



GLOBAL WATER

OPEN MEETING AGENDA ITEM

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19 November 2010

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Arizona Corporation Commission
1200 West Washington St
Phoenix, AZ 85007

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ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission
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Re: Litchfield Park Services Company (LPSCO)
Docket Nos. SW-01428A-09-0103, W-01427A-09-0104, W-01427A-09-0116,
W-01427A-09-120

Dear Madam Chairman and Commissioners:

It is my understanding that the Commissioners will be considering an amendment to the Recommended Opinion and Order in the Litchfield Park Services Company rate proceeding to reduce the proposed authorized Return on Equity from 9.2% to 7.74%. I urge the Commission to consider the potential unintended consequences of such a decision.

As required by Decision No. 70980 (5 May 2009), Global is in the process of de-levering its balance sheet through equity injection. For the past several months I have spent innumerable hours with investment bankers and equity firms and can say without question that the primary difficulty in achieving investment in Arizona-based utilities is the lack of regulatory certainty. The result to companies like Global (and Liberty and Arizona American) is that the appetite for private equity firms to invest is seriously curtailed. In Global's recently completed rate proceeding, the instantaneous reduction of Return on Equity from the proposed 9.8% to 9.0% has made finding equity placement that much more difficult.

This has two effects. First and foremost it makes investing in the infrastructure necessary to ensure water sustainability – a vital element in the long-term economic viability of the state – very difficult. Second, it permanently devalues Arizona utilities on the national financial stage. It is no secret that Arizona needs massive investment in infrastructure to survive in the future. It is also no secret that governmental investment in infrastructure is increasingly hard to obtain, and I might add, not permitted for private wastewater entities. The need for private investment in infrastructure is undeniable, and yet the Commission's practice of unilaterally establishing Return on Equity at open meetings seriously jeopardizes the opportunity that investment.

The solution, in my mind, is to ensure that a reasonable rate of return be established that is comparable to other jurisdictions, comparable between similar business classes, and fully supported by the record. Reductions of rate of return as a means of controlling rates does a disservice to water sustainability in Arizona, which in turn immediately and irreparably harms the citizens we both are charged with serving.

Sincerely,

GLOBAL WATER RESOURCES

Trevor T. Hill, P.Eng.
President & CEO