



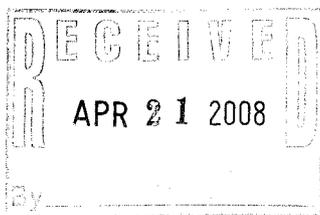
OPEN MEETING AGENDA ITEM
Sun City Taxpayers Association



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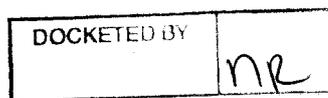
April 17, 2008



Arizona Corporation Commission
DOCKETED

APR 21 2008

Chairman Mike Gleason
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007



AZ CORP COMMISSION
DOCKET CONTROL

2008 APR 21 P 3:44

RECEIVED

RE: Docket W-01303A-07-0209
Arizona-American Water Application for Rate Increase – Sun City Water District

Dear Chairman Gleason:

As you already know, the Sun City Taxpayers Association is opposed to Arizona-American Water's request for approval of a surcharge mechanism to pay for its proposed Fire Flow improvements.

The SCTA has done a thorough review of the proceedings in this docket leading up to the hearing before the Commissioners and we, like you, are waiting for the Recommended Opinion and Order from Administrative Judge Rodda.

The ACC staff in its final/reply briefs supports the Fire Flow Surcharge as the preferable way to pay for the project citing three criteria as justification for its position, i.e., 1) community support for the project; 2) the significant cost; and, 3) the public safety impact.

The Sun City Taxpayers Association does not agree with staff's assertions or recommendation for approval of the surcharge mechanism. While Arizona-American will maintain that community support is demonstrated by the responses it received from its customer mailing, the SCTA brought to the attention of the Commission at public hearing that 16,000 Sun City residents did not receive that survey. Also, the Sun City Taxpayers Association can demonstrate community support in opposition to the Fire Flow surcharge with its collaboration and support from the Boards of Directors of the Recreation Centers of Sun City, Sun City Homeowners Association and the Condominium Owners Association (please see attached position paper).

As always, project cost is a significant factor. The company has estimated the cost of the Fire Flow improvements at \$5.1 million while the ACC staff witness testified that the project should cost \$2.7 million. Such a significant disparity in project cost is of particular concern because of the staff's recommendation of immediate cost recovery through the surcharge mechanism.

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Finally, another criterion for recommending the surcharge mechanism concerns the public safety impact. One of our directors, Doyle Dickson, conducted some research regarding Sun City's public safety risk assessment. He obtained information from the Insurance Service Office (ISO) that put Sun City in the top 10% of communities nationwide based on an evaluation of Sun City's fire district and its attributes "that affect the efficiency and proficiency of firefighting, including water flow rates." A copy of Director Dickson's letter appeared in our local newspapers and is attached for your review. It should be taken into consideration when evaluating the need for Arizona-American's proposed fire flow improvements and the public safety impact.

The Sun City Taxpayers Association will be present at the hearing and look forward to completing the rate making process in this docket.

Sincerely,



Marv Worthen, President

Cc: Commissioner Bill Mundell
Commissioner Scott Hatch-Miller
Commissioner Kristin Mayes
Commissioner Gary Pierce

Enclosures:

United Front Flyer in opposition to Fire Flow Surcharge Mechanism
My View - Fire flow proposal should fall to fire department by Doyle Dickson

My view

Fire flow proposal should fall to fire department

DOYLE DICKSON

FIRST VICE PRESIDENT

SUN CITY TAXPAYERS ASSOCIATION

The Arizona American Water Co. has proposed an improved water distribution design for some portions of the Sun City Water District. The improvement involves 44,133 feet of pipe and 195 fire hydrants. April 2007 AZ-AM submitted to the Corporation Commission a plan to implement the improvements and a surcharge mechanism to recover costs associated with the improvements.

If you have followed the developments of this case, the mayor of Youngtown is supporting this plan because of his concern for public safety. His concern is admirable. I think all mayors should be concerned about public safety. The mayor reported, in his letter to the newspaper, that the implementation of the new distribution design would "greatly" improve the public safety in some of Sun City and Youngtown. "Greatly" caused me to pause. I think a more definitive description of any improvement to public safety would be "minimally." The Sun City Fire District Board of Directors announced that it had unanimously passed resolution in support of the proposed plan. The reason it gave for passing the resolution was to make a statement on the improvements. I think it is appropriate for the fire board to take a position on such an event. I also think it is its responsibility to define the need and explain members reasoning justifying the cost and financing of the plan. How much more risk is there currently to the people and property in the area to be improved relative to the risk in the areas requiring improvement?

