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BEFORE THE ARIZONA CORPORATION COMMISSION

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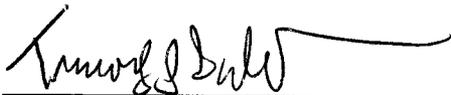
IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY
FOR AN AFFILIATE AGREEMENT WITH
AMERICAN WATER RESOURCES, INC.

Docket No. WS-01303A-05-0170

NOTICE OF FILING

The Arizona Corporation Commission Staff ("Staff") hereby files the Direct
Testimony of Linda A. Jaress.

RESPECTFULLY SUBMITTED this 24th day of June 2005.

By 
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Arizona Corporation Commission
DOCKETED

JUN 24 2005

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1 The original and thirteen (13) copies of the
2 foregoing were filed this 24th day of
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6 Phoenix, Arizona 85007

7 Copies of the foregoing were mailed this
8 24th day of June 2005 to:

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**DIRECT
TESTIMONY
OF**

LINDA A. JARESS

DOCKET NO. WS-01303A-05-0170

**IN THE MATTER OF THE APPLICATIONS OF
ARIZONA AMERICAN WATER COMPANY
FOR APPROVAL OF AN AFFILIATE AGREEMENT
WITH AMERICAN WATER RESOURCES, INC.**

JUNE 24, 2005

BEFORE THE ARIZONA CORPORATION COMMISSION

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

N THE MATTER OF THE APPLICATION OF)
ARIZONA AMERICAN WATER COMPANY)
FOR APPROVAL OF AN AFFILIATE)
AGREEMENT WITH AMERICAN WATER)
RESOURCES, INC.)

DOCKET NO. WS-01303A-05-0170

DIRECT
TESTIMONY
OF
LINDA A. JARESS
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

JUNE 24, 2005

TABLE OF CONTENTS

	<u>Page</u>
Introduction.....	1
Description of the Programs	2
Compensation of Arizona American Services.....	6
Profitability	9
Privacy Concerns	10
Breadth of the Agreement.....	13
Customer Confusion	14
Commission Involvement.....	17
Benefits	18
Other Jurisdictions	19
Similar Programs	20
Affiliated Interest Rules.....	21
Conclusion and Recommendations.....	22

APPENDICES

Utility Letter/Contract.....	1
Immediate Action Form.....	2
Logo Sample	3

EXECUTIVE SUMMARY
ARIZONA AMERICAN WATER COMPANY
DOCKET NO. WS-01303A-05-0170

This testimony reviews, analyzes and provides conclusions and recommendations regarding the application of Arizona American Water Company to enter an agreement with its affiliate, American Water Resources, Inc. The Agreement provides the terms and conditions under which Arizona American would provide certain services to the American Water Resources related to the Water and Sewer Line Protection (insurance) Programs that American Water Resources intends to offer to Arizona American's customers.

Staff concludes that Arizona American has not shown that it is in the public interest for Arizona American to enter the Agreement as proposed and this testimony discusses several reasons that support that conclusion. Furthermore, Arizona American has not shown why the Programs could not be offered by American Water Resources without any promotion or assistance from Arizona American.

However, if costs are appropriately allocated, Arizona American's participation in the Agreement and the Programs could ultimately reduce its revenue requirement. Thus, if the Commission determines that the Agreement is in the public interest and approves the Agreement, Staff requests that Commission also adopt nine conditions and requirements. The conditions and requirements address, among other issues, privacy concerns, appropriate compensation for Arizona American services, the initial life of the Agreement and rate case treatment of income from those services.

1 **Introduction**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Linda A. Jaress. I am an Executive Consultant III in the Utilities Division of
4 the Arizona Corporation Commission ("ACC" or "Commission"). My business address
5 is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Please state your educational background and professional experience.**

8 A. I received a Bachelor of Arts Degree from Michigan State University and a Master of
9 Business Administration Degree from the University of Hawaii. I was employed as a
10 Research Analyst for the Hawaii Trucking Association from 1977 through 1978 and as a
11 Financial Analyst for the State of Hawaii, Division of Consumer Advocacy from 1980
12 through 1985. In 1985, I was employed by the Arizona Corporation Commission
13 ("Commission") as a Senior Rate Analyst and received a promotion to Manager,
14 Financial Analysis in 1991. I also served as the Acting Chief of the Accounting and
15 Rates Section. On January 1, 2001, I was promoted to the position of Executive
16 Consultant III.
17

18 **Q. Please list your duties and responsibilities as Executive Consultant III.**

19 A. I complete special projects for the Director and Assistant Directors.
20

21 **Q. What is the purpose of this testimony?**

22 A. The purpose of this testimony is to review, analyze and provide Utilities Division Staff
23 ("Staff") recommendations to the Commission regarding the application of Arizona
24 American Water Company ("Arizona American" or "the Company") to enter an
25 agreement with its affiliate, American Water Resources, Inc. ("AWR"). The affiliate

1 agreement, the Agreement for Support Services (“the Agreement”), requires Arizona
2 American to provide certain services to AWR related to water and sewer line insurance
3 programs (“the Programs”) which AWR intends to offer to Arizona American’s
4 customers.

