

**COMMISSIONERS**  
**Robert "Bob" Burns - Chairman**  
**Andy Tobin**  
**Boyd Dunn**  
**Sandra D. Kennedy**  
**Justin Olson**



**ANDY TOBIN**  
**COMMISSIONER**

**Direct Line: (602) 542-3625**  
**Email: Tobin-Web@azcc.gov**

## ARIZONA CORPORATION COMMISSION

May 15, 2019

**RE: DISSENT TO PAYSON WATER COMPANY RATE INCREASES**  
**DOCKET NO. W-03514A-18-0230**

Dear Commissioners & Residents of Rural Arizona:

On April 24, 2019, the Commission voted 3-2 to approve a 52% revenue increase for Payson Water Company, bringing the Company's annual revenues up from \$541,709 a year to over \$823,000 per year. The Company and the Commission's internal Staff agreed to the amount of the increase in-advance of the Commission's decision. Commissioners Bob Burns, Boyd Dunn, and Sandra Kennedy voted in favor of the increase. Commissioners Justin Olson and I voted "No."

The Company and internal Staff agreed to increase monthly bills for average residential customers by 46.27%, from \$34.18 per month to \$50 per month, for the following service areas: Meads Ranch, Deer Creek, East Verde Park, Flowing Springs, Geronimo Estates/Elusive Acres, Mesa Del Caballo, and Whispering Pines systems. For the Company's Gisela/Tonto Creek Shores service area, the Company and internal Commission Staff agreed to increase monthly bills for average residential customers by 67.9%, from \$41.57 per month to \$69.80 per month. The table below shows the amount of the estimated bill impacts for customers at average and median usage levels. For the reasons explained below, I could not support the increase.

<b>Estimated Bill Impact Agreed to By Payson Water Company and Internal Commission Staff and Approved by Commissioners Bob Burns, Boyd Dunn, and Sandra Kennedy</b>					
	<b>Current Bill</b>		<b>New Bill</b>	<b>Percent Increase</b>	<b>Dollar Increase</b>
<b>Average Residential Customer (all systems except Gisela/Tonto):<sup>1</sup></b>	<b>\$34.18</b>	<b>→</b>	<b>\$50.00</b>	<b>46.27%</b>	<b>\$15.81</b>
<b>Median Residential Customer (all systems except Gisela/Tonto):<sup>2</sup></b>	<b>\$30.10</b>	<b>→</b>	<b>\$43.85</b>	<b>45.7%</b>	<b>\$13.75</b>
<b>Average Residential Customer (Gisela/Tonto system):<sup>3</sup></b>	<b>\$41.57</b>	<b>→</b>	<b>\$69.80</b>	<b>67.9%</b>	<b>\$28.23</b>
<b>Median Residential Customer (Gisela/Tonto system):<sup>4</sup></b>	<b>\$34.73</b>	<b>→</b>	<b>\$58.64</b>	<b>68.85%</b>	<b>\$23.91</b>

<sup>1</sup> Residential customer with a 5/8 x 3/4 inch meter and average usage of 2,520 gallons per month.

<sup>2</sup> Residential customer with a 5/8 x 3/4 inch meter and median usage of 1,500 gallons per month.

<sup>3</sup> Residential customer with a 5/8 x 3/4 inch meter and average usage of 4,468 gallons per month.

<sup>4</sup> Residential customer with a 5/8 x 3/4 inch meter and median usage of 3,500 gallons per month.

On April 23 and 24, 2019, I attended the Commission's Open Meeting remotely from the Payson Public Library and was joined by residents of the community. Together, we observed the commissioners demonstrate significant inconsistency regarding their treatment of Arizona's customers, especially in rural Arizona, where economies of scale are limited, infrastructure has not been maintained, and low-income status represents a larger portion of the overall customer base.

The Company had suffered from water supply shortfalls and mismanagement prior to being acquired by a new owner, but more than 36% of the residents in the Payson area have annual household incomes below \$35,000 per annum,<sup>1</sup> and the Company has no more than 1,133 customers among which it can spread reasonable expenses. I believe investors have a responsibility not only to keep their systems maintained and make capital expenditures, but also to consider rate increments that their customers can actually afford. It is apparent that decisions are being made in rural Arizona without due veneration for customers' demographics or the potential rate shocks that could significantly impact their daily lives. The rush to make improvements without a reasonable payment solution and lack of gradualism to reduce the potential rate shock is one reason why I could not find all the Company's investments prudent in this case.

I appreciate Commissioner Olson's attempts to fix the overall decision by proposing a three-year phase-in period and a reduction to the overall rate base calculations, but these protections were denied. His amendments would have added gradualism to the increases internal Staff and the Company had agreed to and would have reduced the overall rates for all residential customers.

I have supported sensible rate adjustments in the past because rural customers know the infrastructure and maintenance risks their systems may face and understand that increases may be necessary to ensure quality and continued water service. But, the recent examples of rate shock approved in this and other cases deviate greatly from sensible adjustments and are not reasonable nor representative of the basic costs necessary to provide safe and reliable water service to rural customers.

Lastly, I have concerns with the agreements that are being made between the Commission's internal Staff and the Commission's regulated utilities. As former Chairman of the Commission's Water Policy Committee and current Chairman of the Arizona Water Emergency Team, I initiated the establishment of the Commission's Small Water Ombudsman Office to assist struggling water utilities in managing their operational challenges, finding adequate and affordable funding sources, and managing complex filings required by the Commission. We also emphasized streamlined ratemaking procedures to help reduce regulatory overhead and encourage measures such as stipulating to issues in advance of evidentiary hearings and setting policies of general applicability that could be applied to all companies in future rate cases. But, when the only two adversaries in a case are the utility company and the internal Commission Staff, and they reach internal agreements before decisions come for approval, the public is left wondering which party was acting as the watchdog on behalf of the customers. Multiple advocates of the solar industry were intimately involved in the 4.5%, 2016 APS rate increase, for example, and they acted as a watchdog for thousands of customers in APS's territory where we grandfathered-in and gradually rolled-out aspects of the Commission's decision; but, for small water companies in rural Arizona, the commissioners are often the only watchdogs. Here, this protection was missing; Commission Staff sided with the Company in favor of upholding its previous agreements, and no additional parties came to the defense of the ratepayers. Because of this, I could not support a balance that was so greatly tipped against rural Arizonans.


I am disappointed by my fellow commissioners and respectfully dissent. I ask what signal they are sending to the rest of our customers in underprivileged and underserved communities, and I ask that they take a hard look at how they want to treat all customers moving forward, especially in rural Arizona.

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<sup>1</sup> <https://datausa.io/profile/geo/payson-az/>.

I thank the Water Infrastructure Finance Authority for their assistance and continue to urge rural water non-profits and cooperatives to seek out the U.S. Department of Agriculture (USDA) for its Water and Waste Disposal Loans and Grants and to contact the USDA Arizona Office's State Director of Rural Development, JC Sherman, for application assistance to further reduce the financial challenges of these systems and maximize Arizona's draw of these federal funds to rural communities.

Sincerely,



Andy Tobin  
Commissioner