The Insurance Service Office is a company whose expertise is focused on risk assessment. Many insurance companies rely on ISO data to establish rates for property

insurance. The ISO investigates fire districts and grades a multitude of attributes that affect the efficiency and proficiency of firefighting, including water flow rates. The grades are analyzed and reduced to a Public Protection Classification. The PPC is a number from one to 10, with one being the best and 10 being the worst. I was pleased to learn that Sun City has a PPC of four. In order to comprehend the significance of a class four rating, consider the following Arizona data:

- Of 294 Arizona communities investigated by ISO, only 54 received a PPC of four or better.

- There were no communities with a class one rating.

- 82.6 percent were class five through 10.

On the national level only 10.3 percent of the communities investigated earned a class four or better rating. Our fire department has every reason to be proud that our community is in the top 10 percent of the country just as we have reason to be proud of our fire department. Additionally, I was informed by my insurance carrier that improving the PPC from a four to a three would not result in a decrease in my homeowners' insurance rate. If the PPC was improved from a four to a two there would be a small (but significant) decrease in my insurance rate. A PPC of one is given special consideration since the small number of communities receiving a class one rating (only 42 in the United States) is not statistically credible.

Youngtown Mayor Michael Levault states that all Sun City customers south of Grand Avenue will benefit from the proposed piping changes. At present, I accept that statement with a grain of salt. I think there will be some Sun City residents south of Grand who will not notice any change in their water service. As the mayor pointed out and the chairman of the fire board reiterated, 1,550 metered customers in Youngtown would benefit from the fire flow improvements while only 6,203 Sun City metered customers would benefit. Using the same numbers, only 28.2 percent of Sun City customers will benefit while 66.4 percent of Youngtown customers will benefit. What about the cost? When the tab is passed out, Sun City will end up paying 87 percent of the cost while Youngtown only 9.2 percent of the cost. I am not buying the kind of cost/benefit analysis that Youngtown is selling and neither should you.



*Sun City
Condo Owners
Association*

The Real Story on Arizona-American Water's Fire Flow Improvement Project

What Is Arizona-American Water Trying to Do?

- Arizona-American Water (AZ-AM) is a private water utility and therefore regulated by the Arizona Corporation Commission (ACC).
- AZ-AM is asking the ACC to approve a 29.53% rate increase for Sun City Water District customers (29.01% increase in residential rates)
- AZ-AM also wants pre-approval from the ACC for a Fire Flow Improvement project to be paid for through additional surcharges to all Sun City Water District ratepayers (including ratepayers in Sun City and in Youngtown).
- The Fire Flow Improvement project is not mandatory, so AZ-AM will not go forward without the pre-approval of the Arizona Corporation Commission (ACC) and proper funding mechanisms in place.
- The investment cost for the project is \$4.9 million (up from a \$3.1 million estimate in 2005)
- AZ-AM's present rate design is based on minimum monthly charges that generally increase by meter size. The proposal would keep this rate design and increase monthly usage charges and commodity charges across all customer classes. This could have an adverse effect on all condo owners.

Is the Fire Flow Improvement Project Really Necessary?

- In the month of February 2008, only 3 of the 898 incidents to which the Sun City Fire Department responded were actual fires.
- The ACC requires potable water to be delivered at 20 psi and there is no requirement for 1500 gallons per minute fire flow.
- No other comparable Arizona-regulated water utility has ever oversized its system beyond ACC standards.

- The Residential Utility Consumers' Office (RUCO) believes fire flow modifications are discretionary and is not in favor of AZ-AM obtaining approval for a surcharge to fund the cost of oversizing its system.

How Does Youngtown Fit In?

- The City of Youngtown is in favor of the fire flow project and surcharges since they have a serious public safety problem.
- Sun City residents should not have to pay for Youngtown's problems.
- AZ-AM did a survey on the project and received 2,500 survey responses. How many survey responses were from Youngtown and how many from Sun City? Were condo owners properly represented?

What Can I Do?

- If you agree that AZ-AM's proposed fire flow improvement plan unfairly forces Sun City residents to pay for Youngtown's problems, please contact the Arizona Corporation Commission:

Commissioners Wing: 1200 W. Washington, Second Floor,
Phoenix, Arizona

Chairman Mike Gleason: (602)542-3682, Gleason-web@azcc.gov

Commissioner Kristin K. Mayes: (602)542-4143, Mayes-web@azcc.gov

Commissioner William Mundell: (602)542-3935, Mundell-web@azcc.gov

Commissioner Scott Hatch-Miller: (602)542-3625, Hatch-web@azcc.gov

Commissioner Gary Pierce: (602)542-3933, Pierce-web@azcc.gov