5
6 **Q. What is the significance of this application?**

7 A. Although the costs and revenues Arizona American might experience from its services
8 related to the Programs are likely to be very small compared to its 2004 utility revenues
9 of \$55.2 million, the Programs are the first of their kind offered to utility sewer and water
10 customers in Arizona. The outcome of this case could serve as a template for similar
11 arrangements between water and sewer utilities and their affiliates in the future.

12
13 **Q. Please describe Arizona American and AWR.**

14 A. Arizona American provides water and/or sewer service to over 121,000 customers in
15 Arizona. AWR and Arizona American are subsidiaries of American Water Works
16 Company whose ultimate parent is RWE AG, a company organized under the laws of the
17 Federal Republic of Germany. According to the 2000 Annual Report of American Water
18 Works Company, AWR was formed in January of 2000 “to offer water and wastewater
19 related products and services to residential, governmental or business consumers.” AWR
20 has instituted similar water and sewer line insurance programs in eleven other states.

21
22 **Description of the Programs**

23 **Q. Please describe the Programs and how they will be marketed to customers.**

24 A. For \$60 per year, the customer would receive insurance from AWR of \$4,000 against
25 leaks and breaks in the customer-owned water service line between the customer’s house
26 and the Company’s meter. The leaks or breaks must be caused by “normal wear and

1 tear.” The sewer line insurance Program insures against clogs and blockages in the
2 customer’s portion of the sewer line and would cost \$108 per year. The charges would
3 appear on the customer’s Arizona American bill.

4
5 An introductory letter from the president of Arizona American along with other
6 promotional materials describing the Programs and an application form would be sent to
7 Arizona American residential customers. Customers who wish to enroll in the program
8 could send in the completed application or call the telephone number shown. When a
9 customer who has enrolled in the water Program suspects a break or a leak in the water
10 line, the customer would call Arizona American who would dispatch an Arizona
11 American field representative. If a break or leak is found between the home and the
12 meter (the portion of the line that belongs to the customer), and the field representative
13 discerns it to be from “normal wear and tear”, the field representative would call AWR.
14 AWR would then dispatch a local, qualified contractor who, within 24 hours, would go to
15 the customer’s premises and repair the leak.

16
17 There is no deductible for the water line Program. The cost of the repair up to \$4,000
18 would be paid by the Program. The sewer line Program is identical except the sewer line
19 Program covers the costs of clog removal in the sewer line from the resident’s property
20 line to the house, and the sewer line program charges the customer a \$50 deductible per
21 occurrence.

1 **Who Provides Which Services?**

2 **Q. What services will Arizona American provide to AWR that are related to the**
3 **Programs?**

4 A. According to the application, the Agreement and responses to data requests, Arizona
5 American would provide the following services to AWR:

- 6
- 7 1. Provision of accounting of Program monies collected through the
8 water bill payment process and remittance to AWR.
 - 9
 - 10 2. Distribution of surveys developed by AWR to customers.
 - 11
 - 12 3. Distribution of promotional materials through normal billing process
13 and through special mailings.
 - 14
 - 15 4. Notification of AWR with claim.
 - 16
 - 17 5. Referral of callers to AWR's dedicated service representatives.
 - 18
 - 19 6. Any other services that are agreed to by Arizona American and AWR.

20

21 **Q. What functions will AWR perform related to the Programs?**

22 A. According to the application, the Agreement and various responses to data requests,
23 AWR will perform the following functions:

- 24
- 25 1. Develop form and content of the promotional materials and print
26 them.
 - 27
 - 28 2. Make pricing decisions.
 - 29
 - 30 3. Handle customer inquiries, enrollment, renewals, cancellations and
31 complaints.
 - 32
 - 33 4. Develop a list of local, qualified contractors to repair water and sewer
34 lines, dispatch them to provide services and pay them for their
35 services.
 - 36
 - 37 5. Provide Arizona American a list of enrolled customers.

- 1 6. Maintain commercial general liability insurance with limit of \$2.0
- 2 million and include Arizona American as an additional insured.
- 3
- 4 7. Train Arizona American utility personnel in the operation, terms and
- 5 conditions of the programs.
- 6
- 7 8. Monitor and collect monies from customers who have not paid or are
- 8 delinquent in the payment of the Program fees.
- 9
- 10 9. Provide dedicated service representatives to handle inquiries.
- 11

12 **Q. Which services will the plumbing contractor provide?**

13 A. According to the application, the Agreement and various responses to data requests, the

14 plumbing contractor will provide the following services;

- 15
- 16 1. Make customer contact to imitate repair work.
- 17
- 18 2. Identify and locate the problem or problems covered by the Program.
- 19
- 20 3. Take pre- and post-repair photographs of work and existing features
- 21 of the site.
- 22
- 23 4. Arrange for marking of existing utilities and coordinate with existing
- 24 utilities.
- 25
- 26 5. Furnish flagpersons and traffic warning and control.
- 27
- 28 6. Excavation and excavation protection.
- 29
- 30 7. Handling of drainage and groundwater removal.
- 31
- 32 8. Service line repair for water contract and sewer line clearing or
- 33 blockage repairs for sewer contract.
- 34
- 35 9. Backfill trenches and pits including ground restoration of existing
- 36 surfaces.
- 37
- 38 10. Site cleanup and removal of surplus excavated material.
- 39

1 **Compensation of Arizona American Services**

2 **Q. Why is the method chosen to determine the appropriate amount of compensation of**
3 **Arizona American for the services it provides to AWR important?**

4 A. The National Association of Regulatory Utility Commissioners ("NARUC") published
5 Guidelines for cost Allocations and Affiliate Transactions. Within the guidelines,
6 NARUC explained the significance of affiliate transaction pricing as follows:

7
8 "First, affiliate transactions raise the concern of self-dealing where market
9 forces do not necessarily drive prices. Second, utilities have a natural
10 business incentive to shift costs from non-regulated competitive operations
11 to regulated monopoly operations since recovery is more certain with
12 captive ratepayers. Too much flexibility will lead to subsidization.
13 However, if the affiliate transaction pricing guidelines are too rigid,
14 economic transactions may be discouraged.

