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January 23, 2007

Arizona Corporation Commission

DOCKETED

FEB 21 2007

Jeff Hatch-Miller, Chairman
Arizona Corporation Commission
1200 West Washington
Phoenix Arizona 85007-2966

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NR

RE: Dockets #W-01303A-05-0405 and W-01303A-05-0910 – Town of Paradise Valley, Arizona American Water – 7/28/06 & current filing on arsenic remediation

Chairman Hatch-Miller:

As a resident of Paradise Valley, I am writing to express my objection to the methods and rate schedules used by the Commission with respect to the above cases. I am requesting this subject be revisited in connection with the current filing of the same number for recovery of arsenic remediation costs by Arizona American Water. A.R.S. Section 40-252 gives the commission authority to do so.

After the shock of the August 1st implementation of the high block surcharge, I began to research the case history to identify how the current rate design and surcharges were developed and determine if there might be common ground for alternatives among the affected parties.

I have reviewed the filings and testimonies and met with dozens of residents, Mike Sarguine - General Manager, the Sanctuary, Ralph Scatena – General Manager, Camelback Inn, Tom Broderick – Manager, Regulatory, Arizona American Water, Town Council members – Mary Hamway, Brian Cooney and Jini Simpson, the Paradise Valley Water Committee and members of the RUCO staff.

Here are the findings -

The requirement for the \$17M utilities infrastructure improvement referred to as the "fire flow project" was placed on Arizona American Water by the Paradise Valley Town Council. It began in 2004.

The rate case to recover costs, establish rates of return, etc. was filed in 2005. Residents were notified of the filing. While the Town Council filed as an intervener on March 20, 2006, they withdrew one week later with no explanation. Unfortunately, by the time the rate schedules were public, no one had an opportunity to file as an intervener.

The surprise was the Commission's order to utilize the CIAC methodology and "high block and safety surcharges" to pay for the project in 4.5 – 5 years! I can understand the Commission's potential rationale in not allowing a utility to earn a rate of return on a "discretionary investment". Unfortunately, in this case there are several, I believe, unintended consequences. The result is that approximately 20% of the 4700 residents and three resorts shoulder the costs of an improvement with a 40 year depreciation life! Three new resorts, Montelucia, Mountain Shadows and the planned Ritz Carlton will pay little or none of the costs as well as the remaining 80% of the existing residents and all those who become homeowners subsequently.

Additionally, the infrastructure improvement is not related to usage but to availability of water pressure in the event of a fire. Every resident and resort connected to the system is a beneficiary of the improvement. The rate structure bears no resemblance to the principle of cost causation in utility rate making!

Due to the size of this investment relative to the size of Arizona American's rate base, the shortened time frame for recovery and the small number of residents/resorts bearing the costs, the effect is punitive. For example, currently the top tier of the new three tier rate schedule including surcharges imposes rates of 7X the lowest tier vs. 3X prior to the change!

It has been said there is little empathy for the residents/resorts of Paradise Valley, who are mostly wealthy, greedy, wasteful people who have unlimited resources. That is simply not true. Generally the usage comparisons are per resident or per household. Paradise Valley is easily profiled because of its incorporation as a town vs. Arcadia or other parts of the valley. Low density and mature landscaping make the comparisons questionable.

Perhaps the most important point and risk in doing nothing is that the intended effect of reducing consumption may be realized; thus, the project will not be completed in the assumed timeline and efforts by residents to conserve may be self defeating in the face of ever increasing surcharges/rates.

In the past few months, I have spoken with many long time residents. Most have no idea how this happened, who is responsible or where to turn for resolution. Frankly, without some experience and determination, it is difficult and complex for many to address.

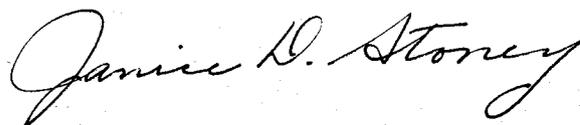
The frustration for the residents/resorts becomes, "Where do we go for representation?" The Council has refused to become involved, indicating this matter is between the residents and Arizona American Water or the Commission. Arizona American Water indicates the order is final and the matter is the Commission's responsibility. RUCO takes a similar position. The appeal dates on the order have expired; thus, neither RUCO nor the residents can appeal. And now the arsenic remediation rates have been filed with another \$19M cost recovery adding to the problem.

With respect to solutions, while initially some may have preferred to revisit the merits of the investment for fire flow, today most agree that a more equitable distribution of cost recovery over a longer period of time is a reasonable approach. Both Arizona American and the commission staff are in a position to examine the possibilities.

I urge you to request these data and reexamine the entire rate structure for the residents/resorts of Arizona American Water Co in Paradise Valley. This is an urgent matter to all.

Should you or members of your staff wish to contact me, I would be glad to receive telephone calls, e-mail or visit in person.

Most respectfully,

A handwritten signature in cursive script that reads "Janice D. Storey". The signature is written in black ink and is positioned below the typed name "Janice D. Storey".