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Arizona Corporation Commission

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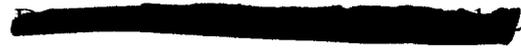
Attorneys for Payson Water Co., Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

6 IN THE MATTER OF THE APPLICATION
7 OF PAYSON WATER CO., INC., AN
8 ARIZONA CORPORATION, FOR A
9 DETERMINATION OF THE FAIR VALUE
10 OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

11 IN THE MATTER OF THE APPLICATION
12 OF PAYSON WATER CO., INC., AN
13 ARIZONA CORPORATION, FOR
14 AUTHORITY TO: (1) ISSUE EVIDENCE
15 OF INDEBTEDNESS IN AN AMOUNT
16 NOT TO EXCEED \$1,238,000 IN
CONNECTION WITH INFRASTRUCTURE
IMPROVEMENTS TO THE UTILITY
SYSTEM; AND (2) ENCUMBER REAL
PROPERTY AND PLANT AS SECURITY
FOR SUCH INDEBTEDNESS.



REPLY IN SUPPORT OF MOTION
TO CONSOLIDATE PROCEEDINGS
AND REQUEST FOR EXPEDITED
PROCEDURAL SCHEDULE

(EXPEDITED RELIEF REQUESTED)

18 Payson Water Company ("PWC" or "Company") hereby files this reply in support
19 of its motion to consolidate and expedite its financing and rate applications.
20 Staff's response reflects Staff's desire to work with PWC to expedite the construction of
21 new facilities that would increase the water supplies available to serve the Mesa del
22 Caballo community. The Company appreciates this. Unfortunately, Staff's suggested
23 procedure comes up short of reaching the goal. Stated simply, it would not be reasonable
24 or prudent for PWC to take on more debt and expense to serve Mesa del Caballo until it
25 has addressed its critical need for more revenues from water utility service to all
26 customers.

1 This does not mean that the project cannot be built by next summer. To the
2 contrary, the gap between Staff and the Company does not appear that wide.
3 As explained in this reply, if the Commission determines it is not possible to conclude the
4 rate case this year as requested, it would still be possible to address the Company's
5 financial crises through interim rate relief following a two-phase process as suggested in
6 Staff's response.

7 **I. Reply to Staff Response**

8 There does not appear to be any dispute that the proposed TOP-MDC line should
9 be built as soon as possible.¹ Towards that end, Staff agrees that the financing and rate
10 applications should be consolidated and agrees to expedite consideration of financing
11 approval, including some unspecified surcharge.² But Staff does not agree to expedite
12 consideration of the Company's request for rate relief, without which it would be
13 irresponsible to take on a significant construction project and increase the Company's
14 existing financial constraints.³ Staff does not explain its opposition to expediting rate
15 relief.

16 Staff's proposed new rate case procedural schedule would have the record in the
17 presiding ALJ's hands sometime in late February. Even assuming a decision within
18 90 days thereafter, the Company will not be able to construct the new line in time to
19 eliminate hauling in the summer of 2014. Again, PWC does not believe it is appropriate
20 to take on more financial obligations when it collects far less in revenues than it spends to
21 operate. But Staff does suggest a bifurcated proceeding in which financing approval and
22 approval of surcharges would be done in an accelerated first phase.⁴ If Staff believes, for
23 whatever reason, that permanent rate relief cannot also be expedited, the Company sees no

24 _____
25 ¹ Staff's Response to Motion to Expedite at p. 1.

26 ² *Id.*

³ Motion to Consolidate Proceedings and Request for Expedited Procedural Schedule, Exhibit A at p. 8.

⁴ Staff's Response to Motion to Expedite at p. 1.

