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July 22, 2005

Re: Arizona-American Water Company
Docket No. W-01303A-05-0170

Dear Sir or Madam:

Enclosed for filing are an original and 13 copies of the Joint Direct Testimony Of Clifford C. Groh And Brian K. Biesemeyer.

This filing is made in accordance with the June 17, 2005, Procedural Order in this matter.

Very truly yours,

Craig A. Marks
Corporate Counsel

Cc: ALJ Dwight D. Nodes
Steven Olea
Timothy Sabo

Enclosures

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY FOR
AN AFFILIATE AGREEMENT WITH
AMERICAN WATER RESOURCES, INC.

DOCKET NO. W-1303A-05-0170

**JOINT DIRECT TESTIMONY
OF
CLIFFORD C. GROH
AND
BRIAN K. BIESEMEYER**

JULY 22, 2005

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OF
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AND
BRIAN K. BIESEMEYER**

JULY 22, 2005

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EXECUTIVE SUMMARY

Clifford C. Groh and Brian K. Biesemeyer testify as follows:

1. They discuss their education and professional experience.
2. They describe the Water Line Protection Program and the Sewer Line Protection Program and summarize the Service Agreement between Arizona-American Water Company (“Arizona American Water”) and American Water Resources (“AWR”).
3. They respond to Staff’s direct testimony, accepting several of Staff’s recommendations and agreeing that Arizona American Water will not provide customer information to AWR or otherwise support AWR’s marketing of the Protection Programs. This agreement largely moots several of Staff’s recommendations. They also provide copies of revised promotional material tailored for use in Arizona.

1 **I. INTRODUCTION**

2 **A. CLIFFORD C. GROH**

3 **Q. PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD, PLEASE.**

4 **A.** My name is Clifford C. Groh. I am Director of Business Development and Operations
5 for American Water Resources. My business address is 1025 Laurel Oak Road,
6 Voorhees, New Jersey 08043

7
8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
9 **PROFESSIONAL EXPERIENCE**

10 **A.** I received a Bachelor of Science Degree in Accounting from The Richard Stockton
11 College of New Jersey and a Master of Business Administration Degree from Monmouth
12 University. I was employed by Atlantic City Electric Company from 1980 through 1998
13 and have over 15 years experience in the functional areas of corporate risk, insurance and
14 claims management and benefit plan asset management. In 1999, I was engaged as a
15 consultant by American Water Resources ("AWR") to evaluate and make
16 recommendations regarding the concept of developing a service line business. From
17 1999 through 2001, I developed, tested and implemented the Water Line Protection
18 Program and established the internal infrastructure of systems, processes and procedures
19 to operate the Program in the states of Pennsylvania, New Jersey and New York. In May
20 2002, I was hired by AWR as Business Development Manager and received a promotion
21 in August 2003 to Director Business Development and Operations. Since joining AWR

1 in 2002, I have developed, tested and implemented the Sewer Line Protection Program
2 and supported the further expansion of AWR's service line business into eight additional
3 states.

4
5 **Q. PLEASE DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS DIRECTOR**
6 **BUSINESS DEVELOPMENT AND OPERATIONS**

7 A. I have primary responsibility for coordinating AWR's business expansion activities and
8 overseeing the day-to-day operations of AWR's Programs. My duties include securing
9 and maintaining compliance with all state legal and regulatory (utility/insurance) rules
10 and requirements, and business support activities. In addition, I have responsibility for
11 evaluating operational risk associated with repair services, promoting AWR's service line
12 business to new markets, and evaluating/developing new service program offerings.

13
14 **B. BRIAN K. BIESEMEYER**

15 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE**
16 **NUMBER.**

17 A. Brian K. Biesemeyer, 15626 N. Del Webb Blvd, Sun City, AZ, 623-815-3125.

18
19 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

20 A. I am employed by Arizona-American Water Company ("Arizona American Water" or the
21 "Company") and I am the Network General Manager

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Q. WHAT ARE YOUR RESPONSIBILITIES AS THE NETWORK GENERAL MANAGER?

A. I am responsible for customer service, water distribution, and wastewater collection operations statewide serving over 131,000 customers.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I received a Masters of Science in Civil Engineering, a Masters of Science in Mineral Economics, and a Bachelor in Science in Geological Engineering all from the University of Arizona in 1994, 1984, and 1982 respectively.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. I am a Registered Professional Engineer with a Proficiency in Environmental Engineering. I am also a Grade IV Arizona Department of Environmental Quality (ADEQ) Certified Operator in Water Treatment, Water Distribution, Wastewater Treatment, and Wastewater Collection. I have worked in the water industry for over twelve years in research, government, and the private sector. Prior to my current job, I was the Operations Manager for Arizona American Water's Central Operations, which included all operations in Maricopa and Santa Cruz County

Q. HAVE YOU HAD ANY OTHER RELEVANT PROFESSIONAL EXPERIENCE?

1 A. I am a member of ADEQ's Operator Certification Committee, with the responsibility of
2 providing recommendations, technical advise, and assistance to ADEQ concerning
3 operator certifications, requirements impacting operators, and the overall operation of
4 ADEQ's operator certification program

5
6 **II. PURPOSE OF TESTIMONY**

7 **Q. WHAT IS THE PURPOSE OF YOUR JOINT TESTIMONY IN THIS CASE?**

8 A. On March 11, 2005, Arizona American Water filed with the Arizona Corporation
9 Commission a copy of an affiliate agreement with AWR titled "Agreement for Support
10 Services" ("Service Agreement"). A copy of the Service Agreement is attached to this
11 testimony as Exhibit A. The purpose of the Service Agreement was to set forth the
12 respective responsibilities of AWR and Arizona American Water concerning the Water
13 Line Protection Program and the Sewer Line Protection Program in Arizona (may be
14 referred to collectively as the "Protection Programs").

15
16 On June 24, 2005, the Staff of the Arizona Corporation Commission ("Staff") filed the
17 direct testimony of Linda A. Jaress and recommended against approving the Service
18 Agreement as written, but did state that if the Commission determined that approval of
19 the Service Agreement was appropriate, the Commission should adopt nine
20 "recommendations and requirements." In this testimony we will first describe the
21 Protection Programs and then respond to Ms. Jaress' testimony.

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Q. WHY ARE YOU PROVIDING JOINT TESTIMONY?

A. This case concerns a Service Agreement between two companies and how they will each participate in the Protection Programs. Neither of us can speak for the other's company. Splitting responsive testimony between us would have essentially doubled the amount of testimony and made it more difficult to follow. Also, this will allow us to appear together to be sure that all questions will be properly addressed at the upcoming hearing.

III. DESCRIPTION OF PROTECTION PROGRAMS

Q. WHAT ARE THE WATER LINE AND SEWER LINE PROTECTION PROGRAMS?

A. Customers own their service lines, although many customers may not be aware of this fact or where the service lines are located. In the case of a water line, this is the line that runs from the water meter to the shut-off valve outside the house; in the case of the sewer line, this is the line that runs from the property line to the house. Problems can develop with these service lines through tree-root incursions, seasonal soil subsidence, aging, or other normal wear and tear causes. Locating a qualified contractor to repair these problems can be a frustrating process and the cost, which can be very expensive, is not typically covered by homeowner's insurance.

1 Currently, when a problem develops in the customer's service line, the customer is
2 responsible for making all necessary arrangements to have the line repaired and to pay all
3 of the repair costs. AWR has developed a Water Line Protection Program and a Sewer
4 Line Protection Program for residential customers that provides a convenient and cost-
5 effective means for making repairs to customer-owned water service lines that leak or
6 break or sewer service lines that become clogged or blocked due to normal wear and tear.
7 Customers enrolling in the Programs pay a modest annual fee and in the event of a
8 covered problem in the customer-owned portion of the line, AWR obtains the proper
9 permits and makes arrangements to pay for necessary repairs, including basic site
10 restoration, up to a stated program limit.¹

11
12 Repair services will be provided by AWR through the use of local independent, licensed,
13 contractors who operate in or near an Arizona American Water district. The relationship
14 between these contractors and AWR will be similar to the relationships contractors have
15 with home-repair and installation services being offered by Home Depot and Sears. No
16 Arizona American Water or AWR employees will be used to make any actual service line
17 repairs.

18
19 **Q. WHAT IS AMERICAN WATER RESOURCES?**

¹ A repair required because of damage caused to a service line by a smoke or dye test as a result of Arizona American's testing, of course, remains Arizona American's responsibility.

1 A. AWR is a subsidiary of American Water Works Company, Inc. and an affiliate of
2 Arizona American Water.

3
4 **Q. IS AWR AUTHORIZED TO DO BUSINESS IN THE STATE OF ARIZONA?**

5 A. Yes. AWR's authority to transact business in Arizona was granted on December 27,
6 2002 by the Commission. AWR has a Certificate of Good Standing issued by the
7 Commission dated June 28, 2004. The Arizona Department of Insurance has issued a
8 permit to AWR, which states that AWR is qualified under A.R.S. § 20-1095-3 and
9 authorized to transact business in the State of Arizona as a Service Company, as that term
10 is defined in A.R.S. § 20-1095.

