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TOWN OF

PARADISE VALLEY

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March 24, 2006

W-01303A-05-0910

Docket #W-01303A-050405
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Re: Arizona-American Water Company

The Town of Paradise Valley has reviewed the January 16, 2006 filings by staff of the Arizona Corporation Commission and by the Residential Utility Consumer Office (RUCO) with respect to Arizona-American Water Company's ongoing rate case for water system fire flow improvements. Since the Town's perspective on the fire flow improvements apparently differs from comments submitted by RUCO, the following information is provided for your consideration in connection with the rate case.

Apparently, RUCO purports to represent consumers within the Town regarding the rate impact of the proposed water system fire flow improvements. Actually, the water system improvement plan designed to provide adequate fire flows began at the grass roots level by Town residents who were aware throughout the process that the cost of the improvements would need to be supported by the rates.

The support of the Commission staff for the fire flow improvements in the Town is very much appreciated. Although Arizona-American has already committed significant resources and made major improvements to the water system, there is a long way to go to assure a satisfactory level of fire protection throughout the water system. The Town urges Arizona-American to continue the water system improvement program as planned in order that it may be completed within the five-year time frame which was planned.

The Town government cannot, for both statutory and public policy reasons, fund water system improvements for a private utility. The Town is not a water utility. Town residents are served by three water utilities, Arizona-American, Berneil Water Company and the City of Phoenix. Each of these utilities is responsible to make the necessary improvements within their respective service area, and to not only meet public health standards, but to meet fire safety standards prescribed by the Uniform Fire Code as well.

Fortunately, all three water utilities are moving forward with necessary improvements. Legally, the Town is not a water utility and could not spend public money on water system improvements without a vote of the people. From a public policy perspective the Town could not subsidize a private business with public money. Both A.R.S. §9-514 and the Gift Clause in the Arizona Constitution prohibit the Town from spending general fund money to build or contribute to the construction of the water system infrastructure that would be owned by Arizona-American.

From the Town's perspective each of the three water utilities serving our residents must utilize whatever mechanisms they have to fund improvements which are necessary for public safety. The Town, like other Arizona municipalities, has adopted the Uniform Fire Code which specifies minimum flow rates necessary for different types of development. A minimum fire flow of 1500 gallons per minute is the standard which all three water utilities must meet within the Town.

If representatives of the Corporation Commission wish any further information from the Town of Paradise Valley, please feel free to contact me.

Sincerely,



Thomas M. Martinsen
Town Manager

TMM/nm