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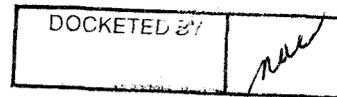
August 28, 2002

Chairman William Mundell
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ

Arizona Corporation Commission

DOCKETED

SEP 03 2002



SUBJECT: Docket No. W-01303A-01-0983
Arizona-American Water Company
Amendment to Application for Waiver and Notice of Intent to Reorganize

Dear Mr. Mundell,

The Sun City Taxpayers Association (SCTA) is not intervenor on the aforementioned docket. I am writing to you today as the Chairman of the Utilities Committee of the SCTA and as a concerned citizen.

The SCTA has been investigating the acquisition of Arizona-American (AZ-AM) by RWE AG. One of our directors wrote an editorial for the *Daily News Sun* on the subject (see attached). Then the article "Vital question: Who owns the world's water?" appeared in Sunday's *Arizona Republic* (see attached) with RWE AG prominently mentioned. Sun City has been "through the mill" as they say with its water utilities and we are very concerned about the impacts of this acquisition on our community.

Our research has indicated that we are not alone in our concerns. The Public Service Commissions, the equivalents of the ACC, of both Kentucky and West Virginia have made approval of the acquisition in their respective states conditional. One of the conditions allow for the freezing of rates for upwards of four years after the acquisition. Both Kentucky and West Virginia wanted to insure that the costs of acquiring American Water Works (AAW) would not be passed along to customers. PSC staff analysts were concerned that their respective AAW subsidiaries would not be able to get a reasonable rate of return on their investment after the acquisition, but didn't want the ratepayers to pay the price. Delaying rate increases also eliminated the subsidiaries from making frequent requests to the PSCs for rate increases. In West Virginia, AAW employees were given large retention bonuses. The PSC staff included a condition that would not allow those costs to be passed on to ratepayers. On the upside, staff included a condition that any cost savings generated by the acquisition would be passed through to consumers, maybe even a rate cut. Also included, the subsidiary's accessibility to the lower cost of capital the acquisition would provide at a lower cost for ratepayers for any improvements and expansion plans.

Mr. William Mundell
August 28, 2002
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What the SCTA wants to know is this: Are we going to get any of these assurances? Has the ACC staff taken these same concerns under consideration in their negotiations? We don't want the ACC to put a "rubber stamp" on this acquisition without a thorough review.

Please respond to the SCTA, in writing, with your evaluation and current status of this docket. Your prompt attention to this matter is appreciated.

Sincerely,



Ray E. Day, Chairman
Utilities Committee

Attachments

Point

Water provider perpetuates Sun City fear

JAMES TREECE
SUN CITY

AUG 12 02

Arizona-American Water Co. is perpetuating fear in Sun City. It started years ago when Citizens Utilities, aka the Sun City Water Co., wanted to put Sun City's Central Arizona Project water allocation to use. At that time, the CAP allocation for Sun City was over 17,000 acre-feet, well over 2,000 acre-feet more than Sun City Water pumped to all its customers.

In 1997, the Arizona Corporation Commission prevented Citizens from recovering all the costs of retaining our CAP allocation because CAP water hadn't been put to use in Sun City. A good decision by the ACC, saving Sun City residents from paying for something they had yet to receive. Citizens was not happy, and for the duration of the hearings ran newspaper ads telling Sun Citizens they might run out of water.

Today, Keith Larson of the water company, now known as Arizona-American, tells us that there is plenty of water, but now we need to worry about subsidence. Arizona-American even trotted out Rep. Mike Gleason to emphasize this new threat, i.e., subsidence in Sun City. By benefit of the water company, Gleason is now an authority on subsidence. Even the Daily News Sun is a willing accomplice, sending out a reporter to identify subsidence as the culprit responsible for an uneven concrete patio. A smarter and more responsible action would have been to recommend an inspection by a Maricopa County building inspector or private contractor.

What about Sun City property values? Subsidence is a very serious issue and should be dealt with responsibly. Does the water company really believe it is doing the community a favor by having its customers believe that their homes are being threatened and property values affected? Are these really the actions of a responsible and caring private utility company?

Instilling fear in its customer base is how the water company has always operated — first as Citizens Utilities and now as Arizona-American. But what about the new threat — the one the water company isn't talking about — the acquisition of American Water Works by Thames Water Aqua Holdings, a company

many? Thames Holdings is a wholly owned subsidiary of RWE AG, also organized under the Federal Republic of Germany, is a leading international provider of electricity, gas, water, waste management and related industrial services.

The acquisition of Arizona-American is making its way through the Arizona Corporation Commission for approval. Lawyers for the company, Norman D. James of Fenemore Craig, and Christopher Kempley for the ACC staff are currently in settlement discussions. The first such meeting was scheduled July 17.

What are the impacts of a foreign company pumping and delivering our groundwater? There is much concern across the country about foreign corporations taking over and also taking advantage of our public and private utilities.

In an article appearing in the American Free Press, six states are in opposition of proposals by foreign water-bottling companies. The fear is that foreign companies will pump America's aquifers dry.