1 reason that Phase I cannot also include consideration of an interim revenue increase.⁵

2 This Commission has the authority to set interim rates. In *Scates v.*
3 *Arizona Corporation Commission*, the court recognized the Commission's power to
4 authorize interim rates subject to "appropriate safeguards to insure that rates will not
5 become permanent until there is adequate inquiry into whether they are just and
6 reasonable."⁶ Here, the Company's permanent rate case is already proceeding and would
7 be decided less than 5 months after interim rates were approved. Additionally, the
8 Company is prepared to post a bond in a reasonable amount as directed by the
9 Commission to ensure recovery of refunds in the unlikely event that the interim rates turn
10 out to be higher than the permanent rates.⁷

11 **II. Company's Suggestions for a Bifurcated Proceedings**

12 It is in the public interest to find a way for the Company to build the TOP-MDC
13 line as soon as possible. PWC believes consolidation and proceeding with a bifurcated
14 proceeding can accomplish this goal and recommends the adoption of the following
15 procedural schedule.

16 **Phase I**

17

18 Current Date	19 Proposed Date	20 Item
21 N/A	09/23/13	Staff Report
22 N/A	10/7/13	Response to Staff Report
N/A	10/14/13	1st day of hearing
N/A	11/14/13	Open Meeting ⁸

23 ⁵ The Company's suggested modifications to the current procedural schedule to accomplish this are set forth in the
next section of this reply.

24 ⁶ 118 Ariz. 531, 535, 578 P.2d 612, 616 (App. 1978).

25 ⁷ *See id.*

26 ⁸ The Company has conferred with WIFA and is informed that a Commission decision in November will allow for
WIFA approval in December and the project to begin in January 2014, which should be well in time to complete the
TOP-MDC line before summer 2014.

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Phase II

Current Date	Proposed Date	Item
09/30/13	09/30/13	All Motions to Intervene
10/16/13	10/30/13	Staff/Intervenor Direct Testimony
11/08/13	11/26/13	Company Rebuttal Testimony
11/22/13	12/20/13	Staff/Intervenor Surrebuttal Testimony
12/04/13	01/06/14	Company Rejoinder Testimony
12/06/13	Any day the week of 01/06/14	Prehearing Conference
12/09/13	01/13/14	1st day of Hearing
	05/14/14	Open Meeting ⁹

As noted in Staff's response, a new date for and form of public notice would also have to be included in any order consolidating and modifying the rate case.

Notably, this proposed procedural schedule is nearly the same as that proposed by Staff in its response, for both phases. The primary difference is that the Company's proposal includes consideration of an interim rate increase in Phase 1 of the consolidated docket.¹⁰ As discussed throughout the Company's plea to this Commission for extraordinary relief, it would not be reasonable or prudent for PWC to undertake a significant new capital investment project while its revenues do not cover its current

⁹ The May 2014 deadline for permanent rate relief suggested by Staff is also critical to the Company. For one thing, it is assumed that any interim rate relief will be less than the revenue needed on a permanent basis to allow the company to cover operating expenses and have an opportunity to earn a reasonable return. Moreover, for a company like PWC, revenues from water sales in the summer are critical to its overall financial health. Failure to allow the Company to increase its revenues on a permanent basis before it provides the services that generate the lion's-share of its annual revenues will further hamstring the Company's financial recovery efforts.

¹⁰ The Company has also modified Staff's suggested rebuttal, surrebuttal and rejoinder dates slightly. The Company found that by adding a couple days, the schedule would not truncate the Company's rebuttal date as much. No time was taken away from Staff's recommended filing deadlines.

1 expenses, let alone provide any return. Therefore, the Company renews its request for
2 consolidation and its request to expedite rate relief as set forth in its motion and this reply.

3 RESPECTFULLY SUBMITTED this 22nd day of August, 2013.

4 FENNEMORE CRAIG, P.C.

5
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10 **ORIGINAL** and thirteen (13) copies
11 of the foregoing were filed
this 22nd day of August, 2013, with:

12 Docket Control
13 Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

14 **COPY** of the foregoing was hand delivered
15 this 22nd day of August, 2013, to:

16 Chairman Bob Stump
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18 Commissioner Gary Pierce
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21 Commissioner Brenda Burns
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