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Katherine Nutt

From: lynnbrendavick [redacted]
Sent: Tuesday, May 11, 2010 4:03 PM
To: Director Jodi Jerich, Esq
Cc: Mayes-WebEmail; Stump-Web; Pierce-Web; Newman-Web; Kennedy-Web
Subject: Anthem Water Rate Case

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Arizona Corporation Commission

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AZ CORP COMMISSION
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Dear Director Jerich,

Mr. Bob Golembe has forwarded to me and others in Anthem your exchange of emails on May 9 and 10. We appreciate your invitation for us to provide our comments regarding the current Anthem water rate case and the proposal for consolidation. I would guess that you have not heard from the Anthem residents regarding the proposal for consolidation for two main reasons: (1) We are much more concerned about the audacity of Arizona-American Water Company's (AAWC) request for an absurd approximate 100 percent increase in our water rates in these troubled economic times when everyone else is cutting back on expenses, and (2) probably most of the Anthem residents were not aware that the AAWC's proposed rate increase and the proposal for consolidation of the water districts are both included in the the current water rate case.

First, I will talk about AAWC's proposed water rate increase. The Anthem residents agree that all "balloon" payments made by AAWC and/or its predecessor to Pulte and/or its predecessor should not be included in our water rates. That was a secret agreement between the developer and the water utility. The purchasers of homes in Anthem were not aware of that secret agreement when we bought our homes. If we had been made aware of such a secret agreement, we probably would not have bought a house in Anthem. It is my understanding that such a financial arrangement between a developer and a utility company is highly irregular and may be illegal. If not illegal, it is certainly unethical and immoral. The residents of Anthem have no trust in AAWC or Pulte because of that secret agreement.

It is also recommended that RUCO and the Arizona Corporation Commission (ACC) review the previous water rate increase for Anthem and eliminate any increase caused by the "balloon" payments. The residents of Anthem were not adequately represented at the previous water rate hearing for two reasons: (1) the Anthem Community Council was still controlled by Pulte and (2) the attorney purportedly representing Anthem was being paid by Pulte and was actually representing the interests of Pulte, not the Anthem residents. The issue of the unusual financial arrangement between the developer and the water utility, including the "balloon" payments, was not adequately addressed at that previous Anthem water rate case, although Commissioner (now Chairman) Mayes made a valiant effort to do so.

Now I will address the consolidation issue. Conceptually consolidating all water districts serviced by AAWC should result in fewer requests for rate increases which should lower the administrative costs for AAWC, RUCO, and ACC. It is my understanding that AAWC does not maintain separate and distinct financial records for each water district serviced by them. Therefore when AAWC makes a request for a rate increase for any one of their water districts, they must "make up" the numbers for that water district in order to support their case. RUCO staff and ACC staff must then try to separate fact from fiction in order to make their recommendations. This seems to be an exercise in futility which usually results in frustration for all concerned, including the utility customers. Even though there should be significant administrative cost reductions for AAWC, RUCO and ACC, I am not

aware that any of the three have provided specific staff and cost reductions which could be realized by consolidation.

The proposal for consolidation also raises the question of fairness. I kind of understand that consolidation makes sense for electricity and gas because there is a commonality of plant and equipment used for their customers. However, water seems to me to be a different issue. It is my understanding that there is no interconnectivity of water and/or sewer pipes etc. between the various water districts; therefore, excess capacity in one district cannot be used in any other district. Consolidation would only spread the costs of plant and equipment upgrades for one water district to all water districts serviced by AAWC. I am concerned that consolidation might give AAWC a blank check to start making upgrades to those water districts with older plant and equipment and allocating those costs to all water districts serviced by them. As I have previously mentioned, Anthem residents do not trust AAWC.

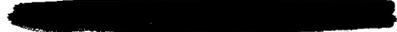
I do understand that the Anthem residents would probably benefit from rate consolidation for the next few years because some of the cost of our plant and equipment would be allocated to other water districts. But would that be fair to them? Actually, consolidation might be more costly over the long term for Anthem residents, depending on how long they plan to live in Anthem. The water plant and equipment in Anthem is relatively new in comparison with other water districts and should last substantially longer. Under consolidation, Anthem residents will be sharing the costs for plant and equipment upgrades in other water districts serviced by AAWC. I am very reluctant to give AAWC a blank check to start making those upgrades and allocation those costs to me.

RECOMMENDATIONS:

- (1) Any and all "balloon" payments made by AAWC and/or its predecessor to Pulte and/or its predecessor should not be included in the Anthem water rates.
- (2) The issue of consolidation should be removed from the current water rate case until more specific and detailed information is available.

Sincerely,

Lynn Vick


Anthem, AZ 85086