Another article in Business Week claims water is "the oil of the 21st century," allowing water to carry the "very same geopolitical significance that oil does today." If this is true, what the Recreation Centers of Sun City board did to us was reprehensible, putting our grandfathered water rights in the hands of a foreign corporation. The same water has historically irrigated our most valuable asset, our golf courses. If you think the threat of subsidence is going to impact your property values, what about the condition of our golf courses? The golf courses are the single most important asset in attracting new residents to our communities.

Why did the RCSC board put us in the middle of this mess?

I think it is time for the board to do some explaining. We're waiting!

James Treece moved to Sun City in 1991 from the Denver area, where he practiced law and served as U.S. attorney. He is a member of the state Foster Care Board. He is a board member of the Sun City Taxpayers Association and co-chairs its legal committee.

THE ARIZONA REPUBLIC

WORLD

SUNDAY, AUGUST 25, 2002 A25

Vital question: Who owns the world's water?

+ Privatization to be topic at World Summit

By Mort Rosenblum
Associated Press

PARIS — In a world fast running short of fresh water, a new debate rages: Private companies are free to exploit oil, "black gold," but what about the infinitely more valuable resource of "blue gold"?

Two French companies alone, Suez and Vivendi Environnement, supply water to 230 million people around the globe, from U.S. cities such as Atlanta to urban centers across the Third World.

Hardly noticed a few years ago, the issue of water privatization is likely to be a big topic at the U.N.'s World Summit on Sustainable Development that begins Monday in Johannesburg.

It raises a deceptively simple question: Is water a human right or a commodity?

"The problem is that it's both," said Peter Gleick of the Pacific Institute in Berkeley, Calif. "Everyone has a right to safe, clean water, he said, but because of government failures, 1.1 billion people lack access to it.

It annual growth in their water business, and each has contracts that add up to more than \$10 billion a year. Puerto Rico just hired Suez to distribute its water.

RWE, a German energy conglomerate, is buying small water companies to challenge the French companies. Hundreds of other private operators hold concessions to pump, treat and distribute water.

Although companies are granted rights to market water not ownership of the water itself, Gleick and others worry that an inevitable expansion of the private sector might escape essential public control.

"Privatization has the potential to grow enormously because of the desperate need for water in the developing world, but water is too important to be left in purely private hands," Gleick said.

'PPP' concept backed

The World Bank, U.N. agencies and a number of governments support a concept they call "PPP," short for public-private partnerships. They encourage companies to invest heavily in the pumps, mains and other infrastructure for delivering water in exchange for profit.

In many big cities, up to half the water is lost to leaks and broken mains. Building is often chaotic. Public water utilities, usually short of cash and expertise, struggle to meet fast-growing demand.



Associated Press file photo
Cochabamba, Bolivia, residents, protesting a boost in water rates in April 2000, were dispersed by police firing tear gas.

Suez and Vivendi each point to cases around the world where they have expanded service, sometimes with lower rates.

Both insist that what they sell is service, not water, and they stress that they operate on concessions that must be renewed.

They say better systems mean that many poor people now have access to reliable water for much less than they paid itinerant vendors.

"We have the money and the expertise, and we believe we can manage water better than states can," said Jacques Pery, head of Ondeo, Suez's water division. "We don't own these resources. We manage them and protect them."

Canadian activist Maude Barlow, author of the book *Blue Gold*, makes her position clear in its subtitle: *The Fight to Stop the Corporate Theft of the World's Water*.

While agreeing that the private sector has some role to play, she says water must remain firmly in public hands with no confusion between human right and commercial asset. "You can't have both as equal in law," she said.

In 2000, Barlow praised the Cochabamba uprising in glowing terms. Today she acknowledges, the current cooperative-run water system is a shambles, with neither capital nor experience.

"Why can you find money for a private company and not for a public company?" she asked, arguing that international agencies should help local officials run their water utilities.

Flaw in logic

Other activists worry that there is a flaw in the logic of privatization: If companies make money by delivering water, won't their incentive be to sell as much as they can rather than to conserve a scarce resource?

But William Coagrove, a Canadian consultant who helped draft the World Water Vision paper for an environment summit last year in The Hague, Netherlands, insists that most people, company executives included, believe water is a ba-

sic right.

"This is controversial simply because it's not understood," he said. "As long as it is accepted that governments set up regulatory frameworks and define objectives, they can make the best use of water they have."

Executives at Suez and Vivendi agree.

Jean-Luc Trancart, a Suez spokesman with long experience in French water management, argues that private companies fill a vital need.

"I always tell activists if they really want to hurt us, they should make the public sector work better," he said.

Pierre Victoria, community relations director at Vivendi, says government must take a regulatory role and argues that private management is bound to fail if people do not see better service at fair rates.

In the long term, Gleick at the Pacific Institute thinks, private companies are not likely to be the prime movers. He said larger American cities with good municipal systems are thinking twice about privatization.

"If the big-profile examples like Atlanta get ugly, that will slow things down fast," he said. "They'll pick the low-hanging fruit: the municipal systems already in operation but in need of expertise or cash, serving middle- and upper-class segments of society. The poor will continue to be left out."