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2007 JAN -5 A 9:50
 December 22, 2006

AZ CORP COMMISSION
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Via U.S. Mail

Jeff Hatch-Miller, Chairman
 Arizona Corporation Commission
 1200 West Washington
 Phoenix, Arizona 85007-2996

Arizona Corporation Commission
DOCKETED

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W-01303A-05-0910
 Re: Docket #W-01303A-05-0405, Arizona American Water Co. - Town of Paradise Valley, 7/28/06

Dear Commissioner Hatch-Miller:

I am writing as a resident of Paradise Valley about the huge water rate increases and surcharges.

There was a rate increase requested by the Arizona American Water Company in 2005. Following a fire in 2002, the Town Council, Paradise Valley department heads and residents met to address fire response needs. The outcome was a requirement placed by the Town Council on the three water companies serving Paradise Valley to increase their water pressure from 20 psi to 1500 gal/min. Although I understand there is no state or federal requirement, the Town Council required each of the water companies to meet this new standard and "utilize whatever mechanisms they have to fund improvements". The costs to Arizona American Water Co. were estimated to be \$16.6M.

Many of us relied on the Arizona Corporation Commission to evaluate the request and rule on an appropriate increase to the residents of Paradise Valley. We expected this to be consistent with historical rate making principles of considering the beneficiaries of the improvements, appropriate expenses, rates of return, and the like in establishing fair and equitable rates.

We have all been shocked to discover that rather than treat this infrastructure improvement with a 40-year depreciation life and a benefit to all residents and resorts connected to the grid, the recovery period is less than five years and primarily borne by 20% of the residents and two major resorts. (Most of this will have been paid prior to the addition of three additional resorts, Montelucia, Mountain Shadows and the new Ritz Carlton.)



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The Commission's order refers to conservation. The perception may be that residents of Paradise Valley have no regard for conserving resources. Nothing could be further from the truth; however, one has to appreciate the existing non-desert landscaping has been a part of Paradise Valley for decades. Few, if any, would initiate these landscapes today. Removing trees and vegetation for an acre as well as replanting these lots would be financially burdensome. Mandating additional punitive rates on owners of these properties will undoubtedly have an impact on home values.

Prior to this rate order the three tier rate design was already highly progressive, which is the top tier was 3X the lowest tier. After October 2007, the top tier is projected to be 7X the lowest tier. And this is prior to the ACRM rate adjustment provision granted to address arsenic remediation costs of \$19M and resulting additional rate increases.

An important point seems to be overshadowed in this debate. If the affected group of residents takes drastic measures to reduce usage, the revenues projected by Arizona American Water to complete the project on time will not be realized. We can only assume additional rate increases will be forthcoming.

In his February 15, 2006, letter to Chairman Hatch-Miller, Mr. Tom Martinsen, Town Manager states that this investment was necessary and supported by the residents. The extent of participation and support is debatable; however, what support existed was without any information as to what rate design would be implemented by the Arizona Corporation Commission.

There are many users in the base who do not have an acre lot. Many with an acre lot and some vegetation will exceed 80,000 gallons per month, every month, and will be hit with the huge surcharge. Thus, the acre lot homeowners are getting the brunt of the rate schedule, and are hit disproportionately hard without any justification.

The surcharges, in many cases, far exceed the apparent statutory limit of 10% of a water bill.

There are a relatively small number of rate payers who are getting hit in a short period of time with the enormous cost of projects that have a very long life and benefit. It is very disproportionate in its impact.

This is a matter of utmost importance to all of the residents and resorts of Paradise Valley. I urge you to utilize A.R.S. Section 40-252 to reconsider an



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appropriate recovery period and include all customers of Arizona American Water Company in Paradise Valley as beneficiaries of the improvement.

This is an expense that should be borne over a long period of time and by users on an equitable basis.

The burden should be fairly, sensibly and proportionately distributed, and no one segment (for example, the residential, one-acre landowners) bearing the brunt of the decision.

Very truly yours,

A handwritten signature in black ink that reads "M. R. Galbut".

Martin R. Galbut

MRG/cg
Enclosures

SCHEDULE OF RATE CHANGES FROM 8/06 – 10/07

Rates are \$/1000 gal.

	<u>8/06</u>	<u>10/06</u>	<u>Total</u>	<u>10/07</u>	<u>Total</u>
<25K Gal	.73	.76		.76	.76
25 – 80K Gal	1.68	1.65		1.65	
Public S Sur				1.00	2.65
>80K Gal	2.17	2.18		2.18	
Public S Sur				1.00	
High Blk Sur		2.15	4.33	2.15	5.33

Note: The 3rd tier rate of \$2.17 prior to the change is 3X the 1st tier. In October 07, the 3rd tier rate becomes 7X the 1st tier!