15
16 **Q. How will Arizona American be compensated for its services?**

17 A. According to the Agreement, AWR will compensate Arizona American for its services in
18 an amount equal to 115 percent of the fully distributed costs incurred by Arizona
19 American in providing those services, except for billing and collection services which
20 would be at a rate of \$0.10 per customer per monthly billing. When Staff requested the
21 Company supply the costs and work papers used to determine the \$0.10 billing and
22 collection rate, the Company responded that there are no documents supporting the
23 determination and the \$0.10 per bill amount was developed through negotiations between
24 AWR and New Jersey American Water Company in 2001 (Response to Staff 1-19).

25
26 There are several methods by which services performed by an affiliate can be priced.
27 However, Arizona American chose to set its price to AWR for billing and collection
28 services purely by negotiation. One disadvantage of applying a negotiated price to the
29 transfer of services between affiliates is a negotiated price does not necessarily reflect the

1 costs incurred in providing the services. If the negotiated price of the services provided
2 by Arizona American is lower than the cost of the services, then Arizona American
3 would be improperly subsidizing its affiliate.

4
5 The price of \$0.10 per monthly billing for billing and collection services seems especially
6 low when compared to the billing charges on Arizona Public Service Company's
7 unbundled tariff of \$0.062 per day (\$1.86 for a 30-day month) for a direct access
8 customer. Qwest Communication's tariff indicates a charge for "bill rendering" of \$0.70
9 per bill for its access customers. Bill rendering includes services similar to those
10 provided by Arizona American to AWR such as preparation of the bill, mailing the bill
11 and processing payments. However, the charge includes collection of past due amounts,
12 a function that AWR will serve, not Arizona American.

13
14 For services other than billing and collection, AWR will pay 115 percent of the fully
15 allocated costs incurred by Arizona American. Fully allocated costs are comprised of the
16 direct, indirect and joint costs of providing a service.

17
18 **Q. What is Staff's recommendation regarding the compensation for the services of**
19 **Arizona American by AWR?**

20 **A.** According to the NARUC Guidelines, "Generally, the price for services...provided by a
21 regulated entity to its non-regulated affiliates should be at the higher of fully allocated
22 costs or prevailing market prices." Staff supports this method because it would reduce or
23 eliminate unfair subsidization of AWR's costs by Arizona American.

24
25 In conformance with the NARUC Guidelines, Staff recommends that if the Commission
26 approves the Agreement, that it order Arizona American to modify the Agreement to

1 reflect that the prices it charges AWR be at the higher of 115 percent of fully allocated
2 costs or prevailing market prices, and that at its next rate case, Arizona American should
3 provide information and workpapers showing the calculation of the market price and
4 fully allocated costs. This method would apply to all costs including billing and
5 collecting and replace the \$0.10 per bill amount

6
7 **Q. Does the Agreement provide for compensation for the use of Arizona American's**
8 **name in the AWR promotional materials or the use of customer-specific**
9 **information?**

10 **A.** The Agreement does not provide for compensation of Arizona American for the use of
11 either its name in AWR's promotional material or for the use of Arizona American's
12 customer list. Staff will address the use of Arizona American's name in the promotional
13 materials in a later section of this testimony

14
15 Although few costs would be incurred by Arizona American to provide its customer list
16 to AWR, there is a market for customer lists. Telephone companies, for example, sell
17 their subscriber lists to yellow page directories. The Federal Communications
18 Commission ("FCC") issued an Order on September 9, 1999 setting rates of from \$0.04
19 to \$0.06 per listing as the "presumptively reasonable rate" for subscriber information.
20 The \$0.04 represents the price of a base file subscriber list and \$0.06 represents the rate
21 for subscriber lists that are updated as customers are added or deleted. Arizona American
22 has estimated the fair market value of its customer names and addresses at \$0.04875 per
23 customer which is about the middle of the range adopted by the FCC.

1 **Q. What is Staff's recommendation regarding compensation for the use of Arizona**
2 **American's customer list?**

3 A. Staff believes the \$0.04875 per customer to be a reasonable approximation of the market
4 value of Arizona American's customer list. Staff recommends that if the Commission
5 approves the Agreement, the Commission order that the Agreement be modified to
6 include the payment of \$0.04875 by AWR to Arizona American per customer for the
7 base customer list and \$0.03247 per customer for updates. The ratio of the cost of the
8 base list to the updates was derived by using the same ratio applied by the FCC for its
9 "presumptively reasonable rate."

