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Arizona Corporation Commission
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JUL 13 2012

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July 12, 2012

Gary Pierce, Chairman
Bob Stump, Commissioner
Sandra Kennedy, Commissioner
Paul Newman, Commissioner
Brenda Burns, Commissioner
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

Re: Chairman Pierce's Proposed Policy for Income Tax Recognition,
Docket No. W-00000C-06-0149

Dear Chairman and Commissioners:

In regard to the above noted Docket Number, we would like to voice our support for allowing the pass through of income tax expense for water companies that use either an s-corporation or limited liability company structure.

Previously, the Commission allowed this expense in rate case considerations. At that time Staff understood and agreed that the expense should be recovered in rates. Why this policy was changed is unknown. These small water utilities are being besieged with rules and regulations, paperwork and stressed financial conditions on a daily basis. Denying a small utility the ability to recover the taxes it pays makes the situation worse.

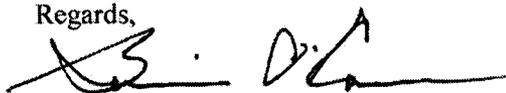
As you know each and every expense Staff and Commissioners disallow ultimately affect the bottom line for the small water utilities. As more and more expenses are "adjusted" out of rate base, small water utilities lose the financial ability to provide safe and reliable water service. This has become a real problem in rural Arizona, where often these isolated water systems are denied the revenue needed to secure backup water supplies and make prudent system improvements so the customer saves a few dollars a month.

While the investors in Arizona's largest utilities are given returns of 10% or more every year, the owners of small water companies are not given any return on their investment. They are not even allowed to receive a return of their investment. In fact, knowing they will never get their money back, small water company owners routinely have to take money out of their own savings to pay for necessary system repairs so that their customers have water. The failure to account for tax expense is just one of numerous ways used to keep water rates artificially low so small water company owners, rather than the customers, are forced to pay some of the expenses.

If this and other similar policies are not changed very soon, catastrophic failure of Arizona's small water companies will become routine. Chairman Pierce's policy is a small, but important step in the right direction. It mirrors the Federal Energy Regulatory Commission ("FERC") policy and reflects the policy that Arizona had in the past.

Therefore, we ask the entire Commission to support Chairman Pierce's proposal.

Regards,



Bonnie O'Connor, President, Southwestern Utility Management
Manager of;

Aubrey Water Company
Clear Springs Utility Co.
East Slope Water Co.
Mirabell Water Co.
Sandario Water Co.
Southland Water Co.
Valle Verde Water Co.

Anway Manville, LLC
Dragoon Water Co.
Mescal Lakes Water Co.
Naco Water Co.
Sonita Water Co.
Starlight Water Co.