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ARIZONA WATER COMPANY

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December 20, 2010

Arizona Corporation Commission

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AZ CORP COMMISSION
DOCKET CONTROL

Honorable Commissioner Sandra D. Kennedy
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2996

DOCKETED BY [Signature]

Re: Response to Commissioner Kennedy November 18, 2010 Letter
Docket No. ACC-00000A-10-0466 – Rate Case Process Options

Dear Commissioner Kennedy:

Arizona Water Company (the "Company") submits the following comments pursuant to your November 18, 2010 letter in this docket concerning the time required to process rate cases and options to timely implement needed rate increases.

General Comments:

As you so aptly point out, the current rate case process has the potential to become even lengthier due to Arizona Corporation Commission ("Commission") budget constraints and its inability to fill vacant staff positions. You also noted that utilities should receive needed rate increases in a timely fashion to allow them to remain viable and provide ratepayers the service they require.

Your concerns were borne out in the Company's most recent rate case which was filed in 2008 with a 2007 test year (Docket No. W-01445A-08-0440). In that case the Commission issued its decision in August 2010, more than ten months after the Commission's rate case processing calls for a Commission decision. Delays like this imposed serious financial burdens on the Company's already restricted ability to fund needed infrastructure replacement. For these reasons, your letter is directly on point about the need for timely implementation of needed rate relief in rate case proceedings.

The following responds to the specific options provided in your November 18, 2010 letter:

Option 1: The current process, i.e., the current time clock rules, would be adhered to as best as possible and new rates would become effective whenever the Commission issues its decision.

Comments: With the likelihood of lengthier rate case processing delays, the status quo option is not satisfactory. Delays in processing rate cases have had very negative effects on utilities, limiting their ability to recover their cost of service and thereby hindering their ability to fund

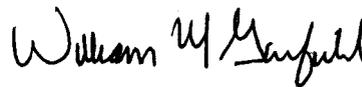
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and construct much-needed utility infrastructure. Options that provide interim rate relief can help to alleviate that problem and still allow the Commission to fully and carefully review utility rate filings.

Comments on Options 2-4, Interim Rates and Refunds: Rather than establishing options for the utility to select at the time of filing a rate increase application, the Company believes it would be better to establish procedures by rule to provide for the automatic implementation of interim rates at the one year point in the rate case process, perhaps half of the requested increase, or some other level – not to exceed a ten percent increase for the average customer. If an interest component is part of any adjustment after final rates are authorized, it could be based on the 90-day commercial paper rate of interest, as used in other jurisdictions. Any required refunds could be returned to customers over the same number of months that interim rates were in effect, and any deficiency could be recovered by the utility over the same period of time.

Thank you for the opportunity to provide comments. The Company looks forward to participating in any proceeding regarding this matter.

Very truly yours,



William M. Garfield
President

jrc

VIA EMAIL AND U. S. MAIL

c: Kristin K. Mayes, Chairman
Gary Pierce, Commissioner
Paul Newman, Commissioner
Bob Stump, Commissioner
Ernest G. Johnson, Executive Director
Steve Olea, Director, Utilities Division
Janice Alward, Chief Counsel
Rebecca Wilder, Public Information Office