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**ARIZONANS FOR RESPONSIBLE WATER POLICY****ORIGINAL**

October 20, 2014

Chairman Bob Stump  
 Commissioner Gary Pierce  
 Commissioner Brenda Burns  
 Commissioner Bob Burns  
 Commissioner Susan Bitter Smith  
 Arizona Corporation Commission  
 1200 West Washington Street  
 Phoenix, Arizona 85007

Arizona Corporation Commission

**DOCKETED**

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 ARIZONA CORPORATION COMMISSION  
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In Re: Docket No. RU-00000A-13-0294, In the Matter of the Proposed Rule Making to Modify  
 A.A.C. R14-2-103 to Update the Utility Classifications

Dear Commissioners:

Rather than provide you with more arguments for why the Commission should adjust the revenue classification numbers (i.e., inflation, rate case expense, etc.) we want to "step back" and make clear why it is we support reclassification, what the benefits are to the state, to the Commission, and to the customers you protect and we serve.

Responsible Water is comprised of three companies – Arizona Water, Global Water, and Liberty Utilities – which, together, serve over 50 communities, and over two hundred thousand Arizonans. We are committed to working with the state and with our regulatory partners to find, evaluate, and recommend new ways to provide safe, reliable, and adequate service at just and reasonable rates.

And because we are committed to reform, we believe that we are obligated to recognize that change, that reform, carries with it, risk.

What if the reform, the change, goes too far? What if it has unintended consequences? For us, that unique risk – the risk that a new approach will destabilize our industry – is not simply something to insure against as one might hedge a debt portfolio to reduce the risk of interest rate changes. The risk that a proposal for reforming the water industry has far greater consequence – it is, truly, the case that the public health, safety, and welfare, hinge on the water industry being financially and operationally able to provide – continuously – safe, adequate, and reliable service at just and reasonable rates and no reform should destabilize that fundamental standard.

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So when we suggested in 2013 that the Corporation Commission recognize that its rules for classifying utility companies – and with that classification, the imposition of regulatory cost each utility must face – we did not do so lightly. And it must be remembered, there is no change to our regulatory costs under this proposed change.

When we recommended that the Commission recognize income tax expense for S Corps and LLCs that recommendation did not affect a single one of our members. But it has dramatically improved the financial position of small utilities in Arizona – making them better able to serve their customers because the owners of those small utilities now have enough money to invest back into the utility.

With the proposed change to the revenue thresholds for utility companies there is no change to our regulatory position or costs. We are large utilities under the current, and the proposed thresholds. Our recommendation, in this issue, was and remains a recommendation that is not “for us.”

It is not about our utilities, or our costs. It is about the hundreds of very small companies throughout Arizona. The companies we have attending our water workshops. The companies we help through our small water assistance program.

Those small companies look at the Commission with more than a little trepidation – in part, they have each heard the “war stories” of peers who came to the Commission years ago and got rough treatment. But most of them, in our conversations, and meetings, and workshop interactions, don’t tell us those stories – they tell us that they want to file a rate case; they need to file a financing application; they want to update their rate design to reflect tiered rates. But they don’t have the money for a complicated, expensive, formal, risk-laden, and lengthy legal process.

Yes, it is true that Staff does reach out to small companies to help them – but there are hundreds of companies needing help and your Staff is already fully tasked. Yes, Responsible Water reaches out, but the need is so great that the Commission should not have as its plan: Hoping that Staff and Responsible Water can walk every company thru the process. What is needed is a reform that reduces the cost of coming to the Commission – because that change will bring *more* companies back into the regulatory process; because only by so doing will the Commission be able to begin the process of reforming and strengthening Arizona’s water industry.

No agency better understands the tenuous position our state is actually in with regard to water, power, and climate issues (by “climate issues” we mean both the meteorological realities and the regulatory responses emanating out of Washington). And because of the Commission’s unique awareness and insight, your Staff has strongly recommended reforming the utility classification rules to get more small water companies filing rate cases, financing applications, and tariffs to enact best management practices.

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We agree completely with your Staff – the Commission has a pressing need to get a better grasp on the current financial and operational realities confronting small water companies; most of them haven't been before the Commission in over a decade – and reforming the revenue classification will reduce the primary barrier to getting those companies to come back to the Commission.

The Recommended Opinion & Order argues against any step that would “reduce” regulatory oversight – but in so doing, it entirely misses the point which is this: The Commission has no oversight into companies that never appear before it. And with the challenges Arizona faces, the Commission needs that oversight. The reclassification rules are not a diminution of oversight – they are the most significant step the Commission can take to *increase* oversight. You cannot oversee that which is not before you.

The Recommended Opinion & Order argues for a new process in which the Commission reviews all the rules for filing rate cases. Such processes, whatever the issue, wind up being attended by the most impacted entities and persons – it will be, frankly, us in the room advocating for the new rules. And while there is, certainly, a great deal of temptation there (who doesn't want to rewrite the rules under which they operate?) it is not what Arizona needs today.

Arizona does not need another complex docket with sophisticated parties arguing over details, clauses, and the differences between “shall” and “should.”

Arizona needs to take the simplest, most transparent step to increase its oversight into the water industry – and to reduce unnecessary costs on very small companies, which costs often dwarf the rate request the very small companies were seeking in the first place.

We urge the Commission to adopt Chairman Stump's Amendment, which is Staff's recommended changes. This single step will do more to increase the Commission's oversight and information into the current water challenges our state faces than any other step, rule, or Order the Commission has ever adopted.

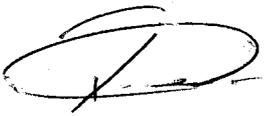
And it will immediately change the ability of small utilities to file much-needed rate cases and financing applications so that they are better able, in many cases *finally* able, to make the investments needed to ensure safe, adequate and reliable water and wastewater service to the people of Arizona.

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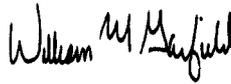
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We close by thanking each of you for beginning this process, we thank Staff for its powerful, thoughtful recommendations, and we urge you to support Chairman Stump's amendment.

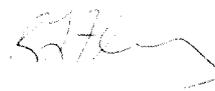
Very Sincerely Yours,



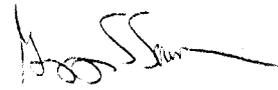
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Responsible Water



Bill Garfield  
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Ron Fleming  
President & CEO  
Global Water



Greg Sorensen  
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