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ARIZONA CORPORATION COMMISSION

Fax: (602) 542-5005
E-mail: Bittersmith-web@azcc.gov

September 13, 2013

Dear Colleagues and Parties to Docket No. W-01445A-11-0310:

Enclosed with this letter are two attachments: 1) a copy of an editorial that I authored that recently appeared in the Arizona Republic and 2) a copy of an e-mail from the Residential Utility Consumer Office (“RUCO”), which I received on the afternoon of September 10, 2013. I have elected to docket these items because I want to be certain that the parties to this matter and the public have access to all information that may be related to this case in any way.

The fourth paragraph of RUCO’s e-mail specifically refers to Arizona Water’s “Eastern case,” which is currently pending for rehearing in Docket No. W-01445A-11-0310. RUCO’s representatives claim that I may have prejudged this case, and they have asked to meet with me so that I can provide them with an “affirmation that the case has not been prejudged.”

Because of the ex parte rule, I think it best to decline RUCO’s request for a private meeting. I will, however, take this opportunity to assure the parties (RUCO, in particular) and the public that I have not prejudged this matter in any way. At our August Staff Open Meeting, I voted to grant RUCO’s application for rehearing, and I look forward to reviewing the evidence and arguments that will be presented in the upcoming proceeding. I do not know what the evidence will show, and I approach this case with an open mind, ready to consider and evaluate the matters to be presented.

The Commission faces tremendous challenges in its efforts to balance the ratepayers’ interests in receiving adequate, reliable, and economical water service against the water companies’ interests in receiving timely and adequate rate relief. It is my hope that creative ratemaking mechanisms can be developed to assist us to best achieve that balance. However, the mere fact that I recognize the issues that we face and that I hope to find creative solutions does not mean that I have prejudged this—or any other—case.

Sincerely,

Susan Bitter Smith
Commissioner

Arizona Corporation Commission
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SEP 13 2013

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**Original and thirteen (13) copies of the foregoing
filed this 13th day of September, 2013, with:**

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**Copy of the foregoing hand-delivered
this 13th day of September, 2013, to:**

Chairman Bob Stump
Commissioner Gary Pierce
Commissioner Brenda Burns
Commissioner Bob Burns

**Copy of the foregoing e-mailed this
13th day of September, 2013, to:**

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ATTACHMENT 1

Taking steps now to keep water pipelines flowing

This summer, the Arizona Corporation Commission enacted a historic reform that will help ensure that all Arizonans have a secure and affordable water future.

A new rate-making mechanism called System Improvement Benefits will address Arizona's severe water-infrastructure needs without causing a rate shock for customers.

More than 400 private water companies provide service in Arizona. Many of these companies have existed since the early days of statehood. The American Water Works Association estimates there is more than \$30 million of needed major infrastructure replacement in the West, much of which is in Arizona. That does not include the minor distribution plant



MY TURN
SUSAN BITTER SMITH

that is so vital to the viability of small companies in rural parts of our state.

That same study indicates that in Tucson alone, infrastructure replacement and repair costs per household in 2015 will be almost \$100,000.

Reliable and affordable water delivery is vital to our state, and the Corporation Commission spends the majority of its time dealing with water-company issues. That might surprise many people given the current focus in the media on the energy issues before the commission.

Small rural areas of Arizona are greatly impacted by infrastructure needs because people are spread out and there are more miles per customer of plant that must be maintained. Many of these small companies serve as few as 50 customers, leaving very little margin to operate.

Water utilities are natural monopolies because of the large investment required to put pipe networks in the ground.

This means it is virtually impossible to have more than one provider of water service within a given area. Many of Arizona's private water companies evolved over time as early owners of a well gradually agreed to provide water delivery to their neighbors as new residents arrived. Over time, a neighborly

gesture of providing water service resulted in the creation of a water utility.

Water-utility status creates great responsibility. After all, this is a utility that is delivering a commodity that we are all ingesting.

Ensuring the quality of drinking water is a key requirement for a water provider.

Repaired and updated infrastructure is a necessity for that requirement to be met.

Under the new System Improvement Benefits approach, water companies will be required to provide updates on infrastructure improvements, and customers will get the financial benefit of an efficiency credit on their bills.

Water rates and infrastructure needs are not usually the

topic at neighborhood block parties or the family dinner table.

Arizona residents have the expectation that when they turn on the tap or the garden hose, safe water will appear.

It is an expectation that the Corporation Commission does not take lightly, which is why this recent decision is so vital to the success of Arizona's future water deliveries.

Not only can Arizonans rely on the fact that water will continue to arrive safely and continually, they also now will know that they will not experience a sticker shock on their bills for the privilege of receiving the necessary commodity of water.

Susan Bitter Smith is an Arizona Corporation commissioner.

ATTACHMENT 2

Janice Alward

From: Dan Pozefsky <DPozefsky@azruco.gov>
Sent: Monday, September 09, 2013 9:28 AM
To: Janice Alward
Cc: Patrick Quinn
Subject: AZ Republic Article

Janice,

Thank you for your assistance in obtaining the supporting documentation for Commissioner Bitter Smith's newspaper article. Unfortunately, we believe the Commissioner was incorrect on several important references in her article.

Commissioner Bitter Smith claims that the American Water Works Associates estimates \$30 million of needed major infrastructure replacement in the west. The chart that references the totals by region is on page 11 of the "Buried No Longer" article and the amount it references is \$30 billion total for all the regions and of that the west is approximately \$4 billion.

Commissioner Bitter Smith claims in the article that the estimated repair costs per household in Tucson will be "almost \$100,000". That statistic appears to be taken from page A21 of the "Reinvesting in Drinking Water Infrastructure" Article. The first chart entitled Projected Per Household Expenditure Due to Wear-Out shows "100" for 2015 which appears to be the source of the Commissioner's claim. The 100 is in "Y2K\$" in other words it is \$100 per household – not \$100,000 per household. There are approximately 250,000 households in Tucson – at \$100,000 a piece the total cost would be approximately \$25 billion – which is not even close to the \$1.853 billion total cost mentioned at the top of that page.

Finally, the SIB mechanism - the "historic reform" mentioned by the Commissioner in the article and the content of the article, is shall we say untimely from RUCO's perspective given that the Commission is reconsidering the matter in the Eastern case – which I am sure is what the Commissioner is talking about in the article when she said that the reform was enacted this summer – based on the content of this article, we are concerned that this Commissioner maybe has pre-judged this case.

My client would like the opportunity to discuss this with the Commissioner. There would be no discussion of the case just the points raised in the article and we would like an affirmation that the case has not been pre-judged.

I realize this is a very delicate issue and we do not send this email lightly. I think regardless of anyone's position we all seek the same thing – the dissemination of accurate information to the public and fair consideration of all matters before the Commission.

Please consider this and let me know if it is possible for my client to discuss this matter with the Commissioner – and if so, whether she would be willing to meet with us.

Dan