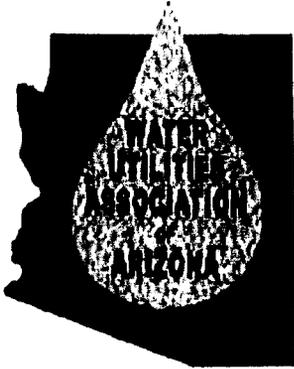


ORIGINAL

OPEN MEETING AGENDA ITEM



0000144006



RECEIVED
Water Utilities Association of Arizona

916 West Adams Suite 3
Phoenix AZ, 85018
602-369-4368

2013 APR -3 P 2: 23

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Greg Patterson
Director
greg@azcpa.org

April 2, 2013

Bob Stump, Chairman
Gary Pierce, Commissioner
Brenda Burns, Commissioner
Susan Bitter Smith, Commissioner
Bob Burns, Commissioner

Arizona Corporation Commission
DOCKETED

APR 03 2013

DOCKETED BY *JM*

RE: ARIZONA WATER COMPANY (RATES) DOCKET NO.: W-01445A-11-0310

Twenty years of regulatory reform efforts have finally borne fruit in Phase II of this proceeding. For at least a generation, the Arizona Corporation Commission has worked to find ways to support the financial viability of private water companies while balancing the needs of consumers and shareholders. In 1999, the ACC undertook its most extensive examination of the problems affecting private water companies, as well as the possible solutions to those problems. The ACC found that there were too many water companies including many very small companies, that many had difficulty acquiring capital, and that nearly all of them struggled to replace aging infrastructure, keep up with changing environmental requirements and provide high quality service while still earning a reasonable return on investment. The ACC and stakeholders identified many potential solutions that would help to alleviate these chronic problems. So far, very few—if any—have been adopted.

In the intervening 14 years, many jurisdictions have examined similar issues and have developed a tool that allows Commissions to encourage infrastructure improvement while protecting consumers. This mechanism, known as a "Distribution System Infrastructure Charge" or "DSIC," is growing in acceptance and serves to provide a narrowly tailored and closely monitored flow of funds in order to build specific, predetermined and pre-approved projects. The DSIC is no longer a new "cutting edge" regulatory solution. DSICs have been widely adopted and NARUC has even listed DSIC among its regulatory best practices.

The traditional DSIC process is now well established and has been well refined in other jurisdictions. In its traditional form, the DSIC serves to reduce regulatory lag and introduce predictability and gradualism—thus encouraging investment while protecting consumers. The Arizona Water Company Case provides an ideal example of a system that would benefit by a DSIC mechanism. The system is well run, but the infrastructure is old and requires substantial replacement above and beyond typical replacement schedules. To their credit, Staff has worked with the other parties in the Arizona Water Company Case and has created a "System Improvement Benefits" ("SIB") mechanism, that, while not quite a traditional DSIC, accomplishes many of the same goals. The utility intervenors in the Case—with the exception of RUCO—support the new mechanism.



Water Utilities Association of Arizona

916 West Adams Suite 3
Phoenix AZ, 85018
602-369-4368

Greg Patterson
Director
greg@azcpa.org

WUAA strongly supports the SIB Mechanism the parties reached and has signed on to the Settlement Agreement. We appreciate the efforts of the parties and encourage the Commissioners to support Staff's SIB mechanism in the Arizona Water Company Settlement. We also encourage the Commissioners, Staff and other parties to continue their efforts to alleviate the burdens that have affected private water companies and ratepayers alike by adopting the new SIB Mechanism as a template for other companies that are similarly situated to Arizona Water Company.

Sincerely

Greg Patterson
Director