11
12 **Q. PLEASE SUMMARIZE THE PRESENT SERVICE AGREEMENT BETWEEN**
13 **AWR AND ARIZONA AMERICAN WATER.**

14 A. Under the terms of the Service Agreement, AWR will make the Programs available to
15 Arizona American Water's qualifying residential customers and Arizona American
16 Water will provide the following support services ("Services") for the Program:

17 a. **Distribution of Promotional Materials.** Arizona American Water will
18 assist AWR in the distribution of informational and promotional materials regarding the
19 Programs to its customers. From time to time, Arizona American Water may also
20 distribute customer satisfaction surveys. AWR is solely responsible for all costs
21 associated with these activities.

1 b. **Repair Service Coordination.** If an Arizona American Water employee
2 should determine, as a part of his/her normal duties, that a customer's service line is
3 leaking or broken or sewer line is clogged or blocked, and that the customer has enrolled
4 in the applicable Program, the employee will cause AWR to be notified.

5 c. **Billing and Collecting.** A customer who enrolls in either or both of the
6 Programs will be billed in equal installments on the periodic water or sewer bill from
7 Arizona American Water. Arizona American Water's billing and payment services are
8 provided by American Water Works Service Company ("Service Company"). Service
9 Company will include the cost of the Program(s) as separate lines on the customer's
10 water or sewer bill, will collect payments in the usual manner, and then forward the funds
11 to AWR. AWR will pay Arizona American Water \$0.10 per customer per month for this
12 service.

13
14 **Q. WILL AWR PAY ANY OTHER FEES TO ARIZONA AMERICAN WATER?**

15 **A.** Yes. For any other Services rendered under the Service Agreement AWR will pay to
16 Arizona American Water an amount equal to the greater of 115% of fully distributed
17 costs incurred by Arizona American in providing the Services or the market price for
18 such Services if one is ascertainable.

19
20 **Q. IS THE SERVICE AGREEMENT EXCLUSIVE?**

1 A. No. The Service Agreement is non-exclusive. Arizona American Water may contract
2 with another party that wishes to provide similar services and AWR may contract with
3 other investor-owned and municipal water and sewer utilities to offer the Protection
4 Programs to their customers.

5
6 **Q. IS THE SERVICE AGREEMENT IN THE PUBLIC INTEREST?**

7 A. Yes. The proposed transaction will not adversely affect Arizona American's provision of
8 water or wastewater service. To the contrary, those customers who choose to enroll in
9 the Programs will have an enhanced level of service and benefits in terms of convenience
10 and potential cost savings in the event of required service-line repairs. It will also
11 contribute to fixed costs, thereby benefiting Arizona American Water customers.
12 Further, Arizona American Water's customers will not subsidize the costs of the
13 Protection Programs. The terms of the Service Agreement assure that Arizona American
14 Water will be fully reimbursed for the Services rendered to AWR.

15
16 **Q. YOU HAVE BEEN DESCRIBING THE PRESENT SERVICE AGREEMENT;
17 ARE THE COMPANIES WILLING TO AMEND THE SERVICE AGREEMENT
18 TO ACCOMMODATE STAFF'S RECOMMENDATIONS?**

19 A. Yes. As discussed in the next section of our testimony, the companies are willing to
20 amend the Service Agreement in certain respects to accommodate Staff's
21 recommendations.

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IV. RESPONSE TO STAFF TESTIMONY

Q. HOW DO YOU RESPOND TO STAFF'S RECOMMENDATIONS?

A. We will discuss each recommendation in greater detail, however, AWR and Arizona American Water accept certain of Staff's recommendations and are willing to modify the Service Agreement to achieve the goal of other recommendations, but in a different manner. In particular, the Company will agree to not provide any customer information to AWR or otherwise support AWR's marketing of the program. AWR will obtain a mailing list by other means and be responsible for marketing the Protection Programs. This should resolve many of the concerns expressed by Ms. Jaress.

Staff Recommendation No. 1

Q. STAFF RECOMMENDED:

[T]he Agreement be modified to indicate that Arizona American should be compensated for its services at 115 percent of fully allocated costs or prevailing market prices, whichever is higher, and that at its next rate case, Arizona American should provide information and workpapers showing the calculation of the market price and fully allocated costs. This method would apply to all costs including billing and collection and replace the \$0.10 per bill amount.

HOW DO YOU RESPOND TO THIS RECOMMENDATION?

A. AWR and the Company disagree with this recommendation, in part, because we are reducing the scope of services provided by the Company under the Agreement. The costs to Arizona American Water will be minor under this program, consisting primarily of providing line items on a customer's bill that elects to sign up for one of the protection

1 programs. Arizona American Water's billing is handled by Service Company, which
2 charges the Company for its share of billing costs.

3
4 AWR has already paid for software to add a line on a bill, so there would be no
5 additional charge to Arizona American Water for Service Company to be able to provide
6 line items on customer bills. Arizona American Water expects that other costs would be
7 minimal. Customers who sign up for either of the Protection Programs would be
8 instructed to call American Water Resources' dedicated service representatives. As the
9 Protection Programs become more popular, Arizona American Water would likely
10 receive a few calls locally, which would be referred to AWR's service representatives.
11 AWR will handle all collection matters.

12
13 As discussed below, Arizona American Water will not be supporting AWR's distribution
14 of promotional materials, so there will be no costs incurred by Arizona American Water
15 to support AWR's marketing of the program.

16
17 In 2004, Arizona American Water paid American Water Services a total of \$135,595 for
18 billing services. Arizona American Water presently has approximately 130,000
19 customers, so the total current billing cost per customer is approximately \$1 per year, or
20 about \$.08 per month. Therefore, receiving \$0.10 per month per customer should more
21 than compensate Arizona American Water for the negligible costs associated with

1 providing line items on customer bills and making referrals to AWR's service
2 representatives.

3
4 The cost to Arizona American Water of performing a study to calculate the fully
5 allocated costs and market prices for these minimal services, as sought by Staff, could
6 exceed the annual revenue (\$.10/customer/month) received by the Company for
7 providing the expected services in the Service Agreement.

8
9 **Staff Recommendation No. 2**

10 **Q. STAFF RECOMMENDED:**

11 *The Commission should require Arizona American, before disseminating*
12 *customer-specific information to an affiliate or non-affiliate, to inform the*
13 *customer regarding what information would be released and for what purpose.*
14 *The customer must affirmatively respond before such information is disseminated.*
15 *Non-response by the customer should not be considered consent. This*
16 *requirement should not apply to requests form police agencies or subpoenas.*

17 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

18 A. AWR and Arizona American Water propose a modification that makes this
19 recommendation moot. The Company will not provide any customer information to
20 AWR or otherwise support AWR's marketing of the program. AWR will obtain a
21 mailing list by other means. If a customer elects to sign up for one of the Protection
22 Programs, AWR will provide the name of that customer and other pertinent information
23 to Arizona American Water so that billing can be included as a line item on the
24 customer's bill. AWR and the Company will amend the Service Agreement accordingly.

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Staff Recommendation No. 3

Q. STAFF RECOMMENDED:

[T]hat the Agreement be modified to omit Section 6.1.4 and any other section that might allow Arizona American and AWR to contract for additional services other than those specifically related to the water and sewer line Programs.

HOW DO YOU RESPOND TO THIS RECOMMENDATION?

A. AWR and the Company accepts this recommendation

Staff Recommendation No. 4

Q. STAFF RECOMMENDED:

[T]hat any net income derived by Arizona American from the services it provides AWR for the Programs be considered above-the-line for ratemaking purposes.

HOW DO YOU RESPOND TO THIS RECOMMENDATION?

A. AWR and the Company accept this recommendation and note that if the Commission accepts the proposal of \$0.10 per month per enrolled customer that the net income would be equal to this amount.

Staff Recommendation No. 5

Q. STAFF RECOMMENDED:

[T]hat Arizona American not endorse or promote the Programs and that the Agreement be modified to so reflect.

HOW DO YOU RESPOND TO THIS RECOMMENDATION?

- 1 A. AWR and the Company accept this recommendation. As stated above, Arizona
2 American Water will not be supporting AWR's marketing of the Protection Programs.

3 **Staff Recommendation No. 6**

4 **Q. STAFF RECOMMENDED:**

5 *The initial life of the Agreement should be limited to three years. Extensions of*
6 *the Agreement should be approved by the Commission.*

7 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

- 8 A. AWR and the Company agree to an initial term limit but believe that five years would be
9 the appropriate term. AWR's experience in other jurisdictions is that it takes
10 approximately three years to set up, market, and roll out the Protection Programs before it
11 achieves significant market shares. Five years would allow Staff and the Commission to
12 evaluate results from years three, four, and five, when there will be enough participants to
13 provide meaningful data of Arizona American Water's costs to support the program.

14

15 **Staff Recommendation No. 7**

16 **Q. STAFF RECOMMENDED:**

17 *The Commission reserves the right to examine the books and records of AWR in*
18 *connection with the Programs.*

19 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

- 20 A. AWR and the Company do not understand the need for this recommendation. The
21 Commission already has this right under the Affiliate Interest Rules.

22

1 **Staff Recommendation No. 8**

2 **Q. STAFF RECOMMENDED:**

3 *The Agreement should be modified to include a definition of fully allocated or*
4 *fully distributed costs as including direct costs, a contribution to common costs,*
5 *and overhead.*

6 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

7 A. AWR and the Company accept this recommendation for unexpected service not covered
8 by the customer charge to AWR of \$0.10 per month per enrolled at 115% of fully
9 distributed costs.

