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BEFORE THE ARIZONA CORPORATION COMMISSION

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2001 DEC -4 A 10: 13

AZ CORP COMMISSION
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IN THE MATTER OF THE PICACHO SEWER
COMPANY'S APPLICATION FOR
APPROVAL OF FINANCING.

Docket No. SW-03709A-01-0165

RUCO'S COMMENTS

INTRODUCTION

On February 26, 2001, Picacho Sewer Company ("PSC" or "Company") filed an application for authorization of financing ("Application") requesting that the Arizona Corporation Commission ("ACC" or "Commission") approve the issuance of up to \$7,900,000 of new common stock. The Company stated in its Application that the proceeds from the stock issuance would be used to cover \$21,380 in operating losses and to finance wastewater utility plant, and related infrastructure, totaling \$7,878,620 (rounded). Under PSC's proposal, 100 percent of utility plant assets will be financed by common equity as opposed to a combination of equity, debt and/or advanced or contributed funds from developers that are involved in construction projects within the Company's service territory. On March 30, 2001, the Residential Utility Consumer Office ("RUCO") filed an Application to Intervene in the proceeding. The ACC granted intervener status to RUCO on April 11, 2001. ACC Staff filed its report ("Staff Report") regarding PSC's Application on November 26, 2001. The purpose of this filing is to comment on the conclusions and recommendations contained in the Staff Report.

Arizona Corporation Commission

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1 AIAC and CIAC in the price of their new homes. The use of AIAC or CIAC prevents utility
2 customers from having to pay for investment made to benefit future customers.

3 RUCO's actions in this matter draw support from ACC Decision No. 61266, dated
4 November 25, 1998 that granted a CC&N to Picacho Water Company ("PWC"). In that
5 decision, the Commission stated that it expected PWC to consider RUCO's recommendations
6 to utilize AIAC and CIAC as a form of cost free financing, in lieu of company-proposed 100
7 percent equity financing, when it files for financing authorization with the ACC. RUCO believes
8 that consideration of AIAC and CIAC financing should also be applied in this proceeding given
9 the similarities in the two cases.

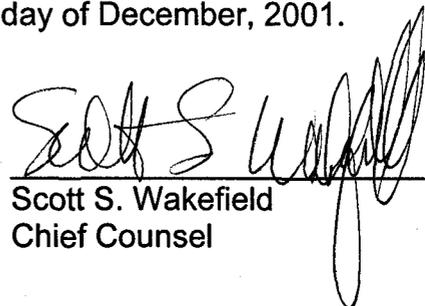
10 RUCO'S COMMENTS ON ACC STAFF'S REPORT

11 RUCO concurs with, and fully supports, the conclusions and recommendations that are
12 contained in the Staff Report. RUCO believes that ACC Staff's recommendation regarding the
13 use of AIAC to fund initial collection system assets valued at \$1,500,000 is both prudent and
14 appropriate. RUCO also agrees with ACC Staff's recommendation not to allow the financing of
15 \$21,380 in operating losses. RUCO further supports ACC Staff's recommendation to allow the
16 Company to use \$25,000 in funds from the Company-proposed stock issuance for working
17 capital purposes.

18 CONCLUSIONS AND RECOMMENDATIONS

19 RUCO recommends that the Commission adopt the recommendations contained in the
20 Staff Report on Picacho Sewer Company's Application for Authorization of Financing.

21 RESPECTFULLY SUBMITTED this 4th day of December, 2001.

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Scott S. Wakefield
Chief Counsel

1 AN ORIGINAL AND TEN COPIES
2 of the foregoing filed this 4th day
3 of December, 2001 with:

3 Docket Control
4 Arizona Corporation Commission
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6 mailed this 4th day of December, 2001 to:

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