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January 30, 2008

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Via Hand-Delivery

Chairman Mike Gleason  
Commissioner Jeff Hatch-Miller  
Commissioner Kristin K. Mayes  
Commissioner William A. Mundell  
Commissioner Gary Pierce  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

Re: Coronado Utilities - San Manuel

Dear Commissioners:

Enclosed please find a copy of the letter which was sent to Coronado Utility's customers following a recent article in The San Manuel Miner concerning the Commission's Town Hall meeting held on February 6, 2008. A copy of the article is also enclosed for your reference.

Very truly yours,

Jay L. Shapiro

Enclosures

cc: Jason Williamson  
Christopher Kempley, Esq.

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Arizona Corporation Commission  
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AZ CORP COMMISSION  
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Dear Valued Coronado Utility Customers:

You may have seen the recent article in the *Miner* on January 23. As your sewer utility provider, we thought it would be appropriate for us to share our views and hopefully clarify some potential misconceptions our customers may have taken from this article. Furthermore, we believe that utilities need to provide customers with as much information as possible, in this case serving to better educate our customers in advance of the Town Hall scheduled by the Arizona Corporation Commission ("ACC") for February 6, 2008.

First, all of us need to understand certain things about the ACC's ratemaking process:

- First, rates are set after conducting in-depth analysis, and formal, public hearings,
- Rates should be based on known costs and expenses – actual data should be used, not assumptions,
- Whenever the government orders subsidies, someone has to pick up the tab, and
- Lastly, capital structure (the debt and equity that fund infrastructure) has very real impacts on rates.

Now, let me expand on these concepts:

1. Coronado Utilities does not in any way object to this meeting being held by the ACC on February 6. However, please note that this is a Town Hall meeting, not a "hearing" as it was described in the *Miner*, because it is not a formal hearing, no formal action may be taken by the ACC at this meeting.
2. While Coronado understands the concerns that have been voiced over the rates that the ACC currently requires us to charge, the Company believes that its rates can only be modified following a rate case. A rate case proceeding is designed to determine the "fair value" of Coronado's utility property, upon which rates are based. In such a rate case, there are three potential outcomes: a rate increase, a rate decrease, or continuation of the existing rates.
3. The ACC has already ordered Coronado to file a rate case no later than June 1, 2009 based on a test year ending December 31, 2008. This timing would allow Coronado to experience a full year of operating expenses with the new wastewater treatment plant in operation - providing a full and fair representation of the Company's actual expenses, which can then be considered in the ACC's rate-setting process.
4. While the ACC could require that a rate case take place earlier than previously ordered, we would not have a record of actual expenses, so the analysis of expenses would require a substantial number of assumptions. By using a full year of costs, Coronado, the ACC, and our customers would have an accurate, representative time period upon which to base rates. (The plant will have been in operation at least 12-18 months). If we are required to use assumptions about costs and expenses, Coronado fears it would require successive rate cases, burdening the Company and its ratepayers with the disruption and costs of multiple rate cases over a short period of time.
5. Coronado also understands the desire of many customers for a rate structure that includes discounted rates for low-income customers and part-time residents, or other similar discount rates. While such rates are possible, Coronado's revenue requirement would not be impacted. This means that customers who are not eligible for discounted rates would actually pay higher rates in order to make up the revenue loss due to the discounted rates.
6. The news story in the *Miner* also discusses issues related to Coronado's capital structure, which is the mixture of bond debt and equity financing. While Coronado takes no position regarding BHP, we do wish to bring two things to your attention. One, in the ratemaking process, equity almost always supports a higher rate of return than debt (simply put, equity costs more). Thus, increasing the Company's equity could very well lead to rate increases. Second, the bond debt obtained by Coronado to finance the new treatment plant was approved by the ACC at a favorable interest rate. Coronado is obligated to and is making monthly payments on that debt. At present, Coronado is unaware of any lower cost alternatives available to reduce its debt costs and thereby lower rates.

Coronado hopes that this letter is helpful in the ongoing process of educating our customers on the complicated process of developing the sewer rates that you are now paying. I plan to personally attend the town hall meeting on February 6, and as always, am willing to listen and hopefully better understand the community's concerns, as well as do my best to answer your questions.

Sincerely,

Jason Williamson  
President, Coronado Utilities, Inc.



*The seat of power . . .*

Lieutenant Tamatha 'Tami' Villar is settling in as the head of Region 2 which includes the Tri-Community. (Jennifer Carnes photo)

## **Martial up now**

Martial Arts class which will begin Saturday, Feb. 2, and will continue on Saturdays from 4-5 p.m. through the month of February. Classes will be held at San Manuel's Gardner Learning Center in the junior high wrestling room. Classes are offered to those ages nine and older.

Sensei Steve Weber of the Aikido Academy in Catalina will teach the class.

Weber is a fifth degree black belt in the Nihon Goshin school of Aikido and holds the title of Senior Instructor in the United States, second only to his teacher Mr. Richard A. Bowe, who is the United States director and the person responsible for bringing the style to the US. Bowe's teacher was founder Shodo Morita.

Nihon Goshin is one of at least 30 styles of Aikido taught in the United States. The Aikido Academy is the only school on the West Coast in the Nihon Goshin association.

Weber has been studying Aikido for 40 years. He also holds rank (black belt) in Karate, Judo, Jujitsu, Kobudo (weapons training) and Tai Chi. He was a police officer from 1981-1991 for the Spartanburg County Sheriff's Department in South Carolina and was the chief instructor for defensive tactics from 1992-2002 at a police academy on the East Coast. He served briefly as an Oro Valley Police Officer after being certified in Arizona through CARLOTA (Central Arizona

See Martial Arts, Page 3

## **ACC agrees to hold San Manuel Coronado Utility hearing; BHP objects**

The Arizona Corporation Commission will be holding another hearing about the Coronado Utility wastewater system on Feb. 6 at 6 p.m., at the San Manuel High School, despite objections from BHP.

State Representative Barbara McGuire encourages the residents of San Manuel to contact the Arizona Corporation Commission and comment or ask to speak at the upcoming hearing.

According to McGuire, "It is the responsibility of society, including business and government, to come together to protect the vulnerable population from hardship. I am glad to see this change of heart from the Commissioners to conduct a new hearing. Life is hard enough for the vulnerable having to choose between food, medicine, and now water and waste disposal. These are basic things and they must be workable."

A recent survey of the residents of San Manuel shows that there are a significant number of retirees living on a fixed income, with two to four persons per household. Suggestions for a restructuring of current modes of operation for the water and waste treatment, which could possibly be implemented are:

- Change the Capital structure to provide liveable debt servicing, within the rate the customer pays.
- Require BHP to assist in defraying company costs.
- Establish a low-income assistance fund to supplant the rate increase.
- Allow a fourth tier, or phase-in, of the rates.
- Make a determination of equitable billing.
- Other strategies

BHP Billiton Southwest Copper for BHP Copper, Inc. President Ben Whichers said, in a Jan. 10 email to ACC Chairman Mike Gleason. "we took an equity position in the new plant...hearings will just keep stirring the pot ... and not lead to positive outcomes for the residents of San Manuel."

McGuire has commented that given BHP's statement against further hearings, another step might be to refer to Attorney General Terry Goddard, "to examine the sale that took place of BHP's waste and water plant to Coronado Utilities and make a determination to the legal aspects of the sale, the capacities and responsibilities of the parties to act in certain roles and the relative remedial obligations of the parties, if any."