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January 18, 2007

Mr. Ernest Johnson
Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Re: Possible use of the Small Rural Water System Fund at the Water Infrastructure Financing Authority to satisfy a portion of the ASUA claim for interim management fees; Docket Nos. W-01646A-06-0010, W-01868A-06-0010, W-02235A-06-0010, W-02316A-06-0010, W-02230A-06-0010, W-01629A-06-0010, W-02240A-06-0010.

Dear Mr. Johnson:

As you know, the Arizona Small Utilities Association ("ASUA") requested payment of $267,787.53 for interim management services provided in behalf of the Corporation Commission to the former McLain water companies (now Northern Sunrise and Southern Sunrise Water Companies). Staff issued a Report recommending that ASUA receive $134,563.20 in remuneration for its services. Concomitantly, the final sale and disposition of the former McLain companies remains pending in federal court.

The Commission is keenly aware of the sacrifices that have been made by customers of the former McLain water companies as a result of the many years of sub-standard service rendered by the former owner of the system. We are also aware that the customers of these companies are soon going to be paying higher rates in an effort to ensure that the systems are at long last capable of proving safe and reliable service. And, of course, we are cognizant of the need to address the request for compensation by ASUA. As the Commission begins the process of addressing ASUA's compensation, I believe it is imperative that we seek out methods of financing that would minimize additional financial sacrifice by the customers of the water systems.

Therefore, I would request that the Utilities Division explore all avenues for resolving the compensation request by ASUA, including whether some of the ASUA claim could be satisfied with monies from the recently promulgated Small Rural Water System Fund at the Water Infrastructure Financing Authority ("WIFA"). This fund, which was established in direct response to the 2005 outages on the McLain systems that left customers without water for weeks, was meant to help pay for emergency repairs on water systems that are operated by interim

managers. It is to be applied upon the recommendation of the Commission and approval of WIFA. But for the fact that the Small Rural Water System Fund was not established until after the major McLain outages had already occurred, it clearly would have been tapped by the Commission to help pay for the efforts of ASUA and for repairs made by the interim operator. A strong argument can be made that the actions of the interim operator during 2005 and 2006 prevented outages, which is the express purpose of the fund.[1]

The history of these companies, and the rate increase this Commission recently approved in order to return them to financial and physical health, makes it crucial that we do everything we can to minimize the impact of the requested interim management fees on the customers of the water companies.

I look forward to assisting the Division in exploring the use of the Distressed Water Fund as a means of satisfying part or all of the ASUA interim management fees.

Sincerely,

Kris Mayes
Commissioner

Cc: Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Mike Gleason
Commissioner Gary Pierce
Brian McNeil
Chris Kempley
Stephen Owens
Judy Navarette

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[1]See A.R.S. § 49-355
A. On designation of the director of environmental quality, the fund may be administered by the water infrastructure finance authority of Arizona.
B. Monies from the small water systems fund shall be used to:
5. Provide emergency grants to interim operators or interim managers of small water systems that are appointed by the Arizona corporation commission to repair water infrastructure.
C. On recommendation of the Arizona corporation commission the water infrastructure finance authority of Arizona may approve a grant to an interim operator or an interim manager of a small water system pursuant to subsection B, paragraph 5 of this section only if the operator or manager demonstrates that it requires immediate financial assistance to make repairs to or to rehabilitate the public water system that is operated by the interim operator or manager in order to correct or avoid an interruption in water service.