10
11 **Profitability**

12 **Q. What level of pre-tax income does Arizona American expect to achieve annually**
13 **from its participation in the Programs over the first four years of the Programs?**

14 A. In a confidential response to a Staff data request, Arizona American indicates it expected
15 to experience a very low level of net income from providing services to AWR under the
16 Agreement.

17
18 **Q. How much pre-tax net income does AWR expect to achieve from offering the**
19 **Programs in Arizona for the first four years?**

20 A. Arizona American would not provide the pre-tax net income expected to be earned by
21 AWR from the Programs in Arizona on the grounds of relevancy. However, under a
22 confidentiality agreement it provided the amount of revenue it expects to generate. By
23 the fourth year of the Programs, the revenue is expected to be substantial.

1 **Q. Please estimate the amount of revenues that could be generated by the Programs.**

2 A. Also under the confidentiality agreement, Arizona American provided enrollment rates in
3 other states where AWR has implemented the programs. For estimation purposes, Staff
4 is using a range of 5 percent to 20 percent. If 5 percent of Arizona American's 121,000
5 customers enroll in both the water and sewer line Programs, AWR will experience
6 Program revenues of approximately \$1.0 million. If 20 percent enroll, over \$4.0 million
7 will be generated.

8
9 **Privacy Concerns**

10 **Q. What is Arizona American's policy concerning the dissemination of customer-**
11 **specific information such as name, address, telephone number, usage, bill payment**
12 **history, etc.?**

13 A. In data request S1-17, Staff asked Arizona American an identical question. Its response
14 was:

15
16 "Arizona American does not have a written policy concerning the
17 dissemination of customer-specific information. Except in response to a
18 request from a police agency or to a subpoena, the company never
19 provides *usage or bill payment history* to any party. Arizona American
20 would provide similar access, as AWR will have, to names, addresses,
21 and telephone number, to a qualified non-affiliate offering a program
22 similar to AWR's." [emphasis added]

23
24 **Q. What does Staff conclude from this response?**

25 A. Staff concludes that unless otherwise ordered by this Commission, Arizona American
26 will be sharing customer information with AWR and any non-affiliate offering a similar
27 insurance program.

1 **Q. What is AWR's current policy regarding the dissemination of customer-specific**
2 **information?**

3 A. In data request S1-18, Staff asked Arizona American an identical question. Its response
4 was:

5
6 "AWR does not currently disseminate customer-specific information to
7 *non-affiliated* companies with the exception of the external marketing
8 agency it engages to develop promotional materials, conduct marketing
9 campaigns and provide analyses of campaign results. AWR maintains a
10 formal agreement with its external marketing agency to treat any
11 customer-specific information it may receive as confidential." [emphasis
12 added]
13

14 **Q. What does Staff conclude from this response?**

15 A. Staff concludes AWR plans to share Arizona American's customer information with a
16 marketing agency.
17

18 **Q. Did Staff verify the agreement between AWR and the marketing agency?**

19 A. Staff attempted to verify that AWR's formal agreement with its marketing agency
20 addressed confidentiality. Staff requested a copy of the agreement in S2-7. In response,
21 Arizona American did not supply the relevant agreement but responded that AWR is in
22 the process of negotiating a new marketing agreement. Arizona American attached an
23 unsigned "agreement form" and represented that it is used by AWR to engage external
24 marketing agencies. Section 8 of the unsigned agreement form addresses the
25 confidentiality issue and seems to protect against the distribution of customer-specific
26 information. However, the last phrase of the section reads "...unless otherwise
27 specifically authorized in writing by the Company".

1 **Q. What does Staff conclude about the unsigned agreement?**

2 A. Staff can only conclude that currently there is no agreement between AWR and its
3 marketing agency(ies) protecting the customer-specific information of Arizona
4 American's customers. Neither does the Agreement between Arizona American and
5 AWR restrict the use of such information

6
7 Staff recommends that the Commission condition any approval of the Agreement upon
8 the filing of a signed contract between AWR and its marketing agency that prohibits the
9 dissemination of the customer-specific information that AWR receives from Arizona
10 American.

11
12 **Q. What is Staff's recommendation regarding Arizona American's use of customer-**
13 **specific information?**

14 A. Staff believes that a customer should have control over the dissemination of the
15 information about that customer in Arizona American's data base. First, Staff believes
16 that it is in the best interest of the customers to be informed about the customer-specific
17 information that Arizona American intends to disseminate. Second, the customers should
18 be contacted and affirmatively agree to allow the information to be disseminated before it
19 is disseminated.

20
21 In summary, Staff recommends that customer-specific information should not be released
22 by Arizona American to an affiliate or non-affiliate unless the customer has been
23 informed regarding what information would be released and the customer affirmatively
24 responds to allow dissemination of that information. Non-response by the customer
25 should not be considered consent. This recommendation should not apply to requests
26 from police agencies or subpoenas.

1 **Breadth of the Agreement**

2 **Q. Please describe the Agreement between Arizona American and AWR.**

3 A. The Agreement sets forth the terms, conditions and obligations under which Arizona
4 American will provide support services to AWR. The terms and conditions include terms
5 of termination, compensation, scope of services, billing and collection, provision of
6 information and indemnification.

7
8 **Q. Other than the sections previously discussed, what other section of the Agreement
9 causes Staff concern?**

10 A. Section 6.1.4 Other Services allows "other and further services as are agreed to in a
11 Service Order" to be provided by Arizona American to AWR. This section is very open-
12 ended and allows for an infinite variety of services to be provided by Arizona American
13 to AWR as long as both parties agree. These services could be uneconomic or services of
14 dubious value to utility customers.

