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ARIZONA WATER COMPANY

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July 30, 2003

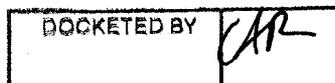
AZ CORP COMMISSION
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Arizona Corporation Commission

DOCKETED

AUG 01 2003

Ms. Connie Walczak
 Consumer Services Supervisor
 Utilities Division
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, AZ 85007



Re: July 16, 2003 Letter Addressed to Arizona Corporation Commission From
 Robert E. Downing Concerning Arizona Water Company's Business Practices
 and Request for Rate Increase Under Docket Number W-01445A-02-0619

Dear Ms. Walczak:

Arizona Water Company (the "Company") has reviewed the above-referenced letter and provides the following response.

Mr. Downing alleges that the Company requires developers to pay a \$6,000.00 per lot hook-up fee in the Company's Bisbee water system and then uses its own contractors to do the work. Contrary to Mr. Downing's allegations, the Company does not charge a hook-up fee in its Bisbee water system or any of its other water systems except Apache Junction, where it charges a \$35.00 one-time hook-up charge.

Mr. Downing may be referring to a new subdivision constructed in Bisbee in late 2000 known as Sierra Bonita Estates, where a water distribution system, including fire hydrants, a six-inch pressure regulator station, and 24 water services were installed under a main extension agreement contract. This main extension agreement was approved by the ACC on November 29, 2000 under Work Authorization Number 2-2967 and ACC Contract Number 3012.

As with all of the Company's water distribution systems, this system was put out to bid under a competitive bidding process, the low-bid contractor was selected, and cost estimates and main extension agreement were subsequently completed and submitted to the ACC for their approval. The Company required the developer to pay only that cost directly related to the construction costs necessary to extend water service to the development. There was no overcharging, as Mr. Downing alleges. In fact, upon completion of the water distribution system construction, the Company performed an audit of the construction cost and refunded \$1,426.00 to the developer.

E-MAIL: mail@azwater.com

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For information purposes, the entire cost of the project, including fire hydrants, pressure regulator station, water distribution system, and water services totaled \$100,650.00, or \$4,193.75 per lot. \$94,583.00 of the amount was treated as a refundable advance in aid of construction. A copy of the approved main extension agreement is enclosed.

Mr. Downing incorrectly compares this per-lot main extension cost, which he refers to as a \$6,000.00 per lot hook-up fee, to hook-up fees of other local municipalities.

Mr. Downing also stated that Bisbee and Sierra Vista will pay for the Company's compliance with the new federally mandated arsenic maximum contaminant level ("MCL"). This statement is factually incorrect. The Company is not proposing any impact to the Company's Bisbee or Sierra Vista water systems, or any other water systems whose water supplies already comply with the new arsenic MCL, except in those instances where consolidation has been considered and approved by the ACC in a general rate proceeding. The Company has made no such proposals in its current Eastern Group rate proceeding concerning Bisbee and Sierra Vista.

The Company understands the state of the local economy in Bisbee. However, the Company has prudently managed its operating and maintenance expenses in its Bisbee water system and all of its other water systems, and has installed only those new or replacement facilities necessary to meet the requirements of, and maintain proper levels of service to, its water systems. The Company's last rate increase for Bisbee was based on a 1990 test year. Since January 1990, the consumer price index has increased nationally 44.2% for the all urban consumers cost index and 93.6% for the other goods and services cost index. In addition, the Company has invested in a new well and other capital investments.

Concerning the Company's position on the issue of water main replacements, the Company stands behind its position on the impact of aging infrastructure and its decision to replace water mains at the end of their useful economic life. I have had no discussions with Mr. Downing or Mr. John Economy, and do not know on what third or fourth party discussion Mr. Downing bases his allegations or statements. One point that the Company made to a Bisbee reporter is that aging water infrastructure is a national issue and since Bisbee is one of the Company's oldest water systems, with water mains dating back to 1908, the impact of replacing water mains in the future will raise future costs in the Bisbee system.

