

A MESSAGE TO THE RESIDENTS OF EAGLE CREST RANCH

The Intervenors in the Goodman Water Company case include James Schoemperlen, Larry Wawrzyniak and the Residential Utility Consumer Office.

The Intervenors in the Goodman Water Company case are inviting the community to attend an informational meeting Monday October 3, 2011 at 6:30 pm in the theatre center located at the Summer Institute of Linguistics, 16131 N. Vernon Dr., Tucson, AZ 85739, to review the proposed settlement agreement with the Goodman Water Company.

Following are some of the details of this case.

- The initial revenue increase requested by Goodman Water Company was 50.82%.
- Hundreds of pages of testimony have been filed in this case by the Intervenors covering many complex financial arguments and rebutting positions taken by Goodman Water Company.
- On February 15, 2010, the Commission issued a Procedural Order scheduling a public comment meeting for May 18, 2011 at the DesertView Performing Arts Center in Saddlebrooke, Arizona.
- Numerous residents and interested parties attended the public comment meeting and voiced their concern and anger towards the Company for the proposed rate increase. According to public comment, given the difficult economic times, a proposed rate increase of over 50% would cause great economic hardship on the residents of Eagle Crest. In addition, the filing of the requested rate increase has caused a significant rift in the Eagle Crest community as residents looked upon the Company and its requested rate increase with great suspicion, skepticism and resentment.
- Formal hearings began on July 26, 2011 and commenced on July 28, 2011 but did not conclude.
- Shortly after the hearing adjourned, the representative of Goodman approached RUCO to inquire as to whether RUCO and the Individual Intervenors would be interested in a possible settlement of the issues contested in the rate case.
- Given the relative litigation positions of RUCO and the Individual Intervenors and the Company and the friction between the Company and the Community, we believe it became obvious that a negotiated solution was desirable. We believe Goodman Water Company approached the Intervenors with a genuine interest in healing the rift between Goodman Water Company and the community. We believe it would be advantageous for all to work together in the future to come to amicable settlements of the types of issues presented in this case to reduce overall cost to the rate payer while insuring a viable company that will be able to supply water to the community. It should be noted that legal and case costs are borne by the rate payer, and in this case these costs were substantial.

- On or about August 19, 2011, a settlement conference was scheduled at the offices of RUCO. It was clear that Goodman Water Company had put forth a serious offer worthy of consideration. On August 26, 2011, a second settlement meeting was held in the vicinity of Eagle Crest with the same parties in attendance where a counter proposal was presented by the Intervenors. Negotiations continued and an agreement in principle was reached.
- The parties litigation positions for the hearing at the end of July 28th were as follows:

	<u>Requested Revenue Increase</u>	<u>% Increase</u>	<u>Rate Base</u>
Company	\$260,649	43.85%	\$2,298,376
Staff	\$202,604	34.08%	\$2,077,253
RUCO	\$ 8,715	1.47%	\$1,755,118
Intervenors	\$ -77,517	-13.04%	\$1,317,239
Settlement	\$138,000	23.21%*	\$1,755,118

*Since, the rate increase will be phased in over three years, it is more appropriate to consider an average increase. The weighted average increase here is 18.7%.

The rate increase would be phased in as follows:

Year 1:	11.60%
Year 2:	5.80%
Year 3:	5.80%
Year 4:	0.00%

- The company has waived any foregone revenue recovery and interest. With phased in rates, the Company is entitled to recover interest on the foregone revenues which not even the Commission can force the Company to forgo. Only the Company can agree to forgo that interest which it is doing as a part of the Settlement. Savings to the rate payers here is substantial.
- There are no additional fees to the revenue increase indicated to recover legal and other costs involved in this case. These costs at about \$250,000 normally would be recovered by the Company. The Company is not pursuing any further recovery of these costs.

- Other significant provisions of the settlement include the following:
 - Company agreement not to return for a rate increase until at least January 1, 2015.
- As well as understanding the settlement provisions of this case, it is necessary to understand the risks of not settling the case.
- Those risks include the following:
 - In the majority of the cases, the ACC sides on the position of ACC Staff in settlement of the case.
 - ACC Staff's position is a 34.08% increase. If Staff's position prevails in litigation, there would be no phase in, the increase would be immediate and there would be no four year stay out provision (i.e. the Company would be able to come in and seek another rate increase within the next four years).
 - Often, the legal and defense costs of the case are added in to the rate increase. We have been presented with legal costs of approximately \$250,000.
 - Generally, equalization and interest costs are added back into a case where a phased in plan is presented. Goodman Water Company has waived those costs in this settlement.
 - No agreements have been concluded regarding excess capacity. This means that we are able to challenge excess capacity going forward if the development does not progress as planned. If development does go as planned then there will be no excess capacity and the Company's customers will not have to pay for any excess that the Commission could order in this case.

Following is a schedule indicating the proposed rate increase by year based on selected usage.

5/8 x 3/4 inch meter	Current Rates	Rates Proposed by Goodman	Settlement Year 1	Settlement Year 2	Settlement Year 3
Avg. User 5,520 gallons	\$66.98	\$94.45	\$74.55	\$78.49	\$82.37
Median User 4,500 gallons	\$60.96	\$82.96	\$65.98	\$69.49	\$72.88



3/4 inch meter	Current Rates	Rates Proposed by Goodman	Settlement Year 1	Settlement Year 2	Settlement Year 3
Avg. User 6,028 gallons	\$91.09	\$126.28	\$99.30	\$104.58	\$109.72
Median User 4,500 gallons	\$82.06	\$109.06	\$86.45	\$91.09	\$95.51

Finally, it is in the best interest of the residents of Eagle Crest Ranch and the Water Company to work together going forward in an effort to develop the community. As a significant number of users enter the system, rates will naturally decline and if the Water Company approaches service pricing reasonably as we feel it is doing by agreeing to this Settlement, it will gain the confidence of the consumers and allow development to continue.