10
11 **Staff Recommendation No. 9**

12 **Q. STAFF RECOMMENDED:**

13 *Arizona American and RWE should be ordered to file for appropriate waivers of*
14 *the Rules.*

15 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

16 A. AWR and the Company object to this response because we do not understand the need
17 for this recommendation and Staff has not suggested any waiver filings that might be
18 required in connection with this case.

19
20 **Q. IS THERE ANYTHING ELSE IN MS. JARESS' TESTIMONY TO WHICH YOU**
21 **WOULD LIKE TO RESPOND?**

22 A. Yes. Attached Exhibits B (Water Line Protection Program) and C (Sewer Line Protection
23 Program) are sample promotional materials that would be used by AWR in Arizona. The

1 name "Arizona American Water" appears only in the form of references to payment of
2 Program fees via customer water bill and specific Program terms and conditions.
3

4 **Q. SHOULD THE COMMISSION APPROVE THE SERVICE AGREEMENT AS**
5 **YOU HAVE AGREED TO MODIFY IT AND SUBJECT TO THE CONDITIONS**
6 **YOU HAVE ACCEPTED?**

7 A. Yes. AWR and the Company have agreed to significantly modify the Agreement and the
8 promotional materials. AWR will not obtain customer information from the Company.
9 These are all changes made in response to Commission Staff's concerns.
10

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 A. Yes.

EXHIBIT A

AGREEMENT FOR SUPPORT SERVICES

BETWEEN

AMERICAN WATER RESOURCES, INC.

AND

ARIZONA AMERICAN WATER COMPANY

March 1, 2005

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AGREEMENT FOR SUPPORT SERVICES

BETWEEN

**AMERICAN WATER RESOURCES, INC.
AND
ARIZONA AMERICAN WATER COMPANY**

This Service Agreement, dated as of the 1st day of March, 2005 (the "Agreement"), is by and between the AMERICAN WATER RESOURCES, INC. (AWR), a corporation organized and existing under the laws of the Commonwealth of Virginia, with its principal office located at 1025 Laurel Oak Road, Voorhees, New Jersey 08043, and ARIZONA AMERICAN WATER COMPANY (Utility), a corporation organized and existing under the laws of the State of Arizona, with its principal office located at 19820 North 7th Street, Suite 201, Phoenix, Arizona 85024.

WHEREAS, AWR provides certain services to utility customers, as more particularly described on Appendix A which is attached hereto and incorporated herein by reference, which list may be modified or amended from time to time by AWR (hereinafter the "Programs"); and

WHEREAS, Utility is the owner of a public water supply system; and

WHEREAS, many of Utility's residential customers may desire to and qualify to participate in one or more of AWR's Programs; and

WHEREAS, Utility desires to make certain or all of the Programs available to its customers upon the terms and conditions contained herein; and

WHEREAS, AWR desires to contract with Utility for certain customer support services for the Programs; and

WHEREAS, Utility possesses the necessary ability and experience to provide such customer support services and is willing to provide such services for the Programs upon the

terms and conditions contained herein; and

WHEREAS, it is the mutual desire of the parties to enter into this Agreement providing for the customer support for the Programs;

NOW, THEREFORE, for and in consideration of the mutual promises set forth herein, and subject to the terms and conditions herein stated, AWR and Utility agree as follows:

SECTION 1. Definitions.

The following words and phrases when used in this Agreement shall have the following meaning:

"Agreement" means this Agreement between AWR and Utility.

"Force Majeure" means those events set forth in Section 13 of this Agreement.

"Fully Distributed Costs" means costs determined in a manner that complies with the standards and procedures for the apportionment of special, joint, and common costs between the Utility and any non-regulated entity in accordance with applicable regulations of the Arizona Corporation Commission (ACC), except taxes as discussed in Section 5. A fully distributed costing methodology apportions the total costs of a group of services or products, including the authorized rate of return, among the individual services or products in that group.

Should the ACC assign different costs than Utility has assigned, such commission or board assigned costs, once such assignment is final and non-appealable, shall be the Fully Distributed Costs, until such time as the ACC assigns different costs, at which time such newly assigned costs shall be the Fully Distributed Costs. Whether to appeal a decision of the ACC shall be in Utility's sole discretion.

"Services" means all of the duties, obligations, and services as defined herein to be provided by Utility that are related to the performance and operation of AWR's Programs.

SECTION 2. Appointment of Utility.

AWR hereby engages and appoints Utility to provide certain customer support services for the Programs.

SECTION 3. Term; Termination.

3.1 Term. The term of this Agreement shall commence on January 1, 2005, and be for a period of one (1) year unless sooner terminated or extended as hereinafter provided.

3.2 Renewal. The Agreement will automatically renew itself for periods of one (1) year, each following one after the other, unless either party gives written notice of termination to the other party in accordance with Section 3.3.1.1.

3.3 Termination.

3.3.1 Termination Without Cause:

3.3.1.1 Procedure - After the initial one (1) year term, this Agreement may be terminated without cause or penalty by either party upon giving the other party sixty (60) days written notice in advance of the date upon which the termination becomes effective. This Agreement shall automatically terminate at such time as either party, or its successor is no longer an affiliate of American Water Works Company, Inc.

3.3.1.2 Transition Services Following Termination Without Cause -

Upon termination of the Agreement without cause, Utility shall continue to provide services to AWR, at AWR's request, for a period of not longer than sixty (60) days during AWR's transition to another service provider. Such transition services shall be provided under and subject to the same terms and provisions of this Agreement, including compensation.

3.3.2 Termination Upon Material Breach - Either party to the Agreement may terminate this Agreement upon material breach by the other party. The non-breaching party shall provide written notice of such breach to the other party, setting forth in detail the alleged failure

and/or deficiency, and, if such breach is not corrected within thirty (30) days from receipt of written notice by certified mail, this Agreement shall be terminated.

SECTION 4. Compensation.

4.1 Fee. The fee paid to Utility by AWR for Services rendered pursuant to this Agreement shall be equal to one hundred and fifteen (115%) percent of the Fully Distributed Costs incurred by Utility in providing the Services except for billing and collection services. The Fee for billing and collection services rendered by Utility as set forth in Paragraph 6.1.3 below shall be at a rate of \$.10 per customer per monthly billing period and apply in the aggregate to customers participating in one or more of AWR's Programs. The \$.10 rate may be adjusted from time to time as determined by the ACC to be consistent with any other such billing and collection service rates charged by Utility, under tariff, to others.

4.2 Allocation by Regulating Authority. Notwithstanding the fee schedule contained in Section 4.1, should the ACC disallow any cost of the Utility in excess of the Fully Distributed Costs as a result of the services provided to AWR pursuant hereto, AWR shall reimburse Utility for such disallowed costs, within thirty (30) days of receipt of notice of same and the fees due pursuant hereto shall be adjusted to reflect such allocation by the ACC.

4.3 Reporting and Payments.

4.3.1 Utility shall maintain detailed records of all costs incurred in providing services to AWR. Utility will make such detailed records available for AWR's periodic review upon request by AWR, during normal business hours, at Utility's principal office.

4.3.2 Utility shall invoice AWR monthly or quarterly, at Utility's discretion, for the fee for services on or about the tenth business day of each billing period during the term of

this Agreement. The invoice shall detail the services provided and the costs incurred. AWR shall pay such fee to Utility within fifteen (15) days of the date of the invoice.

SECTION 5. Taxes.

Any tax or other amount which Utility may be required to pay to or collect for a government agency upon or with respect to the Services rendered hereunder, or the use or delivery of any products or parts thereof on behalf of AWR, except income taxes, will be billed to AWR as separately stated charges and will be paid by AWR in addition to the fees paid pursuant to Section 4. In the event AWR disputes the taxability of an item hereunder, Utility will continue to collect such tax unless and until AWR provides Utility with documentation authorized and prescribed by the taxing authority, such as a certificate of exemption, relieving Utility from liability for the collection and payment of such tax.

SECTION 6. Scope of Services.

6.1 Utility agrees that it shall provide the following customer support services for the Programs in accordance with the terms and provisions of this Agreement:

6.1.1 Distribution of Promotional Materials. Upon request of AWR, Utility shall manage and direct the distribution of informational and promotional materials regarding the Program to its customers. Such materials shall be developed by AWR and provided to Utility in sufficient quantities and in a timely manner so as not to impede any planned distribution efforts by Utility. The materials shall be distributed as a part of Utility's normal billing process, unless arrangements are made, at least sixty (60) days in advance, for a special mailing. The materials provided by AWR must be satisfactory in form and content to Utility, and nothing in this Agreement shall require Utility to distribute any materials that are not satisfactory to Utility. Utility shall make all reasonable efforts to promptly notify AWR when additional quantities of

promotional materials are needed. Utility shall have the sole discretion to determine the customers who will receive the informational and promotional materials for the Program.

6.1.2 Notification of Claim. Should a Utility associate, as a part of his/her normal duties, determine that a Utility customer has a covered occurrence with the Customer's water or sewer service line, the Utility associate shall notify AWR by calling a toll-free telephone number to be supplied by AWR. AWR shall then engage a qualified contractor to provide the covered services to the customer. AWR shall timely provide the necessary information to cause Utility's customer records to reflect when coverage is available.

