITY
SERVICE BASED THEREON.

DOCKET NO: WS-02676A-12-0196

REPLY TO RUCO'S RESPONSE TO
COMPANY'S MOTION TO
BIFURCATE

15 Rio Rico Utilities, Inc. ("RRUI" or the "Company") hereby replies to RUCO's
16 Response to the Company's Motion to Bifurcate. In its response to the Company's
17 motion, RUCO does not oppose bifurcation subject to two conditions. RRUI addresses
18 each of those conditions below.

19 First, RUCO insists that in the Phase II DSIC proceeding, "[a]ll parties are allowed
20 to supplement the record verbally or in writing on COE and any other rate-making
21 element they perceive to be affected by the subsequent granting of a DSIC-mechanism."¹
22 The Company strongly opposes that condition for several reasons. To start, the DSIC
23 issues raised by RRUI are separate and distinct from the general rate cases issues relating
24 to a determination of fair value rate base, return on equity and associated rates. Allowing
25

26 ¹ RUCO Response at 1.

1 RUCO or any other party to attempt to re-litigate cost of equity or other general rate case
2 issues in the Phase II DSIC proceeding would be patently unfair to the Company, waste
3 time and resources and defeat the purpose of bifurcation. It would also allow RUCO or
4 other parties a second bite at the revenue requirement apple relating to such issues in the
5 Phase II proceeding. RUCO did not raise any argument in its testimony that return on
6 equity should be reduced for the SWIP, the SBCR or the DISC and it should not be
7 allowed to do so in Phase II. Also, allowing RUCO to argue for a reduced return on
8 equity for the general rate case in Phase II would create two potential revenue
9 requirements and may lead to confusion among customers, the parties and the
10 Commission.

11 Further, the Commission is currently deciding the DSIC issue in the Arizona Water
12 Company rate case, Docket No. W-01445A-11-0310. The parties in that case, including
13 Liberty Utilities and RUCO participating as intervenors, recently reached agreement on
14 general terms of a settlement on the DSIC issues.² One of the primary goals of the
15 Commission in the Phase 2 DSIC proceeding for Arizona Water Company is to reach
16 consensus on a DSIC that would be used as a template for implementation of DSIC
17 mechanisms industry wide. As stated in the Company's motion, any decision and policy
18 issued by the Commission on the DSIC will not impact determination of RRUI's fair
19 value rate case, revenue requirements or just and reasonable rates based on the Company's
20 current test year. As such, allowing RUCO or any party to argue that the DSIC proposal
21 adopted by the Commission somehow impacts RRUI's return on equity in the general rate
22 case or other general rate cases issues established in Phase I would jeopardize the
23 Commission's DSIC decision and use of it in the water and wastewater utility industry.

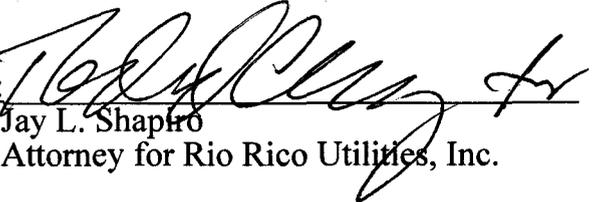
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26 ² Of course, any such settlement is subject to review and approval by the Commission.

1 In its response, it's unclear if RUCO intends to go beyond the approved DSIC in
2 the Arizona Water Company case and attempt to argue that RRUI's return on rate base
3 should be lowered in the rate case as a result of a DSIC. To the extent RUCO intends to
4 raise such issues for RRUI, the Commission should not allow RUCO to do so. Allowing
5 RUCO to make that argument in the Phase II DSIC proceeding in this case would
6 undermine any DSIC approved in the Arizona Water case and use of that decision as a
7 Commission policy moving forward. Under these circumstances, the Company requests
8 that the Administrative Law Judge grant bifurcation of the DSIC issue, but deny RUCO's
9 request to re-argue or re-litigate in the Phase II proceeding any general rate cases issues
10 decided in the Phase I proceeding, including return on or cost of equity.

11 The second condition urged by RUCO is that "[a]ll testimony submitted to date by
12 all parties relative to the DSIC, SWIP and SBCR are included in the record."³ In general,
13 RRUI does not oppose that condition subject to relevancy and other objections relating to
14 admission into evidence in the Phase II proceeding. Upon Commission approval of a
15 DSIC in the Arizona Water case, that DSIC mechanism would then be used by RRUI, in
16 turn potentially making much of the prior testimony in this docket no longer relevant. As
17 such, RRUI does not oppose this condition sought by RUCO, but the Company reserves
18 the right to object to such testimony as appropriate or withdraw testimony as necessary.

19 RESPECTFULLY SUBMITTED this 11 day of March, 2013.

20 FENNEMORE CRAIG, P.C.

21
22 By: 

Jay L. Shapiro

Attorney for Rio Rico Utilities, Inc.

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26 ³ RUCO Response at 1.

1 **ORIGINAL** and 13 copies filed
2 this 11th day of March, 2013 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
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7 **COPY** of the foregoing was emailed/mailed
8 this 11th day of March, 2013 to:

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