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ARIZONA CORPORATION COMMISSION

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AZ CORP. COMMISSION  
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Ms. Paula D. Yeary, Chairman  
Starlight Pines Fire Safety Education Committee  
HC 31 - Box 1325  
Happy Jack, Arizona 86024

Arizona Corporation Commission

**DOCKETED**

DEC 16 2003

DOCKETED BY *CR*

Dear Ms. Yeary:

I appreciate the kind comments in your last letter; I reply to all serious correspondence that my office receives. You can rest assured that I am aware of the issues facing Starlight Water Company and will carefully monitor the situation as we move into a rate case. In regards to your questions, I have the following responses:

1. The assertion that Starlight Pines pays the 'highest rates' in northern Arizona does not recognize that the rates are based not upon a competitive market, but a regulated monopoly framework based upon historic cost. The competitive model is not appropriate, nor is a socialist model which simply makes all rates equal, regardless of costs. Since I oppose socialism and because competition does not exist, responses to your first question are limited. A rate case is designed to address the issue of just and reasonable rates and in the spring of 2004, Starlight Pines will submit a rate application.
2. Your point about the benefit of having water service, whether one uses it or not, applies not only to fire protection but to underlying property values. This is the underpinning of our decision to restructure the "new connection moratorium" in the Pine-Strawberry area served by Brooke Utilities - in that restructuring we created an incentive for lot owners to install and pay for water meters. That created a revenue stream that Brooke Utilities uses to improve service to customers who are using water.

However, the Commission has no statutory authority under which it can order the billing of non-metered residences. Here we have a perfect example of the 'free rider' problem in economics: What should society do about those who benefit from projects, but do not help to pay for them? In the case of Starlight Pines, the difficulty is in finding a way to create an incentive for the installation of meters on unoccupied properties (because, as stated earlier, we cannot simply order it). Once the meter is installed, the minimum monthly charges apply. In the Pine-Strawberry case the uncertainty of the waiting list for new meters created that incentive for lot owners to install the meters...So the obvious

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question is how do we create an incentive in Starlight Pines? Any suggestions on that point would be best addressed in the upcoming rate case and would be much appreciated.

I thank you for your letter. I look forward to resolving these issues in the upcoming rate case in the interests of justice. I would also suggest that you consider participating in that rate case to ensure that your position on these and other issues is fully considered.

Very Truly Yours,

A handwritten signature in black ink, appearing to read 'Marc Spitzer', with a long, sweeping horizontal line extending to the right.

Marc Spitzer  
Chairman