6.1.3 Billing and Collection. AWR shall provide Utility with a list of enrolled customers in its Programs who have chosen to have charges from AWR included on their bill from Utility, and shall keep such list up to date. Utility shall include such charges on the customer's bill and collect such charges from the customer until such time as the customer or AWR notifies Utility that the customer is no longer receiving service from AWR or has elected a different payment option. Utility shall forward collected payments from enrolled customers to AWR within fifteen days following the end of each calendar month for amounts collected during such month. All payments made by the customer shall be credited first to payment of any amount owed for utility service furnished by Utility; any remainder shall first be credited to payment of any amount owed for utility service furnished by someone other than Utility but shown as a line item on the bill sent to the customer by Utility; and any remainder shall then be credited to payment of any amount owed to AWR. Utility shall not interrupt, cease or refuse utility service to a customer for non-payment of amounts owed to AWR. AWR shall be responsible for all collection efforts for non-payment by Utility customers for AWR Programs.

6.1.4 Other Services. Utility shall perform such other and further services as are agreed to in a Service Order in the form attached hereto as **Exhibit 1** executed by the parties during the Term hereof.

SECTION 7. Provision of Information.

Except as provided herein, any specifications, diagrams, sketches, models, examples, tools, computer or other apparatus, programs, software, technical or business information, written, oral or otherwise (all hereinafter collectively referred to as "Confidential Information"), furnished by one party (hereinafter referred to as the "Disclosing Party") to the other party (hereinafter referred to as the "Receiving Party") under this Agreement or in contemplation of this Agreement will remain the property of the Disclosing Party and will be held Confidential by the Receiving Party. All copies of such information will be returned to the Disclosing Party upon request. The Receiving Party, and any individual assigned by the Receiving Party will not permit the duplication, use or disclosure of the Confidential Information whether such disclosure be oral, written, in the form of computer tapes, drawings or other medium to any person other than the Receiving Party's employees, agents or representatives who must have such information to provide the Services, unless otherwise specifically authorized in writing by the Disclosing Party.

Confidential Information does not include any information which, at the time of disclosure, is generally known by the public, is rightfully obtained from third parties, is independently developed by the Receiving Party and any individual assigned by the Receiving Party outside the scope of its performance herein, or had been in the possession of the Receiving Party and any individual assigned by the Receiving Party prior to its commencement of the performance of its services.

The Receiving Party and any individual assigned by the Receiving Party agrees that: (1) this covenant not to disclose our use Confidential Information shall survive termination of this Agreement; and (2) it shall be liable for any and all breaches of such covenant by the Receiving Party, its employees, agents or representatives, whether such breach occurs during or after the term of this Agreement.

The Receiving Party shall take such steps as may be necessary in order to limit access to the Confidential Information on a need-to-know basis and assure compliance by the employees, agents and representatives to whom such information is given.

The provisions of this section shall survive termination of this Agreement.

It is understood that the Receiving Party may be required to furnish information to judicial, regulatory, or administrative bodies. In such an event, the Receiving Party will promptly notify the Disclosing Party of such requirement and will cooperate with the Disclosing Party should the Disclosing Party desire to seek a protective order to prevent the public disclosure of its information.

SECTION 8. Compliance with Laws.

Both parties agree to comply with the provisions of the Fair Labor Standards Act of 1938, as amended, and all other applicable federal and state laws, rules, regulations and codes with which they are obligated to comply in the performance of this Agreement, including the procurement of permits and certificates where needed. Both parties further agree not to discriminate against any employee or applicant for employment because of race, color, religion, sex, national origin, age or handicap, and to comply with all applicable federal and state laws, orders, rules and regulations on this subject during the performance of this Agreement.

This Agreement shall be subject to any and all applicable federal, state and local laws, regulations, and ordinances, as well as any applicable tariffs. To the extent necessary, the parties

agree to amend this Agreement to conform to the requirements of any such laws, regulations, ordinances, or tariffs.

AWR shall provide Utility with evidence reasonably requested by Utility to demonstrate compliance herewith.

SECTION 9. Insurance.

9.1 AWR shall, during the term of this Agreement, maintain the following insurance coverages with respect to the Programs, and shall include Utility as an Additional Insured:

9.1.1 Commercial General Liability, including Products and Completed Operations, and Contractual Liability with limit of \$2,000,000, combined single limit.

9.1.2 Comprehensive Automobile Liability with limit of \$2,000,000, combined single limit.

9.1.3 Excess Commercial General and Automobile Liability with limit of \$2,000,000, excess of \$2,000,000.

9.2 AWR shall cause each contractor it engages to perform services under the Programs (collectively "Repair Contractors"), during the term of this Agreement, to maintain the following insurance coverages with respect to the Programs, which coverages in subsections 9.2.1-9.2.3 shall include Utility as an Additional Insured:

9.2.1 Commercial General Liability, including Products and Completed Operations, and Contractual Liability with limit of \$1,000,000, combined single limit.

9.2.2 Comprehensive Automobile Liability with limit of \$1,000,000, combined single limit.

9.2.3 Excess Commercial General and Automobile Liability with limit of \$1,000,000, excess of \$1,000,000.

9.2.4 Workers Compensation coverage with Statutory Limits.

9.3 AWR shall, and shall cause its Repair Contractors to, furnish Utility with certificates of insurance evidencing coverage as required by this Paragraph.

SECTION 10. Obligations of AWR.

10.1 Development of Informational Materials. AWR shall be responsible for developing, producing, and printing all informational materials for the Programs.

10.2 Training. At its sole cost, AWR shall provide all necessary training and information to Utility personnel as is necessary to allow Utility to fully perform hereunder. Such training will be specific to educating Utility employees in the operation, terms, and conditions of the Programs. Utility shall make the necessary arrangements to provide a location for such training at or near Utility's facilities.

10.3 Contractors. AWR shall be responsible for engaging qualified independent contractors to perform the services included in the Programs. AWR shall contract with and maintain a sufficient number of contractors to perform promised services under the Programs, during the term of this Agreement. The cost of all services provided by such contractors shall be paid by AWR. Nothing in this Agreement shall be deemed to create any obligation on the part of Utility to undertake performance of any such services or pay for such services by the contractors engaged by AWR.

10.4 Administration. AWR shall be responsible for coordinating all administrative activities for the Programs and its customers including, but not limited to, enrollments, billings, accounting, marketing, financial analysis and reporting. AWR shall promptly notify Utility of customer enrollments in the Programs, including any changes in enrollment or billing status.

SECTION 11. Joint Obligations of the Parties.

11.1 AWR and Utility agree to cooperate to review existing planning, management and operations practices for the Programs.

SECTION 12. Arbitration.

It is the stated intent and purpose of both parties at all times to reach agreement by negotiation between AWR and Utility, without recourse to arbitration. In the event, however, that such dispute or difference is not settled, either party may request that the matter be referred to arbitration. The demand for arbitration must be submitted to the American Arbitration Association within sixty (60) calendar days after the date of such request, in which case the arbitration shall cover and resolve any then existing controversy or claim between the parties hereto which directly or indirectly arises out of or relates to this Agreement. The arbitration shall be conducted in Voorhees, New Jersey in accordance with the rules and procedures then existing under the Commercial Arbitration Rules of the American Arbitration Association, provided that notwithstanding anything to the contrary contained in such Rules the following shall apply: The arbitration board shall consist of three arbitrators. AWR shall choose one arbitrator and Utility shall choose one arbitrator. If the two arbitrators appointed by the parties fail to agree within five (5) business days upon the selection of a third arbitrator, the third arbitrator shall be selected from a list of arbitrators supplied by the American Arbitration Association or otherwise in accordance with such Rules. After the appointments of the third arbitrator, the arbitration board shall meet as necessary for the purpose of reaching a determination in the dispute or difference, and the decision of the majority of the board, submitted in writing, to AWR and Utility shall be final and binding upon both parties. Judgment upon any decision rendered by such arbitration board may be entered in any court having jurisdiction. Each party shall bear the expense of its own arbitrators and witnesses, and the expenses of the third arbitrator and any general expenses of the arbitration shall be born equally by both parties.

SECTION 13. Force Majeure.

If, because of any act or occurrence beyond the reasonable control of either party, including, without limitation, acts of God, legislation or lawful regulations of any governmental body, court orders, fire, flood, explosion, strikes, labor disputes or shortage, wars or civil commotion, either party is reasonably prevented from performing any or all of its obligations hereunder, and if the party unable to perform shall be required to resume performance of its obligations under this Agreement upon the termination of the aforementioned Force Majeure, any time or date limitations shall be extended to the extent such party is so prevented.

SECTION 14. Assignments.

This Agreement shall not be assigned by either party without the prior written consent of the other party unless such assignment shall be to an affiliate or successor of either party.

SECTION 15. Amendments.

This Agreement may be modified only by a written amendment signed by both parties.

SECTION 16. Notices.

All notices provided for in this Agreement shall be in writing and shall be deemed to have been given when hand delivered or deposited in the U.S. mail, postage prepaid, registered or certified, return receipt requested, as follows:

If to AWR:

American Water Resources, Inc.
1025 Laurel Oak Road
Voorhees, New Jersey 08043
Attention: William Eisenstadt, Vice President

If to Utility:

Arizona American Water Company
19820 North 7th Street, Suite 201
Phoenix, Arizona 85024
Attention: Rob Kuta, Vice President

SECTION 17. Governing Law.

This Agreement, including the validity thereof and the rights and obligations of the parties thereunder, shall be construed in accordance with, and governed by the laws of the State of New Jersey.

