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From: Larry & Tina BLIGH [lbligh@msn.com]
Sent: Sunday, November 09, 2008 3:30 PM
To: Mayes-WebEmail; Mundell-Web; Hatch-WebEmail; Pierce-Web; Gleason-WebEmail
Cc: Larry & Tina Bligh
Subject: ICR Water Users Association - W-02824A-07-0388

Commissioners Mayes, Mundell, Hatch-Miller, Pierce and Chairman Gleason,

As you know, I have been outspoken about many of the issues we as owners/shareholders of our non-profit ICR Water Users Association have been confronted with during the current rate case process. I have also been outspoken about the behavior of our current Board of Directors and what many perceive as their continued resistance to compliance with ACC Decision 64360.

Throughout this entire process, I have continued to ask what I believe is a simple question. I have asked repeatedly that someone please explain how it is possible to suggest that the water company can propose to provide water service to the golf course/developer at a rate of $1.00 per 1000 gallons, when the Cost of Service study paid for by the owners of the water company arrives at a necessary average user residential proposed rate of $3.41 per 1000 gallons.

According to testimony submitted during this process, the proposed $1.00 rate is said to include all costs of service and an appropriate margin for the water company. The most recent statement of this position is found in the Additional Supplemental Testimony of Thomas J. Bourassa filed with the ACC dated 10/15/08, page four, starting at line 11 continuing through line 20. In fact, Mr. Bourassa goes so far as to say that the proposed $1.00 commodity charge covers all ICRWUA costs of service and that the proposed System Reservation Charge included in the proposed Water Service Agreement is not necessary to meet the cost of providing service to the golf course/developer, but is "just additional revenue for ICRWUA." However, as I stated earlier, the Cost of Service Study has determined that a proposed rate of $3.41 per 1000 gallons is the cost of service to provide the same water service to the average residential user. This rate/cost also determined by Mr. Bourassa is found in the in the same submitted testimony on page 13 starting at line number 3-21.

I most recently asked the question about what appears to be the significant discrepancy between the apparent cost of service for the golf course/developer and proposed tariff rates found in the Water Service Agreement at the community meeting held by ICRWUA on 10/28/08. No answer could be given to my question; however, Mr. Crockett of Snell & Wilmer, who was representing the ICRWUA Board at the meeting, promised an answer to my questions through a follow-up communication. I have attached Mr. Crockett's promised answer (provided by Mr. Metli also of Snell & Wilmer) and my return communication to them below.

As I believe anyone can see, there still has been absolutely no validation of any data used to support the proposed golf course/developer $1.00 rate. Additionally, in my question presented at the community meeting, I asked how and why the Water Service Agreement was proposing yet another non-tariff arrangement in providing the developer (Harvard) 125 acre feet of water annually (in addition to the 400 acre feet of water currently permitted for use on the golf course) at a $1.00 rate for construction water, when the cost of service study by Mr. Bourassa arrives at a necessary rate for standpipe/bulk water at $4.41 per 1000 gallons for all other users. That issue was not addressed in the response.

As I have stated many times, I fully respect and support the Commission's rate setting process and don't believe that the Commission is in the business of creating or supporting non-tariff arrangements by non-profit water companies to the benefit of for-profit developers. I am also concerned by the position taken by Mr.

Crockett/Metli on how they apparently feel that inverted tier rates are somehow "unfair" to for-profit business users such as Harvard as noted in their e-mail to me.

Again, we would like to thank you and Commission staff for your time and continuing efforts with this issue and for the service you provide to our State.

Larry & Tina Bligh
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928.776.1937

----- Original Message -----
From: Larry & Tina BLIGH
To: Metli, Robert
Cc: Hugh Pryor ; Robert Busch ; Crockett, Jeff
Sent: Wednesday, November 05, 2008 9:20 PM
Subject: Re: COS Study

Robert,

First, let me thank you for your e-mail. I do need to make clear my position on the closing comment in your communication. Your comment reads, "we were encouraged by your statement that if we could demonstrate to you that the $1.00 commodity rate was the appropriate number, you could support the Water Service Agreement." What I believe I said, was that if all the numbers used related to the proposed rate for Harvard could be justified and show that everyone (including Harvard) were sharing equally in all costs (operation, depreciation, etc.) for the entire system, I could accept the proposal's rate structure. But of course, if those numbers validated the Harvard rate, the question then becomes how does the rate for all other system users stand at over three times the Harvard rate? As I have maintained all along, a rate increase really is not the issue for me. Additionally, if you recall, I expressed other concerns with the WSA that have not been addressed including the idea that the proposal is creating yet another non-tariff arrangement for construction water, allowing Harvard to yet again, exploit the tariff process that everyone else must follow; including other developers. That issue has not been addressed or explained.

