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June 2, 2006

W-00000C-06-0149

Dear Water Company Representative:

In connection with the Arizona Corporation Commission's ("Commission" or "ACC") evaluation of the regulatory impacts of non-traditional financing arrangements by water (including wastewater) utilities and their affiliates, Staff is soliciting comments from any interested party to the questions presented below. Respondents are requested to propose the appropriate regulatory treatment, along with the specific rationale (legal, accounting, etc.) for each of the suggested non-traditional financings. Please describe any assumptions used to support the proposed regulatory treatment.

Responses to Staff's questions should be sent to Docket Control on or before June 23, 2006.

STAFF'S QUESTIONS

1. What is the preferred regulatory treatment for each of the following financing arrangements?

   A. A developer purchases a non-regulated parent company's non-voting stock. Each of the non-voting shares has a par value of $1.00, is not eligible for dividends, is partially refundable and can be repurchased (subject to certain conditions) by the non-regulated parent for one cent ($0.001). See attached diagram at Exhibit A. The parent company subsequently contributes the funds to an ACC regulated subsidiary water utility as additional paid-in capital.

   B. A developer purchases a regulated utility's non-voting stock and that utility invests those funds in plant. The utility records equity for the proceeds. Neither refundable advances in aid of construction nor contributions in aid of construction are recorded.

   C. A developer or a Municipal Government pays a fee for services provided by a non-regulated parent company for services typically covered by "Off-site Hook-up Fees" collected by regulated water and wastewater utilities. Then the parent company invests the proceeds in the regulated utility which is recorded as equity by the utility.

2. What is the maximum percentage of refundable "Advances in Aid of Construction" ("AIAC") appropriate as a percentage of total capital for a private or investor owned water utility?

3. What is the maximum percentage of non-refundable "Contributions In Aid of Construction" ("CIAC") appropriate as a percent of total capital for a private or investor owned water utility?

4. What is the most appropriate and most economical capital structure for a "new" water or wastewater utility?

Sincerely,

Ernest G. Johnson
Director
Utilities Division

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Non-Traditional Financing
Docket No. W-00000C-06-0149

Exhibit A

TRANSACTION SUMMARY