SECTION 18. Indemnification.

18.1 AWR shall, and shall cause its Repair Contractors to, defend, indemnify and hold harmless Utility, its officers, directors, employees and agents from and against any and all liability, including liability to third parties, for personal injury, including death, property damage, or other actions, damages, fines, penalties, claims, demands, judgments, losses, costs, expenses, suits and actions (including reasonable attorney's fees), for personal injury, including death, property damage or other injury, to the extent caused by or arising out of negligence or wrongful or willful misconduct on the part of AWR, its Repair Contractors, or their respective officers, employees, agents, contractors, and subcontractors in connection with the services rendered to Utility by AWR pursuant to the terms of this Agreement.

18.2 Utility shall defend, indemnify and hold harmless AWR, its officers, directors, employees and agents from and against any and all liability, including liability to third parties, for personal injury, including death, property damage, or other actions, damages, fines, penalties, claims, demands, judgments, losses, costs, expenses, suits and actions (including reasonable attorney's fees), for personal injury, including death, property damage or other injury, to the extent caused by or arising out of negligence or wrongful or willful misconduct on the part of Utility, its officers, employees, agents, contractors, and subcontractors in connection with the services rendered to AWR by Utility pursuant to the terms of this Agreement.

SECTION 19. No Waiver.

The failure of a party to insist on strict performance of any or all of the terms of this Agreement, or to exercise any right or remedy under this Agreement, shall not constitute a waiver or relinquishment of any nature regarding such right or remedy or any other right or remedy. No waiver of any breach or default hereunder shall be considered valid unless in writing and signed by the party giving such waiver, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

SECTION 20. Severability.

In case one or more of the covenants, terms or provisions contained in this Agreement shall be held invalid, illegal, or unenforceable in any respect, the validity of the remaining covenants, terms, and provisions contained herein shall be in no way affected, prejudiced, or disturbed and the remaining covenants, terms, and provisions shall remain in full force and effect.

SECTION 21. No Third-Party Beneficiaries.

No customer of the Programs, contractor of AWR, or any other third party shall be deemed a third-party beneficiary of this Agreement.

SECTION 22. Independent Contractor.

It is understood that the relationship of Utility to AWR is that of an independent contractor and not that of an employee and or agent of AWR. None of the employees or agents of Utility shall be considered employees of AWR. None of the employees or agents of AWR shall be considered employees of Utility. Each party shall be wholly responsible and liable for the employment taxes and withholdings due as a result of their performance hereunder.

SECTION 23. Complete Agreement.

This Agreement sets forth the entire understanding of the parties, which supersedes and merges all prior proposals, understandings and all other agreements, oral or written, between the parties relating to the subject matter hereof and may not be modified except in a writing executed by both parties.

SECTION 24. Titles and Headings.

Titles and headings to sections or paragraphs herein are inserted merely for convenience of reference and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

SECTION 25. Counterparts.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SECTION 26. Condition Precedent.

This Agreement may be conditioned upon any necessary approval of the ACC.

SECTION 27. Limitation of Liability.

NEITHER PARTY WILL BE LIABLE FOR ANY INCIDENTAL, CONSEQUENTIAL, SPECIAL OR INDIRECT DAMAGES, WHETHER ARISING OUT OF BREACH OF WARRANTY, BREACH OF CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHERWISE, ATTRIBUTABLE TO OR RESULTING FROM ITS PERFORMANCE HEREUNDER. In no event will Utility's liability for damages caused by its failure to supply material or perform services in a proper or timely manner exceed the amount paid by AWR to Utility for such materials or services.

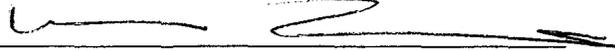
SECTION 28. Non-Exclusive

This Agreement is non-exclusive and Utility may enter into similar agreements with other

entities.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives, as of the day and year first above written.

AMERICAN WATER RESOURCES, INC.

By: 
Vice President

ARIZONA AMERICAN WATER COMPANY

By: 
Vice President

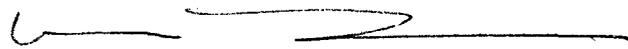
SERVICE ORDER

American Water Resources, Inc. (AWR) hereby engages Arizona American Water Company (Utility) to perform the following services, pursuant to the Agreement for Support Services executed between the parties on March 1, 2005:

Water and Sewer Line Protection Programs:

1. Distribution of Promotional Materials. See Section 6.1.1 for scope of services.
2. Repair Service Initiation. See Section 6.1.2 for scope of services.
3. Distribution of Customer Surveys. From time to time, AWR may develop customer surveys designed to measure customer satisfaction with the Programs, and if necessary, make Program enhancements. AWR shall submit such survey materials to Utility for review and comment prior to distribution to customers.
4. Billing and Collecting. Utility shall bill each of its customers who AWR identifies as having requested service and billing from Utility by a line item on the customer's water bill. AWR shall furnish reasonable evidence that a customer has requested the service to Utility upon Utility's request. Utility shall collect payments from the enrolled customers and forward same to AWR within fifteen days following the end of each calendar month for amounts collected during such month. All payments made by the customer shall be credited first to payment of any amount owed for utility service furnished by Utility; any remainder shall first be credited to payment of any amount owed for utility service furnished by someone other than Utility but shown as a line item on the bill sent to the customer by Utility; and any remainder shall then be credited to payment of any amount owed to AWR. Utility shall not interrupt, cease or refuse utility service to a customer for non-payment of amounts owed to AWR. AWR shall be responsible for all collection efforts for non-payment by Utility customers for AWR Programs.

AMERICAN WATER RESOURCES, INC.

By: 

Vice President

ARIZONA AMERICAN WATER COMPANY

By: 

Vice President

EXHIBIT B

AMERICAN WATER RESOURCES, INC.

American Water Resources, Inc., a subsidiary of American Water, is dedicated to offering products and services that enhance those services currently offered by Your regulated water provider.

WATER LINE PROTECTION PROGRAM

This agreement is between American Water Resources, Inc. and You, a participant in the Water Line Protection Program, hereinafter referred to as the "Contract" or the "Program." Please read the Contract and retain it for Your records.

THIS AGREEMENT COVERS

American Water Resources, Inc.'s Water Line Protection Program will cover the cost for repair of Your Customer-Owned Water Line should You have a water leak caused by normal wear and tear.

DEFINITIONS

"Administrator" means American Water Resources, Inc., 1410 Discovery Parkway, Alton, Illinois 62002. Toll Free 1-866-430-0819.

"Confirmation Letter" means the acknowledgement letter You will receive from Us following enrollment outlining Your Program specifications. The Confirmation Letter will include the following information:

- Your Name
- Your Covered Address
- Your Customer Number
- Your Program Effective Date
- Your Program Term

"Customer-Owned Water Line" means the section of the single water supply line You own that runs from Your home to the connection owned by Arizona American Water. It does not include any connections/extensions such as water lines to sprinklers and/or irrigation meters You may own or any section of the water supply line owned by other outside of this Agreement to which Your Customer-Owned Water Line is attached.

• If the meter is located inside Your home, it is the section of the water supply line from Arizona American Water's street-side shut-off valve to the inlet side of the meter.

• If the meter is located outside Your home, it is the section of the water supply line from Arizona American Water's street-side shut-off valve to the shut-off valve inside Your home.

"Effective Date" means the date protection begins under the Program, which is thirty (30) days after Your Enrollment Date. Your Program Effective Date is listed on Your Confirmation Letter.

"Enrollment Date" means the date Your enrollment form is received, processed and confirmed by Us.

"Lapse of Coverage" means We requested payment from You for an additional Term or Your periodic Program fee was due and We did not receive Your full payment within thirty (30) days from the date said payment was due. The Program will lapse without notice.

"Program" means American Water Resources, Inc.'s Water Line Protection Program.

"Term" means the period of time, from the Program Effective Date, Your Program will be in effect. The Program Term is annual (12 months) unless it is terminated or cancelled sooner as provided herein. Your Program Term is listed on Your Confirmation Letter.

"We", "Us" and "Our" mean the Administrator.

"You" and "Your" means a residential customer and customer of record of Arizona American Water, the homeowner of a single-family resident and the purchaser of this Program.

ELIGIBILITY FOR PROTECTION

You must be a residential customer, customer of record of Arizona American Water and the owner of a single-family home to which the Customer-Owned Water Line is attached. The Customer-Owned Water Line must be free of leaks and in working order prior to Your Enrollment Date in the Program.

Homeowners of multi-unit dwellings such as condominiums, town homes or duplexes are eligible for the Program only if they have ownership and maintenance responsibility for the dwelling's single water supply line. The Program is not available to any tenant who rents or leases a single-family residential home.

PERIOD OF PROTECTION

Program Protection initiates thirty (30) days after Your Enrollment Date. Your protection will continue for the Term listed on Your Confirmation Letter. Your Program Term may be automatically extended provided You make timely payments to Us at the then-current annual Program fee. If You purchase additional Terms without a Lapse of Coverage, Your protection will remain valid as of the Program Effective Date listed on Your Confirmation Letter. If the Program lapses as outlined under "Lapse of Coverage," You may re-enroll in the Program at any time subject to a new Enrollment Date and Effective Date.