As for the rate issue, while I appreciate your narrative and description of the math used in the calculation, I don't find a validation of any data used to support the $1.00 Harvard commodity rate. Using the simple logic that the cost of service study paid for by the water company has determined that a commodity rate of $3.41 per 1000 gallons is the "cost" of providing service (with appropriate margin) for the average residential customer is far above the $1.00 "cost" to provide the same commodity to Harvard, continues to be an issue. Please keep in mind, that as I stated, this is the cost of a residential service found in the lowest cost tier of the proposal. With that said, the $1.00 commodity rate proposed for Harvard simply doesn't seem to compute or make any sense. Using this residential rate comparison approach takes away the idea that somehow an inverted tier rate is in your words, "unfair" for Harvard. I also would add that I believe I fully understand the ideas, both social and economic behind the inverted tier tariff process. I would also add, that I personally support the concept. It is my opinion that all for-profit commercial users simply need to consider this concept a cost of doing business.

I would like to add one last observation. It appears that we somehow may be looking at different documents in reviewing the proposed rates? Your note suggests that a six-inch meter is proposed to have a rate of $3.83 per 1000 gallons (1 to 500,000 gallons) and $4.47 per 1000 gallons (over 500,000 gallons)? While not a huge discrepancy, the proposed six-inch meter tariff I find in the submitted testimony shows a rate of $3.41 per 1000 gallons (1 to 450,000 gallons) and $4.41 over 450,000 gallons.

Thank you for your time.

Larry Bligh

----- Original Message -----
From: Metli, Robert
To: lbligh@msn.com
Cc: Hugh Pryor ; Robert Busch ; Crockett, Jeff
Sent: Tuesday, November 04, 2008 1:18 PM
Subject: COS Study

Dear Larry:

In an effort to respond to your question at the member meeting that took place on Tuesday, October 28, 2008, I contacted Tom Bourassa. Specifically, you requested that we reconcile the difference between the rate for the 6 inch meter set forth in ICR's proposed tariff verses the commodity rate to be charged to the golf course under the Water Services Agreement. Your specific request included a reconciliation of Mr. Bourassa's testimony in which he indicated that the $1.00 commodity rate included not only the cost of service to supply the golf course with water but also included a margin of 11.5% with the Company's proposed inverted tier tariff rate for the 6 inch meter set at $3.83 per 1,000 gallons (1 to 500,000 gallons) and $4.47 per 1,000 gallons (over 500,000).

The reason for the distinction is the proposed inverted tier tariff rate for the 6 inch meter in the proposed tariff ($3.83 per 1,000 gallons (1 to 500,000 gallons) and $4.47 per 1,000 gallons (over 500,000))is not cost based, whereas the rates and charges set forth in the Water Service Agreement ($1.00 per 1000 gallons) is. This rate was computed as follows: the golf courses total cost of service is $110,543. During the test year, golf course water deliveries totaled 125,026 gallons (in 1,000's). Using a commodity rate of $1.00 per 1,000 gallons, the commodity revenues would total $125,026. The excess of revenue over expenses is $14,483 ($125,026 minus $110,543). As a result, the operating margin is approximately 11.5% ($14,483 divided by $125,026).(See, Additional Supplemental Testimony of Thomas J. Bourassa, page 8).

Generally, inverted tier designs are intended to encourage conservation. Yet, conservation-based rates deviate from cost-of-service principles because larger water users generally pay more than their cost of service and subsidize other rate classifications. In addition, inverted-tier rates shift revenue recovery into the upper rate blocks in order to send a price signal to customers, regardless of the cost to serve those customers. This may be a desirable social policy, but these rates can also be regarded as unfair and discriminatory by larger water users on economic grounds. The Commission considers the impact that inverted tier rate designs have on customers, particularly high usage customers, and the degree that this approach to rate design deviates from cost-based rates. Inverted tier designs can result in large inequities and, in extreme cases, cause customers to develop alternatives to service from the utility provider.

Please note that if rates were based exclusively on the cost of service, the rates for residential customers would be much higher and rates for commercial customers much lower. In addition, if rates were designed solely based on the cost of service, the monthly minimum charges would need to be set much higher and the commodity rate much lower as compared to the proposed tariff rates - particularly for the 6 inch meter in order to allow the Water Company the assurance it will recover its fixed costs.

I hope this addressed your concerns. We appreciate your concern and input throughout this process. We were encouraged by your statement that if we could demonstrate to you that the $1.00 commodity rate was the appropriate number, you could support the Water Service Agreement.

Best Regards

Robert J. Metli

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Click Here to see my Snell&WilmerProfile