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WUAA

Water Utilities Association of Arizona

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Ray Jones
Executive Director
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August 7, 2015

Chairman Susan Bitter-Smith
Commissioner Bob Stump
Commissioner Bob Burns
Commissioner Doug Little
Commissioner Tom Forese
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

ORIGINAL

Arizona Corporation Commission

DOCKETED

AUG 07 2015

RE: Small Water Systems Fund
Docket No. W-00000C-15-0250

DOCKETED BY

AZ CORP COMMISSION
DOCKET CONTROL

2015 AUG - 7 P 4: 37

RECEIVED

Dear Chairman and Commissioners:

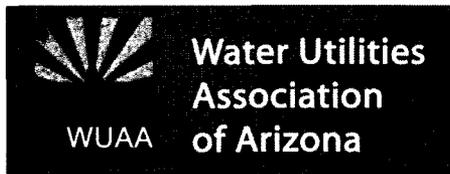
Thank you for inviting public comment on the options for establishing options for a permanent funding mechanism for the Small Water System Fund ("SWSF"). The member companies of the Water Utilities Association of Arizona ("WUAA") range in size from some of the smallest in Arizona to the largest in Arizona. We are pleased to provide an industry perspective on concepts for funding the SWSF.

Our membership understands that the Commission is struggling to deal with small water companies under interim management appointed by the Commission, and we support efforts to provide the Commission with the financial resources it needs to meet its obligations regarding these failed companies. However, we feel the current suggestions for funding the SWSF need additional development and may fall short of effectively addressing the problem of failing small water companies.

The WUAA membership is concerned that the impact of a new fee on customer's bills may be substantially larger than expected, particularly if the needs for SWSF funds increase in the future. Based on information received from the Commission, WUAA understands that, on a combined basis, Arizona water companies currently pay approximately \$365,000 annually into the Utilities Revolving Regulatory Fund ("URRF"), A.R.S. § 40-401 and the Residential Utility Consumer Office assessment ("RUCO"), A.R.S. § 40-401.01. Although a specific level of funding for the SWSF has not been proposed, WUAA is concerned that a new charge on customers to adequately fund the SWSF could be significantly larger than the fees currently paid for URRF and RUCO combined. WUAA believes that specific funding targets and SWSF assessment rates need to be developed for review by interested parties. The WUAA cannot support any specific funding mechanism structure for the SWSF without first knowing the actual impact to the member companies and their customers.

Addressing the issue of what sizes of utilities should be assessed, the WUAA finds that there is currently not an industry consensus. Our larger member companies have concerns about the SWSF, but most are willing to support an assessment on customers provided it is imposed on water companies of all sizes. In contrast, our medium and smaller companies report that they work hard every day in a

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August 7, 2015

Page 2

difficult environment to make the investments necessary to insure that their customers receive reliable water service. Their customers in turn are asked to pay the higher rates needed to support that investment. Given the commitment currently made by those companies and their customers, they find it difficult to support any additional fees on their customers to subsidize water systems that have not been properly managed.

The WUAA believes that with further discussion and with more details an industry consensus may be reached. The WUAA would like more information on how any funds disbursed will be treated for financial and ratemaking purposes. Are the funds disbursed considered grants or loans? Will rates be increased to reflect the investment in the system and move the system to self-sustainability? Will an owner of a failed Company be able to "reclaim" the system once it is brought into compliance and benefit from the funds provided by the customers of systems that did not fail?

In considering the SWSF concept, WUAA has learned that the current URRF and RUCO assessments are not treated consistently for ratemaking purposes. Some companies pass these costs though like sales taxes. Other companies include the fees in their expenses and receive recovery though rates. For the latter, regulatory lag is a concern. WUAA believes that any new assessment to fund the SWSF should be structured to ensure that it is treated as a pass-through for all companies assessed and that no company experience regulatory lag from the implementation of a SWSF assessment.

The WUAA does not support the imposition of surcharge on a case-by-case basis during rate cases. The WUAA believes this option would be inequitable to both companies and their customers. Further it would be nearly impossible to determine the appropriate level of surcharge that should be charged.

Lastly, the WUAA believes that funding the SWSF, if the funding is to come from the customers of private water companies, must be considered in conjunction with other industry reforms needed to address the underlying problems faced by private water companies. Small company risk must be recognized and operating margins must be improved. Regulatory lag must be reduced. Mechanisms must be established to encourage acquisition and consolidation of small water companies. Without these related reforms, funding the SWSF will be nothing more than a band-aid solution that will not help solve the underlying problems faced by private water companies.

Sincerely,

A handwritten signature in black ink, appearing to read "Ray L. Jones", is written over a white background.

Ray L. Jones
Executive Director

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