LIMIT OF PROTECTION

The maximum amount We will pay for any covered repair under the Program is \$4,000 per occurrence. Before the line is repaired, if a permit is required, We will obtain proper permitting before work will commence. We will provide basic site restoration to the repair area once the repair work is completed. Site restoration is limited to filling in, raking and reseeding, one time only. All repairs to Your Customer-Owned Water Line will comply with local water code requirements.

Any subsequent repair made within sixty (60) days of a prior covered repair will be considered as a part of that prior covered repair and limited to the \$4,000 per occurrence limit. If a permit was acquired to commence work on covered water lines and requires a sidewalk, located in a public easement, to be repaired, the Program will provide repair of said sidewalk up to \$500. Cost to repair sidewalks applies toward the Program \$4,000 maximum. You will not, unless at Your own expense, engage a contractor or otherwise incur costs to repair the Customer-Owned Water Line on Our behalf. You may neither transfer the Program to a new owner of the covered property nor transfer the Program to a different residence owned by You.

THIS AGREEMENT DOES NOT COVER

- Damage to Customer-Owned Water Line incurred or existing prior to the Program Enrollment Date.
- Damage to Customer-Owned Water Line caused by the actions or negligence of You or third parties.
- Damage to Customer-Owned Water Line caused by natural disasters, or acts of nature, including, but not limited to, earthquakes, floods, landslides or sinkholes or any other insurable cause.
- Any section of the water supply line owned by others outside of this Agreement to which Your Customer-Owned Water Line is attached.
- Any consequential, incidental or special damages You incur including lost water, regardless of whether they are caused by delays, failure to service or for conditions beyond the control of the Administrator.
- Restoration of trees, shrubs, paved surfaces, or structures, for any reason.
- Any damage to finished or unfinished walls or surfaces inside Your home necessary to access and repair Your Customer-Owned Water Line.
- Leak repairs to any interior pipes beyond the shut-off valve inside Your home.
- Restoration of sidewalks not located in public easement. Also, restoration of sidewalks located in public easements but not required on the permit.
- Removal of debris necessary to access and repair Your Customer-Owned Water Line, including, but not limited to, old cars, trash, storage, rocks or materials.
- Movement of the meter at the time of repair, unless required by local code.
- Any rental dwellings for which Program enrollment is in the name of the tenant or any dwellings used for commercial purposes. (Unit owners please refer to "Eligibility for Protection.")
- Updating non-leaking pipes to meet code, law or ordinance requirements or changes thereto.
- Movement of working pipes and/or lines.

YOUR RESPONSIBILITIES

If You suspect there is a water leak, call the toll-free number shown on your water bill from Arizona American Water who will investigate the source of the problem. In the event Arizona American Water determines that the leak is to Your Customer-Owned Water Line, We will arrange to have an approved, independent contractor call You to set up a time to come out to Your home. The contractor will contact You within 12 hours for emergency service, or by 5:00 pm the next business day for all other service, to arrange for repair of Your Customer-Owned Water Line.

If a permit was acquired that requires repair to sidewalks located in public easements, and the cost to repair exceeds the Program maximum of \$500, it is Your responsibility to pay any additional costs. If repair cost to the Customer-Owned Water Line exceeds the Program maximum of \$4,000, it is Your responsibility to pay any additional costs. Any costs in excess of the Program maximum will be stated to You before work is performed and We will send You an invoice for all expenses over any Program maximum. Beyond the previously outlined exceptions, You will not be charged any deductible

or service call fees in conjunction with a covered repair. It is Your responsibility to secure permission (right-of-way) associated with gaining access to repair Your Customer-Owned Water Line that may pass through property that You do not own.

ADMINISTRATOR'S RIGHTS

We reserve the right to change Your Program fee and/or the Program terms and conditions with thirty (30) days written notice to You. We reserve the right to transfer or assign Your Program contract. You grant Us the right to obtain customer of record information from Arizona American Water limited to Your name, address and any other pertinent information. This information will not be sold to any outside marketing companies.

CANCELLATION

You may cancel this Program at any time by mailing a cancellation request to American Water Resources, Inc., Attention: Water Line Protection Administrator, 1410 Discovery Parkway, Alton, Illinois 62002. If You cancel, the effective date of cancellation is the date We receive Your notice. You have thirty (30) days from Your Enrollment Date to cancel and receive a full refund of any payments made. Your Program participation will be subject to cancellation without notice once You are thirty (30) days past due on any payment for the Program. If Your Program protection has been cancelled due to non-payment, You may re-enroll in the Program with a new Enrollment Date and new Effective Date. We reserve the right to cancel the Program at any time upon ninety (90) days notice to You. Any refund as a result of the cancellation of the contract by either You or Us, will be determined on a prorated basis less the cost of any service performed under the Program. If You are owed a refund, it will be processed via the enrollment payment method You chose to join the Program.

PAYMENT ARRANGEMENTS

You authorize Us to arrange for payment to be added to Your Arizona American Water water bill. Your annual payment will be divided by the number of times per year that Arizona American currently bills You. Your Program participation will be subject to cancellation without notice once You are thirty (30) days past due on any payment for the Program. Your payments to Arizona American will first be applied to Your utility fees and lastly to Your Water Line Protection Program fees. Failure to make payments for the Program will not affect continuation of Your water utility service.

TAXES

American Water Resources, Inc. will collect any and all appropriate taxes if required by the local municipal government(s), county government or the Arizona. These taxes will be collected on each of your periodic water bills from Arizona American Water.

LIMITATION OF LIABILITY

In the event that Your property is not eligible for coverage under the terms and conditions of the Program, our only obligation is to refund any payments made by You to Us. Once we have paid You this refund, the Program will be voided as of Your Enrollment Date. The liability of the Administrator, its affiliated companies, its officers, employees, contractors and/or agents to You, or to any other third party or person, for damages resulting from the provision of, or failure to provide services under this Program, or as the result of any fault, failure, defect or in any service, labor, material, work or product furnished in connection with this Program shall be limited to an amount not to exceed \$4,000. In no event, however, shall the Administrator, its affiliated companies, its employees, agents and contractors have any liability for special, indirect, incidental, consequential or punitive damages resulting from the provision of or failure to provide service under this Program, or from any fault, failure, defect or deficiency in any service, labor, material, work or product furnished in connection with this Program. These limitations of and exclusions from liability shall apply regardless of the nature of the claim or the remedy sought.

THE WATER LINE PROTECTION PROGRAM IS NOT AN INSURANCE CONTRACT OR POLICY. THE PROGRAM PROVIDES FOR THE REPAIR OF LEAKS TO YOUR CUSTOMER-OWNED WATER LINE DUE TO NORMAL WEAR AND TEAR. THIS CONTRACT CONSTITUTES THE ENTIRE AGREEMENT BETWEEN AMERICAN WATER RESOURCES, INC. AND YOU, AND THERE ARE NO OTHER PROMISES OR CONDITIONS IN ANY OTHER AGREEMENT WHETHER WRITTEN OR ORAL.

AZ WLPP 60 TC 0705
AZUWLTC

American Water Resources, Inc.
Water Line Protection Program
1410 Discovery Parkway, Alton, IL 62002
Toll Free 1-866-430-0819



1410 Discovery Parkway
Alton, IL 62002-0577

Sample A. Sample
1234 Anystreet
Anytown, US 00000-0000

Homeowner Information:

Costs for repairing your water line could amount to thousands of dollars.

As a homeowner, you own the water line that runs through your property between the street and your home. At any time, normal wear and tear can cause your water line to leak or break, as shown on the diagram below. You can't prevent it. You can't predict it. Worst of all, most homeowner insurance policies do not cover repairing it, so you'll have to pay for it.

For just pennies a day, you can be protected from unexpected worries and costs.

In cooperation with our affiliate, American Water Resources Inc., American Water is pleased to introduce a special Water Line Protection Program to cover these unexpected costs and provide you with peace-of-mind. This also means that you won't have to spend hours searching for a qualified repair contractor — you can leave that up to the experts.

Customer Advantages:

----- Save up to \$4,000 -----
in unexpected water line repairs for just pennies a day (\$5 a month)

----- Enjoy peace-of-mind -----
with protection from one of the most experienced water resource managers in the country

----- Eliminate the hassles -----
of searching for a qualified repair contractor.

----- Payment convenience -----
by adding directly to your monthly Arizona American water bill.

Enroll Today!

WATER LINE PROTECTION PROGRAM
1410 Discovery Parkway, Alton, IL 62002
TOLL FREE 1-866-430-0819

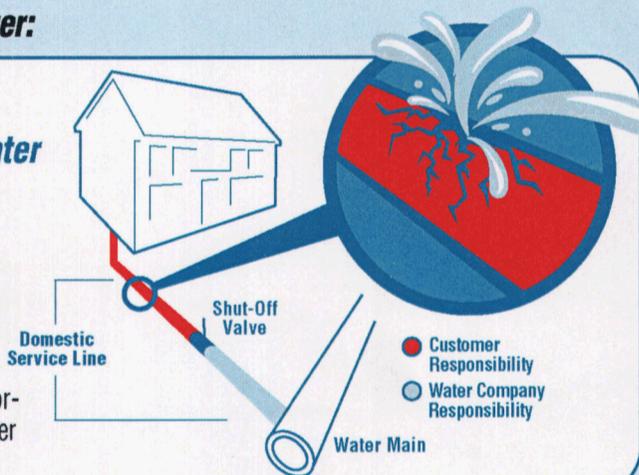
Important Message From American Water:

Did You Know...