15
16 **Q. What is Staff's recommendation regarding the open-ended nature of the
17 Agreement?**

18 A. Because this is Arizona American's first non-utility business venture with an affiliate,
19 Staff recommends that if approved, the Commission order a modification to the
20 Agreement to omit Section 6.1.4 and any other section that might allow for Arizona
21 American to perform services for AWR other than those related to the Programs as
22 outlined in the Agreement.

23

1 **Customer Confusion**

2 **Q. Please describe the promotional and enrollment material that Arizona American**
3 **customers will receive regarding the water and sewer line insurance Programs.**

4 A. In response to Staff's data requests, Arizona American provided current promotional
5 materials used in New Jersey where AWR offers the Programs. It is expected that similar
6 materials would be used in Arizona. These materials are attached as Appendices 1 and 2.

7
8 The customers first receive a letter from the president of the utility (on utility letterhead
9 using the utility's logo) promoting the Programs, on the back of which is the fine-print
10 contract between the customer and AWR (see Appendix 1).

11
12 In addition to the letter/contract, a half-page application form entitled "Immediate Action
13 Form" is included in the promotional materials (see Appendix 2). In the upper left hand
14 corner of the form the AWR logo appears. When the customer signs the Immediate
15 Action Form and sends it back to AWR, the customer will be enrolled in the Program.
16 Above the signature line on the Immediate Action Form, and in small print, the customer
17 is informed that "By signing this enrollment form you agree to all terms and conditions of
18 the WATER LINE PROTECTION PROGRAM as outlined on the back of the letter."

19
20 **Q. How could these promotional materials confuse customers?**

21 A. First, the customer may not be clearly aware that they have signed a contract and could
22 easily overlook the contract itself. This is possible because the contract is located on the
23 back of the letter promoting the Programs. Furthermore, the contract is not labeled as a
24 contract or, in fact, labeled at all, and is referred to in the other documents as "terms and
25 conditions." There is no place for a signature on the contract itself. Thus, the customer
26 enters a contract by signing a document that is not attached to the contract.

1 Finally, the back-page contract will be the customers' only copy of the terms and
2 conditions of the offering. This practice of separating the contract from the customer's
3 signature creates a physical, if not a psychological distance between the customer and the
4 contract. The customer could easily discard the letter in the belief that once enrolled, the
5 letter served no further purpose or forgets that the contract exists.

6
7 It should also be noted that AWR's logo is the identical red sun setting over two blue
8 waves as Arizona American uses for its logo (see Appendix 3 for a sample of Arizona
9 American's logo). Both companies share the words "American" and "Water" in their
10 names. Customers could easily miss the difference between the two companies or
11 misunderstand which company is offering the service. Even if customers notice that the
12 promotional materials are from two different companies, the strong association of the two
13 in the same envelope, promoting the same Programs may result in the customer endowing
14 AWR with a level of credibility and trustworthiness to which it may or may not be
15 entitled.

16
17 **Q. Has the Commission previously addressed the shared use of utility names and logos**
18 **with competitive affiliates?**

19 A. Yes. In Decision No. 62416, dated April 3, 2000, the Commission approved APS' Code
20 of Conduct to be used in its competitive activities. The Code of Conduct prevented the
21 shared use of the APS name and logo by its competitive affiliate by saying, "The name or
22 logo of APS as a utility distribution company shall not be used in promotional advertising
23 material circulated by a Competitive Electric Affiliate." The Commission approved
24 similar language for Tucson Electric Power in Decision No. 62767, dated August 2,
25 2000.

26

1 **Q. What are Staff's concerns over the type of language used in the promotional**
2 **materials?**

3 A. The language of the promotional materials, as in most advertisement, is given to
4 hyperbole and written to stir the emotions. Next to the box that a customer checks to
5 enroll on the sample Immediate Action Form supplied to Staff by Arizona American is
6 the sentence, in red, "YES! I want *protection* and *peace of mind*". The introductory letter
7 from the president tells prospective enrollees that the Program "can save you thousands
8 of dollars and many sleepless nights."

9
10 The Staff of the Illinois Commerce Commission expressed reservations about the
11 language appearing on AWR and Illinois American's promotional materials during a
12 proceeding similar to this in Illinois. The Staff recommended that some of the language
13 in the promotional material be removed. Specifically, "countless hours of worry and
14 hassle", "prevent unexpected repair bills" and "save you thousands of dollars" were
15 worrisome phrases on the Illinois material. Ultimately, and for other reasons, the Illinois
16 Commission denied the application.

17 The names AWR has chosen for the Programs are somewhat misleading. The "Water
18 Line Protection Program" does not protect the water line and neither does the "Sewer
19 Line Protection Program" protect the sewer line. The customer does not receive any kind
20 of maintenance or "protection" services for the fees paid. What the customer pays for is
21 insurance against the cost of repair of the line.

