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BEFORE THE ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission

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AZ CORP COMMISSION
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IN THE MATTER OF THE COMMISSION'S
GENERIC EVALUATION OF THE
REGULATORY IMPACT FROM THE USE OF
NON-TRADITIONAL FINANCING
ARRANGEMENTS BY WATER UTILITIES AND
THEIR AFFILIATES

Docket No. W-00000C-06-0149

Hassayampa Utility Company, Inc., CP Water Company, Global Water – Picacho Cove Utilities Company, Global Water Picacho Cove Water Company, Global Water – Palo Verde Utilities Company, Global Water – Santa Cruz Water Company, Valencia Water Company – Town Division, Valencia Water Company – Greater Buckeye Division, Water Utility of Greater Tonopah, Inc. and Willow Valley Water Co., Inc. (collectively, the “Global Utilities”), file the attached statement that was presented on behalf of the Global Utilities by Paul Walker at the workshop on November 1, 2010.

RESPECTFULLY SUBMITTED this 10th day of November, 2010.

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November 1, 2010

Good morning Chairman, Commissioners:

On behalf of Global Water and the members of Arizonans for Responsible Water Policy, let me thank the Commission, Staff, RUCO, and our fellow water companies for their attendance here today.

We look forward to developing a process today – a process that will allow this State to assess its policy on five critical issues facing our water future:

- The need for improved water delivery infrastructure – which can be addressed through Distribution System Improvement Charges or “DSICs”,
- The need for regional planning and regionally-sized infrastructure as our water supplies become increasingly tight,
- The need to consolidate systems, both within holding companies, and across the industry – which will allow economies of scale so that we can make the large investments required to confront drought, growth, and increasing CAP costs,
- The need for a clear policy on capital structures so that capital planning can occur – and the need for new financial tools like Infrastructure Coordination & Financing Agreements or “ICFAs” that will help customers and companies assign some of the costs of growth away from current customers, and
- The need for accounting methods and measures that will allow this Commission, RUCO, and the water industry to address each of these challenges with transparent, certain, and predictable tests in mind.

The challenges we face are not new and they did not arise overnight – these workshops will take time and energy but we believe this is a golden opportunity to seek understanding, then consensus, and then action on our water challenges. But to determine where we need to go, it’s important to first determine where we are – and where we thought we were going to be...

There are four elements to the 1999 Water Task Force Report that need to be evaluated and acted upon: Reducing the number of small and non-viable systems, Strengthening the financial capacity of the water utility industry, Simplifying and shortening the rate case process, and Improving Consumer Education.

I look forward to discussing each as the day progresses.

The Responsible Water group believes that the best way to move forward on these workshops is the following:

Today, we should identify specific issues to be addressed in specific months. We should begin to identify parties who will present a power point and a position paper on each of those specific issues. We should agree on a procedure for responding to those presentations. And finally we should agree on our desired end goal.

Here is our recommendation:

Specific issues to be addressed:

December – Review of the 1999 Water Task Force Report, identification of critical issues within, and a plan for implementing those recommendations from that report that still hold true today.

January – Distribution System Improvement Charges. We need to adopt DSICs. DSICs will benefit customers by allowing improvements to infrastructure AND by providing a smooth and predictable shift in water rates. For small and medium-sized systems in particular DSICs can provide remarkable benefits to customers.

February – Consolidation of systems and of the industry. Responsible Water is comprised of holding companies – our members have a long and deep history of acquiring systems. But consolidation isn't just about acquisitions – it's also about consolidating rate structures of affiliated systems, allowing Arizona to move toward a

common price for water, to reduce rate case expense, and to capture the economies of scope that should come with common ownership.

March – Regional planning and regional plant. ADWR continues to re-evaluate its Assured Water Supply rules – the ACC needs to understand those changes. CAGR will face increasing costs and that will lead to higher prices in the Phoenix AMA. And the ACC's own decisions on regional plant need careful review – in the Gold Canyon Sewer decision, and in the Arizona-American White Tanks surface water treatment plant decision, the ACC took very hard positions against regional plant. We need to better explain to the Commission and RUCO what our challenges are – and to seek a better path for regional planning and plant.

April – Financing. Here we need to address ICFAs and we need to agree that this time when we talk about ICFAs we seek understanding and action. In 2005 and 2006 the ACC and RUCO looked at ICFAs and concluded that they could only be evaluated in a rate case. So the water industry watched the Global rate case closely. But in that rate case, the Commission said that ICFAs could only be evaluated in a workshop process, so here we are again. Global Water asks every party here to make just one commitment – seek first to understand, before you judge. ICFAs, AIAC, and CIAC have a role in the capital structure. Let's work to understand and seek consensus on those tools.

May – Accounting methods and measures. If we complete the ambitious review I have just laid out we need to finalize the opportunity by agreeing on how each of those measures and tools will be accounted for, and how each element will be tested to ensure that the Company has been prudent and reasonable in its pursuit of those objectives.

We would propose that after each workshop, interested parties have 14 days to file written comments on what they heard, saw, and discussed. Then, 10 days later, parties could reply to each other's written comments. This will allow the Commission to have a very full record of party positions and from that, to seek out and pursue reasonable policies.

This schedule would lead to a written Staff Report and Recommendations in late Q3 or Q4 of 2011. We propose that the Commissioners vote on Staff's Report and Recommendations in 2011 and we propose here today, and will continue to push for this throughout the year, that the ACC commit to leading the development of a Water Action Plan in 2012.

We spent much of the last decade reacting to hyper-growth and mega-drought. When the water industry got together we spent our time fighting. The members of Responsible Water itself have had some tremendous battles – but we have put that away now and today we are cooperating, communicating, and collaborating. We want to spend 2011 working with our fellow water providers, RUCO, Staff, and the Commissioners on identifying workable, consensus-oriented, solutions to the challenges Arizona faces. And we want to spend 2012 working as part of this group that we see here today, on building a Water Action Plan that gets adopted and implemented by the Commission.

This decade, let's do what others have done in Arizona's past: let's work together to forge a more sustainable water future for our state. That's a legacy we can all aspire to and be proud of – I want to tell my son that I had a role in helping to keep Arizona a great and sustainable place to live.

Let me end by saying thank you to everyone here today – for many of you this is déjà vu all over again, sitting in the ACC talking about a troubled water industry and the challenges we face. I know it's hard to re-commit to another process when the last one, in 1999, didn't achieve its goals. But today is different, the drought, the hyper-growth, the economic collapse: any one of those would have made a bad decade, but we had them all at once. And for those of us who survived, there is camaraderie, a commitment, and a sense that we dodged a lot of bullets to be here today.

So I think times have changed and the positions of the parties have changed. Let's work together and let's make our water future better. Thank you all.

Paul Walker
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