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Presentation by Les Peterson to the Arizona Corporation Commission Regarding the Request from the Black Mountain Sewer Company for a 13.52% Rate Increase

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Thank you for this opportunity to address the Arizona Corporation Commission. We have a major problem with how Black Mountain Sewer operates its system in Carefree. This is why Homeowner Association Directors from a community with over 500 homeowners, other homeowners and the political leadership from Carefree are here addressing you, united in opposing the rate increase request from Black Mountain Sewer.

My Background

Please permit me to introduce myself. My name is Les Peterson, and I am a Director of the Boulders Homeowners Association. In my business career I worked for Procter & Gamble in marketing and spent over 30 years on the Agency side of the business in marketing and long range planning for over 170 companies. In short, I have substantial experience with US and International Companies and how they serve - and don't serve - their customers, a topic which I would like to address with you in a moment.

Personal Experience with Black Mountain Sewer Company

One hundred feet from my home is a Black Mountain Sewer lift station. During the rains in the Spring of 2005 effluent overflowed out of this lift station and ran into the adjacent wash for well over a week. The sub-contractor eventually hired by Black Mountain Sewer to continuously pump out this lift station to minimize this overflow told me that the sewer lines "upstream" from this lift station were old and leaking and that rainwater entered the lines through numerous breaks in the lines. I understand that this situation was not an isolated instance. Check the records, or better yet, ask Black Mountain Sewer management to explain why there have been seven recorded spills of effluent into the desert in recent years for which they have been fined. Greater profitability could also be gained by eliminating these fines as well as by increasing their rates to their customers.

Second, I would invite you to come up to Carefree and look at the manhole covers in our neighborhood. They are all glued shut to try to slow down the odor that came through the manhole covers. But even the recently glued down man hole covers can't stop the odors, and the sewer odor still persists today in many of our neighborhoods.

Lastly, as a Director of the Boulders Homeowners Association, which has responsibility to homeowners for the satisfactory operation of the sewer system servicing the homes in the Boulders, I have received dozens of calls and had discussions with many irate homeowners over the malfunctioning of the Black Mountain Sewer system..

Why I am Dismayed by Black Mountain Sewer Company

Successful companies exist by fulfilling the needs of their stakeholders. Stakeholders frequently include the employees of the company itself, the shareholders or owners of the company, and, most importantly, the customers of the company. In a free marketplace, companies generate profits through satisfactorily fulfilling the needs and desires of their customers, and then use these profits to compensate their staff and their shareholders.

But Black Mountain Sewer Company doesn't operate in the free marketplace. It operates under your protection as a regulated monopoly in Carefree. So the question before us is what do you do when this regulated monopoly called Black Mountain Sewer Company doesn't meet the minimum operational needs of its customers but still comes to you for a rate increase so it can further enrich its staff and its shareholders, which are the shareholders of the Canadian based Algonquin Power Income Fund?

A group of us, including many of those presenting to you today, met with the most recent new management of Black Mountain Sewer Company a week ago, on June 2, 2006. The new management has been communicating to us that they have heard our pleas for them to fix their system, and that in time they would address fixing the problems but that they believed that they were due a rate increase now. We requested them to immediately fix the problems with their antiquated system, but to delay their request for a rate increase, which is at the crux of our discussion today, for a six month period. We told them that if they did that, and actually fixed the problems with their system within that time, or made substantial progress, we would stand side-by-side with them and support their request to the Arizona Corporation Commission for a reasonable rate increase.

Want to know their response? They told us their responsibilities were to their shareholders and to the Arizona Corporation Commission, not to us, their customers. Their goals were all financial, very little at all about properly operating a sewer system. They continued that they have invested so much time and money so far to develop this request for a rate increase that they wanted to continue, but, that we should trust them to address and solve the problems Carefree residents were having with their system.

I think that they have their thinking and their priorities backwards. Ask yourself that if this new management is sincere about fixing the documented operating problems with their sewer system in Carefree, why is this new management's first priority focusing on a rate increase request instead of fixing their system problems? Additionally, time and again in business I learned that the most accurate predictor of future behavior is past behavior, and "trusting" Black Mountain Sewer to fix the operating problems with its sewer system in Carefree is something that we have tried unsuccessfully before.

I suspect that Black Mountain Sewer will argue that the additional revenues from this rate increase, if granted, would be the only way that they could afford to make the necessary improvements to their system and still generate their desired increased returns to their shareholders. Let me tell you my fear with that logic: if you grant a rate increase to Black Mountain Sewer they will use the entirety of these revenues to further support and enrich the Algonquin Power Income Fund shareholders, and none of these revenues will be used to address and fix the operating problems of the regulated monopoly sewer system with which Carefree residents are suffering.

Thank you. I respectfully request that you vote to not approve any rate increase for Black Mountain Sewer Company until they address and fix the problems caused by how their sewer system operates that have plagued Carefree residents for too many years now.

Les Peterson