22
23 **Q. What does Staff recommend regarding the tenor of the language used in the**
24 **promotional materials?**

25 A. Due to the critical nature of the services which public utilities provide, they often hold a
26 position of trust in the minds of customers. Arizona American should not devalue that

1 trust by endorsing a service the value of which is questionable and that is promoted using
2 exaggerations and emotional language. Staff believes that Arizona American's name,
3 logo or endorsement not be included in the promotion of the Programs. The Agreement
4 should be altered to reflect this recommendation.

5
6 **Commission Involvement**

7 **Q. Will the Programs, if instituted, have any affect on the Commission or Commission**
8 **Staff?**

9 A. Yes, they will. The Commission's name, address and telephone number appears on all of
10 Arizona American's bills. The charges for the Programs will also appear on the bill. In a
11 dispute or problem with AWR, a customer may look to the Arizona American bill for
12 information about who to call and will see the Commission's telephone number. The
13 Commission's Consumer Services Section currently receives calls and complaints
14 regarding disputes over the Linebacker program offered by Qwest Communications, Inc.
15 which is somewhat similar to the Programs. Thus, it is expected that the AWR Programs
16 will increase the number of calls taken by Commission Staff. If the Programs and
17 Agreement are found to be in the public interest but subject to certain conditions, the
18 Commission's Compliance Section will also be involved.

19
20 Audits and accounting for Arizona Americans costs and revenue related to the Programs
21 during the course of rate cases would be further complicated by the Programs and
22 resulting in higher rate case expenses. Determination of the "fully allocated costs"
23 incurred by Arizona American from its provision of services to AWR for the Programs
24 can be a complicated and contentious issue and would increase the complexity and
25 expense of Arizona American's rate cases. Rate case expenses are recovered through
26 rates to customers and Arizona American's rate case expenses are significant. For

1 example, in Decision No. 67093 for Arizona American's most recent rate case, the
2 Commission approved recovery of \$418,941 of rate case expenses, less than the \$715,000
3 the Company requested.
4

5 **Benefits**

6 **Q. What are the benefits that customers could experience from Arizona American's**
7 **participation in the offering of the Programs?**

8 A. The primary beneficiary of the Programs would be AWR as it will likely profit
9 substantially from the successful Programs. However, Arizona American's rate payers
10 could also benefit from a successful program. If the price for all the services it provides
11 to AWR is set at a level equal to Arizona American's fully allocated cost plus 15 percent,
12 or market, whichever is higher, and the net income from those services is included above-
13 the-line for ratemaking purposes, the Programs could result in a lower revenue
14 requirement in the Company's next rate case. A lower revenue requirement translates
15 into lower rates for customers.
16

17 Also, there will be some customers who enroll in the Programs who may benefit when
18 they have a coverable claim for water or sewer line leaks or breaks. For some customers,
19 the Programs will ultimately prove economic.
20

21 **Q. How can the Commission ensure that Arizona American's customers will benefit**
22 **from their utility's involvement in the Programs?**

23 A. Staff recommends that if the Commission approves the Agreement, any net income
24 derived by Arizona American from the services it provides AWR for the Programs be
25 considered above-the-line for ratemaking purposes.
26

1 **Other Jurisdictions**

2 **Q. Has Arizona American received approval of similar support services agreements**
3 **with AWR in other states?**

4 A. AWR provides the Programs in 11 other states. Eight of those states did not require
5 approval for the utility to institute the programs through an affiliate agreement. The
6 Pennsylvania Public Utilities Commission ("Pennsylvania"), the Corporation
7 Commission of the Commonwealth of Virginia ("Virginia"), the West Virginia Public
8 Service Commission ("West Virginia") and the Illinois Commerce Commission
9 ("Illinois") required approval. Pennsylvania and Virginia approved the application.
10 Illinois denied the application. In West Virginia, after testimony was filed and a hearing
11 held, West-Virginia American withdrew its application. Although unsuccessful in
12 receiving approval for the utility to enter the affiliate agreement in Illinois and West
13 Virginia, AWR instituted the Programs anyway, but without the assistance of the
14 affiliated utilities.

15
16 The Virginia commission, when approving the agreement, conditioned the approval upon
17 several actions on the part of Virginia American Water. The conditions included removal
18 of and changes to contract language that related to pricing and to commission approval of
19 future changes in the Programs or contract. The Virginia commission also limited its
20 approval to five years. The testimony of the West Virginia Staff in the West-Virginia
21 American docket expressed concerns over the cost allocations included in the agreement.
22 As stated earlier, West Virginia-American Water Company ultimately withdrew the
23 application.

24
25 The Illinois Order in Docket No. 02-0101, dated September 16, 2003, denied Illinois
26 American's petition for consent and approval of its affiliate agreement with AWR to

1 provide the programs. Its denial was based upon "...the open ended nature of the
2 amended affiliate agreement...[and] the absence of any substantive evidence
3 demonstrating that the WLPP is properly priced or is even legitimately necessary."
4

5 **Similar Programs**

6 **Q Do other utilities provide similar non-utility programs and services?**

7 A. Yes. An internet search revealed that similar programs are fairly common in other states,
8 especially in the northeast where freezing temperatures could reduce the life of a service
9 line and many service lines are older. Artesian Water provides a water line insurance
10 plan in Pennsylvania and Delaware for \$60 per year. For \$68 a year the Pawtucket Water
11 Supply Board in Rhode Island offers a program called "Safety Valve". Its promotional
12 brochure reminds homeowners, although in fine print, to check their homeowner's
13 insurance policy to determine whether such repairs are covered. Rochester Public
14 Utilities in New York provides a "Service Assured" program for \$1.99 per month.