Mr. Downing also suggests that the Company should have set aside maintenance money for water main replacements or repairs. This view reflects a misunderstanding of the principles of rate-making, as does the suggestion that the Company is using a "profit center style of replacing failed pipe." The Company has an obligation to meet its customers' water service needs with a cost-conscious business ethic. It has invested, and continues to invest, capital in its water systems for facility replacements, and to repair its water mains in a timely fashion, contrary to Mr. Downing's comments.

In summary, the Company objects to Mr. Downing's comments. Mr. Downing is either grievously misinformed, or his purpose in presenting this letter to the ACC Commissioners is to instill negative sentiment toward the Company and to persuade the Commission into discounting

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the Company's rate application to have them approve lower rates than would otherwise be allowed.

If you have any questions on this matter, please call me.

Very truly yours,



William M. Garfield
President

mrf
Enclosure

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER



BRIAN C. McNEIL
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

December 1, 2000

Mr. Michael J. Whitehead
Vice President - Engineering
Arizona Water Company
Post Office Box 29006
Phoenix, Arizona 85038-9006

RECEIVED
DEC 04 2000

ARIZONA WATER COMPANY
PHOENIX - ENGINEERING

Dear Mr. Whitehead:

The enclosed Main Extension Agreement between Arizona Water Company, and Sierra Bonita Estates, LLC., has met the provisions of A.A.C. R14-2-406, or company approved tariffs, and is approved, excepting those provisions, if any, not within the jurisdiction of the Arizona Corporation Commission.

A copy of this agreement will remain on file in the utilities Division's Central Files.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Fisher", written over a horizontal line.

Jim Fisher
Executive Consultant
Utilities Division

JEF:jbc

Enclosures



ARIZONA WATER COMPANY

Bisbee Office: P.O. Box AW - Bisbee, AZ 85603
Voice: 520-432-5321 Fax 520-432-1244

AGREEMENT FOR EXTENSION OF WATER FACILITIES

CUSTOMER: Sierra Bonita Estates, LLC
Name
7630 S. Hereford Road
Address
Hereford, AZ 85615
City and State Zip Code

Contract No. 3012
W.A. No. 2-2967

DATE OF AGREEMENT 11-14-00

CONSTRUCTION START: Approximately 15 days after receiving all material and obtaining all necessary permits and approvals.

PROJECT COMPLETION: Estimated to be within 60 (Calender) days from the start date.

DATE OF COST ESTIMATE (Attachment "A"): September 12, 2000 WATER SYSTEM: Bisbee

WATER FACILITIES: Sierra Bonita Estates lots 1-17 and 46-50 as per drawing (Attachment "B").

REFUNDABLE ADVANCE	Installation of 6" D.I.P. W/ Related Fittings, Pressure Reducing Station and Service	
IN AID OF CONSTRUCTION for:	<u>Connections.</u>	\$ <u>94,583</u>
NON-REFUNDABLE CONTRIBUTION for:	<u>6" Fire Hydrants</u>	<u>6,917</u>
	AGREEMENT TOTAL	\$ <u>101,500</u>
	LESS: MAIN EXTENSION DEPOSIT RECEIVED	<u>850</u>
	BALANCE DUE	\$ <u>100,650</u>

THIS AGREEMENT is made and entered into by and between ARIZONA WATER COMPANY, an Arizona corporation, (hereinafter called the "Company"), and the Customer named above. In consideration of the services to be performed by the Company and the sums of money to be paid by the Customer, in accordance with the related Cost Estimate, it is agreed as follows:

- The Company will construct, or will arrange for the construction of the Water Facilities as described above.
- The Customer will pay to the Company upon signing this Agreement the Total shown above, receipt of which is hereby acknowledged by the company. The Total shown above to be paid by the customer to the Company is the Company's estimated cost of construction of the Water Facilities. The Company will determine and inform the Customer of the actual cost of construction within sixty (60) days after the completion of construction or the Company's receipt of all invoices and charges related to the construction. If the Company's actual cost of construction is less than the Total amount paid, the Company will refund the difference to the Customer, conversely, if the Company's actual cost of construction is more than the Total amount paid, the Customer shall pay the difference to the Company within sixty (60) days of receipt of an invoice from the Company. However, if the actual cost is more than five percent (5%) greater than the Total amount paid, the Customer will only be required to pay five percent (5%) more than the Total amount paid, unless the Company can demonstrate that the increased costs were beyond its control and could not be foreseen at the time the estimate for the Total amount paid was made. The Company and the Customer further agree that the amount subject to refund pursuant to paragraph 3 of this Agreement shall be the refundable portion of the Company's actual cost of construction. Information about the actual cost of construction will be attached to this Agreement and forwarded to the Customer.
- Refunds of any advances in aid of construction shall be made as follows: Each year for a period of 10 years the Company shall pay to the Customer or the Customer's assignee or successor in interest, provided the Company has first received written notice and evidence of such assignment or succession and approved of same, an amount equal to 10 percent of the total gross annual revenue received by the Company from water sales to each bona fide customer whose service line is directly connected to pipelines installed pursuant to this Agreement. Refunds shall be made by the Company on or before August 31 of each year, covering any water revenues received during the preceding July 1 to June 30 period. Any balance remaining subject to refund at the end of the 10-year period shall become non-refundable. Aggregate refunds shall in no event exceed the total of the refundable advance in aid of construction received from the Customer. No interest shall be paid by the Company on any amounts paid hereunder.
- All Water Facilities installed under this Agreement shall be the sole property of the Company, and the customer shall have no right, title or interest in or to any such facilities.
- The size, design, type and quality of materials and of the system, location and manner of installation, shall be specified by the Company and shall comply with requirements of the Arizona Corporation Commission or other public agencies having authority therein.
- The Customer agrees to furnish to the Company adequate and recordable easements and required surveying necessary to serve each parcel or lot within the Customer's subdivision, tract, development, or project.
- The Customer agrees that all easements and rights-of-way shall be free of obstacles which may interfere with the construction of the Company's Water Facilities. If the Customer's subdivision, tract, development, or project involves road construction, all roads and drainageways will be brought to grade by the Customer prior to the commencement of the installation of the Company's Water Facilities. No pavement or curbs shall be installed prior to completion of all Water Facilities. If any street, road, alley or drainageway is installed at a different grade or location after the beginning of the installation of Water Facilities, the Customer shall bear all costs incurred by the Company to relocate the Water Facilities as a result of said facilities having improper cover or location. Such costs shall be non-refundable.
- The Customer agrees to pay to the Company any additional costs incurred as a result of design changes made or caused by the Customer or its employees, agents, servants, contractors or subcontractors, the Arizona Department of Environmental Quality, the Arizona Corporation Commission, any county health department or other public agency under whose jurisdiction the subject construction may fall, or anticipated or un-anticipated changes in existing Company facilities, due to any work associated with this subdivision, tract, development or project which causes said facilities to have improper cover or location.
- This Agreement shall be binding upon and for the benefit of the successors and assigns of the Company and the Customer. No assignment or transfer of this Agreement by the Customer shall be binding upon the Company or create any rights in the assignee until such assignment or transfer is approved and accepted in writing by the Company.
- This Agreement, and all rights and obligations hereunder, including those regarding water service to the Customer, are subject to the Arizona Corporation Commission's "Rules and Regulations Relating to the Operation of Domestic Water Utility Companies" and the Company's tariff schedule TC-243, "Terms and Conditions for the Provision of Water Service."

Date Approved: Nov. 21, 2000

ARIZONA WATER COMPANY
Company

Sierra Bonita Estates, LLC
Customer

By: [Signature]
Director of Utilities

By: [Signature]
Arizona Corporation Commission

Title: OPERATIONS SUPERVISOR
D. TELLER

Title: [Signature]