It is your responsibility to repair the water line that runs through your property between the street and your home.

Normal wear and tear can cause sudden, costly water leaks that are your responsibility to repair. It pays to be protected by the WATER LINE PROTECTION PROGRAM.

Please carefully read the Program terms and conditions on the back of this letter, and keep this information for future reference. Take advantage of this offer and return the Immediate Action Form today.



Customer Service: TOLL FREE 1-866-430-0819

If you live in a dwelling such as a condo, duplex or townhome please contact your local homeowners association to determine if you are responsible for your water line.

AZUWL

IMMEDIATE ACTION FORM

▲ DETACH HERE ▲



AZXXXXXC

YES! I want protection and peace of mind. Enroll me in the WATER LINE PROTECTION PROGRAM today.

PAYMENT OPTIONS:

ADD DIRECTLY TO MY ARIZONA AMERICAN WATER BILL.

I authorize the amount of \$60.00 (plus applicable sales tax) to be added to my water bill in equal payments over the next 12 months.

By signing this enrollment form you agree to all terms and conditions of the WATER LINE PROTECTION PROGRAM as outlined on the back of the letter. Confirmation of enrollment will be sent to the above mailing address. Coverage begins 30 days after enrollment form is received and confirmed by American Water Resources, Inc. The expiration date for this introductory offer is 00/00/00. After 00/00/00 call 1-866-430-0819.

Homeowner's Name:

SERVICE ADDRESS

Street:

City:

State:

Zip:

Reference Number:

MAILING ADDRESS (If different than service address)

Street:

City:

State:

Zip:

CONTACT INFORMATION

Home Phone (required): () -

E-mail:

Work/Cell Phone: () -

X Signature:

Date:

EXHIBIT C



**American
Water**

1410 Discovery Parkway
Alton, IL 62002

Sample A. Sample
123 Any Street
Apartment 000
Anytown, US 12345-6789

A Sewer Line Problem Can Be One Of The Costliest Repairs You Face As A Homeowner.

**Protect Yourself With
The NEW Sewer Line
Protection Program.**

Dear Sample A. Sample:

You made a wise decision when you joined the Water Line Protection Program, offered by our affiliate, American Water Resources, and we're sure you're pleased with the peace of mind it provides. But you're only half protected. There's another line underneath your property that's up to 4 times more likely to cause you costly utility line repairs — your sewer line. That's why it's smart to add to your protection today with the **NEW Sewer Line Protection Program**.

Excavation...line clearing...site restoration...sidewalk/street repaving...can all cost thousands of dollars.

You own and are responsible for maintaining the sewer line running between your home's exterior and the street. It's highly vulnerable to clogs and blockages...from tree roots, pipe collapse and common waste, which can happen at any time — usually without advance notice.

Unfortunately, you can't fix the problem with liquid drain opener — it can take heavy machinery, skilled crews with special equipment and licensed plumbers to install new sections of pipe. That's an expensive procedure, and it comes straight out of your pocket. If you think your homeowners insurance will cover the cost, better think twice — most policies will not pay for it.

Protect yourself from unexpected worries and costs for a low monthly fee.

As a valued American Water Resources customer, you can enroll in the **NEW Sewer Line Protection Program** today and relax. It costs only a small amount — just \$9 a month for the opportunity to save thousands of dollars in unexpected blockage repairs. And you'll avoid the hassle of finding a qualified contractor. We promptly dispatch experienced repair technicians right to your door in less than 24 hours, for a modest service call fee*.

When you consider the benefits, I'm certain you'll agree that this new program is another excellent opportunity available to you as an American Water Resources customer.

- Save up to \$8,000 in unexpected blockage repairs for only \$9 a month
- Enjoy peace of mind knowing your problem will be handled by experts within 24 hours of your call
- Be confident with protection from one of the country's most experienced water resource managers

Please carefully read the program terms and conditions on the back of this letter, and keep this information for future reference. Then simply return your Priority Enrollment Form in the enclosed envelope, and you'll be protected from the expense and anxiety of a clogged or blocked sewer line. And because your sewer line can clog at any time, it makes good sense to return your Form today.

Sincerely,

* \$50 service fee applies when a contractor is dispatched to your home.
P.S. Protect your sewer line today! Enroll now.

RWE GROUP
AZUSLL

American Water Resources, Inc.

AMERICAN WATER RESOURCES, INC.

American Water Resources, Inc., a subsidiary of American Water, is dedicated to offering products and services that enhance those services currently offered by Your regulated water provider and Your local Wastewater Service Provider.

SEWER LINE PROTECTION PROGRAM

This agreement is between American Water Resources, Inc. and You, a participant in the Sewer Line Protection Program, hereinafter referred to as the "Contract" or the "Program." Please read the Contract and retain it for Your records.

THIS AGREEMENT COVERS

American Water Resources, Inc.'s Sewer Line Protection Program will cover the costs associated with Our service to clear or repair a blockage of Your Customer-Owned Sewer Line subject to the terms and conditions outlined below.

DEFINITIONS

"**Administrator**" means American Water Resources, Inc., 1410 Discovery Parkway, Alton, Illinois 62002. Toll Free 1-866-430-0819.

"**Confirmation Letter**" means the acknowledgement letter You will receive from Us following enrollment outlining Your Program specifications. The Confirmation Letter will include the following information:

- Your Name
- Your Covered Address
- Your Customer Number
- Your Program Effective Date
- Your Program Term

"**Customer-Owned Sewer Line**" means the section of the lateral sewer service line You own that collects and conveys household wastewater from Your home to the Wastewater Collection System. The Program covers the portion of Your Customer-Owned Sewer Line that is the most direct line between the exterior foundation wall of Your home and Wastewater Collection System. It does not include any connections or extensions such as lines to or from septic systems, leach fields or non-conforming drain lines and does not include any pumps or other mechanical devices that may be connected to Your Customer-Owned Sewer Line. In addition, it does not include any section of the sewer service line owned by others outside of this Agreement to which Your Customer-Owned Sewer Line is attached.

"**Effective Date**" means the date protection begins under the Program, which is 30 days after Your Enrollment Date. Your Program Effective Date is listed on Your Confirmation Letter.

"**Enrollment Date**" means the date Your enrollment form is received, processed and confirmed by Us.

"**Lapse of Coverage**" means We requested payment from You for an additional Term or Your periodic Program fee was due and We did not receive Your full payment within 30 days from the date said payment was due. The Program will lapse without notice.

"**Program**" means American Water Resources, Inc.'s Sewer Line Protection Program.

"**Service Fee**" means the \$50 fee You must pay each time We dispatch an authorized service provider to Your home to investigate, clear or repair a blockage of Your Customer-Owned Sewer Line. The Service Fee will be collected by Our authorized service provider and is payable immediately upon completion of Our service to investigate, clear or repair a blockage of your Customer-Owned Sewer Line.

"**Term**" means the period of time, from the Program Effective Date, Your Program will be in effect. The Program Term is annual (12 months) unless it is terminated or cancelled sooner as provided in this Contract. Your Program Term is listed on Your Confirmation Letter.

"**Wastewater Collection System**" means the sewage collection system owned by Your local Wastewater Service Provider to which Your Customer-Owned Sewer Line is connected.

"**Wastewater Service Provider**" means Your local utility company or municipal sewer authority that owns and is responsible for maintaining the Wastewater Collection System that receives wastewater from Your single-family home.

"**We**", "**Us**" and "**Our**" means the Administrator.

"**You**" and "**Your**" means the owner of a single-family residential home and the purchaser of this Program.

ELIGIBILITY FOR PROTECTION

You must be a residential customer of Arizona American Water and the owner of a single-family home to which the Customer-Owned Sewer Line is attached. The Customer-Owned Sewer Line must be free of clogs and blockages and in working order prior to Your Enrollment Date in the Program. Homeowners of multi-unit dwellings such as condominiums, town homes or duplexes are eligible for the Program only if they have ownership and maintenance responsibility for the dwelling's lateral sewer service line. The Program is not available to any tenant who rents or leases a single-family residential home. In the event that Your property is not eligible for coverage under the terms and conditions of the Program, Our only obligation is to refund any payments made by You to Us. Once we have paid You this refund, the Program will be voided as of Your Enrollment Date.

PERIOD OF PROTECTION

Program Protection initiates 30 days after Your Enrollment Date. Your protection will continue for the Term listed on Your Confirmation Letter. Your Program Term may be automatically extended provided You make timely payments to Us at the then-current annual Program fee. If You purchase an additional Term without a Lapse of Coverage, Your covered period of protection will remain the Program Effective Date listed on Your Confirmation Letter. If the Program lapses as outlined under "Lapse of Coverage," You may re-enroll in the Program at any time subject to a new Enrollment Date and Effective Date.

HOW TO GET SERVICE AND YOUR RESPONSIBILITIES

If You suspect there is a blockage of Your Customer-Owned Sewer Line, You must first contact Your local Wastewater Service Provider to determine the source of the problem. In the event Your local Wastewater Service Provider determines the blockage to be Your responsibility, then You must contact Us toll free 1-866-430-0819 to request Our service. We will arrange to have an approved, independent contractor call You to make arrangements to come out to Your home. Following that call, the independent contractor will be dispatched to Your home within 24 hours to clear or repair a blockage of Your Customer-Owned Sewer Line.

