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IN THE MATTER OF THE JOINT)
APPLICATION OF NORTH MOHAVE)
VALLEY CORPORATION AND EPCOR)
WATER ARIZONA INC. FOR APPROVAL OF)
THE SALE OF ASSETS AND TRANSFER OF)
CERTIFICATE OF CONVENIENCE AND)
NECESSITY)

DOCKET NO. W-02259A-13-0138

DOCKET NO. W-01303A-13-0138

NOTICE OF FILING RESPONSE TO STAFF REPORT

North Mohave Valley Corporation and EPCOR Water Arizona Inc. (together, the "Applicants") file the following response to the Staff Report filed in the above-captioned proceeding on August 6, 2013.

The Applicants have reviewed the Staff Report and appreciate Staff's analysis of and response to the application filed in this matter. The Applicants especially appreciate Staff's attention to this matter and the expedited manner in which Staff prepared its Report. The content of the Engineering Memorandum is appropriate and complete and the Applicants have no additional comments on this analysis. The Applicants have also reviewed Staff's two recommendations and have no objection to either.

The Applicants' sole substantive comment relates to the second bullet point of the "Staff Conclusions" section of the Report. In the application in this matter, the Applicants

1 requested that the Commission “approve, in principle, rate recovery of and on [the
2 additional ten percent of rate base] payment in North Mohave’s next rate case.”

3 Application at 5. In its Staff Report, Commission Staff concluded that a “determination
4 regarding the recovery of the additional ten percent of rate base payment or any other
5 payment is premature and is better determined in the context of a rate case.” Staff Report at
6 3. For the reasons discussed below, the Applicants respectfully disagree with this
7 conclusion and again request that the Commission express its approval of this payment in
8 this proceeding.

9 The Commission should approve this payment as eligible for recovery in future rate
10 cases, in principle only, to further its policy of encouraging consolidation within the water
11 utility industry in Arizona. Acquisitions like the one being considered in this docket
12 provide many benefits for Arizona consumers but rarely happen. This is due, in large part,
13 to the fact that owners of potential targets will very rarely sell at rate base value and
14 potential acquirers are uncertain about whether they will be allowed to recover in customer
15 rates any amount they pay in excess of rate base value. By expressing approval of this
16 payment, the Commission will encourage future acquisitions and create a useful future
17 reference point for both buyers and sellers in this industry.

18 The primary benefit created by these types of acquisitions is access to capital to
19 upgrade service and ensure environmental compliance. Many water companies currently
20 operating in Arizona are financially distressed and have little or no funds to invest in
21 upgrades needed to provide adequate service or satisfy new environmental mandates. It is
22 in the public interest for companies with better access to capital to acquire these troubled
23 companies and invest the capital required to address these issues. Indicating its approval of
24 an additional ten percent of rate base in this case will further the Commission’s policy of
25 encouraging consolidation of Arizona’s water industry.

26

1 RESPECTFULLY SUBMITTED this 16th day of August, 2013.

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21 ORIGINAL and thirteen (13) copies
22 of the foregoing filed this 16th day
23 of August, 2013, with:

24 The Arizona Corporation Commission
25 Utilities Division – Docket Control
26 1200 W. Washington Street
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered
this 16th day of August, 2013, to:

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