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April 3, 1998

Mr. Ray T. Williamson
Acting Director, Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007-2996

W-00000-98-0153

Subject: Commission Water Task Force (Re: Your letter dated March 27, 1998)

Dear Mr. Williamson:

I appreciate receiving your March 27, 1998 letter which included the Arizona Corporation Commission staff proposal to create a water task force. I agree that the issues facing private water companies in Arizona deserve this kind of attention, and I'm pleased that you are considering a representative from the Central Arizona Water Conservation District as a task force member.

We have reviewed your proposal and proposed order and would like to offer some suggestions. As you know, several private water companies hold subcontracts for water service from the Central Arizona Project (CAP). Roughly 14 percent of the CAP municipal and industrial water under contract in Arizona is held by private water companies; however, only a few are actually treating and delivering this water supply to rate payers. But the subcontracts require payment of water service capital charges to CAWCD on a per acre-foot basis over the entire amount of the allocation regardless of whether it is actually being delivered. The water service capital charge in effect for 1998 which was approved by the CAWCD Board of Directors is \$48 per acre-foot. Some private water companies have brought rate cases before the Commission seeking to include these capital charges in their rate base. Historically, the Commission has held that no recovery of such costs is allowed until the CAP water supply is actually being used.

In addition to the issues already identified in the proposed order, we suggest that the water task force be empowered by the Commission to also address this issue. We believe that this issue affects the delivery of affordable, safe drinking water to the rate payers of Commission regulated water companies and request that it be considered. If you have any questions or if you need additional information, please contact Mr. John Newman at (602) 869-2338.

Sincerely,

David S. "Sid" Wilson, Jr.
General Manager

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Arizona Corporation Commission
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