15 United Water, which serves portions of New Jersey as well as other states, offers a
16 "LeakGuard" program to its New Jersey water customers. The enrollment forms indicate
17 that United Water prices the insurance according to the water system to which the
18 customer belongs. This insurance program covers "settling" as well as "normal wear and
19 tear". The charge for a customer with a 1-inch meter ranges from \$54 per year up to
20 \$210 per year depending on the system. United also clearly labels the customer contract
21 "LeakGuard Service Contract" in bold print.

22
23 Colorado Springs Utilities offers "Wastewater Backup Insurance" for interior damage
24 from sewer backups and charges from \$4.00 per month for \$7,000 of coverage to \$9.00
25 per month for \$50,000 of coverage. However, Colorado Spring's promotional material
26 provides three questions customers should ask their insurance agent before signing up.

1 The three questions concern the insurance coverage and the limits of the coverage the
2 customer may already have for claims of damage from wastewater backup.

3
4 The Passaic Valley Water Commission of New Jersey does not offer similar Programs
5 but instead repairs service line breaks itself for a flat fee of \$1,600 and gives customers
6 three years to pay, interest-free.

7
8 Hawaiian Electric Company offers a "Payment Protection" plan. For 6 percent of a
9 customer's monthly Hawaiian Electric bill (11.7 percent for joint coverage) Hawaiian
10 Electric will pay the customers electric bill after 30 consecutive days of involuntary
11 unemployment, total disability or unpaid family leave of absence. The bill payment
12 program is limited to \$500 per month for up to six months.

13
14 **Affiliated Interest Rules**

15 **Q. Do the Commission's Public Utility Holding Company and Affiliated Interests rules**
16 **apply to Arizona American and its affiliates?**

17 **A.** Yes. Arizona American is a Class A, investor-owned public utility to which the Holding
18 Companies and Affiliated Interest Rules (A.A.C. R14-2-801 through 805) apply. AWR's
19 and Arizona American's parent holding company, RWE AG, is a huge, European utility
20 conglomerate serving over 100 million electric, gas and water customers in Europe and
21 the Americas. According to an RWE AG publication, "Facts & Figures 2005", since its
22 fiscal year 1999/2000, RWE AG has transacted 16 electric, 9 gas, 10 water and 5
23 environmental services major acquisitions and 41 major divestments.

24
25 Pursuant to the Rules, RWE AG is both a public utility holding company and an affiliate
26 of Arizona American and, as such, must file a notice with this Commission when it

1 intends to perform a reorganization. A reorganization is defined by the Rules as the
2 “acquisition or divestiture of a financial interest in an affiliate or a utility, or
3 reconfiguration of an existing affiliate or utility’s position in the corporate structure or the
4 merger or consolidation of an affiliate or a utility.”

5
6 Neither RWE nor Arizona American has ever filed for any form of waiver from the
7 Affiliated Interests Rules other than the requested waiver from the Rules when RWE
8 acquired American Water Works, Arizona American’s parent. Staff believes that
9 Arizona American should file for an appropriate waiver from the Rules to clarify the type
10 of transactions for which its parent, American Water, and its parent’s parent, RWE,
11 would need to file notice with this Commission of organizations and reorganizations of
12 the public utility holding company.

13
14 **Conclusion and Recommendations**

15 **Q. Is it in the public interest for the Commission to approve the Agreement?**

16 A. Staff does not believe that Arizona American has shown that the Agreement as proposed
17 is in the public interest. The Company has not shown a need for the services offered
18 through the Programs and it has not shown that the Programs could not be offered by
19 AWR without any promotion or assistance from Arizona American. Arizona American’s
20 books and records would become more complicated due to increased allocations creating
21 higher rate case expenses. Finally, The Programs, as described, are likely to cause
22 confusion among Arizona American customers. Thus, Staff recommends denial of the
23 Agreement.

24
25 However, if the compensation by AWR and costs incurred by Arizona American are
26 carefully tracked by Arizona American and examined by Staff within the context of a rate

1 case to insure that water and sewer customers are not subsidizing the Programs, the
2 Programs could ultimately slightly reduce Arizona American's revenue requirement.
3 Thus, if the Commission determines that the opportunity to slightly lower the Company's
4 revenue requirement more than offsets the risks of over-allocating costs to the utility,
5 finds the agreement is in the public interest and approves the agreement, Staff requests
6 that the Commission adopt the following recommendations and requirements:

- 7
8 1. A requirement that the Agreement be modified to indicate that
9 Arizona American should be compensated for its services at 115
10 percent of fully allocated costs or prevailing market prices,
11 whichever is higher, and that at its next rate case, Arizona American
12 should provide information and workpapers showing the calculation
13 of the market price and fully allocated costs. This method would
14 apply to all costs including billing and collecting and replace the
15 \$0.10 per bill amount.
16
- 17 2. The Commission should require Arizona American, before
18 disseminating customer-specific information to an affiliate or non-
19 affiliate, to inform the customer regarding what information would
20 be released and for what purpose. The customer must affirmatively
21 respond before such information is disseminated. Non-response by
22 the customer should not be considered consent. This requirement
23 should not apply to requests from police agencies or subpoenas.
24
- 25 3. A requirement that the Agreement be modified to omit Section 6.1.4
26 and any other section that might allow Arizona American and AWR
27 to contract for additional services other than those specifically related
28 to the water and sewer line Programs.
29
- 30 4. A requirement that any net income derived by Arizona American
31 from the services it provides AWR for the Programs be considered
32 above-the-line for ratemaking purposes.
33
- 34 5. A requirement that Arizona American not endorse or promote the
35 Programs and that the Agreement be modified to so reflect.
36
- 37 6. The initial life of the Agreement should be limited to three years.
38 Extensions of the Agreement should be approved by the Commission.
39