If the cost to clear or repair a blockage of Your Customer-Owned Sewer Line exceeds the Program maximum of \$4,000, it is Your responsibility to pay any additional costs. If a permit is required for a public Sidewalk or Road Opening repair and the cost to repair exceeds the additional limit of \$4,000, it is Your responsibility to pay any additional costs. These limits on the protection that We provide under the Program are described in greater detail below under the heading "LIMIT OF PROTECTION." Any costs in excess of any Program limits will be stated to You before work is performed and We will send you an invoice for all expenses over any Program maximum. It is also Your responsibility to pay the Service Fee to Our authorized service provider immediately upon completion of Our service to investigate, clear or repair a blockage of Your Customer-Owned Sewer Line.

It is Your responsibility to secure permission (right-of-way) associated with Our gaining access to clear or repair a blockage of Your Customer-Owned Sewer Line that may pass through property that You do not own.

LIMIT OF PROTECTION

The maximum amount We will pay for any covered Customer-Owned Sewer Line blockage service under the Program is \$4,000 per occurrence. Before a blockage is cleared or repaired, if a permit is required, We will obtain proper permitting before work will commence. We will provide basic site restoration to ground areas outside Your home if it is necessary for Us to undertake excavation work to access and clear or repair a blockage of Your Customer-Owned Sewer Line. Basic site restoration is limited to filling in, raking and reseeding one time only. All blockage service of Your Customer-Owned Sewer Line will comply with local applicable code requirements.

Any subsequent service We provide to clear or repair a blockage of Your Customer-Owned Sewer Line that occurs within 60 days of a prior covered blockage service, will be considered as part of that prior covered blockage service and limited to the \$4,000 per occurrence limit. If a permit is required to commence work on Your Customer-Owned Sewer Line and requires a public sidewalk or public road to be cut, excavated and repaired, known as a public "Sidewalk or Road Opening," the Program provides an additional limit of \$4,000 for a public Sidewalk or Road Opening. Only expenses directly related to a Sidewalk or Road Opening are paid under this separate limit. This additional limit, if applicable, does not add any additional coverage to the basic \$4,000 per occurrence limit to clear or repair a blockage of Your Customer-Owned Sewer Line. You will not, unless at Your own expense, engage a contractor or otherwise incur costs to clear or repair a blockage of Your Customer-Owned Sewer Line on Our behalf. You may neither transfer the Program to a new owner of the covered property nor transfer the Program to a different residence owned by You.

LIMITED WARRANTY

SUBJECT TO THE TERMS AND CONDITIONS STATED IN THIS CONTRACT, WE WARRANT THAT WE WILL PAY THE COST TO CLEAR OR REPAIR A BLOCKAGE OF YOUR CUSTOMER-OWNED SEWER LINE COVERED UNDER THE PROGRAM WHICH BECOMES BLOCKED AS A RESULT OF NORMAL WEAR AND USAGE. THIS WARRANTY APPLIES ONLY TO COVERED SERVICES AND IS SUBJECT TO LIMITS ON THE AMOUNT WE WILL PAY AS DESCRIBED IN THIS CONTRACT. WE MAKE NO OTHER EXPRESS OR IMPLIED WARRANTIES OR GUARANTEES OF ANY KIND, AND ANY IMPLIED WARRANTIES OR GUARANTEES ARE EXPRESSLY DISCLAIMED.

THIS AGREEMENT DOES NOT COVER

The Program does not cover the following:

- A Customer-Owned Sewer Line 1) not connected to a public or municipal sewer system; 2) with a connection to or from a septic system, tank or leach field; 3) with a connection to or from any non-conforming drain line such as a basement or storm drain system.
- A blocked Customer-Owned Sewer Line 1) incurred or existing prior to Your Program Enrollment Date; 2) caused by the actions or negligence of You or third parties; 3) caused by natural disasters, or acts of nature, including, but not limited to, earthquakes, floods, landslides, sinkholes or any other insurable cause.
- Any section of the sewer service line owned by others outside of this Agreement to which Your Customer-Owned Sewer Line is attached.
- Blocked lift stations, ejector pumps, grinder pumps or any other mechanical devices connected to Customer Owned Sewer Line.
- Any portion of Customer-Owned Sewer Line located inside or under Your home.
- Any blockage service required as a result of any local, city or state agency inspection of Your Customer-Owned Sewer Line.
- Any damage to the inside of Your home due to the backup of Your Customer-Owned Sewer Line.

• Restoration of trees, shrubs, structures, or sidewalks, drive ways, or other paved surfaces.

• Restoration of non-public sidewalks/roadways or public sidewalks/roadways that are not required by permit to be repaired.

• Removal of debris necessary to access and clear or repair a blockage of Your Customer-Owned Sewer Line, including but not limited to temporary structures, old cars, trash, storage, rocks or materials.

• Any rental dwellings for which Program enrollment is in the name of the tenant or any dwellings used for commercial purposes. (Unit owners please refer to "Eligibility for Protection.")

• Updating non-blocked lines to meet code, law or ordinance requirements or changes thereto.

• Movement of working sewer lines for any reason.

• Any consequential, incidental or special damages You incur, regardless of whether they are caused by delays, failure to service or for conditions beyond the control of the Administrator. For example, the Program does not cover 1) the cost of cleaning up, repairing or replacing property (other than clearing or repairing a blockage of Your Customer-Owned Sewer Line and basic site restoration as provided above) which is damaged due to the backup of Your Customer-Owned Sewer Line; 2) costs and expenses incidental to the backup of Your Customer Owned Sewer Line such as loss of time, loss of use of Your home and other property, costs to stay at a hotel or to rent a home and costs to move and store property outside Your home; and 3) damages you incur due to any special circumstances or conditions.

ADMINISTRATOR'S RIGHTS

We reserve the right to change Your Program fee and/or the Program terms and conditions with 30 days written notice to You. We reserve the right to transfer or assign Your Program contract. You grant Us the right to obtain customer of record information from Arizona American Water limited to Your name, address and any other pertinent information. This information will not be sold to any outside marketing companies.

CANCELLATION

You may cancel this Program at any time by mailing a cancellation request to American Water Resources, Inc., Attention: Sewer Line Protection Administrator, 1410 Discovery Parkway, Alton, Illinois 62002. If You cancel, the effective date of cancellation is the date We receive Your notice. You have 30 days from Your Enrollment Date to cancel and receive a full refund of any payments made. Your program participation will be subject to cancellation without notice once You are 30 days past due on any payment for the Program, including the Service Fee. If your Program protection has been cancelled due to non-payment, You may re-enroll in the Program with a new Enrollment Date and new Effective Date. We reserve the right to cancel the Program at any time upon 90 days notice to You. Any refund as a result of the cancellation of the contract by either You or Us, will be determined on a prorated basis less the cost of any service performed under the Program. If You are owed a refund, it will be processed via the enrollment payment method You chose to join the Program.

PAYMENT ARRANGEMENTS

You authorize Us to arrange for payment to be added to Your Arizona American Water water bill. Your annual payment will be divided by the number of times per year that Arizona American currently bills You. Your Program participation will be subject to cancellation without notice once You are thirty (30) days past due on any payment for the Program. Your payments to Arizona American will first be applied to Your utility fees and lastly to Your Sewer Line Protection Program fees. Failure to make payments for the Program will not affect continuation of Your water utility service.

TAXES

American Water Resources will collect any and all appropriate taxes if required by the local municipal government(s), county government or the State of Arizona. These taxes will be collected on each of your periodic water bills from Arizona American Water.

LIMITATION OF LIABILITY

The liability of the Administrator, its affiliated companies, its officers, employees, contractors and/or agents to You, or to any other third party or person, for damages resulting from the provision of, or failure to provide services under this Program, or as the result of any fault, failure, defect or deficiency in any service, labor, material, work or product furnished in connection with this Program shall be limited to an amount not to exceed \$4,000 (or up to an additional \$4,000 limit that applies separately, if applicable, in the case of a public Sidewalk or Road Opening). In no event, however, shall the Administrator, its affiliated companies, its employees, agents and contractors have any liability for direct, indirect, special, incidental, consequential, (as described above) or punitive (damages to punish Us for any wrongdoing) damages or attorney fees resulting from the provision of or failure to provide service under this Program, or from any fault, failure, defect or deficiency in any service, labor, material, work or product furnished in connection with this Program. These limitations of, and exclusions from, liability shall apply regardless of the nature of the claim or the remedy sought.

THE SEWER LINE PROTECTION PROGRAM IS NOT AN INSURANCE CONTRACT OR POLICY. THE PROGRAM PROVIDES A SERVICE TO CLEAR OR REPAIR A BLOCKAGE OF YOUR CUSTOMER-OWNED SEWER LINE WHICH BECOMES BLOCKED AS A RESULT OF NORMAL WEAR AND USAGE. THIS CONTRACT CONSTITUTES THE ENTIRE AGREEMENT BETWEEN AMERICAN WATER RESOURCES, INC. AND YOU, AND THERE ARE NO OTHER PROMISES OR CONDITIONS IN ANY OTHER AGREEMENT WHETHER WRITTEN OR ORAL.

**AMERICAN WATER RESOURCES, INC.
SEWER LINE PROTECTION PROGRAM
1410 DISCOVERY PARKWAY, ALTON, IL 62002
TOLL FREE 1-866-430-0819**

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