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7. The Commission reserves the right to examine the books and records of AWR in connection with the Programs.
8. The Agreement should be modified to include a definition of fully allocated or fully distributed costs as including direct costs, a contribution to common costs, and overhead.
9. Arizona American and RWE should be ordered to file for appropriate waivers of the Rules.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Sample A Sample
123 Any Street
Anytown, US 01234
|||||

Dear Sample A Sample,

From one homeowner to another, I'm asking you to please take a few minutes now to learn about a simple program that can save you thousands of dollars and many sleepless nights.

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

You may not realize it, but 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 enclosed diagram. You can't prevent it. You can't predict it. And with harsh winter temperatures coming, a frozen water line alone could increase your chances of a break or leak. 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., New Jersey 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.

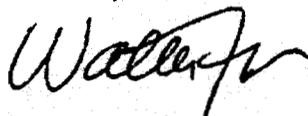
When you consider all the advantages, I'm sure you'll agree that this Program is one of the best opportunities available to you as a homeowner.

- Save up to \$4,000 in unexpected repairs for just pennies a day (\$5 a month)
- Enjoy peace-of-mind protection from one of the most experienced water resource managers in the country
- Eliminate the hassle of searching for a qualified repair contractor

We are pleased to make the protection you need and the peace of mind you deserve available to you while continuing to deliver the quality service you depend on from New Jersey American Water.

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 "Special Offer" and for just pennies a day, I'm sure you will agree that the Water Line Protection Program is a good value. So, I encourage you to complete the enclosed enrollment form today and protect yourself from the expense and worry that a broken water line can cause.

Sincerely,



Walter Lynch
President

P.S. For just pennies a day, you can save thousands of dollars and countless hours of worry and hassle. Enroll today!

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



American Water Resources, Inc.

AMERICAN WATER RESOURCES, INC.

American Water Resources, Inc., an affiliate of New Jersey 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 New Jersey American. It does not include any connections/extensions such as water lines to sprinklers and/or agricultural meters You may own or any section of the water supply line owned by others 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 New Jersey 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 the outlet side of the meter 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 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" mean a residential customer and customer of record of New Jersey American Water, the homeowner of a single-family residence and the purchaser of this Program.

ELIGIBILITY FOR PROTECTION

You must be a residential customer, customer of record of New Jersey American Water and owner of the residence 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 in 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 can automatically be 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 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 reseeded, 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 New Jersey American Water who will investigate the source of the problem. In the event New Jersey 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 New Jersey 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 New Jersey American Water bill. Your annual payment will be divided by the number of times per year that New Jersey 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 New Jersey 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 State of New Jersey. These taxes will be collected on each of Your periodic water bills from New Jersey American.

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 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. 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.

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

NJ WLPP 60/66 TC 6205

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IMMEDIATE ACTION FORM

NJ60025R

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



HOMEOWNER NAME: Sample A Sample

SERVICE ADDRESS: 123 Any Street
Anytown US 1234-2345

Reference Number: 9999999999999999

MAILING ADDRESS: 123 Any Street
Anytown US 01234

CONTACT INFORMATION: Home Phone (required): () -

E-mail: Work/Cell Phone: () -

PAYMENT OPTIONS:

ADD DIRECTLY TO MY WATER BILL

I authorize the amount of \$63.60 (\$60.00 plus \$3.60 NJ sales tax) to be added to my water bill in equal periodic 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 04/30/05. After 04/30/05 call 1-866-430-0819 for current offer.

X Signature: _____ Date: _____



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How Will Water Supplies for Arizona-American Water Company be affected?

Arizona-American Water Company obtains its water supplies from groundwater wells and from the Colorado River via the CAP. These water supply sources have not been directly affected by Arizona's current drought.

However, if the drought continues and water users must rely more on groundwater reserves in the future, groundwater levels could decrease at a higher rate than experienced in the recent past.

Are There Water Use Restrictions Planned for Arizona-American Customers I should know about?

No, not at this time. Arizona-American does not anticipate the need for any mandatory water use restrictions in response to the drought. As explained above, the company's water supply sources are not directly affected by the current low reservoir levels in many parts of the state.

Water Conservation is Everybody's Full-Time Job

Even in times of plentiful rainfall-but especially in times of drought-wise use of our water resources is everyone's responsibility. That's why the "Water - Use it Wisely" campaign and Arizona-American's "SaveH2O" conservation program are there to provide our customers with useful tips on how to save water inside and outside the home. To learn more about how you can conserve water, call our Water Conservation Hotline at 623-815-3103, or visit us on-line at www.saveh2oarizona.com. We have enough water to use, but not enough to waste.

Thank you for using water wisely.



 Arizona-American Water Company